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THE CRUCIAL QUESTIONS

John Major's victory in the British election marks a portentous end to swings and roundabouts in U.K. politics. The British electorate's decisive rejection of even watered-down Socialism as presented by the Labour party has raised serious doubts. Will Labour ever again be electable? If they cannot win against a government 13 years in power and somewhat discredited by economic failures and the fiasco of the poll tax, when will they ever win?

As expediency sets in, voices are raised in favour of proportional representation, of the merging of the left-of-centre parties, and from some, for a return to more radical Socialism, sharpening the distinction between Right and Left.

But these arguments relate only to the manoeuvring of political parties within their own unreal world. Like the razmatazz of the election itself, they serve only to hide the underlying realities which actually determine the economic and political condition of the voters.

Take for example the question of taxation, said to have been important to the outcome. Fierce inter-party arguments raged over a penny more or a penny less on Income Tax. Their effect was to conceal the fact that as much as 8p of the tax is swallowed up merely to pay the interest on the National Debt. The great bulk of that goes to finance houses holding government bonds "paid for" by credits they created out of nothing in the first place.

The political parties were at one in their intentions to "borrow" billions to pay for their respective programmes. But the arguments were not about the merits or demerits of "borrowing" but about whether the proceeds should be devoted to investment or tax-cuts. This false alternative effectively disguised the point that an elected government representing a sovereign people should have no need to have recourse to "borrowing" at all. What "borrowing" means in this context is that banks transform the Nation's real wealth into monetary figures and claim it as their own as the basis of unjustifiable profits.

Many will see this rejection of Socialism as being in line with the aversion shown elsewhere in the world. The British electorate must now address the really crucial questions to the government.

Given that capitalism now seems here to stay, what are you now going to do about its evident failures? Why is it, that capitalism, so adept in applying science to productivity, cannot apply scientific principles to the distribution of the product? Why is it that capitalism, while producing abundance, should be so discredited by its apparently inevitable side-effects of "unemployment" so-called, of poverty, and of homelessness?

Social Credit philosophy, and that alone, provides fully comprehensive answers to these questions. In the new era now dawning in Britain, a new opportunity and a renewed responsibility arise for us to make an impact on the political situation.

On the economic plane, we know what needs to be done to eradicate the obvious deficiencies of capitalism, and we offer the techniques by which it can be done.

On the political plane likewise, a radical reform is necessary. In direct contrast to the inverted democracy of party politics in offering choices of false alternatives, our task is so to mobilise electors that they themselves can determine and voice the desired end-results. Policy, in other words, has to be formulated at the grass roots and imposed on the executive. In the jargon, the political agenda has to be people-based, not party-based. That can come only from an electorate educated out of its illusions and informed about its real choices.

To assist in this process, we reprint in this issue some basic facts about money. Almost universal ignorance on this matter bedevils and confuses the whole political system.

HOW IT'S DONE

The City's gilts market continued its astonishing surge yesterday in the wake of the Conservative victory. The Bank of England was able to sell gilts worth an estimated £2.5 billion to help fund the government's borrowing requirement.

Gilt prices stormed ahead as dealers received buying orders from investors at home and abroad. Simon Briscoe, a UK economist at Greenwell Montagu, said: "Everyone who has a telephone is buying gilts today. The interest is coming from all round the world and the business is all one-way."

The Bank of England took advantage of the rally to sell massive tranches of new gilts. The operation started at 1 am yesterday, when the Bank announced an £800 million tender. It was completely taken up after five minutes.

The Bank followed that with another £800 million tender in mid-morning, of four tranches of gilts dated between 1997 and 2011. The Bank said this was fully subscribed within 45 minutes.

Throughout the night and yesterday, the Bank's dealers also continued unofficial gilts sales. Mr Briscoe estimated that the total amount raised was between £2.5 billion and £3 billion. The Bank also announced a gilts auction for April 29, when £2 billion to £3 billion of bonds are likely to be offered.

From *The Times*, 11 April 1992.

