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REFORMING THE DEBT-MONEY SYSTEM

In the last issue of *The Social Crediter* (Vol. 77, No. 5) we examined in a "Briefing Paper" the nature of the international fractional reserve monetary system. Our conclusion was that "If the inevitable impacts of the debt-money system that drives international economies, and which points to its own eventual breakdown, are to be mitigated there must be radical reform."

Once the destructive impacts of that system and the need for its radical reform are understood however, the question then naturally arises "How should it be reformed?"

This essay therefore, is designed to set out in fairly broad terms, rather than in precise detail, what the nature of that reform might be. More detailed proposals should follow from careful consideration by a group of appropriate experts working to an agreed brief. The proposed *Campaign for Global Economic Reform* (see leaflet enclosed with TSC issue Vol. 77, No. 4) includes plans for such a working group.

Meanwhile we should recognise that there has been, for some hundreds of years at least, almost continuous oppo-

sition to the the near monopoly exercised by commercial bankers in the creation of money; and that this opposition has been supplemented by a great deal of work, by eminent economists and others, on appropriate practical proposals for its reform. What follows is first, a brief look at some examples of historical opposition to the banking monopoly in money creation and then, some practical proposals on how the necessary changes to the debt-money system might be implemented.

HISTORICAL STRUGGLE FOR CHANGE

In the 1690s the government of The Massachusetts Bay Colony made its first issue of "colonial notes." They circulated successfully for some twenty years as legal tender paper money and other colonies soon followed their example. Richard A. Lestor, in his 1938 analysis of *Currency Issues to Overcome Depressions in Pennsylvania* notes that, "All the available evidence indicates that New York did not suffer from severe depression during the period 1720

to 1723 as did the mother country and the other colonies like Pennsylvania, Delaware, and Maryland, that had as yet issued no paper money, or New Jersey where all previous currency issues had been retired." (1)

In October 1720, the governor of New York himself spoke of the "flourishing state" of the province and added "We live in the happiest of times" ... (because) ... the success of [New York's] currency ... was much surer than Bankers Bills in London." (2) In 1733 Maryland not only produced its own notes but, in an early example of a National Dividend, also put £48,000 into circulation by "giving away a certain sum to each inhabitant over 15 years of age." (3)

Alas, in 1751 and again in 1763, the British government acted to forbid further issues of legal tender paper money by the colonists. W. Hixson notes "that these acts of Parliament were clearly at the behest of the lenders of money, not of entrepreneurs, is evidenced by the reason given for them: that by the use of the paper money 'debts have been discharged with much less value than was contracted for.'" (4)

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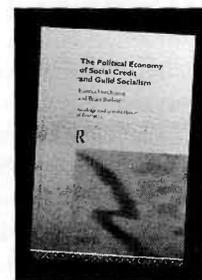
The Political Economy of Social Credit and Guild Socialism

Frances Hutchinson and Brian Burkitt

Published by Routledge (1997) in its hard back series Studies in the History of Economics.
Price £45.00

This book represents a very significant contribution to understanding the roots and continuing significance of the Social Credit analysis and prescription for profound economic reform. Agreeing with the authors that "following half a century of neglect, these texts possess the potential to provide the basis for a new economics of co-operation" the Secretariat has a few copies available to readers at £25.00 including post and packing, on a first come, first served basis.

Please make cheques payable to "KRP Ltd." and order from: Alistair D. McConnachie, Secretary, The Social Credit Secretariat, 16 Forth Street, Edinburgh, EH1 3LH.



"It showed how a private enterprise economy can grow and prosper not only without a specie standard but without 'private banks of issue', that is, without banks that create banknotes or otherwise increase effective money supply by the creation of bank credit as money or a money substitute."

Benjamin Franklin however continued to defend government -issue of legal tender notes and the British government did allow some relaxation of the restrictions. Yet there seems little doubt that, despite this relaxation, it was these restrictions placed by the British government on the Colonies' issue of legal tender paper money which, more than any tax on tea, finally led to the War for Independence.

