

THE SOCIAL CREDITER

For Political and Economic Realism Volume 79 No. 6 November - December 2000

THE ALTERNATIVE MANSION HOUSE SPEECH 2000

FINANCIAL AND MONETARY POLICIES FOR AN ENABLING STATE

By James Robertson

INTRODUCTION

As far as I know, this is the first alternative Mansion House speech. So what kind of speech should it be?

Clearly, it should be about money. But from what point of view? Should it say things that people in the money business - those who attend the official Mansion House dinners - would want to hear? Should I imagine that, sitting here listening to me now, are "my Lord Mayor, Mr Governor, my Lords, Aldermen, Mr Recorder, Sheriffs, Ladies and Gentlemen of the City"? Or should I direct my speech to people who believe that the existing system of money and finance is a basic cause of the poverty, social injustice, environmental degradation and sheer economic inefficiency that

disfigure our world today?

As I thought about this, I recalled the saying that "If you can't ride two horses at the same time, you shouldn't be in the circus". The gap between the perceptions of those two groups of people - people professionally involved in the mysteries of the money business, and people outside it whose lives are affected by it - is an important gap. It needs to be bridged. The attitudes and actions of both groups will help to shape the world in the 21st century. So I should try to speak in terms that both will find relevant.

I shall speak about the need and prospects for a new economic strategy for this country and, by extension, for the world of which we are part. In particular, I shall speak about the challenge this

raises for public finance - or, more precisely, for fiscal and monetary policy.

One of my main themes will be the need to share the value of common resources more equally than today, and to adapt existing fiscal and monetary institutions and procedures for that purpose.

I will start by outlining two aspects of the present situation.

- A negative aspect is the increasingly serious criticism and active opposition being expressed against the existing financial and monetary system - globally, nationally and locally.

- A positive aspect is that in the last three years significant improvements have been made in this country's institutional arrangements for handling public finance and monetary policy.

Next, we will note another

inside this issue

PAGES 53-60

**The Alternative Mansion House
Speech 2000**

PAGES 60-63

**Wealth - A Christian View
Part Four**

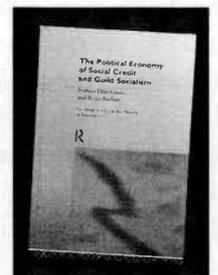
The Political Economy of Social Credit and Guild Socialism

Frances Hutchinson and Brian Burkitt

Published by Routledge (1997) in its hard back series Studies in the History of Economics. Price £55.00

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 £33.00 including post and packing, on a first come, first served basis.

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



negative. Questions about the future of many of today's taxes as reliable sources of public revenue are demanding an urgent response. But there is a potentially positive consequence - an opportunity to shift the collection of public revenue on to a new footing - more rational, more intelligible and fairer.

Then we will turn to the creation of new money, on which the New Economics Foundation is launching a report today. The proposal to issue new money as public revenue and put it into circulation as public spending, rather than continuing to allow commercial banks to issue it as profit-making loans, will benefit almost everyone. It reflects the same principle as will make sense for future taxation. The monetary value of common resources should be treated as public revenue. It should not be 'enclosed' as private profit.

Next we will touch briefly on public spending. In particular, we shall ask whether, in a society of responsible citizens, some of the public revenue generated by the value of common resources should be shared out as a contribution to the income of every citizen.

Finally, after a word about how these ideas could apply to the global economy, we will end with some thoughts about relations between commons, market, and citizens; about how regulating those relations will be a central task for an enabling State; and about how fiscal and monetary policies should be designed for that task.

Basic to much of all this will be the concept of a "free lunch". Mason Gaffney, the distinguished professor of resource economics at the University of Southern California, has pointed out that right-wing libertarian economists

are wrong when they proclaim TANSTAAFL (There Ain't No Such Thing As A Free Lunch). The truth is TISATAAFL (There Is Such A Thing As A Free Lunch). The important questions are: WIGI (Who Is Getting It)?, and WOTGI (Who Ought To Get It)? In fact the economy offers many free lunches, as we shall see.

THE PRESENT SITUATION (1)

The existing system of money and finance, and the dominant role of corporate power in world trade and investment, are attracting growing criticism and opposition.

Financial people are understandably outraged by the violent aspects of recent demonstrations in places like Seattle, Washington and the City of London. But these demonstrations are a symptom of a growing worldwide perception that today's economic and financial institutions are economically unjust, socially exploitative, and ecologically destructive. People in the banking and financial sector may not share this perception. But they do need to accept that it exists. And they need to take seriously that many people see them as responsible for much of what is wrong.

- It includes the systematic transfer of wealth from poor people and countries to rich ones.
- It includes the money-must-grow imperative that compels people to make money in socially and environmentally damaging ways.
- And it includes diverting economic effort and enterprise towards making money out of money, and away from providing necessary goods and services.

This growing attitude towards big money and finance is

reinforced by more general dissatisfactions. Here are a few examples.

- People's experience, well-documented by opinion surveys, is that more money does not necessarily mean more happiness. Economic progress in its present form can damage quality of life. The closure of branch banks in rural areas is one of many examples.

- People see a growing readiness on the part of governments to give priority to the goals of multinational corporations over the wishes and wellbeing of citizens (as over GM foods); and they see governments increasingly committing taxpayers' money to support corporate business (as over public/private partnerships).

