The banking systems of the first world create monstrous injustice.

Between 1503 and 1660, 185,000 kilos of gold and 16 kilos of silver were shipped from Latin America to Europe. The native American leader Guaicaipuro Cuautemoc argues that his people should see this transfer not as a war crime, but as “the first of several friendly loans granted by America for European development”. Were they to charge compound interest on this loan, levied at the modest rate of 10%, Europe would owe the indigenous people of Latin America a stack of gold and silver which exceeded the weight of the planet.

Curiously, this deficit is not scheduled for discussion at the G8 summit in Japan to-morrow. The debts whose forgiveness world leaders have been urged to consider are those which the impoverished nations of the south are deemed to owe the north. The seizures of land, labour, minerals and timber by colonists and corporations is a debt written off before it has even been accounted. The massive “climate change debt” the rich owe to the poor remains, officially, invisible.

These injustices are well documented. But there is another aspect of the debt crisis which has scarcely been considered. Third world debt is a fraud. It is not a debt at all, but the artefact of a deformed accounting system. In his startling new book, Goodbye America!, the economist Michael Rowbottom shows that the debt is the inevitable outcome of the 1944 Bretton Woods conference. John Maynard Keynes, who led the British delegation, foresaw that unless international trade was radically overhauled, debt would become self perpetuating. He proposed an “International Clearing Union” and a new currency, the bancor, in which international transactions would be conducted. Nations would be charged by the union for both overdrawn and surplus bancor accounts, encouraging creditors to spend their excess bancors in debtor countries, thus swiftly wiping out their deficit.

The United States, by contrast, was the world’s major creditor and wanted to keep it that way. Its delegation proposed that nations could borrow from an international bank which would penalise debtors, but not creditors. It insisted that gold, valued in dollars, be used to set exchange rates, ensuring that the dollar became the international banking standard. Having threatened to withhold its forthcoming war loan to Britain, the US won. It established, through the World Bank and the IMF, a global trading system which secured both a lasting US economic hegemony and the irredeemable indebtedness of poorer nations.

The problem has been compounded by the growth in “fractional reserve banking”: the process by which banks create money out of nothing by lending far more than they possess. As governments have all but ceased to issue real notes and coins, this magic now accounts for some 95% of total money supply in most developed nations. Indebtedness, in other words, has become the necessary concomitant of money creation. This means that the total debt the people of a nation owe can never be repaid. This is why, despite Gordon Brown’s brave efforts on Tuesday, our massive national debt repayments will only dent the cumulative total. This is why our great “property owning democracy” has become mortgaged to the hilt.
It also explains why Third world debt has become un-payable. Forced to take loans from commercial banks, the debtor nations create the money which enables first world countries to sell them their surplus goods and services. The debt, Rowbottom argues, is the result not of corruption, incompetence or economic failure on the part of developing nations. It is the inexorable and intentional product of a debt-based financial system. The "debt" is no more than world leaders imagine. As nearly all money arises from the issue of debt, then debt redemption is largely a matter of accountancy. Were banks allowed to cancel the debt bonds they hold, yet keep them on their books, they could balance their accounts without suffering any losses from their reserves. It is a fiddle, of course, but a fiddle of the kind which already keeps international banking afloat, as un-repayable debts are reported at their full theoretical value. And were the IMF and the World Bank to be replaced by a system of the kind Keynes proposed, the mistakes of the past 50 years could not be repeated. One outstanding task would remain: forgiveness. That we should presume to 'forgive' the third world's debts is laughable. Rather, G8 leaders must beg the forgiveness of the third world for the dreadful and deliberate mess they have made of the global economy.

"For centuries England has relied upon protection, has carried it to extremes, and has obtained satisfactory results from it. There is no doubt that it is to this system that it owes its present strength. After two centuries, England has found it convenient to adopt free trade because it thinks that protection can no longer offer it anything. Very well then, gentlemen, my knowledge of our country leads me to believe that within two hundred years, when America has got out of protection all it can offer, it too will adopt free trade."

General Ulysses S. Grant.

SOCIAL CREDIT: CLEARLY EXPLAINED

100 QUESTIONS ANSWERED

By John Hargrave

Fellow of the Royal Society of Arts; Economic Advisor To H.M. Government of Alberta (1936-1937); Founder and Leader, The Social Credit party of Great Britain.

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THE THREE DEMANDS OF SOCIAL CREDIT

1. Open the National Credit Office.
2. Issue the National Dividend.
3. Apply the Scientific Price Adjustment at the retail end.

Foreword

ALTHOUGH THERE ARE many books and booklets on the subject of Social Credit, we are always being asked for "A simple explanation - something anyone can understand." Experience has shown that the question and answer method is the only one likely to be effective in attempting to comply with this request.

This little booklet contains the answers to 101 Questions about Social Credit. All of them are real questions that have been asked from time to time at Social Credit party meetings and talks up and down the country. A team of Social Credit advocates kindly undertook to jot down all the questions usually asked, and sent them to me. Originally, over 400 questions were dealt with, but this number has had to be drastically cut owing to paper restrictions.

In compiling the Answers I have had the help and advice of recognised Social Credit technicians, including:

Arthur Brenton, Editor of The New Age, 1923-38
C. Marshall Hattersley, author of This Age of Plenty, etc., etc.
N.Ridley Temperley, A.M.I.E.E.