However, almost certainly of greatest concern to the British government, and the powerful financial interests who influenced it, is what William Hixson describes as the single most important lesson of the colonial experience: *"that it showed how a private enterprise economy can grow and prosper not only without a specie standard but without 'private banks of issue', that is, without banks that create banknotes or otherwise increase effective money supply by the creation of bank credit as money or a money substitute."* (5)

THE GUERNSEY EXPERIMENT

In the aftermath of the Napoleonic Wars, the economy of the Island of Guernsey was in desperate decline. The roads had become muddy cart tracks, trade was depressed and there was great unemployment. The States' debt was £19,137 on which annual interest was £2,390. Annual revenue was only £3,000. But while great sums of money were needed to repair the sea walls and to energise the economy, net resources from current revenue was only £610. The dyke repair project alone was estimated to cost £10,000. Yet extensive other works were also necessary. Further taxation was not possible and new borrowing was not a practical proposition. There was, in the now familiar cry, "no money" and an appeal to London for funds was refused.

In 1816 the island's Governor appointed a Committee to consider the crisis. It recommended that the expense of acquiring property, building a covered market and other works should be met by the issue of States' Notes of £1 Sterling, to a total value of £6,000. The Committee's Report suggested this was an eminently reasonable proposal *"when one considers that the banks already have their notes in circulation for more than £50,000 whereas it is now proposed to restrict the States' issue to a mere £6,000."*(6)

£4,000 States' Notes were issued later that year for coast preservation works. They were subject to redemption in three stages between April 1817 and April 1818. In 1820 a further issue of £4,500 redeemable in 10 years was authorised to finance the new market. Further issues followed in 1821, 1824, 1826 and by 1837 the grand total was some £55,000.

The result was that *"In the Billet d'Etat it was a frequent subject for congratulations; and it was stated over and over again by eminent men of those times that without the issue of States' Notes, important public works, such as roads and buildings could not have been carried out"* and the island was *"not a penny the poorer in interest charges."* (7)

Matters soon changed. Two private banks opened on the island in 1827, and 1830 and they flooded the island with their own private note issues. The States set up a Committee to discuss the matter with the banks but the extra-ordinary outcome was that the States agreed to withdraw £15,000 of their States' Notes and to limit their issue to £40,000 in future.

However the proposition that it should be meekly accepted that there might be "no money", when there exists the real potential of resources, labour, technique and a will to do what is desired by the general community, had been shown to be fallacious.

Developments similar in principle to that of Guernsey were introduced in Continental Europe in the early 1930s, notably in the towns of Wörgl and Kirchbichel in the Austrian Tyrol and Bavaria respectively. Again the results were that business prospered, local unemployment was greatly relieved and significant new facilities and local infrastructure were provided. Once again however there was opposition from bankers and the Austrian State Bank engineered the end of the experiment in 1933.

At about the same time, in Canada great "financial friction" agitated the whole of Canada and in 1934 the Bank of Canada Act was introduced.

In August of 1935 Mackenzie-King, soon to be Prime Minister of Canada, observed in a radio broadcast that *"Once a nation parts with control of its currency and its credit, it matters not who makes the nation's laws. Usury, once in control, will wreck any nation."* In that same year the Bank of Canada was established.

In that Act, the Bank was given a very wide remit. In stark contrast to the narrow price stability objective of central banks today, it was charged *"... to regulate credit and currency in the best interests of the economic life of the nation, to control and protect the external value of the national monetary unit and to mitigate by its influence fluctuations in the general level of production, trade, prices and employment, so far as may be possible within the scope of monetary action, and generally to promote the economic and financial welfare of the Dominion ..."* (8)

Against that broad remit, the Bank during the rest of the 1930s, **created most of the Canadian money supply and, during the last years of World War II, still created some 62% of all new money.** As a result Canada had the highest employment rate it has ever had, very low interest rates and inflation. In the early 1970s it still created 20-30% of the new money supply. Since 1975 however it has, as in the UK, steadily reduced its share of the deficit, and the broadly defined money stock. **By 1992 the ratio was down to 7.5%.** (9)

In the 1930s, a period of great turmoil in the world's economies, there was earnest examination of the working of the monetary system and a number of significant figures, from within economic orthodoxy and beyond who were convinced of the need for radical change, advanced detailed practical ideas on how best that change might be achieved.

"Once a nation parts with control of its currency and its credit, it matters not who makes the nation's laws. Usury, once in control, will wreck any nation."

C. H. DOUGLAS

Working in close collaboration with A. R. Orage, the guild socialist and editor of *The New Age* in the 1920s,

Maj. C. H. Douglas developed his analysis of the operation of the modern industrial economy and its implications for the socio-economic experience of the world's peoples. At the core of this analysis was his criticism of the operation and impacts of the international debt-money system - ie. the arrangements by which credit (money) creation is operated as a monopoly by commercial bankers.