- In this country, the New Labour government's support for business is supported by an old labour perception of work - that the only valid form of work is a job - that people should work for employers as employees - that business is the indispensable organiser of people's work. The result is experienced as doubly negative: what are put forward as socially inclusive policies have socially divisive results; and the value of necessary unpaid work by people for people, like parenting and caring, is downgraded.

THE PRESENT SITUATION (2)

Over the last three years the UK government has introduced significant institutional improvements in the arrangements for handling monetary and fiscal policy. In his Mansion House speech last year the Chancellor, Gordon Brown, explained that the new long-term framework which the government had put in place was based on three principles:

(1) clear objectives for price stability and sustainable public finances;

(2) well understood rules, including

(i) the new system of monetary policy-making centred on the now operationally independent Bank of England, and

(ii) the 'golden rule' that the government's recurrent spending budget must be balanced over the economic cycle;

(3) transparency in policy-making, and an open system of decision-making in both monetary and fiscal policy.

In my view, Gordon Brown and the present government are to be congratulated on these changes. They provide a starting point for progress towards a monetary system and a system of public finance that will be fit for a democratic country in the information age. Perhaps in his speech at the Mansion House this evening the Chancellor will develop what he said in his James Meade Memorial Lecture last month. He spoke then about the need, "not for big government, but for better government, what we might call an enabling state", and he spoke about the need for "a credible and radical view of citizenship as responsible citizenship". If, this evening, he were to explore what those ideas could mean for the future of monetary and fiscal policy, as we are doing here this morning, we would all be getting somewhere.

COMING PROBLEMS FOR PUBLIC REVENUE

However rosy the British government's finances happen to be at this particular moment, it is widely recognised that pressures to reduce existing taxes will continue

to grow.

In an increasingly competitive global economy, the mobility of capital and highly qualified people will continue to press national governments to reduce taxes on incomes, profits and capital.

In ageing societies, opposition will grow to taxing fewer people of working age on the fruits of their efforts, in order to support a growing number of so-called "economically inactive" people.

Internet trading ("e-commerce") will make it more difficult for governments to collect customs duties, value added tax and other taxes and levies on sales. This applies especially to sales of products and services that can be downloaded directly from the internet - including music, films, pictures, games, and advice and information of every kind. The internet will also make it easier for businesses and people to shift their earnings and profits to low-tax regimes.

International bodies like the OECD and the EU are demanding action against tax havens. A 1998 report estimated that the £400 billion invested in Britain's tax havens - like the Channel Islands and Isle of Man - meant a tax loss of at least £20 billion a year to the UK exchequer. \$6 trillion was estimated to be held in tax havens worldwide. The results, apart from lost tax, include economic distortions and criminal money laundering on a massive scale. The best way to tackle this will probably be to shift taxation away from things that can migrate to tax havens - like incomes, profits and capital - to things like land which cannot migrate.

These growing pressures to shift the tax base away from things that can escape tax by moving elsewhere reinforce the positive economic, social and

environmental arguments for taxing "bads", not "goods". Two recent American reports called "Tax Shift" and "Tax Waste, Not Work" spell out these arguments. The idea is to move the burden of taxes away from useful enterprise and employment on to the ownership and use of common resources, including land, energy and the capacity of the environment to absorb pollution. For example, the carbon/energy tax proposed by the EU in the 1990s would have used the revenues from taxes on fossil fuels to reduce the levels of tax on employment.

The fact is that the present structure of taxation is highly perverse.

- Today's taxes fall heavily on employment and on rewards for work and enterprise, and fall lightly on the use of common resources. So they encourage economic inefficiency in the use of resources of all kinds - over-use of natural resources (including energy and the environment's capacity to absorb pollution), and under-employment and under-development of human resources.

- In addition to those damaging economic, social and environmental effects, today's taxes are unfair and illogical. They penalise value added - the positive contributions people make to society. They fail to penalise value subtracted; only exceptionally do they make people pay for using or monopolising common resources and thereby preventing other people from using them.

- The present tax system allows rich people and businesses to escape, or at least minimise, their tax obligations. Among the devices available to rich people are tax havens and family trusts. Two business devices currently attracting attention are: the

decision by some companies to pay their staff with stock options; and 'mixer companies' set up in Luxembourg or the Netherlands - estimated to save leading British companies £4bn a year by exempting their foreign earnings from UK tax.

It is all a great mess. After paradise lost, you can almost imagine Satan sitting down with Beelzebub, Moloch, Belial and the rest of his cabinet, to design the most damaging tax system they could persuade the human race to adopt. Could they have done much better than what we have now?

SHARING THE VALUE OF COMMON RESOURCES

These problems open up the need and the prospects for a new approach to fiscal policy, designed to collect the value of common resources as public revenue, and to share it among all citizens.