To these, and a number of others, who have given very valuable assistance, I offer my sincere thanks. It should be clearly understood however, that I alone am responsible for the wording of the answers in the following pages. I also wish to thank Mrs. Ashley Lewis for typing the original MS, and Mr. and Mrs Ian Alastair Ross for sorting out the most important Questions and arranging them in their present sequence.

It must, of course, be left to the general public to determine whether this small volume does in fact provide "A simple explanation - something that anyone can understand." That is the one and only object, but, in our phase of civilisation, adrift in a sea of pseudo-scientific jargon and bemused by a mass of seemingly unrelated "facts", it is the simple logic-tight statement based upon careful reasoning that is difficult to grasp.

What the so-called "experts" say is of no consequence whatever - their opinion is utterly and for ever discredited by their support of a financial policy and technique that continually plunges mankind into poverty and war. We all know that "A nod is as good as a wink to a blind horse", but if you really do want to understand Social Credit, I hope these Answers to Questions may be useful to you.

J.H.
PART 1 What is Social Credit?

1. WHAT DOES “SOCIAL CREDIT” MEAN?
IT MEANS (1) a dynamic idea, and (2) the financial technique for putting it into operation.

The dynamic idea is: that we live in a world of abundance; and the financial technique is designed to distribute this abundance.

2. WHO ORIGINATED THE SOCIAL CREDIT IDEA, AND HOW DID HE HIT UPON IT?
A SCOTS ENGINEER, Clifford Hugh Douglas, Maj. R.A.F. (Reserve), born January 20, 1879, M.I. Mech.E., M.I.E.E., originated the Social Credit idea. He was on the staff of the Westinghouse Company of America; late chief Reconstruction Engineer for the British Westinghouse Company in India; deputy Chief Engineer of Buenos Aires and Pacific Railway Company; Railway Engineer of the London Post Office (Tube) Railway; Assistant Superintendent R.A.F. Factory, Farnborough during the First World War; witness before the Canadian Banking Enquiry, 1923, and before the Macmillan Committee, 1930; author of: Economic Democracy; Credit Power and Democracy; Social Credit; The Monopoly of Credit; Warning Democracy, etc.

While reorganising the working of the Farnborough Aircraft Factory during the 1914-18 war, Douglas’s curiosity was aroused by his observation that the total costs incurred each week were greater than the sums paid out as wages, salaries, and dividends - except in businesses heading for bankruptcy.

He published his conclusions in an article in the English Review: “That we are living under a system of accountancy which renders the delivery of the nation’s goods and services to itself a technical impossibility.” The importance of this was recognised by very few at the time, but the late A.R. Orage, then editor of The New Age, grasped what it meant clearly, and at once invited the discussion of the idea in his paper.

3. ARE NOT SOCIALISM AND SOCIAL CREDIT MUCH THE SAME?
NO, THE DIFFERENCE is fundamental and clear-cut:-
1. Socialism states that the social-economic conflict is capital versus Labour.
2. Social Credit states that the social-economic conflict is Finance versus the Community.

The fight between two rats shut in a trap is not “much the same” as their quarrel with the rat-catcher. It is totally different.

(Capital and Labour are the rats in the trap. Finance-capital - the Money Power - is the rat catcher.)

4. IS IT NOT A FACT THAT SOCIAL CREDIT HAS BEEN TRIED IN ALBERTA AND FAILED?
NO. IT IS NOT. I went to Alberta in the Winter of 1936-37 to see for myself what was happening, and acted as Economic Adviser to the Alberta Government Planning Committee. (see The Alberta Report, issued by the Social Credit Party of Great Britain, 1937.) I found that it was not Social Credit that had failed - but the attempt to introduce it, a very different thing.

In August, 1935, the people of Alberta voted for William Aberhart and his Social Credit Party, and this resulted in a landslide victory for Social Credit. During the next five years the Aberhart Government struggled to be allowed to introduce Social Credit. In 1940, when the Aberhart Government was nearing the end of its term of office, another general election was held. All political wiseacres predicted that Aberhart and his government would be swept out. Yet in spite of five years of not being allowed to introduce Social Credit, the people of Alberta went to the polls - returned Aberhart and his Social Credit Government for another five years, with a strong working majority! And this Government, now led by Premier Manning, again went to the polls in the autumn of 1944, and was returned with an even greater majority, gaining 51 seats out of a total of 57. Yet despite this Provincial majority Alberta is still struggling to introduce Social Credit in accordance with the mandate of the people.

So far, every attempt to implement Social Credit in the Province has been thwarted and prohibited as “unconstitutional.”

Thus, for example, the Alberta Legislature passed the following Bills:-

“It has always seemed to me a curious fact that money is forthcoming in any quantity for a war, but that no nation has ever yet produced the money on the same scale to fight the evils of peace - poverty, lack of education, unemployment, ill health. When we are prepared to spend money and our efforts against them as freely and with the same spirit as against Hitler - we shall really be making progress.”

Field Marshall Lord Wavell at a Pilgrim’s luncheon, September 16, 1943.
Court of Canada. In the appeal by the Province from the Supreme Court's decision, the Privy Council refused to hear Alberta's argument by their counsel.


7. “Credit of Alberta Regulation Act (1937 Amendment)” - Assent withheld by Lieutenant-Governor. Declared unconstitutional by Supreme Court of Canada. In the appeal by the Province from the Supreme Court's decision, the Privy Council refused to hear Alberta's argument by their counsel.

The truth is that democracy has been denied to the people of Alberta by the Money Power.