Within the much wider framework of his analysis and prescription for radical change, encapsulated in the concept of Social Credit, he proposed reform of the monetary system involving the withdrawal of the current authority which allows commercial banks to create, *out of nothing*, almost all of the national money supply.

Instead he proposed that the money supply should be created by a Statutory Authority, operating within a framework of strict rules to prevent unacceptable manipulation by special interests. The National Credit Office (NCO) would establish in each accountancy period, the total prices of finished goods and services in the economy and ensure that a corresponding total of purchasing power was available to consumers. Any gap would be closed by the issue or retiral of the appropriate amount of money. As a result inflation would be kept under strict control. The money supply might be injected into the economy from its source in the NCO on an interest-free basis by way of government expenditure on agreed infrastructure and government services; by the issue of a National Dividend to all as a right of citizenship, ie. not as a dole; and through a controlled subsidy to producers and/or retailers to provide a double lock against inflation. The operation of this "Just Price" mechanism may be likened to the application of a negative VAT.

The combined effect of these reforms he suggested would eliminate the absolute need for continuous "economic" growth which characterises the current system, and which leads to damaging pressure on the global environment. It would, as the National Dividend grew, allow and even encourage technological unemployment to be seen as a boon rather than the intractable problem it is currently thought to be. Recognition of the potential that such an outcome would imply for

harmony amongst the world's people, and between them and the natural environment, surely needs little imagination. Social Credit became a very influential force for change until preparations for war "solved" the unemployment "problem" and the Keynesian revolution re-established for a time, the dominance of economic orthodoxy and undermined the argument and support for truly radical system change.

Meanwhile from outside economic orthodoxy a number of other notable figures including Frederick Soddy, Henry Ford and Thomas Edison were reinforcing the Douglas analysis and were calling for similar reform.

FREDERICK SODDY

Frederick Soddy was an extraordinary figure who, from outside the academic speciality of economics, also brought new insight to its study. Professor of Chemistry at Oxford, he was awarded the Nobel Prize for chemistry in 1921. In 1926 he wrote his famous book *Wealth, Virtual Wealth and Debt* and became deeply involved in the debate. His conclusions on the nature of the debt-money system and his proposals for change are summarised in the last chapter of his book. He suggested, inter alia, that:

1. The production of Wealth, as distinct from Debt, obeys the physical laws of conservation and the scale on which wealth can be produced is practically limited only by the state of technical knowledge of the time. There is no valid physical justification for the continuance of poverty.
2. Banks create and destroy money arbitrarily and with no understanding of the laws that correlate its quantity with national income (real wealth).
3. The banks have usurped the "Prerogative of the Crown with regard to the issue of money and have corrupted the purpose of money from an exchange medium to that of an interest-bearing debt ... It has been connived at by politicians of all parties and, in the process, they have abdicated the most important function of government and ceased to be de facto rulers of the nation."(10)
4. To initiate the system of reform some £2billion of National interest-bearing Debt should be cancelled and the same sum of national money (non interest-bearing National Debt) issued to replace the credit created by banks. The taxpayers would thereby be relieved of the payment

The banks have usurped the "Prerogative of the Crown with regard to the issue of money and have corrupted the purpose of money from an exchange medium to that of an interest-bearing debt ... It has been connived at by politicians of all parties and, in the process, they have abdicated the most important function of government and ceased to be de facto rulers of the nation."

of £100,000,000 a year interest on purely fictitious loans.

HENRY FORD AND THOMAS A. EDISON

The views of Ford and Edison, expressed at considerable length in the interviews in *The New York Times* on the 4th and 6th of December 1921, have been reproduced in the May-June 1998 issue of *The Social Crediter*. It is worth noting again however just a few key points. The interviews were in relation to the controversy over whether or not completion of the giant unfinished dam on the Tennessee River near Muscle Shoals, Alabama, could be afforded.