Common resources are resources whose value is due to Nature and the activities of society as a whole, and not to the efforts or skill of individual people or organisations. Land is an obvious example. The value of a particular land-site, excluding the value of what has been built on it, is almost wholly determined by the activities and plans of society around it. For example, when the route of the Jubilee line in London was published, properties along the route jumped in value. Access to them was going to be much improved. So, as a result of a public policy decision, the owners of the properties received a windfall financial gain. They had done nothing for it and they had paid nothing for it. We had given them a "free lunch". Calculations made in a New Economics Foundation report in 1994, and

based on 1990 values, suggested that the absence of a site-value tax on land might be costing £50bn to £90bn a year to UK taxpayers - an important failure, but only one of many, to collect the value of common resources as public revenue.

By contrast, the recent auction of licences to use the radio spectrum for the third generation of mobile phones in this country over the next twenty years, raised £22.5bn for the government. That is an excellent example of the contribution which the value of common resources can make to public revenue. The Chancellor and the Treasury deserve praise for it.

Important common resources include:

- land (its site value)
- energy (its unextracted value)
- the environment's capacity to absorb pollution and waste
- space - for road traffic, air traffic (e.g. airport landing slots)
- water - for extraction and use, and for waterborne traffic
- the electro-magnetic (including radio) spectrum
- genetic resources
- the value arising from issuing new money.

Their aggregate annual value is very great. Sharing it out among all citizens would go far to eliminate the need for many existing taxes.

So, among future sources of public revenue there will be less reliance on conventional taxes than today, and more on payments for licences and tradable quotas, charges for the use of water, road space and other common resources - and revenue from issuing new money. We shall no longer tax people and businesses as heavily as now on what they earn - by useful work and enterprise, by the value they add, and by what they

contribute to the common good. Instead, we shall require them to pay for the value they subtract by their use or monopolisation of common resources.

This change is essential if we are to create an environmentally sustainable economy. The New Economics Foundation's Living Planet Index, developed with World Wide Fund for Nature, estimates that we have destroyed one third of nature's resources over the last 30 years. The economic costs of climate change have doubled for each of the last few decades according to the insurance giant Munich Re. If that pattern continues, by 2060 the costs will be greater than total Gross World Product.

CREATING NEW MONEY

"Creating New Money", launched by the New Economics Foundation today, is about how new money is issued - new money denominated in the national currency, i.e. pounds sterling in the UK. It is not about new currencies - parallel or complementary currencies like LETS or Time Dollars. Those are important innovations, but different.

At present in Britain less than 5% of new money is issued and put into circulation by the government and the Bank of England as cash (coins and banknotes). The remaining 95% of new money is non-cash money created and put into circulation by commercial banks. The situation in other countries is similar. As J.K. Galbraith has commented, "The process by which banks create money is so simple that the mind is repelled. Where something so important is involved, a deeper mystery seems only decent." The banks simply

print the money out of thin air into the current accounts of their customers - as interest-bearing, profit-making loans.

Interest on these loans gives the UK banks supernormal, special profits of about £21bn a year - compared with their supernormal profits of £5bn a year from cash machines, which were criticised in the Cruickshank report earlier this year. The annual loss of public revenue from allowing the banks to create the non-cash money is about £45bn - equivalent to about 12p on income tax. Total supernormal banking profits from this source in the USA, UK, Eurozone countries, and Japan are about \$140bn a year. With a "free lunch" on that scale, no wonder some of the cats get fat!

The necessary reform is simple - but our minds should not be repelled by its simplicity! There are two sides to it.

(1) Central banks should create the amount of new non-cash money (as well as cash) they decide is needed to increase the money supply. They should credit it to their governments as public revenue. Governments should then put it into circulation as public spending. In deciding how much new money to create, central banks should operate with a high degree of independence from their governments - as the Monetary Policy Committee of the Bank of England now does.

(2) It should be made illegal for anyone else to create new money denominated in the official currency. Commercial banks will then be excluded from money creation. They will be limited to credit-broking as other financial intermediaries are - borrowing, but no longer creating, the money they need to lend.

This reform will restore "seigniorage", in a form adapted

to the conditions of the Information Age. That is to say, it will restore the prerogative of the state to issue money, and to capture as public revenue the income that arises from issuing it, in an age when most money has become information. Originally, seigniorage was the revenue enjoyed by monarchs and local rulers from minting coins. It reflected the fact that the coins were worth more than the costs of producing them. As, over several centuries, the physical characteristics of money have changed from metal to paper to electronic bits and bytes, and as banking practices have developed, the relative importance of that original source of seigniorage has gradually dwindled. Now that almost all money takes the form of electronic entries in computerised bank accounts, extending the traditional principle of seigniorage to non-cash money will correct the anomaly that has grown up over the years.

The arguments for this monetary reform are not limited to the contribution it will make to public revenue, considerable though that will be. As the report explains, it will have beneficial social and environmental effects. It will be very beneficial for the economy as a whole. For example, it will tend to bring about lower interest rates and lower inflation; and it will tend to create greater economic stability, by enabling the central bank to smooth out the peaks and troughs of business cycles more effectively than it can do today.

It will also help to clarify monetary statistics, monetary definitions and monetary terminology. This is a crucial point. The distinction between means-of-payment money and store-of-value money - between

the functions of sight deposits and savings deposits - has become blurred in recent decades. The result is that the concepts and definitions on which monetary understanding and policy-making are based are now even more obscure than they were before. It is not at all clear what is now included in the "money supply". The different definitions of money - M0, M1, etc, up to M4 - are abracadabra to most people. One might imagine that a monetary priesthood had deliberately set out to conceal from citizens and politicians of democratic countries how the money system works, and how it could be made to work better for the common good.