5. WHAT IS THE BASIS OF THE SOCIAL PHILOSOPHY OF SOCIAL CREDIT?
THAT THE INDIVIDUAL is the all important unit. And that the only justification for the existence of any organisation - from football team to the State itself - is that it helps in some way the life and wellbeing of the individual.

6. WHAT IS THE SOCIAL CREDIT IDEA STATED AS SIMPLY AS POSSIBLE?
THAT THE ONLY object of Production is Consumption, and that, of all the interests seeking satisfaction in the State, the interest of CONSUMERS shall be paramount. You are a consumer. So am I. We are all consumers.

In a modern community it is not difficult to produce enough and to spare for everyone. Social Credit is an economic technique for giving you your share of the things you want - including time to enjoy life, and therefore culture.

Social Credit does this by allowing Consumption to keep pace with Production - i.e. by seeing that total Consumer Incomes balance total Retail Prices all the time.

Social Credit, in reality, a technique for allowing people the opportunity of living the Good Life - of living splendidly, instead of drudging and money-grubbing and snatching. You know what you want out of life - Social Credit makes it possible for you to get it.

7. STATED SIMPLY, WHAT DID DOUGLAS DISCOVER - AND HOW DID HE PRESENT IT?
HE DISCOVERED (1) that there is, in peace time, a chronic shortage of consumer buying-power, and (2) how this shortage can be corrected so that people can buy all the goods and services that are ready for sale at any given moment.

He presented the Social credit idea in a twofold manner:--
1. AN ANALYSIS OF COSTING, which has become known as the “A + B Theorem”.
2. A SET OF PROPOSALS, of which the essentials are:--
   (i) The establishment of a Credit Authority or National Credit Office.
   (ii) The debt-free financing of the consumer apart from the employment system.
   (iii) The application of the Scientific Price Adjustment at the retail end; and
   (iv) New credits for new production.

8. WHAT IS THE A + B THEOREM?
IT IS A method of analysing costs, devised by C. H. Douglas which reveals that there is, in peace time, a “gap” between total buying power and the total prices of goods ready for sale. The payments made by any factory or other productive organisation can be divided into two groups:-
Group A - All payments to individuals (wages, salaries and dividends).
Group B - All payments to other organisations (raw materials, bank charges, and other external costs).

The rate of flow of buying-power to individuals is represented by A, but since all payments go into prices, the rate of prices cannot be less than A+B. Since A cannot equal A+B, a proportion of goods ready for sale at any given moment cannot be purchased by the consumer.

If all goods ready for sale to the consumer are to be purchased, additional buying-power at least equivalent to B must be distributed.

The following Diagram represents the two rates of flow of (A) consumer buying-power, and (A+B) prices charged to the consumer:

9. WHAT IS THE NATIONAL CREDIT OFFICE?
IT IS THE Central Credit Authority that will be established by a Social Credit Government. At present there is no such authority, although there is a National Debt Office, 19, Old Jewry, London, E.C.2, established 1786 (26 Geo. III, c.31).

The National Credit Office will establish a National Credit Account, based on an assessment of the nation's assets and power to produce Real Wealth. It will keep an account of all increases and decreases in the nation's Real Wealth, and calculate the nation's Real Credit on that basis.

10. WHAT DOES THE NATIONAL DEBT OFFICE DO - AND WHO RUNS IT?
IT IS SUPPOSED to apply certain funds, known as “Sinking Funds” towards the reduction of the National Debt. (“Sinking Fund” is an appropriate name, because all money sunk in this fund is - sunk! And thereafter cannot be used as consumer buying-power.)

It is run by the National Debt Commissioners. They are:-
The Speaker of the House of Commons,
The Chancellor of the Exchequer,
The Master of the Rolls,

11. SURELY THE TREASURY HAS CONTROL OVER THE BANK OF ENGLAND?
You would think so, but it has not. The Treasury is "advised" by the Bank of England - in actuality, by the Governor - and always follows that advice. Any Chancellor of the Exchequer who did not do so would find himself in Queer Street very quickly. This was so even in the time of Gladstone, and it is much more so today.

Gladstone wrote: "From the time I took office as Chancellor of the Exchequer (1852) I began to learn that the State held, in the face of the Bank and the City, an essentially false position as to finance. The Government itself was not to be the substantive power, but was to leave the Money Power supreme and unquestioned. In the conditions of this situation I was reluctant to acquiesce, and I began to fight against it by financial self assertion from the first. I was tenaciously opposed by the Governor and the Deputy-Governor of the Bank (of England) who had seats in Parliament, and I had the City for an antagonist on almost every occasion."

(Morley's "Life of Gladstone")

"On one memorable occasion the Governor of the Bank (Mr. Montague Norman) was asked the relationship of the Court of Directors (of the Bank) and the Treasury. He replied that it was the relationship of Tweedledum and Tweedledee."

(Lord Strathbolgi, then Lt-Commander Kenworthy, in the New Leader, October 9, 1931.)

12. WHAT IS THE NATIONAL DIVIDEND AND WHY IS IT REQUIRED?
It is the method whereby every citizen will become a birthright shareholder in the common wealth of the community.

The National Dividend is the share-out mechanism of a modern Power-Age society. It will be paid as a flat rate to everyone - rich or poor - who chooses to draw it. It will be based on the total productive capacity of the community, and will rise and fall with production. It will be paid over and above the wages and salaries of those engaged in production.

By means of the National Dividend and the Price Adjustment the Home Market will be made effective, which means that the people of this country will be able to buy the goods and services ready for sale.