Henry Ford:

"Now, I see a way by which our government can get this great work completed without paying a nickel to the money sellers ... The government needs \$40,000,000. That is 2,000,000 twenty-dollar bills. Let the Government issue those bills and with them pay every expense connected with the completion of the dam ... what is there behind a bond or this bill that makes it acceptable. Simply this, the good faith and credit of the American people, and twenty-dollar bills issued by Government to complete this great public improvement would have just as much of the good faith and credit of the American people behind them as any bond ... The national debt is nothing more or less than the nation's liability pile. Every public improvement this country makes means an increase to the national debt ... The only difference between the currency plan and the bond plan is that there is no interest to be paid, and the Wall Street money merchants, who do nothing to build the dam and deserve nothing, will get nothing." (The New York Times, December 4th 1921)

Question to Thomas A. Edison:

"But suppose Congress does not see this, what then?"

Thomas A. Edison:

"Well, Congress must fall back on the old way of doing business. It must authorize the issue of bonds. That is, it must go out to the money brokers and borrow ... and we then must pay interest to the money brokers ... That is to say, under the old way any time we wish to add to the national wealth we are compelled to add to the national debt. Now, that is what Henry Ford wants to prevent. He thinks it is stupid and so do I." (*The New York Times*, December 6th 1921)

IRVING FISHER AND HENRY C. SIMONS

During the 1930s and 1940s, Irving Fisher ("America's greatest scientific economist") and Henry Simons were respectively, Professor of Economics at Yale and Chicago Universities. They shared a great deal in their view of the monetary system and how it should be reformed.

Fisher was highly dubious about the importance of "over-production, under-consumption, over-capacity ... over-confidence ... over-saving ... and the discrepancy between saving and investment" to any adequate explanation of business cycles. He suggested instead, that in the great booms and depressions, "each of the above played a subordinate role as compared with over indebtedness ... In short the big bad actors are debt disturbances and price level disturbances due to money supply disturbances." Both agreed that "The major proximate factor in the present crisis is commercial banking." (11) Their ideas on the need for, and nature of reform were also very similar and were explained in Fisher's *100% Money* published in 1935 and Simons' *Economic Policy for a Free Society* published posthumously in 1948.

The 100% Reserve Plan, which was developed and championed by both, involved the abolition of the current fractional reserve banking system. It required instead that in respect of a bank deposit, against which a depositor might demand cash or write cheques, the bank must maintain 100% reserves in legal tender money, ie notes and coins produced by government fiat.

The plan was not to nationalise banking but rather to nationalise money. It envisaged the re-organisation of the banking system so that individual banks would have at least two, but possibly three, completely separate departments, or that they would be

replaced by three independent financial institutions, of which **none would be allowed to create money.**

The three new bank departments or new institutions would be:

1. CHEQUEING BANKS which would have a role in administering current individual accounts against which their clients may draw cheques in the usual way. Bank remuneration would be by charging for administration of the accounts. There would always be cash/legal tender money in the bank to meet any withdrawal by clients either directly or by cheque payment to another party.

2. MORTGAGE-LOAN INSTITUTIONS to serve the needs of small businesses and home owners. These institutions or bank departments would be required to hold in cash only a fraction of time deposits. They would pay interest on deposits and make secured loans at higher rates than those paid to depositors. They would therefore be financial intermediaries, operating in the way that banks are currently widely (but erroneously) understood to operate.

3. INVESTMENT TRUSTS whose role would be to assist in the financing of corporate and large businesses. They would obtain funds only by selling equity shares on the open market and they would pay dividends (if any) on the basis of dividends received from the ownership of equity shares in non-financial companies or from interest received from making long-term non-callable loans to businesses. They would be required to give preference to the purchase of new issue equities and to making business loans primarily of a job creating nature. They would be required to keep most of their assets in equity shares rather than "debt-paper."

These last two organisations would be prohibited from making loans for the purchase of existing shares, commodity trading, leveraged buyouts or generally speculative purposes. All speculative trading would therefore require 100% cash or would need interpersonal loans in cash.

Fisher outlined how the transition to the 100% reserve system might be implemented. Government would create a "Currency Commission" and through that mechanism there would be issued enough money to purchase the real assets of each bank ... so as to increase their cash reserves to a level equal to 100% of their "checking deposits". The banks thereafter

would be required to maintain permanently a cash reserve of 100% against its demand deposits.

Banks would be given a reasonable time to repay the money advanced by government and they would do this by liquidating all loans and investments, with the proceeds being passed to government. Once the 100% Reserve Plan was effected, government would ensure price stability by increasing the money supply to allow for such annual level of economic growth as is physically possible, and presumably subject only to it being deemed desirable by the community.