The proposed reform will mean that the whole stock of national currency circulating in the economy will have been issued by the central bank. It will include all the non-cash money in everyone's current accounts, together with the cash which everyone holds. It will be easy to calculate how much of it there is. It will no longer be necessary to juggle with M0, M1, M2, M3, M3 extended, M4, and so on. There will simply be the one amount of plain money M. Everyone - and that includes politicians, officials, bankers and monetary experts, as well as a growing number of citizens, bank customers and taxpayers - will be able to understand better than today how the system works. As befits the citizens of a democracy, we will be better able to evaluate and discuss the monetary and financial policies and policy options which are presented to us. This reform will mark an essential further step towards what, at the Mansion House last year, Chancellor Gordon Brown called "transparency in policy-making, involving an open system of decision-making in both

monetary and fiscal policy”.

PUBLIC SPENDING

I shall now mention briefly three points that are likely to play a more prominent part in public debate in the coming years.

The first is about the payment of taxpayers' money to business corporations. Governments now dole out huge sums in contracts, subsidies, inducements, incentives and various other contributions to corporate budgets. To take subsidies alone, it is estimated that, worldwide, \$1.5 trillion is spent every year on perverse subsidies - perverse, in the sense of having economically, socially and environmentally damaging effects. This surely can't go on.

The second point is about "hypothecation". This means earmarking revenue from particular taxes or charges to be spent for specified purposes. It applies particularly to environmental taxes. For example, congestion charges on motor transport in cities are expected to be more readily accepted if the revenue from them is used to improve public transport. And studies have shown that the regressive effects of energy taxes - which hurt poor people relatively more than rich people - can be reversed if the revenue from them is recycled as "ecobonus" payments to everyone in the area affected by the taxes.

The third point is the probable further extension of benefit payments or tax credits to guarantee a basic income to various categories of people. The working families tax credit scheme, introduced by the present UK government, is leading on to a debate about how to guarantee the income of active citizens such as carers (for example by paying their

national insurance), parents (an idea championed by Harriet Harman) and even social entrepreneurs. Foreseeably, combining developments like these with the ecobonus principle, may lead towards a universal citizen's income - support for which is already growing. This would be paid, as of right, to all citizens. It would replace many existing social benefits and tax allowances. It would recognise that, in a society of responsible citizens, some of the public revenue arising from the value of common resources should be shared directly among them - and only some of it be spent by government officials and businesses on other public spending programmes.

THE GLOBAL DIMENSION

The principles we have been discussing for national public finance and the creation of new money apply at the global level too.

The Commission on Global Governance recognised five years

ago that global taxation is needed "to service the needs of the global neighbourhood". Global taxes, based on the use each nation makes of global commons, could include:

- taxes and charges on use of international resources such as ocean fishing, sea-bed mining, sea lanes, flight lanes, outer space, and the electro-magnetic spectrum; and
- taxes and charges on activities that pollute and damage the global environment, or that cause hazards across or outside national boundaries, such as emissions of CO2 and CFCs, oil spills, dumping wastes at sea, and other forms of marine and air pollution.

The Commission also pointed out that international monetary reform is becoming urgent: "A growing world economy requires constant enlargement of international liquidity". The "Creating New Money" report suggests that the principle underlying the reform it proposes could be applied at the global as well as the national level. We can create a true global currency.

QUOTE

One of the most significant facts about the New Deal was its orthodoxy on money. For the whole twelve years he was in the White House, Roosevelt had statutory powers to issue fiat money in the form of greenbacks without recourse to banks. This authority was never used. As a result... the depression's symptoms of idle resources was overcome only when the emergency of the war in 1942 made it possible to justify a limitless increase in the national debt by limitless borrowing from the banks... The inadequacy (of this approach to the depression) was shown in 1937 when the New Deal, after four years of "pump priming"... stopped its spending. Instead of taking off, the economy collapsed in the steepest recession in history... The administration was saved from this impasse by the need for the rearmament program followed by a war. Since 1947 the Cold War and the space program allowed the same situation to continue, so that even today prosperity is not the result of a properly organised economic system but of government spending, and any drastic reduction in such spending would give rise to an acute depression.

(Prof. Carroll Quigley, *Tragedy and Hope: A History of The World in Our Time* pp534/535)

Revenue from global taxes and global seigniorage could then provide a stable source of finance for UN expenditures including international peace-keeping programmes. But not only that. Some of the revenue might be distributed to all nations according to their populations, reflecting the right of every person in the world to a "global citizen's income" based on an equal share of the value of global resources.

This approach:

- would encourage sustainable development worldwide; it would generate a much needed source of revenue for the UN;
- it would provide substantial financial transfers to developing countries by right and without strings, as payments by the rich countries for their disproportionate use of world resources;
- it would help to liberate developing countries from their present dependence on aid, foreign loans and institutions like the World Bank and the International Monetary Fund, which are dominated by the rich countries;
- it would reduce the risk of another Third World debt crisis; and
- it would recognise the shared status of all human beings as citizens of the world.

SOME CONCLUDING REMARKS

First, then, the value of common resources should be fairly shared.