It eliminates the miserable, miserly unemployment "dole" and ensures to everyone economic security - AND freedom. Economic security without freedom is Totalitarian Serfdom - the Servile State.

A National Dividend is required because we - by which I mean we in this country - have left behind a Scarcity-and-Work Age and have entered an Abundance-and-Leisure Age, in which more and more goods and services can be produced with less and less human Labour. A Power-Age society, using modern productive technique - i.e. labour-saving devices of all kinds - does not need the labour-power of a very large number of "workers" who were required heretofore. The National Dividend - the "Wages of the Machine" - is needed in order (a) to free industry from being clogged with unwanted "workers" seeking jobs in order to get money, and (b) to enable these released "work-wage-slaves" to buy and use the goods and services ready for sale. Without the National Dividend a modern community is bound to have an ever-increasing horde of poverty-stricken unemployed.

There is no solution in the idea of "everyone could be employed for a few hours a day," because before long only a few will be required to work even a few hours a day! These few - a highly skilled minority of production technicians - ought to be paid for their services to the community over and above the National Dividend. That is the only logical solution to this Power-Age "problem" which is not really a problem at all, but a fear of leisure hangover from the Ages of Scarcity. A Social Credit Government will, however, leave this question to be settled by the community. If a majority decide that "everyone must do his or her quota of work", such a work-decree will come into force. But after a time, sooner or later, people will discover that the common-sense plan is for those to work who are best able to do the job, and who love doing it.

13. WHERE IS THE MONEY TO COME FROM?
From the National Credit Office where it will be created by entering up the financial value of the Nation's credit - i.e. its ability to produce Real Wealth (goods and services).

People ask: "Where is the money to come from?" - as though money were some kind of Sacred Ju-Ju-Magic. That of course is nonsense. Money - i.e., Credit - is created by Bankers "out of nothing" and at very little cost; and banking is, in fact, first of all a money-creating and then a money-lending business. But, in a Sane Economic System, money will not be a commodity. It will be merely tickets-for-goods, having no special value itself.

14. WHAT IS THE PRICE ADJUSTMENT, AND WHY IS IT REQUIRED?
It is a calculation designed to "close the gap" between the total buying-power of individuals and the total prices of goods ready for sale. By means of this calculation goods will be sold to the consumer below cost (as now calculated). The technical formula can be set out as follows:-

\[
\text{Price per ton} = \frac{\text{Cost per ton}}{\text{Cost value of Total Consumption}} \times \frac{\text{Money value of Total Consumption}}{\text{Production : Consumption}}
\]

A simple explanation of this formula is: that the scientific price of any article to the consumer is the cost...
of consumption ("using up" of other articles) during the period of production.

Anyone can see that this is plain common sense, without necessarily being able to understand the formula itself.

It is required (1) to counteract inflation, and (2) to regulate production in relation to consumer demand.

The price adjustment at the retail end is the most important part of the Social Credit technique. It eliminates the "boom" and "slump" of the Bankers' Debt-system. In effect, it is like the governor on an engine. It regulates the flow of buying-power in relation to production. It makes sure that total spendable incomes equal total retail prices. That means that people can buy the goods and services produced and offered for sale.

15. WHAT DO ECONOMIC EXPERTS THINK ABOUT SOCIAL CREDIT?

THERE ARE NO "economic experts" because economics as preached by orthodox economists is not a science but a mystagogy wrapped in a pseudo-technical jargon.

Those who call themselves, or are supposed to be "economic experts" usually consider that Social Credit is "based upon a fallacy".

16. WHAT IS THE "FALLACY" THESE "ECONOMIC EXPERTS" THINK THEY DISCOVER - AND WHAT IS THE SOCIAL CREDIT REPLY?

That as "B" costs have been paid out as wages, salaries, dividends or profits in the past, they are available as consumer buying-power in the present; and that therefore the public has all the money needed to buy all the goods and services ready for sale to the final consumer.

The Social Credit reply is: that the money spent yesterday cannot be spent again today. A spent coin is like a spent bullet - and so is a spent £1 or 10s. note. "A" costs become "B" costs, but "B" costs never become "A" costs again. It is no use one adding together:-

1. Money spent yesterday £10 ("B" Costs)
2. Money ready to spend to-day £10 ("A" Costs)
   ______
   £20

- and pretending that you now have £20 with which you can buy goods priced at £20, when in fact all you now have is £10, and it cannot buy goods priced beyond that sum. Thus, you cannot spend today what you spent yesterday - and this applies to each individual, and to all groups of individuals.

17. WHY ARE SOCIAL CREDIT ADVOCATES SO MUCH AGAINST BANKERS?

BECAUSE THE BANKERS operate a system that places the whole community in financial debt to them and forces the community to go on borrowing from them.

"Well", you may say, "is there anything wrong about that?" The answer is: Yes, very wrong. You know that an individual who is in debt financially is always under the thumb of someone else - i.e., the person from whom he has borrowed. That is why most people try not to "get into the hands of moneylenders" - little knowing that they are in the hands of moneylenders (the Bankers) from the day they are born, and even before.