In the 1930s, mass unemployment and poverty were considered the greatest of the destructive effects of the fractional reserve banking system. Today we must add to these effects escalating, and ultimately unpayable, international debt and the prospect of environmental breakdown on a global scale. As the global economy, and the world's peoples, suffer from a further severe debt-repudiation crisis it is probably more clear than ever that the international monetary system must be radically reformed. It should be reassuring that the work of earlier critics provides a sound basis on which the necessary practical reform might be made with the minimum of disturbance to the economy or society.

Notes:

- 1-5. W. F. Hixson, *Triumph of the Bankers*, (West Port, Conn. & London: Praeger, 1993), pp. 54 - 58.
- 6-7. O. & J. Grubiak, *The Guernsey Experiment*, (California: Omni Pubs., 1998, 6th Printing), pp. 8-9.
8. Act to incorporate the Bank of Canada, 3rd July 1934, Chapter 43.
9. H. Chorney et. al., *The Deficit Made Me Do It (The Myths about Government Debt)*, (Canadian Centre for Policy Alternatives, 1994), p. 9.
10. F. Soddy, *Wealth, Virtual Wealth and Debt*, (London: G. Allen & Unwin, 1926), pp. 294-304.
11. W. F. Hixson, *A Matter of Interest, Money, Debt and Real Economic Growth*, (New York & London: Praeger, 1991), pp. 98-9. See Hixson also for a detailed review of the Fisher/Simons proposals of which that above represents an abstract. For a short general review from these and other original sources see also A. D. Armstrong, *To Restrain the Red Horse: The Urgent Need for Radical Economic Reform* (Dunoon, Argyll: Towerhouse Publishing, 1996).

UNITAX OR TAXES SHOULD TELL THE TRUTH

A review by Malcolm Slessor (1)

Tax is generally considered a burden to be borne, but to be avoided if possible. To evade it is illegal. The existing system is a gold mine for tax accountants, as their clients seek guidance on avoidance. Though such endeavours represent an enormous waste of clever people's time, it is quite understandable. The present tax system penalises endeavour and hard work. The more you make the more the government takes. The same applies to the firms, whose corporation tax is a sore point. Profits are taxed twice. Once at the level of the firm and then as dividends. But government must have income.

The most widespread system of tax is to tax human effort. In the UK we have income tax, corporation tax, social security payments. And there is the most damaging tax of all; value-added tax, which is a direct tax on labour, for is it not labour that adds value? There is also voluntary taxation, masquerading under the name of the Lottery. This is a particular burden on the poorer section of the community, who can less afford it, but who gamble in the hope of riches.

Let us look at tax in another way; as a signal. All stable systems, from the human body's homeostatic mechanism to the workings of the market function through signals fed back to the main system. If you are too hot, the body sweats to aid cooling. If there is too much oil on the market, the price drops. This is a universal attribute. A properly designed system responds to external signals, and thereby corrects itself. The signal from the labour tax system says "it appears to be unprofitable", "no point of working hard", "lets see how we can structure the company to avoid tax." Another consequence is that the employer, who is burdened with bureaucracy associated with employment, finds it easier and cheaper to replace employees with machines. There is much less bureaucracy associated with buying and operating machines.

The labour tax system places no value on ecological gestures, such as reducing emissions or using less energy. Yet from the conferences in Rio and Kyoto governments have committed themselves to reducing greenhouse gases. Still they

continue to tax labour. The endemic problem is not a shortage of labour, but unemployment.

So lets turn the thing on its head. If governments tax energy instead of labour, there is no tax on profits, so there is no need to appear unprofitable. Tax accountants become redundant. Work as hard as you like for you can now take home all your pay. But be careful how you use your energy, for it will now be expensive.

Such a proposal is not new. It is called "Unitax". The idea was acclaimed as the social invention of the year in 1990. (2) The idea has not gone down well with economists, who generally fail to appreciate the central role of energy. (3) Any possibility of a rise in energy prices scares the living daylight out of politicians, while captains of industry have seen it only as a threat to their competitiveness, which it is not. Today there is a Unitax Association (4) devoted to proselytising the concept. It has received the accolade of being borrowed by Jonathan Porritt, the guru of the green left. (5)

Imagine what it would be like in a Unitaxed country. There would be no income tax. Industry and Commerce would pay no taxes on profits nor contribute to social security on behalf of their employees or collect their tax on behalf of government. There would no longer be any need of annual tax returns, and so no need of inspectors with the right to pry into one's financial affairs. On the other hand it would be a country where no one could evade taxation, because no one can avoid using energy. Everyone, individuals (visitors and residents alike), industry and commerce all contribute to the national exchequer in proportion to their use of energy or through the energy embodied in the goods and services they buy. The black economy and the financial activities of the criminal classes, are captured. The tax dodging of the super-rich is a thing of the past. The sheer simplicity of the concept compels admiration.

