J. Crate Larkin

From DEBT to PROSPERITY

Through a honest money system at the service of the human person

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Foreword

"An Economic System to Fight and Replace"

His Eminence Cardinal Saliege, Archbishop of Toulouse (France), in his message for Lent 1954, on the Duty of Christians in our society:

"One forgets, one does not see, one does not want to see that there are people badly housed, people badly fed, insufficient wages, that there are entire countries suffering from hunger. It is not Christian to think, all the more reason to say: it is their fault...

"For a long time, a Christian was recognized by the sign that he loved and assisted the poor, in whom he saw Jesus Christ, the poor man par excellence, who had nowhere to lay his head.

"An economic system that mass-produces poor, homeless, starving people; every Christian must make it his duty to fight and replace it.

"Once again, we must not delude ourselves: the Christian who wants to carry out his duty is contradicted by other Christians who do not understand, do not accept the doctrine of the Gospel and of the Popes, and by many conservative atheists who are for the established order."

God or Mammon?

by Father Peter Coffey

**Doctor in Philosophy, professor
at Maynooth College, Ireland**

Frustrated in front of plenty

Though the ills of society, economic and political, are obvious and menacing, their real causation must be discovered by accurate diagnosis before they can be remedied...

What is the purpose of the industrial and economic organization of society? Is it to provide employment — work — for all? Or is it to produce, and make available, material goods and services with the least possible amount of work (employment)?

The process of increasing the productive efficiency of human labour, and of gradually diminishing the amount of it required — and of supplementing it by labour-saving machinery during the past 150 years, has now reached the stage at which society, so organized, can make available an ample sufficiency of the material necessities of life for all with a steadily diminishing amount of human labour.

But this organization has been working so defectively — has so deplorably failed to deliver for use any more than a mere fraction of the wealth which it is equipped to produce — that

(1) the public does not yet realize the enormous productive capacity of the industrial system, and

(2) it still believes that a sufficiency of wealth can be produced only by the whole population labouring as long and as hard as people had to work ages ago, before modern labour-saving machinery was invented.

Hence, machinery is blamed as a curse instead of seeking to discover why machinery is being more and more held up idle, and what is preventing the distribution and enjoyment of its products.

...People generally are just beginning to realize that the world, under the capitalist industrial and economic regime, has reached the age of potential plenty. They hear of millions of tons of wheat and coffee being destroyed; crops being deliberately reduced; wealth in a variety of forms being destroyed instead of being distributed for consumption; men willing to work being kept idle; machines and factories running short time in all countries; while at the same time millions of the world's population are in destitution, and their natural right to marriage frustrated because the system is failing to distribute the ample and increasing wealth which it could produce if it were permitted.

But while they rightly cry out for a reform of the system, they are mostly ignorant and in error as to what is really wrong, and hence espouse futile and unlawful schemes of reform.

These schemes are Communism and Socialism — unlawful because they deny natural human rights; futile, because they wrongly diagnose, and would therefore fail to cure, the economic evils from which society is suffering. The Popes have condemned them, and that is enough for Catholics.

The purpose of an economic system

To find the right remedy, we must diagnose the disease aright. The obvious and natural purpose of all economic and industrial association is to provide material goods and services for use and consumption. To serve this end, there are two processes:

(a) production (including transport) and

(b)distribution of products among consumers by exchange (trade, commerce).

The former is becoming ever more and more efficient. Therefore, the defect lies in the latter; it is the distribution that has broken down.

Now the medium of distribution is money. The monetary system is not discharging its natural function: i.e. is not delivering the goods.

A defective monetary system

Money is essentially a system of exchange tickets, the value or validity of which is based on men's belief (credit) in the wealth-producing capacity of the community using them. Its sole right function is to ensure that all the wealth which the community is capable of producing be continuously produced and exchanged among consumers for use.

It is the duty of the State to so control the system of issuing money tickets for wealth-production, and cancelling them through wealth-consumption, that the system effectively discharge the above-mentioned function. But all modern governments have neglected that duty by committing the whole money system to the unfettered control of groups of private citizens, who have ignored that essential purpose of the system, and have made it subserve an opposite and anti-social purpose: which is nothing less than monopoly and consolidation of all economic and even political power, and domination of society in their hands.