A community that is in debt financially is under the thumb of someone else - i.e., the Bankers from whom they borrow their own credit. The results of this are extremely dangerous. Suppose the community needs ships, or the development of agriculture, or new schools and hospitals. Instead of setting to work to make and do these things, they are told and come to actually believe, that "the cost is prohibitive" - in spite of the fact that, quite obviously, what is physically possible, is, and must be, financially possible. And so, because of the Myth of Financial Debt, they let their shipyards stand idle, let their fields and farms go to rack and ruin, let their children go to schools that ought to be pulled down, and put up notices saying: "The So-and So Hospital is falling down! Please give your pennies to our Rebuilding Fund." This can lead to a state of affairs in which the community is so unprepared in the organisation, equipment, and training of its Army, Navy and Air Force, that it is in danger of being attacked, blockaded, starved out, and invaded. Britain was in that position in 1939. And we shall be in the same position again in a few years after this Hitler-war - if we allow the Bankers to keep us sunk in debt. "Out of debt, out of danger", says the old proverb, and very true it is.

So, you see, now, why Social Credit advocates are so much against the Bankers?

18. IS THERE ANY EVIDENCE TO SHOW THAT BANKERS AND FINANCIERS WIELD A LIFE-AND-DEATH POWER OVER THEIR FELLOW MEN? PLENTY. I could compile a large book full of it. Here are a few of the "exhibits" that would be included:

(1) From The Financial Times, September 26, 1921: "Whoever may be the indiscreet Minister who revives the money-trust bogey at a moment when the Government (Lloyd George's) has most need to be polite to the banks, should be put through an elementary course of instruction, in fact, as well as in manners. Does he, do his colleagues, realise that half a dozen men at the top of the big five banks could upset the whole fabric of Government finance by refraining from renewing Treasury Bills?"

(2) Meyer Rothschild, father of the House of Rothschild and founder of the great chain of banking houses throughout the world, said: "Permit me to issue the money of a nation and I care not who makes its laws."

(3) From the United States Banker's Magazine of 1892: "We must proceed with caution, and guard well every move made, for the lower orders of people are already showing signs of restless commotions. Prudence will, therefore, dictate a policy of apparently yielding to the popular will until all our plans are so far consummated that we can declare our designs without fear of any organised resistance. The
Farmers’ Alliance and the Knights of Labour organisations in the United States should be carefully watched by our trusted men, and we must take immediate steps to control these organisations in our interests or disrupt them. The coming Omaha Convention, to be held July 4th., our men must attend and direct its movements, or else there will be set on foot such antagonisms to our designs as may require force to overcome. This, at the present time, would be premature. We are not yet ready for such a crisis. Capital must protect itself in every possible manner through combination and legislation. The courts must be called to our aid. Debts must be collected, bonds and mortgages foreclosed as rapidly as possible. Where, through a process of law, the common people have lost their homes, they will be more tractable and easily governed through the influence of the strong arm of government, applied by central power of imperial wealth, under the control of leading financiers. The truth is well known among our principal men now engaged in forming an imperialism of capital to govern the world. While they are doing this the people must be kept in a condition of political antagonism. The question of tariff reform must be urged through the organisation known as the Democratic Party, and the question of protection and reciprocity must be forced to view through the Republican Party. By thus dividing the voters we can get them to expend their energies fighting over questions of no importance to us, except as teachers to lead the common herd. Thus by discreet actions we can secure all that has been so generously planned and successfully accomplished.”

(4) Extracts from a letter written from London by the firm of Rothschild, well known international bankers, to their New York Agents, when arranging to introduce modern banking methods into America. “The few who can understand the system will either be so interested in its profits, or so dependent on its favours, that there will be no opposition from that class, while, on the other hand, that great body of people, mentally incapable of comprehending the tremendous advantage that Capital derives from the system, will bear its burden without complaint and, perhaps, without even suspecting that the system is inimical to their interests.”

19. IS IT BANKERS, OR THE SYSTEM THEY OPERATE, THAT SOCIAL CREDIT ADVOCATES WISH TO ABOLISH?
They wish to abolish the debt-generating system operated by the bankers. By abolishing financial debt, Social Credit will so modify the system as to remove the evils that inevitably result from its present operation.

Under Social Credit the Bankers will be required by law to operate a debt-free monetary system, and, by thus modifying the technique of credit-accountancy, Social Credit will entirely “evaporate” the power of the Bankers, confining them to their proper work, which is: to act as the bookkeepers of the nation’s Production and Consumption.

20. IS IT A FACT THAT BANKS CREATE CREDIT “OUT OF NOTHING”?
Yes, I’m afraid it is. It’s hard luck for the so-called “economic experts” who made fools of themselves at the outset of the Social Credit revelation by asserting that “banks do not create credit out of nothing”. The “banks do not create credit”, and that “banks can only lend the money deposited with them by their customers”. The facts, however, are otherwise, as you will see:

Encyclopaedia Britannica, vol. 15, under “Money”: “Banks lend by creating credit; they create the means of payment out of nothing.”

Encyclopaedia Britannica (14th. edition), vol. 3, under “Banking and Credit”: “Banks create credit. It is a mistake to suppose that Bank Credit is created to any important extent by the payment of money into the banks.”

William Paterson, born 1658, the Scots economist and financier, who founded the so-called “Bank of England” said, in explaining his scheme at the time: “The Bank hath benefit of interest on all moneys which it creates out of nothing.”

R. G. Hawtrey, Assistant Secretary to the Treasury, in a B.B.C. broadcast, March 22, 1933, said: “I agree with him (Douglas) that Banks create money, and that trade depression arises from faults in the Banking System in the discharge of that vital function.”