Unitax is a caloric tax on primary energy, and only on primary energy, levied at the point where it enters the

economy. Thereafter there is no government involvement.

This is central to the concept. Primary energy is raw, unprocessed energy emerging from the ground. It enters the economy through a comparatively small number of enterprises like oil, gas and coal companies, and as imports. There are probably less than fifty points of entry for the whole of the UK, thus monitoring of taxation would be cheap, and utterly simple. At one fell swoop the cumbersome present methods, which presently absorb 4.5% of tax raised; fill 10,700 pages of legislation and absorb the minds of many clever people, are done away with. Unitax can be monitored by a handful of excise officials.

Six major advantages accrue from such a taxation system.

- a. It sends the right signal to energy users.
- b. It makes labour cheaper and easier to hire.
- c. It sets a higher value on diminishing and vital resources.
- d. It is cheaper to administer.
- e. It offers a simple, fast way for government to control the economy and raise tax.
- f. It can make exports **more** competitive.

UNITAX - AN EXAMPLE

In this example from 1990, minor taxes have been omitted. The government raised £141 billion in "labour taxes." The country consumed 9492 million gigajoules (i.e. peta-joules) equal to 215.7 million tonnes of oil equivalent of primary energy. The solar energy captured by agriculture and forestry is not counted here as it is renewable energy. Thus the Unitax would have been:

£141 billion divided by 9492 million GJ which equals £14.85 per GJ of primary energy.

This makes primary energy about 70% of the price of premium grade petrol, but about five times more expensive than domestic gas. This is indeed a radical shift in price. Let's imagine it is introduced step by step as in Table 1 on the following page.

TABLE 1:
THE POTENTIAL UNITAX ELEMENT IN VARIOUS UK "LABOUR" TAXES IN 1990 (6)

UK primary energy use = 9492million GJ	Tax raised £billion	Unitax £/GJ
Value-added tax only	33.0	3.47
Income tax only	54.5	5.75
Social security contributions only	32.9	3.46
Corporation tax only	21.4	2.25
Total "labour" taxes	141.8	14.93

The primary energy supplier collects the tax and passes it to the exchequer. For each GJ of primary energy supplied to the refiner, the invoice will carry a tax statement of £14.85, say £15.00 for simplicity.

Since the tax is caloric, it makes no difference if the energy derives from coal, oil, gas or whatever. However secondary fuel sources like electricity are not so taxed. The tax element in electricity is built in through the fuels used by electricity generators. Primary energy has to be refined. The refiner sells it as marketable fuels, such as petrol, domestic gas, diesel fuel and so on. Let us track this tax from source to consumer for the case of crude oil from the North Sea.

Suppose an oil platform in the North Sea extracts one million tonnes a year.

Oil has a calorific value of 41.8 GJ per tonne, so the tax would be (1 Mt x 41.8 GJ/t x £15.00) = £627million plus any royalty or petroleum revenue tax that government also chose to levy. Again for simplicity, let us ignore that.

In a *Unitaxed* environment they may not be appropriate. Thus the primary producer seeks to recover the tax element of £627million from the refiner who is also paying the international price of the crude. Taking an average price for oil of £1.5 per GJ, the total cost of the oil to the refiner is now about £690million. There is now an awful lot of money wrapped up in that oil, and the refiner will seek the highest possible efficiency. Typically a refiner would dissipate 5-6% of the energy in the oil during refining. Now, with a huge incentive to efficiency this will be cut, say to 4%. This reduces the 1million tonnes to 960,000 tonnes which amount, however, must carry the original tax plus the producer's cost plus

refining cost. At a rough estimate fuels would reach the market at a price of about £18.00 per GJ. This is now not much below the current price of petrol. This now is the price that must be paid on **all** fuel by **all** fuel users: farmers, fishermen, manufacturers, and citizens. So how would this affect the manufacturer? Table 2 analyses a typical average energy intensity manufacturer.