Pope Pius XI, in his encyclical letter *Quadragesimo Anno*, has explicitly called attention to this international world-monopoly of finance, and indicated some of its disastrous consequences.

The controllers of this financing or banking system issue the community's money tickets (for wealth-production and distribution) to the community as a debt to themselves (at interest), and recall and cancel these tickets (through prices for a portion of the wealth produced) before the total wealth thus produced is exchanged for use by consumers: thus causing an ever-widening chasm between the community's purchasing power as consumers, and the total of accounted prices (which is the total money due to the banking system) for the wealth which the community has produced.

Hence forced export and competitive struggles of nations for foreign markets: hence the piling up of international debts: hence economic conflicts, leading to wars: hence the progressive mortgaging of the whole industrial plant and capital and wealth-sources of society to the world-monopoly of banking.

The State has become a slave

Another disastrous consequence, indicated by the Pope, is the effective enslavement of the State (i.e., of all modern governments of all political organizations and authority in the modern world) to a superstate plutocracy in which supreme political power is usurped and wielded by the monopolistic controllers of the very lifeblood of economics and industry, which is finance.

Now, this utter perversion of right order for the industrial and economic organization, and the authority of this latter ought to be (in the temporal domain) supreme. This authority derives rightly from God, and not from the superior might or craft of those who have usurped economic domination and who are swayed by greed for power.

But, as a consequence of this growing financial impoverishment of the masses, and of progressive mortgaging of the community's productive plant and capital and wealth-sources to the finance-controllers, the State had perforce to take over and administer many of the economic organs within the State.

Pope Pius XI, in *Quadragesimo Anno*, has indicated some of those cooperative organizations — guilds or corporations — of wealth-producers, the purpose of which would be to secure a better-planned and more efficient production of wealth.

But they can accomplish this purpose only if the State first makes the money system subserve industry by legally directing this money system to keep the products of the community's industry (as producers) distributed for use to the community (as consumers).

It is the duty of those commissioned to teach and to rule, whether in Church or in State, not only to formulate sound practical principles for the guidance of men in their social, political, and economic relations, but also to study the actual conditions prevailing in those relations, so as to be able rightly to apply the principles to the facts, for the elimination of abuses and the amelioration of conditions.

Society has been robbed of its credit

The banking system alone has and exercises de facto the power of creating and cancelling money.

The value, validity, purchasing power of this money rests ultimately not on gold, but on the National Credit, i.e., the community's potential rate of real wealth production compared with consumption.

Therefore, the community should not be forced to pay a perpetual money levy to private creators and issuers of money on its creation and issue. The community is forced to pay such a levy, and this in money which not the community, but only the bankers can create.

This payment of interest by the community to the banking system for money newly created (and costless) is on a wholly different footing from interest charged on already circulating money by individuals who have earned and saved this money, and invested it in (or lent it to) industry.

Consequences

The consequences of this failure of money to discharge its essential function are disastrous and cumulative:

a) Cut-throat competition to recover proportionately the greatest sum in prices in return for the least volume of goods sold;

b) A steady stream of bankruptcies (of the weaker and less ruthless producers) as an inevitable result of the mathematical impossibility of recovering for the banks more money than exists in the community;

c) The replacing of competition by monopolistic rings to raise prices;

d) The growing accumulation of an unsaleable surplus in each capitalist country;

e) The forced export of this surplus and consequent struggle for foreign markets, ending in international economic and military conflicts;

f) The development of the banking policy of financing capital equipment to provide consumers with money to purchase some of the otherwise unsaleable surplus of consumers' goods;

g) The gradual breakdown of this device, owing partly to substitution of machinery for human and wage-paid employment, and partly through the capital equipment becoming excessive and lying idle (through lack of consumer's incomes which would purchase its ultimate products).

The true remedy

The governments wanted to remedy these situations through various palliatives, through public works, or direct aid to the most destitute.

And the governments can get the money necessary for these remedies only by two ways:

a) Through taxes, taken on the already insufficient incomes of the consumers;

b) Through loans from the banks, new money created by the banks, but which must be repaid with the interest.

The failure of these remedies is obvious. They will leave the consumers with a bigger debt and less purchasing power...

To solve the problem, it is clear that the governments must:

a) Take back their prerogative, and exercise themselves the control over the volume of money required for the population;

b) Base the money on the productive capacity of the country;

c) Issue new money, no longer as an interest-bearing debt to the bankers, but debt-free;

d) Give a national dividend to each citizen.