Second, sharing the value of common resources should be seen as predistribution. Whereas redistribution aims to correct the outcomes of economic activity after the event, predistribution shares the value of essential inputs to economic activity. Whereas

redistribution is dependency-reinforcing, predistribution is enabling. Because it addresses the underlying causes of economic injustice, inequality and exclusion, predistribution is an essential feature of a prosperous economy in an inclusive society. It reverses the private 'enclosure' of common resources on which so much conventional economic development has been based - and still is.

Third, whereas there are such things as free lunches, a free market economy is a sheer impossibility. In countries like this, governments take about 40% of GDP (the total value of the country's economic activity) as taxation. They take it out of the market economy as taxation, and then put it back into the market economy as public spending. This has a massive impact on relative costs and prices throughout the economy - with the taxes adding to the cost of everything that is taxed, and the public spending reducing the cost of everything it supports. The proverbial 'level playing field' is a mirage. The total composition of public revenue combined with the total composition of public spending will always provide a framework for the economy which skews its price structure some ways rather than others. That being so, the central aim of fiscal and monetary policy must be to provide a framework that encourages outcomes which accord with democratically decided choices and preferences.

Growing numbers of people share a vision of a more people-centred and earth-centred society - less business-centred, state-centred and employer-centred than the society we have today.

- As citizens of such a society, we will be more equal in esteem,

capability and material conditions of life than we are now.

- We will find it easier to get paid work. But we will no longer be so dependent on employers to organise it and provide our incomes.
- The industrial-age class division between employers and employees will continue to fade - as the old master/slave and lord/serf relationships of ancient and medieval societies have faded. It will become normal to work for ourselves and one another. Public policies will enable us to manage our own working lives.

In exchange for our right to share in the value of the 'commons', we will expect to take greater responsibility for ourselves and for the wellbeing of our families, neighbourhoods and society.

This vision of the future calls for a reconstruction of public finance and the monetary system. To some it may seem utopian. But, as I said three years ago in a report to the European Commission, the dividing line between the new economics and the mainstream is not static. As independent voices spread awareness of the need for change - as, for example, about the environment - mainstream opinion shifts, after a time lag. As forward thinkers move ahead and mainstream opinion moves to catch up, no firm boundary can be drawn between the policy implications of the new economics and the evolving political agenda.

As Ed Mayo says in his Foreword to "Creating New Money", "Many of the ideas developed by the New Economics Foundation and sister organisations around the world seemed obscure or unlikely when we first set them out. We look forward to monetary reform

moving to the centre stage of public and policy debate in the way that ecotaxes, stakeholding and debt cancellation have done. We invite your participation in helping to shape this debate for the economy of the future”.

NOTE:

This speech was given at an event organised by New Economics Foundation to mark the launch of their new Report: *Creating New Money* by James Robertson and Prof. Joseph Huber. The Report is available at £7.95 from New Economics

Foundation, Cinnamon House, 6-8 Cole Street, London SE1 4YH or from good bookshops. The speech may be downloaded from the NEF website at www.neweconomics.org

James Robertson was co-founder of New Economics Foundation which grew out of The Other Economic Summit (TOES) in 1986. His early career had been in Whitehall; he accompanied Harold Macmillan on his prime-ministerial “Wind of Change” tour of Africa in 1960, and then worked in the Cabinet Office. He later set up and directed the Inter-Bank Research Organisation for UK banks, and contributed to enquiries on

government, civil service, parliament and London’s future as a financial centre.

Prof. Dr. Joseph Huber is Chair of economic and environmental sociology at Martin-Luther-University, Halle. During the 70s and 80s he was active in the alternative movement and co-founder of Self-Help Network in Germany, a citizen’s initiative pioneering in green banking and ethical investment. In recent years he has been active in the International Greening of Industry Network, the Environment Bank, and the Senate of Berlin Town Forum. He is co-founder of Citizen’s Town AG Berlin.

WEALTH – A CHRISTIAN VIEW

First Report of the Christian Doctrine of Wealth Committee of the Congregational Union of Scotland. Presented to the Assembly at Dundee on May 10th, 1962 with a Foreword by The Very Rev. Dr. George McLeod, M.C., D.D.

PART FOUR: THE FUNCTIONING OF THE PRESENT SYSTEM

(Continued from September/October issue of *The Social Crediter* and reproduced with permission of Stuart Titles Limited)

Our next task is to consider whether the existing monetary system fulfils the requirements laid down in Part III.

We have felt that it would be improper for us to attempt to go into the technical details of the present system. That is a matter for the experts, and indeed it is already being done in the *Report of the Committee on the Working of the Monetary System* (The Radcliffe Report), HMSO, 1959. But we have felt that it is our duty to examine whether the fundamental shortcomings in the social-economic sphere can be attributed to the monetary system, and if so to decide whether this is due merely to faulty operation of that system, or whether there are fundamental flaws in it that make it an unsuitable instrument for its present day task. The touchstone for this test is to be found in the principles laid down in Part III.