The manufacturer's selling price is now £870,000 more, but the cost to the consumer is £264,000 more, a rise of 6%. An efficiency gain in the use of fuel of 2% could cut that back to zero. It can be expected that some management cost will fall since the manufacturer need employ fewer wages clerks.

EXPORTERS AND IMPORTERS

The manufacturer's costs may now exceed those in equivalent international markets, especially in the energy intensive industries. Within the country it is a level playing field.

How is it placed with regard to foreign competitors? It turns out that it puts it at a distinct advantage! Under the *Unitax* concept exporters would have their *Unitax* rebated on the energy embodied in the exported goods, in the above case by £1.5million making it 28% cheaper. Importers would bear a *Unitax* based on their embodied energy: thus the level playing field. In 1990 on a UK-wide basis the government would have had to rebate exporters £42billion,

TABLE 2:
**MANUFACTURER'S COSTS: COMPARISON BETWEEN
TRADITIONAL LABOUR TAXES AND UNITAX**

Annual costs, any money unit	Under labour taxes£	Under Unitax £
Wages, 100 people @ £5/hour	1,000,000	1,000,000
Social Security contributions	500,000	nil
Fuel, 100,000 GJ @ £3/GJ with <i>Unitax</i> @ £18/GJ	300,000	1,800,000
Capital depreciation	100,000	100,000
Other costs	1,000,000	1,000,000
Profit, 15% of Turnover	435,000	435,000
Tax at 30% on profit	130,000	nil
Selling price	3,465,000	4,335,000
Value added tax on sale		
Price to customer	606,000	nil
Price to consumer	4,071,000	4,335,000
Added cost to consumer	nil	264,000 (6%)

but it would have charged a duty on imports substantially more than £42 billion. Thus any imbalance in international payments is to some extent recouped so far as government finances are concerned.

UNITAX FROM A PERSONAL POINT OF VIEW

All costs finally fall upon the consumer. However take home pay is now higher. Consumer choice is wider. One can save by choosing less energy intensive goods - say fresh vegetables over frozen. The most glaring drawback is the high cost of home heating. Electricity prices rise 270% ! However bad that looks at first sight, the **net** impact on households is very small. Moreover there is tremendous incentive to use fuels wisely. there will be strong motivation to invest in house insulation, fuel-efficient furnaces and cars, and in renewable energy systems. This is good for the home-owner and good for the country. *Unitax* sends the right signal.

OBJECTIONS

£50 a week to heat an average home! Electricity prices through the roof! The public will be outraged. But consider this. Something has to be done. There are always problems with new ideas. There are three in particular.

First and most important is that *Unitax* would militate against the poor, since no-one can live without heat and light, at least in a temperate winter climate. This means that some sort of support system must be devised, as is the case with present taxation. One proposal is to have a citizen's wage (7). It cannot be beyond our wit to sort this out. Then it is pointed out that since the tax will drive people to be more energy efficient, energy use will fall, so that the tax will tend to erode its own base. Indeed it will, and it will mean that tax per energy unit will rise until it reaches some stable value, but it will not affect the amount of tax raised.

A common objection to *Unitax* is that it would be impossible to estimate the "embodied energy" of imports.

Anybody familiar with the techniques of energy analysis knows this is not so. Experience will produce a set of tables that the excise officers can use to calculate both rebate and tax. It will be significantly less complicated than the

present system, where (in the UK) there are over 1400 pages of instructions on tariffs and other regulations. It will be up to the exporter and the importer to argue the case and produce the evidence. One can imagine that the UK exporter will try to demonstrate the highest possible embodied energy use, and the UK importer the lowest. On the principle of competition, the exporter will be encouraged to reduce energy use in order to compete with the importer in the home market.

ELECTRICITY

The tax on electricity arises from the original tax on the fuels used to generate it. This puts renewable energy sources like hydro-electricity or direct solar power at tremendous advantage. It will encourage investment in sustainable energy. Nuclear power however stands at some disadvantage unless it re-processes its spent fuel. The tax element in electricity is now extremely sensitive to the efficiency of resource use. The difference between producing electricity at 45% thermal efficiency in the latest plants and the 30% that has been common in recent times, can make as much as 8 pence a kilowatt hour difference in price. *Unitax* makes it much more attractive to develop combined heat and power systems. These make use of heat both for producing electricity and heating homes, but are capital intensive, and have not been popular in the UK for that reason. With *Unitax* the economics of combined heat and power are unassailable.