The late Reginald McKenna, Chairman, the Midland Bank, and ex-Chancellor of the Exchequer, addressing the shareholders of the Midland Bank, January 29, 1920, said: “When a bank makes a loan to a customer or allows him an overdraft in the ordinary course the loan will be drawn upon, or the overdraft will be made, by cheque drawn by the customer upon the bank and paid in to someone’s credit at the same or another bank. The drawer of the cheque will not have reduced any deposit already in existence because we are supposing a case in which he has been given a loan or allowed an overdraft. The receiver of the cheque, however, when he pays it into his own account, will be credited with its value and thereby a new deposit will be created.”

Addressing the shareholders of the Midland Bank, January 25, 1924, the late Reginald McKenna said: “I am afraid the ordinary citizen will not like to be told that the banks can, and do, create money. The amount of money in existence varies only with the action of the banks in increasing and decreasing deposits and bank purchases. Every loan, overdraft, or bank purchase creates a deposit, and every repayment of a loan, overdraft, or bank sale destroys a deposit.”

Addressing the shareholders of the Midland Bank, January 22, 1930, the late Reginald McKenna said: “The Bank of England is the supreme authority in determining the quantity of money available for the use of the public.”

The Report of the Macmillan Committee, 1929, page 34, para. 74, states: “It is not unnatural to think of the deposits of a bank as being created by the public through the deposit of
cash representing either savings or amounts which are not for the time being required to meet expenditure. But the bulk of the deposits arise out of the action of the banks themselves, for by granting loans, allowing money to be drawn on an overdraft, or purchasing securities, a bank creates a credit in its books which is equivalent to a deposit... The bank can carry on the process of lending, or purchasing investments, until such time as the credits created, or investments purchased, represent nine times the amount of the original deposit.

In his great textbook, The Theory and Practice of Banking, H.D. McLeod, M.A., a recognised authority on the subject, states: "The essential and distinctive feature of a bank and a banker is to create and issue credit payable on demand, and this credit is intended to be put into circulation and serve all the purposes of money. A bank, therefore, is not an office for the borrowing and lending of Money, it is a manufactory of credit."

A.L.G. Mackay, Professor of Economics, University of Rangoon, states: "By means of a loan, an advance, an overdraft, or by the cahsing of bills, the banks are able to increase the volume of deposits in the community, and because of this process it is not correct to say that a bank loans out deposits which people make with it. It is clear that it creates the deposit by the issue of the loan; the loan travels back to the bank, or another bank, and assumes the form of a deposit."

Branch Banking, July, 1938, stated: "There are enough substantial quotations in existence to prove to the uninitiated that Banks do create credit without restraint and that they create the means of repayment within themselves."

(To be continued)

**IT'S YOUR MONEY**

By William F. Hixson

Continuing our periodic reprinting, with permission, of excerpts from William F. Hixson's small book with the above title. Chapters 11 and 12 seem highly relevant as international indebtedness and volatility in international financial markets are greatly increased. In the Preface to his book Hixson confirms, and we agree, that "This book is about 'YOUR MONEY' no matter in what country you reside. It may at first appear to be solely about the monetary system of the USA but the systems are so similar in all countries that most of what is written here about the USA applies everywhere."

Chapter 11

**THE MOST COMMON FALLACY ABOUT BANKING**

Preceding chapters have dealt with certain aspects of the process by which bank-created money has come into existence in the past and presently comes into existence in our economy. Much remains to be said, however, about both the banking system and about the properties of Bank-Created Money.

The most persistent misunderstanding about banks is the belief that, first, individuals or companies make deposits in banks and that, subsequently, the banks loan out to borrowers the depositors' money.

Put another way, the most persistent fallacy about banking is that banks are "intermediators" between lenders and borrowers. This does not at all reveal the way the system actually works.

Between 1950 and 1990 the total deposits in the commercial banks of the USA increased by about $2500 billion. We must now consider previously unexplored aspects of the process by which this enormous increase in bank deposits came about.

As contrary as it may be to what is generally believed and as strange as it may at first seem, the $2500 billion increase in deposits did not come about because of deposits made by individuals and companies that constitute "the public." For the most part, the increase in deposits came about because banks created deposits in the course of making loans. The cardinal function of banks is not "intermediation" but money-creation.

Coming to an understanding of this must begin with the obvious fact that "the public" can deposit money in the banking system in only two ways: 1) by depositing legal tender, or 2) by depositing checks. But the $2500 billion increase in bank deposits did not come about in either of these two ways and therefore did not come about because of deposits made by the public. Let us consider in turn and in more detail these two ways.

Every day members of the public deposit legal tender in banks and withdraw legal tender from banks. On average and in the long run, however, the public withdraws vastly more legal tender from banks than it deposits in them. Except for some freakish coincidence quickly offset, the deposits of the banking system never increase because the public deposits more legal tender than it withdraws. This is easily comprehended once one is reminded of the fact that between 1950 and 1990, for example, the amount of Currency Held by the public increased by $229 billion. This is the amount of more currency withdrawn from the banking system by the public than the amount deposited in it by the public.

Let us assume an average of 250 banking days per year for the four decades or 10,000 days total. Dividing the $229 billion by 10,000 gives $22.9 million. This is the average amount more cash per day that people withdrew from banks than they
deposited with them. This may sound like an astonishing amount of net withdrawal of cash each banking day but it averages only 11c or 12c more withdrawn than deposited per day per adult citizen of the USA. And so, to repeat, the deposits of the banking system did not increase by the $2500 billion because of deposits of legal tender by the public.

Nor did the deposits of the banking system increase by the $2500 billion because of deposits of checks by the public.