RESTRICTION OF CREDIT

1. The fact that under the present system all credit for production comes into existence as interest-bearing debt has an inhibiting effect on expansion of the productive system. In the first place the cost, in terms of interest, of borrowing money for production is so heavy that prospective borrowers are reluctant to take up credits unless there is a prospect of a substantial and continuing profit. Thus on the producer’s side there is a reluctance to embark on any projects that are not financially rewarding. It must be emphasised that this reluctance has nothing to do with the Marxist conception of profit or greed as a motivating factor in capitalist society; we are concerned here with an attitude that is enforced on everyone, no matter how idealistic, by the

working of the system.

In the second place banks and finance houses only make loans available to “credit-worthy” borrowers, that is to say, those who have substantial assets as security for the loan and can show that there is a large and **effective** demand for their products that will ensure repayment of both interest and principle without undue delay. Both these factors push into second place a consideration of the merits of a project as a contribution to human well being, and frequently prevent it altogether.

If this is true of ordinary “commercial” projects, it applies with even greater force to the kind of production envisaged in Part III (b), since such undertakings are by definition not financially self-supporting and so not financially “credit-worthy.” Anyone who has any experience

of work in social welfare, education, the arts, will be able to think of many projects, of the highest social value, that have languished or lapsed for want of adequate finance. To quote only one example, expenditure on the expansion of hospitals is being limited, for financial reasons, to 2.5% per annum; yet the deplorable state of much of the hospital accommodation in this country is stressed by every medical authority.

On the other hand, it would appear that the functioning of the present monetary system actually encourages the wrong use of wealth. It is all too noticeable that the drink, gambling, and mass entertainment industries have no difficulty in getting finance. There is in other words a complete failure to establish sound priorities.

THE STRUGGLE FOR MARKETS

2. We are of the opinion that, so long as money continues to be regarded as a commodity to be bought and sold in the best international market, it will continue to be subject to arbitrary fluctuations and cannot therefore serve as a satisfactory standard of measurement, let alone a facility for the exchange of real wealth between nations. When private speculation by international financiers can bring about an economic crisis in a country, as was the case in Britain with the "flight from sterling" in 1961, it is clearly time that the whole system was removed from private hands. As an intermediate step in this direction, consideration might well be given to a scheme along the lines advocated by Lord Keynes during the war (Proposals for an International Clearing

Union, HMSO, 1943, reprinted 1961). Even in this scheme however there is still a tendency to attribute some intrinsic and independent value to money.

The present financial system appears to put pressure on all industrial countries to achieve what is called a "favourable" balance of trade. This means, looking on any individual country as a trading concern, that its main aim must be not merely to be self-supporting financially but also to have a financial credit in its favour. A little reflection will show that a country that has achieved a favourable balance of trade over a period of time is actually poorer in terms of real wealth than it was to begin with, since there has been sent out of the country more real wealth than has been brought in. True, it appears to be richer financially, but this only means that it is "owed" something by the outside world; and unless it is prepared to take this in real wealth (and so have an "unfavourable" balance of trade) it will remain poorer.

A further consideration arises. Such favourable balances will have to be offset by "unfavourable" balances elsewhere. Such "unfavourable" balances are usually only accepted by undeveloped countries and in particular colonial dependencies. With the spread of independence and the technological advancement of former undeveloped areas, not only are the outlets for the favourable trade balances of the original industrial countries growing fewer, but the newly-developed countries are themselves facing the problem of the disposal of industrial surpluses. Thus commercial competition and the struggle for markets is doubly intensified, with consequences in the political and even military

sphere.

There can be little doubt that, while the desire to contain Communism is a strong motivating force in the American policy of aid to under-developed countries, an equally powerful motive is the need to gain control of markets for American exports. The following passage is quoted from the Pakistani report referred to earlier: "Instead of the classical picture of surplus capital rushing out from the high wage economies of the developed countries in order to seek super profits through the exploitation of cheap labour in the under-developed countries, it has clearly preferred to seek highly productive employment in the industrially advanced countries. Its concern has been more the securing of markets and the sources of supply of raw materials than avenues of direct investment. In Pakistan, between 31.12.1956 and 31.12.1959, the net increase in foreign investment in the field of manufacturing was zero. There was, however, a rise of more than 40 per cent in the overall total of foreign investment - the main increase being in the field of commerce followed by investments in mining." (*Pakistan Today*, New Series No.1, Autumn 1961)

The same objections to interest-bearing debt apply in the international as in the domestic field. This problem is particularly acute in the case of "under-developed countries, whose indebtedness steadily increases as further loans have to be raised to meet the charges on earlier ones. If the under-developed areas of the world are to benefit from the knowledge and skills of their more advanced neighbours, means must be found to provide them with this technical assistance

without imposing on their people either foreign financial control of their domestic affairs or the burden of long-term debt.

We were impressed by the statement made to us in this connection by Professor Ritchie Calder, that the principles of finance still being followed were no longer valid in the present age.

Our conclusion is that the present financial system distorts the process of international trade by forcing countries to aim at export surpluses and to compete for markets, and by enabling the more powerful industrial countries (to say nothing of international agencies) to impose economic policies on their weaker neighbours that are not in the best interests of those neighbours.