BASICS C

1. **WHAT IS MONEY?**

"Money is only a mechanism by means of which we deal with things – it has no properties except those we choose to give to it. A phrase such as 'There is no money in the country with which to do such and so' means simply nothing unless we are also saying 'The goods and services required to do this thing do not exist and cannot be produced, therefore it is useless to create the money equivalent of them'. For instance, it is simply childish to say that a country has no money for social betterment or for any other purpose, when it has the skill, the men and material and plant to create that betterment. The banks or the Treasury can create the money in five minutes, and are doing it every day, and have been doing it for centuries". *C. H. Douglas, Control and Distribution of Production.*

2. **WHERE DOES IT COME FROM?**

"The amount of money in existence varies only with the action of the banks in increasing or diminishing deposits. Every bank loan and every bank purchase of securities creates a deposit and every repayment of a bank loan and every bank sale destroys one". *Rt.Hon.Reginald McKenna, former Chancellor of Exchequer and Chairman of Midland Bank in "Post-war Banking Policy".*

"Banks lend by creating credit; they create the means of payment out of nothing" *Encyclopaedia Britannica, (Vol. 15 "Money").*

"...the cheque alone is manufactured by the bankers without any limit or restriction by law or Government regulation. By this interesting development, the manufacture of currency, which for centuries has been in the hands of governments has passed... into the hands of companies for the convenience of their customers and the profits of their shareholders." *Hartley Withers, in "Business of Finance".*

3. **BANKS DON'T LEND OUT DEPOSITORS' MONEY**

"The essential and distinctive feature of a 'bank' and 'banker' is to create and issue credit payable on demand and this credit is intended to be put into circulation and serve all the purposes of money. A bank therefore is not an office for borrowing and lending of money but it is a manufactory of credit"... "It is commonly supposed that a banker's profit consists in the difference between the interest he pays for the money he borrows and the interest he charges for the money he lends. The fact is that a banker's profit consists exclusively in the profits he can make by creating and issuing credit in excess of the specie he holds in reserve. A bank which issues credit only in exchange for money never made and can by no possibility make profits. It only begins to make profits when it creates and issues credit in exchange for debts payable at a future time". *H . D. Macleod in "Theory and Practice of Banking".*

"It is not unnatural to think of the deposits of a bank as being created by the public through the deposit of cash representing either savings or amounts which are not for the time being required to meet expenditure. But the bulk of the deposits arise out of the action of the banks themselves, for by granting loans, allowing money to be drawn on an overdraft or purchasing securities, a bank creates a credit in its books which is the equivalent of a deposit". *Report of the Macmillan Committee on Finance and Industry.*

4. **BANKS USE DEPOSITS JUST AS A BASE FOR CREATING CREDIT**

MODERN FRACTIONAL RESERVE BANKING.
From "ECONOMICS", Samuelson & Temin (USA)

pp.296/7 "Indeed, as long as business confidence remains high and bank managers are judicious in their loans and investments, there is no reason why the bank should keep more than 2 per cent cash reserves against deposits."

pp.298/9 "The main function of legal reserve requirements is not that of making deposits safe and liquid, payable on demand. Their vital function is to enable the Federal Reserve authorities to control the amount of demand deposits – bank money – that the member banks can create". (Note: The Federal Reserve Board, despite its name, is not an agency of the Federal Government, but an independent cartel of private banks.)

pp.300/1 "Can banks really create money?... Most people have heard that... banks can create money out of thin air, but few really understand how the process works... The banking system as a whole can do what each small bank cannot do; it can expand its loans and investments many times the new reserves of cash created for it, even though each small bank is lending out only a fraction of its deposits. (Note. This refers to the situation in USA where banking regulations differ from those in the UK).

From "A TEXTBOOK OF ECONOMICS"
by Murray Wolfson, 1978 Chap. 12 – Money

"Commercial banks do even more [than lend money]; they create the current account money in the process of lending. When a bank lends, say, £1000 to its customer, it simply says: "Now the deposit in your account is increased by £1000. Start spending!"... The important point to see now is that money has been created at the stroke of the banker's pen. One may object; the commercial bank seems to have made something out of nothing. Yes, it has, for it has promised to deliver money in greater quantity than it has on hand. But as long as a prudent reserve is maintained against the possibility that some depositors may wish to withdraw more money than is deposited by others, the bank is safe. There is no reason why an ordinary privately-owned commercial bank should not create new deposit money, as well as accept deposits of existing funds from the public".

5. **WHAT IS THE EFFECT OF THIS SYSTEM?**

"... it is apparent that no new (credit) money can be created except through the banking system, which issues it as an interest-bearing debt owed to them by the Nation. The result of this has been the piling up of an enormous burden of debt on which succeeding generations of our people will have to pay huge sums each year in the form of interest and Sinking Fund.