IMPLEMENTATION

Because of its revolutionary nature, implementation of *Unitax* must be phased in over a decade or so to allow producers and consumers to adjust to new ways. Value added tax is the obvious candidate for substitution. Certain other taxes might be retained. Though the times are ripe for a tax like *Unitax*, it will take many years before such an idea can penetrate UK society and political circles. Still, we must start somewhere.

Notes:

1. Malcolm Slessor was professor of Energy Studies at Strathclyde University and is a member of the Resource Use Institute.
2. Institute for Social Inventions, 1990 award made jointly to the author and Farel Bradbury *the original architect of Unitax*. (See F. Bradbury, *The resource economics proposition*, Resource Use Institute, 1994, ISBN 1-872579-051)
3. One prominent Cambridge econometrician wrote to Bradbury saying "As an economist I do not regard energy as especially different from transport, telecoms or computing power."
4. Unitax Association, 50 New Road, Great Baddow, Chelmsford, Essex, CM2.
5. J. Porrit, *The Director*, July 1990.
6. Table 16.1 in M. Slessor, J. King and D. Crane, *The Management of Greed*, (Edinburgh: RUI Publishing, 1997) ISBN 1-872579-07 8
7. A citizen's wage or basic income has been proposed by Bradbury and many others.

Editor's note:

Publication of this essay does not necessarily imply editorial support for the proposition. It is recognised however that it represents the kind of input which it is expected will be made to the relevant working groups of the proposed **Global Economic Reform Campaign** which we do support. Another important input to the development of that Campaign, will be the Douglas proposal for a National Dividend (or Citizen's Income here) and which has been a key objective of Social Credit proposals for socio-economic change since the 1920s.

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The Social Crediter is the official journal of the Social Credit Secretariat. It promulgates the analysis and prescription for radical change to the current financial/economic system developed by C. H. Douglas in the 1920s. At the centre of our concern is the need for radical reform of the international fractional reserve, debt-money system, so that other major socio-economic changes, including the introduction of a National Dividend, might follow and that, at last, all of the world's people might have the potential to enjoy economic sufficiency, while simultaneously living a full and satisfying life in harmony with each other and the natural environment. It is our conviction that whatever is **physically possible and socially desirable** CAN be made financial possible. This should be everyone's concern and radical reform, so that this potential might be realised, is urgent.

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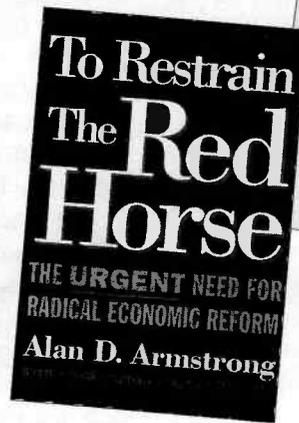
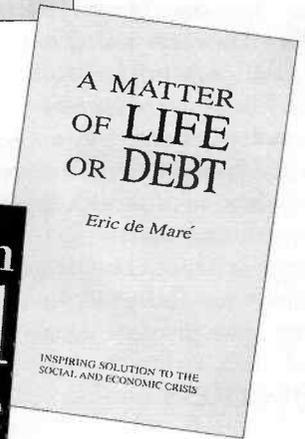
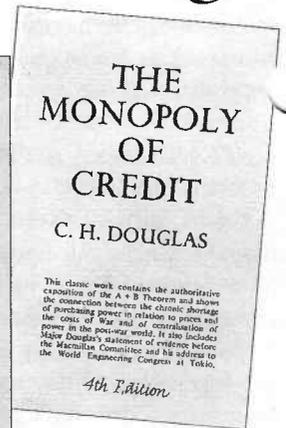
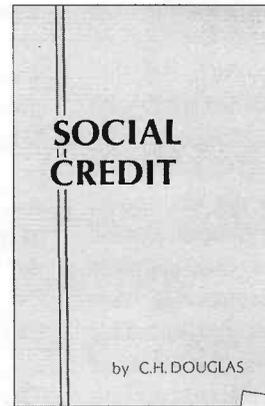
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- The Monopoly of Credit*
- Economic Democracy*
- Warning Democracy*
- Credit Power and Democracy*
- The Control and Distribution of Production*

Eric de Maré
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Alan D. Armstrong
*To Restrain the Red Horse**
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