The deposit of a check, of course, increase the deposits of the bank in which it is deposited. But it will decrease the deposits of the bank on which it is drawn by precisely the same amount. The total deposits of the banking system, considered as a whole, will remain unchanged - will not at all increase. And so, to repeat, the deposits of the banking system did not increase by the $2500 billion because of deposits of checks by the public.

If the $2500 billion increase in deposits of the banking system did not come about as a result of deposits (cash or check) by the public, and it absolutely did not, then how, indeed, did it come about? For the most part, it came about by banks creating money as they created deposits in the name of the borrower in the process of making loans. The increase in deposits came about “in small part” because banks create deposits by lending their capital as well as by lending money they create. I estimate that between 1950 and 1990 less than $150 billion of the increase in deposits held by the public was due to the lending of bank capital and more than $2350 billion was due to the lending of Bank-Created Money. Our error would be only of the order of 6 percent if we said that the entire $2500 billion in increase in deposits of the system came about by banks creating money.

I have seen it stated in numerous places, as I am sure my readers have as well, that the business of banking involves “receiving deposits and making loans.” The implication is that banks are intermediaries between members of the public as depositors and borrowers. The implication is that what banks loan is “for the most part” money they create — non-pre-existing money.

The capability or capacity of the banking system to create deposits on such a large scale, however, depended, in turn, on the Fed creating Notes/Credits year after year, getting the money it created deposited in the banking system, and thereby increasing deposits and, in turn, increasing the reserves of the banking system.

As earlier noted, from 1950 to 1990, for example, the Fed created $277 billion in legal tender and used it to purchase government bonds and other securities. All the $277 billion originally got deposited in the banking system. The public gradually withdrew $229 billion. Forty-eight billion dollars remained in banks, increased the reserves of the banking system, and thus increased the capacity of the banking system to make loans. Every last cent of the net increase in the capacity of the system to make loans came from the Fed. None of it came from deposits of legal tender by the public or the deposit of checks by the public.

Readers will observe that I said above that “for the most part” the $2500 billion increase in deposits came about by banks creating money as they created deposits in the name of the borrower in the process of making loans. The increase in deposits came about “in small part” because banks create deposits by lending their capital as well as by lending money they create. I estimate that between 1950 and 1990 less than $150 billion of the increase in deposits held by the public was due to the lending of bank capital and more than $2350 billion was due to the lending of Bank-Created Money. Our error would be only of the order of 6 percent if we said that the entire $2500 billion in increase in deposits of the system came about by banks creating money.

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It not only deserves mention but very considerable emphasis that if banks had never in the past created deposits in the process of making loans, there would be virtually no deposits whatever in the banking system and therefore no “depositors funds” to loan. Or look at the matter another way, barely overstated. If all bank loans were to be paid-off, checks to banks would have to be written to the full amount of all bank deposits. No deposits would remain. Or, as Robert Hemphill of the Atlanta Regional Fed once remarked “If all bank loans were repaid, no one would have a bank deposit.”

At year-end 1994 the total amount of Federal Reserve Notes plus Federal Reserve Credits, the total amount of Government-created Money was $419 billion. If every cent of this that had been deposited in banks instead of most of it being held by the public for transactions purposes, Bank Deposits would have totalled $419 billion. Instead total bank Deposits amounted to $2875 billion. Virtually all the $2875 billion was money created by the banking system in the process of making loans. It was bank lending and bank money creation for that purpose that gave rise to the $2875 billion in deposits held by the public, not deposits made by the public that gave rise to the bank loans.

Some additional statistics from the past may help to make all of the above more easily understood. The principal assets of banks are listed in banking statistics as “cash”, “loans”, and “investments”.

Much of what banks call their “investments” is nothing but loans. They differ, however, from what banks call “loans” in that they are ordinarily of very high quality and are usually easier to liquidate for cash should the necessity arise. I will follow a frequent practice of the Fed in its Flow of Funds statistics and lump “Loans” and “Investments” together under the head “Total Bank Credit” (TBC).

Banks have a few assets other than TBC and Cash but the other assets are usually of relatively minor importance. The principal liabilities of banks listed in banking statistics are “Demand Deposits” or “Checking Accounts” and “Time Deposits” or “Savings Deposits”. I will lump them all together under the head “Total Bank Deposits” (TBD). Banks have a few liabilities other than TBD but they are usually of relatively minor importance.

Remember that by bookkeeping convention assets and liabilities are always made exactly equal. And because other assets and liabilities are of minor importance it turns out that Total Bank Credit and Total Bank Deposits are normally very nearly equal. From 1900 to 1929, for example, Total Bank Deposits
increased by $43.6 billion and Total Bank Credit increased by $43.3 billion - within 1.6 percent of the amount of the increase in deposits. The increase in deposits of the banking system was not because people were carrying legal tender to banks. The amount of Currency Held by the Public was $1.2 billion in 1900 and $3.9 billion in 1929. Nor, of course, was the increase in deposits of the system due to people depositing checks drawn against deposits. Total Bank Deposits increased because deposits were created as banks made loans. And it is the increase in loans that accounts for the increase in deposits, not vice versa.

The Department of Commerce publications Historical Statistics of the United States shows that for the period 1896 to 1970 other assets and liabilities of banks notwithstanding, Total Bank Credit and Total Bank Deposits increased by virtually the same average annual percentage rate - TBC by 6.33% per year and TBD by 6.5. TBC and TBD increased in step for the overall period because deposits were created in the process of banks making loans. TBD was created in the process of TBC being created, not vice versa.