N MONEY

6. **THE NATIONAL DEBT**

The National Debt peaked at £213,527,000,000* in 1988, fell to £189,730,000,000* in 1990, and is set to rise again.

Interest on the National Debt cost taxpayers (everyone) £16,406,00,000* in 1988 and £18,589,000,000* in 1990. **To put these vast sums intoperspective, that is roughly the same as the costs of the National Health Service, or Education, or Defence in each of those years. It represents approximately 8p out of the 25p rate of income tax.**

(*Annual Abstract of Statistics, 1992)

7. **WHAT IS THE HONEST ALTERNATIVE**

"It is right that the banks should be fully recompensed for the valuable services they perform, but if we examine these more closely we would see that this is essentially book-keeping. It is misleading to describe the banks' services in financing Government expenditure out of newly created credit as "lending". The word should not have been used in this connection as it creates a false picture of what really happens. As a result, we have allowed private institutions to usurp the right to issue our money and to make very handsome profits thereby.

"As the banking system in creating this money is merely using the nation's credit by liquifying it., the right of the banks to treat such created credits as a loan and to receive payment of interest thereon is unjustifiable, and it is therefore submitted most strongly that they are not entitled to anything more than an agreed fee based on the extra work devolving upon them by the handling of these funds, in a manner similar to that in which the Bank of England is compensated for the management of the National Debt and of the Fiduciary Issue".

From GOVERNMENT DEBT AND CREDIT CREATION, Research Report No 9, Economic Research Council, 1981.

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ISLAMIC *v* WESTERN BANKING

A great deal of publicity has been given in *The Social Crediter* over many years to the dishonesty of the West's banking system. The predictions of final enslavement to a worldwide banking and financial cartel should have alerted a sufficient number of concerned people to force a change but, notwithstanding the warnings, the system continues. This is not surprising; even Lenin knew that theory without practice is sterile.

Islam recognised this long before Lenin however, and in Muslim countries where Western values are seen as defying those of Islam, an upsurge of Islamic fundamentalism has led to a restoration of the guidance to mankind given in the Quran and separately in the teachings of the Prophet (peace be upon him) known as Hadith. Where this guidance carries the force of law, it is known as Sharia and must be adhered to individually and collectively where applicable.

As far as money is concerned, the Sharia does not regulate how a man spends it nor does it restrict his freedom to venture. Islam tolerates personal freedom and the right to accumulate wealth but at the same time it rejects the materialism which brings about the exploitation of human labour by the possessor of capital.

There are a number of Quranic warnings against avarice, for example:

> *"Oh ye who believe... they who hoard up gold and silver and spend it not in the way of Allah, unto them give tidings of a painful doom"*. Surah Repentance (v. 34).
>
> *"Lo ye are those who are called upon to spend in the way of Allah yet among you there are some who hoard"*. Surah Mohammed (v. 38).

Usury is forbidden in Surah Baqarah (v. 275). *"Those who live on usury shall rise up before Allah like men whom Satan has demented by his touch; for they claim that usury is like trading. But Allah has permitted trading and forbidden usury"*.

Using injunctions such as these as guidelines, banks have to answer the challenge of developing a monetary system which is viable in economic terms. To meet it, the Association of Islamic Banks have stated their Code of Practice as follows: "... the bank should work towards the establishment of an Islamic society. Hence one of its primary aims is the deepening of religious spirit amongst the peoples".

So within Islamic boundaries, banking is not a complete self-contained activity as practised in the West but is part of a whole cultural ethic leading to the implementation of Islamic values throughout the society it serves. This ideal has necessitated a reappraisal of the role of money. In the West it is given an artificial status as a commodity and its accumulation is seen as a highly desirable aim. However, Islam prohibits hoarding and enjoins spending "in the way of Allah". This entails voluntary acts of charity: help to others in time of need: promoting Islamic values in education and social welfare: transmitting Islam to non-Muslims, etc.

Money, therefore, is not a commodity in its own right, but has a status only in so far as it can be put to good use. The enjoyment of wealth beyond one's legitimate needs is not an Islamic virtue, nor is the desire for personal prosperity. Prosperity and adversity are both seen as necessary reminders of Allah and invoke thankfulness or mindfulness in their turn. Money is valuable only as a function or by-product of human effort, and human effort in its turn is the means by which a Muslim serves his Lord. This is the socio-economic theory of money which is now being put to the test in Islamic societies.