THE GROWTH OF DEBT

3. We have already stressed (Part IV (I) above) the restricting effect of the fact that, under the present system, all money and credit comes into existence as interest-bearing debt. The high cost of interest charges and the social and moral prejudice against indebtedness combine with the orthodox view that the volume of credit should be kept as stable as possible, to ensure that the money supply is kept at a level far below that at which it could usefully be operated. On the other hand the productive system is constantly striving to expand, and even the operation of the debt-finance system fails to stop it. In spite of the best efforts of the financial authorities, the process continues to be an alternation of acceleration and braking, instead of an orderly expansion to the limits of physical possibility. This process can continue and "work" if (and only if) a permanent state of unbalance is allowed. This has

indeed been happening since 1951 at least. It is however an unsatisfactory process because it faces producers with ever-present instability and uncertainty; it means a constant fall in the purchasing power of money, with hardship to those on fixed incomes; it results in the ever-increasing accumulation of interest-bearing debt; and it is always threatened by the dictates of financial orthodoxy, which may impose deflationary policies that are against the interests of the community. There is therefore a double indictment against the debt-finance system, that it introduces an element of instability and insecurity into the day-to-day running of the economic system, and that it fails to reflect and indeed inhibits the vast potential of the modern industrial world.

A SHORTAGE OF MONEY

4. The present system does not provide any mechanism by which the supply of purchasing power is automatically geared to the volume of real wealth produced. The classical theory, that when goods outrun purchasing power prices will automatically fall to the proper level, is bound to break down under present conditions, since the lower level of prices is determined by costs and total costs are determined by the volume of credit issued for production, which must be repaid out of prices.

The principle argument between the orthodox and the unorthodox economists appear to revolve around this point. In the view of the first, the monetary system is merely a reflection of the physical economic system, and there is no question in normal circumstances of purchasing-

power being in short supply. Such discrepancies as arise are the result of temporary fluctuations that are, or can be, quickly corrected. The monetary reformers for the most part maintain that there is a "built-in" flaw in the present system of bank credit accounting that results in a permanent shortage of purchasing power in relation to the total prices of goods offered for sale.

We do not feel called on to pass judgement on the technical arguments advanced by the two sides. Nevertheless it has struck us that there are many features of the present state of affairs that would be readily explained on the thesis of a permanent shortage of money, but are difficult to account for in other terms. Among these are: the prevalence of the hire-purchase system (outstanding H.P. debt in September 1961, amounted to 953,000,000 pounds), the huge volume of building society mortgages (2,646,900,000 pounds at the end of 1960, and steadily rising), the apparent impossibility of making public undertakings such as transport, coal-mining or the press pay their way, the phenomenal increases in public and private debt in recent times (the National debt alone, which in 1935 stood at 9,111 million pounds, had by 1958 risen to 41,105 millions (Radcliffe Report, para.537) - about five times the amount of the deposits in the banks.(8)

One aspect of this matter above all must be of the gravest concern to all Christians, and that is the huge and growing expenditure on defence. Without in any way minimising the political and strategic considerations, we are convinced that one of the strongest incentives urging governments in this direction - or at least discouraging them from

reversing the trend - is the need to "prime the pump." Vast sums spent in this way pass into circulation as consumer incomes without any corresponding consumer goods appearing on the market, and may be used to relieve deficiencies of purchasing power elsewhere. But few would deny that the price humanity must pay, in terms of world-wide insecurity and fear, is far too high for the doubtful benefits received.

We are further of the opinion that, if there were in fact a constant balance between the sum of total prices and the sum total of purchasing power available to meet them, most of the problems referred to in this part of the Report would not have arisen. It appears to us therefore that there is strong *prima facie* evidence in favour of the claims of the monetary reformers.

THE "EVIL" OF UNEMPLOYMENT

5. In spite of the elaborate structure of pensions, allowances, benefits, assistance, and so forth, these are still all regarded as stopgap measures to meet situations that it is felt in principle should not arise. There is no recognition within the present economic system that unemployment, so far from being an avoidable evil, may before long become a necessity and even a blessing; still less is there mechanism within the financial system to facilitate and encourage movement in that direction. The fear of unemployment, which is really the very genuine fear of poverty, forces both employer and employee to resist the introduction of labour-saving devices. Fear of redundancy prevents the reorganisation of industries along the most efficient lines. Even the

reduction of working hours - except as a device to increase wages by increasing overtime - is resisted because of the lower productivity that it appears to involve. The present financial system appears to have no solution to this problem.

FINDINGS

As a result of our investigations we have come to the following conclusion:

1. We believe that the existing system of debt finance, whereby practically all money comes into circulation as interest-bearing debt, is prejudicial to human well-being, a drag on the development and distribution of wealth, finds no justification in the nature of things, and perpetuates a wrong conception of the function of money in human society.
2. We believe that the virtual monopoly of credit enjoyed by the banking system is contrary to reason and justice. When a bank makes a loan, it monetises the credit-worthy customer, admittedly a necessary service. But when it has done this, it hands him back his monetised credit as a debt to the bank plus 6,8 or 9 per cent. There seems an anomaly here, masked by the use and wont, that calls for examination. The true basis of credit is found in the assets of the nation - men, labour, skills, natural resources and the enormous power for production now in human hands. The creation and function of money ought to bear a strict relation to those physical facts, and to nothing else.
3. We believe that the existing system constitutes a barrier to peace and disarmament. It involves the trade war with resulting international friction. It requires the priming of the financial pump

through colossal expenditure on armaments in the cold war situation. By this means vast sums are put into circulation without a corresponding production of consumer goods. It seems difficult to deny the assertion of Professor Galbraith and others that without expansion of the economy in this way there would be an economic collapse in the U.S.A. and in this country. Since we are confident that it is not beyond the wit of man to devise a system from which these features would be absent, we would urge that it is an imperative Christian duty to press for the introduction of such a system.