We may now consider to what extent the above described process works in reverse. Assuming that all bank loans are repaid by check and this is almost always the method of repayment, the repayment of loans obviously brings about a disappearance of a deposit of equal amount. Assuming the loan was repaid by cash, the cash had to be obtained by someone somewhere writing a check for it. In any case, just as deposits are created when a bank makes a loan, deposits are de-created when the borrower repays the loan. In any case, just as money is created when a bank makes a loan, money is de-created when the borrower repays the loan.

When a loan is repaid, a bank almost invariably replaces it immediately with a new loan of equal or greater amount, thus creating a new deposit of equal or greater amount. This, however, in no way invalidates the proposition that the repayment of a loan means the disappearance somewhere in the banking system of a deposit equal to that created when the loan was made.

In making loans banks create enough money for the principal amount of the loan to be repaid but do not create enough for the interest as well as the principal to be repaid.

Chapter 12.

MONEY CREATION TO PAY INTEREST

A loan, if it is to be properly repaid, must be repaid with interest. Depending on the term of the loan and the rate of interest charged, the total interest that must be paid can be impressively large.

A credit card holder who carries a $1000 balance, who pays, say, 1.5 percent interest monthly (18% annual rate), and who pays only the interest due each month, would pay $1800 interest after 10 years.

If the card holder then repaid the principal amount, he would have handed the bank a total of $2800 or 2.8 times the amount he borrowed.

A borrower of $1000 at 10% interest payable annually and with principal repayable after 10 years would, after 10 years, have paid a total of $1000 of interest. If the borrower then repaid the principal amount, the total amount received by the bank would be $2000. In other words, the borrower had to repay 2.0 times the amount borrowed.

The best terms my local bank will give me as of this writing for a 15-year $100,000 home mortgage is 8.75 percent interest. The bank would require 180 monthly payments of $999.80 each. At the end of 15 years I would have repaid the bank the $100,000 principal amount plus $79,964 in interest. In other words, I would have to repay the bank about 2.8 times the amount borrowed.

The important point, however, is that the size of the money supply always tends to lag the size necessary for all loans to be repaid with interest. Banks are always in a "need to catch-up" situation. Put another way, every
year on average the supply of Bank-Created Money needs to be increased by at least the average rate of interest that banks charge on their loans. This assertion, while true enough to be significant, greatly oversimplifies very complex matters.

There is another tendency within the system that makes eventual default trouble even more likely. In order to understand this, imagine that a person borrows $1000 from Bank A and Bank A creates a deposit in the borrower’s name. Imagine that the borrower then writes a check for $1000 to some merchant and the $1000 is transferred to the merchant’s bank account in Bank B. Imagine that the merchant then writes checks for $500 each to two of his suppliers whose accounts are with Bank C and Bank D. In some such manner, all connection between the $1000 that Bank A created and the loan Bank A extended tends to get “lost in the shuffle”. But in any case, once the borrower writes a check for $1000 the recipient has clear title to the $1000 and those that receive $500 checks likewise have a clear title.

Thus, although most deposits are created by making loans, nevertheless most holders of deposits are not the original borrowers and are not the persons that are in debt for their deposits. People who borrow money and have deposits created in their names and thus owe a bank for the money ordinarily write checks quickly and transfer the money to people who do not owe the bank (perhaps owe no one else) for it.

Some of the bank deposits held by people who do not owe for it call money their “savings”. And such savings are frequently invested by lending the money. The money that people thus save and then loan is, for the most part, Bank-Created Money. It came into existence bearing say, 10 percent and bear 30 percent interest or more.

But all the while only enough Bank-Created Money has come into existence to repay the principal amount of the first borrowing. In this connection, the record shows that in 1929, for example, Total Private Debt in the USA amounted to about $162 billion although the total amount of Bank-Created Money amounted to about $42 billion. All money appears to have been loaned nearly four times over.

We may also note that from 1919 to 1929 Total Private Debt increased by 66.5 percent although National Income out of which the debt had to be serviced increased only 23.1 percent.

The process of increasing debt faster than either the money supply or the national income is a process that cannot go on for ever without producing at least a “credit crunch” or, perhaps, bringing about a Great Liquidation. Such a liquidation began in 1929 with the ratio of debt to national income at 189 percent. By the eve of World War II the ratio had been brought down to 135 percent. By 1990, although calculated a little differently than previously, the ratio stood at 188 percent.

It would be handy to have statistics on the ratio of total interest paid in the economy to national income in 1929 and subsequent years. No such figures are available but we do have data on the ratio of total interest paid to persons (or received by persons) to total income of persons from all sources. I call this the Personal Interest Income: Total Personal Income ratio - PII:TPI ratio.

Because of the enormous overindebtedness of the economy in 1929, interest income was high. The PII:TPI ratio for 1929 was 8.1 percent. During what is usually called the Great Depression but which I prefer in some contexts to call the Great Liquidation, the indebtedness of the economy came way down. By 1945 the PII:TPI ratio had dropped to 2.8 percent. By 1994 the indebtedness was back to near the 1929 level but interest rates were higher in 1994 than 1929.

Thus by 1994 the PII:TPI ratio had soared to 11.5 percent. Exactly how large the PII:TPI ratio has to rise before it sets off another Great Liquidation no one knows.

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We hope to reprint further chapters from “Its Your Money” in future issues of TSC.
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.

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Recommended Reading

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

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