(continued on page 4)

ISLAMIC *v* WESTERN BANKING (Cont)

On the practical level, Islamic banking practices differ from those in the West in a number of important ways:–

i) One of its main functions is investment financing; depositors authorise the bank to invest or transact on their behalf but run the risk of profit or loss. They of course receive no interest.

ii) Banks do not grant overdrafts on current accounts and any loans they make are from depositors' funds, so there is no overall increase in the money supply. (1) This contrasts sharply with Western practice under which bank loans and overdrafts are the chief source of new money i.e., credits created under the "fractional reserve" system, and hence the basis of bank profits.

iii) Loans made by a bank to a permissible business venture are not subject to fixed repayments. Justice and fair play prevail in all contracts, and rates of profit and loss cannot be determined beforehand. So long as the business continues to function, the risks as well as the profits are shared by the bank.

iv) In the case of private loans, normally to needy people with no savings to fall back on, only the loan needs to be repaid. This service may carry a once-and-for-all charge, but no continuing interest payment. Such loans are rarely made, however.

v) No fixed interest-bearing deposit facility exists as in the West, (for which a considerable level of liquidity is required).

vi) Islamic banks are permitted to purchase stock on behalf of a client and sell it to him at a profit on the purchase price. In some contracts the profit will take the form of an annual percentage addition. This should not be confused with interest which is profit on money against time and is prohibited. Islam allows profit on commodities against time and therefore banks can protect themselves against loss following rising prices in the event that payment by their client is delayed.

vii) To ensure compliance with Islamic requirements, most banks will refer to a Sharia Supervisory Board to rule on complexities if necessary.

viii) Banks will pay the annual levy for the poor known as Zakat at the standard rate of 21/2% on both current assets and on other items of income as determined by the Sharia Supervisory Board.

The above illustrates that Islam stands as a major force capable of resisting usury and the artificial creation of money.

The principles of economics are a mystery to many Muslims as well as to non-Muslims. Those who carried Islam to the U.K. brought many defects with them. The principles of Islam understood and practised by the home-grown Muslim capable of taking the lead would present the most serious challenge to the belief that an economic ideology would solve the problems of our society and for which, it seems, we are prepared to abandon our national sovereignty to the bankers of Europe.

Makarram Abdul Hakeem (Christopher Casey)

Reference:

1. Al Banouk Al Islamiya, Dr Jamal al Din Attiya (Qatar 1987).

Further Reading:

"Socio-Economic Theory of Money" – espoused by Ahmed A. Al Naggar, Sec. Gen. of the International Association of Islamic Banks (I.A.I.B.)

Islamic Banking Practical and Scientific Encyclopaedia of the I.A.I.B.) "The Law for Usury-Free Banking", Bank Markaji Jomhouri Islami Iran.

THE GREAT WHEEL

For most people money means wealth. It is quite proper to reckon wealth in terms of money, but that is different from thinking they are the same thing. Money is completely divisible into any size parts at any time – a necessary quality of money. Much wealth is completely indivisible, thus making it useless as a medium of exchange. Most money is an electronic recording. Wealth is the reality. Money is the symbol.

The idea that wealth and money are synonymous, however, is so prevalent in society that the public uses them with no thought of any distinction. Often trained economists use the word money when they obviously mean wealth...

Adam Smith said: "Money is neither a material to work upon, nor a tool to work with; and though wages of the workman are commonly paid to him in money, his real revenue... consists not in the money, but in the money's worth; not in the metal pieces, but what can be got for them". The Midas myth makes the same point. In another passage Smith refers to money as "the great wheel of circulation".

From "A Meditation on Money" by Robert Good, extracted from "Economic Reform", Newsletter of the Committee on Monetary and Economic Reform (COMER), Toronto, Ontario. April 1992.

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U.K. enquiries for editorial and publicity phone 031 657 4740.

RECOMMENDED READING

Benson, Ivor	This Age of Conflict.
Burkitt, B. & Baimbridge, M.	What 1992 Really Means: Single Market or Double Cross?
Douglas, C. H.	The Brief for the Prosecution.
	The Development of World Dominion.
	Economic Democracy.
	The Monopoly of Credit.
	The Policy of a Philosophy.
	Social Credit.
Eringer, R.	The Global Manipulators.
Maré, Eric de	A Matter of Life or Debt.
Monahan, Bryan W.	The Moving Storm.
	The Survival of Britain.
	Why I am a Social Crediter.
Robertson, Thomas	Human Ecology.
Social Credit Secretariat	Elements of Social Credit.

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