End of Report.

(In the version published subsequent to the Assembly at Dundee, there was included an appendix entitled The Debate Continues. It records some of the extensive and very interesting response via the media during 1962 and 1963. That appendix will be reproduced in the next issue of *The Social Crediter* - don't miss it! Ed.)

Copyright © 1998. Permission granted for reproduction with appropriate credit.

If you wish to comment on an article in this, or the previous issues, or discuss submission of an essay for a future issue of *The Social Crediter*, please contact the

Editor directly:

Alan Armstrong,

Gilnockie, 32 Kilbride Avenue,

Dunoon, Argyll,

Scotland PA23 7LH.

Tel/Fax: 01369 701102

E-mail: alan@gilnockie.freemove.co.uk

If you do not wish to cut the coupon on the back page, please forward your subscription with your address details.

Recommended Reading

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. Only then might other major socio-economic changes, including the introduction of a National Dividend, follow and help to ensure that all of the world's people 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 is urgent, so that this potential might be realised.

SUBSCRIPTIONS

Annual rates:
UK inland £6.00
Airmail £9.00

In Australia, subscriptions and business enquiries should be addressed to
3 Beresford Drive, Draper,
Queensland 4520.

Published by KRP Ltd,
16 Forth Street, Edinburgh EH1 3LH.
Tel 0131 550 3769

THE SOCIAL CREDITER

Please send me *The Social Crediter* for one year.
(Cheques/Money Orders payable to KRP Ltd,
16 Forth Street, Edinburgh, EH1 3LH, Scotland)

Name _____

Address _____

Post Code _____

Enclosed £ _____

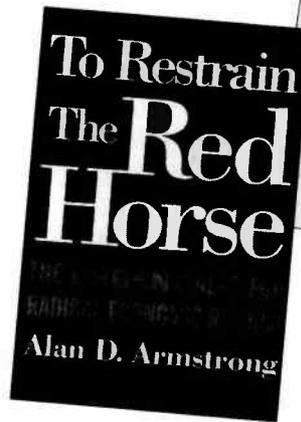
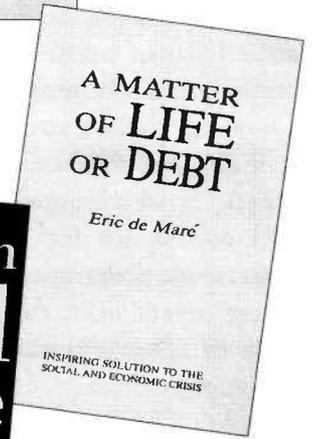
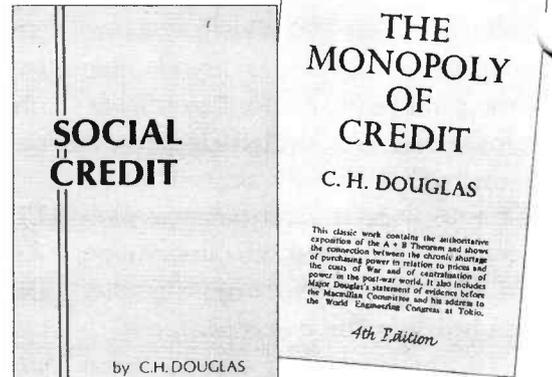
Books by Major C.H. Douglas

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

Frances Hutchinson and
Brian Burkitt
*The Political Economy of Social
Credit and Guild Socialism*

Eric de Maré
A Matter of Life or Debt

Alan D. Armstrong
*To Restrain the Red Horse**
*The Urgent Need for Radical
Economic Reform* (1996)
£11.95 including P&P



Books and booklets on the subject of Social Credit are available from Bloomfield Books, 26 Meadow Lane, Sudbury, Suffolk, England CO10 6TD.

* Also available from Towerhouse Publishing, 32 Kilbride Avenue, Dunoon, Argyll, Scotland PA23 7LH.

WEBSITE <http://www.ecn.net.au/~socred/>

E-MAIL ADDRESS: socialcredit@FSBDial.co.uk

SECRETARIAT	
Chairman and Editor	Alan D. Armstrong BA (Hons) Econ
Deputy Chairman and Treasurer	J. A. Murray McGrath FCOptom, DCLP
Secretary	Graham Paton
Research Officer	Alister Lawrence
Correspondent to Vatican	Anthony Cooney BA
Historian	Richard Brockett, Wellers Hill, Australia
Director, Social Credit School of Studies	Vic Bridger, Samford, Australia
Correspondent in Canada	Wallace M. Klinck, Sherwood Park, Alberta

THE SOCIAL CREDITER BUSINESS ADDRESS
Subscribers are requested to note the address for all business related to KRP Limited and The Social Credit Secretariat is: 16 Forth Street, Edinburgh EH1 3LH. Telephone 0131 550 3769 e-mail: socialcredit@FSBDial.co.uk