At the same time, in order to prevent automatically any inflation or deflation of prices, and to maintain a perfect and constant balance between prices and purchasing power, prices must be subjected to a national discount, set in accordance with the statistics of production and consumption. This discount will be calculated so as to fill the gap between prices and collective purchasing power.

Father Peter Coffey

Appreciation of Louis Even

The Work of the Pilgrims of St. Michael has its origin in this pamphlet. Here is what its founder, Louis Even, said during his conference given at the 1959 Congress in Allardville, New Brunswick, Canada:

"God takes care of us, He takes care of the poor and He sees those who are in need. When the time comes from Him to intervene, even if He must send an angel, He will do it. St. Thomas Aquinas said himself, for the spiritual realm for example, that if the soul is well disposed; God will send an angel, if He cannot send a missionary to help him to be saved.

"Well ! In our country and all the countries of the world, we know that today there are people who are suffering. We can say that God's time has arrived, that He has put Social Credit on our path. He put Social Credit on all of our paths. For my own part, every day of my life, and even beyond for the whole eternity, I will praise God and thank Him for putting Social Credit on my path. I will always remember that day in 1934, while on a train that was bringing me to my job, from Montreal to St. Anne de Bellevue; I had the privilege to read a 96-page brochure that explained Social Credit. (The little pamphlet called *From Debt to Prosperity.*) I was not looking for Social Credit. I was searching for something that could be a solution to the absurd crisis with which we were struggling during those times. I had read many things. Besides my work during the day, I was a professor for the employees of our printing shop — there were about a hundred of them. Every week we would have a study session.

"We had chosen for our discussion subject 'the question of money and credit.' We were searching for a handbook on the subject. I had read many manuscripts, small pamphlets, and books that were sent to us. In all of them, I found ways to improve the situation, but there was also something in each of them that was not right. With these solutions, one could help people, but on countless conditions: we had to make plans, to make a dictatorship, or implement socialism in order to aid the world.

"When I saw Social Credit I said: it is marvellous! I decided right away that it was the truth that I had discovered here. The others had a shadow in their picture. There were no shadows in Social Credit. It was the truth. I was not long into this book; before finishing it, it was possible to see what it was about. I said: "It is so beautiful, everyone must know about it." It was put on my path; it must be put on the path of each person. It is Divine Providence that put it in front of me and as I did not have many means at that time, I did not know how to go forward from there. But I had the desire, and I practically made a vow that I would spread this idea as much as possible. I did my work, but I could not do very much except on the weekends, until the day when, through the initiative and support of Mrs. Gilberte Cote-Mercier, I was able to quit my job and devote myself full-time for the great work of Social Credit.

"What would Social Credit do? Social Credit would take care of a problem that has no reason for being. The very existence of this problem insults logic and is a condemnation of those who hold the reins of command in today's civilized countries.

"Whose problem is it? It is everybody's problem. From top to bottom, in your families, city councils, school boards; everywhere there is same problem, the problem of money.

"So the existence of this problem is a proof that humanity is absolutely in the dark just as the idolaters who adored false gods. They are worshipping money, they are not able to fix the problem, or they think that they are not able, or they do not want to resolve a problem that is easy to fix…"

Louis Even

C.-H. Douglas 1879-1952 Scottish engineer who conceived the Social Credit proposals

This booklet outlines briefly the economic analysis and constructive proposals known as Social Credit. These are basically the work of Major C. H. Douglas, a Scottish engineer of broad practical experience in science, business, and economics.

The proposals of Social Credit are designed to revive business, to preserve private property and the profit system, to reduce debt, to lower taxes, and to provide economic security for every American citizen.

These aims would be accomplished by the issuance of purchasing power direct to consumers in the form of credit. Three definite practical steps arc required:

1. The establishment in the United States Treasury of a National Credit Account in which the nation is credited with the production of real wealth and debited with its consumption.

2. The sale of all consumers' goods at the Just Price, by means of a Retail Discount determined by the true cost of production.

3. The issuance of monthly Dividends to every American citizen.

Social Credit very properly comes under the heading of "THE NEW ECONOMICS," which approaches our present-day business problems from the practical viewpoint of a civilization equipped with every modern device of science for satisfying the needs and desires of its members. In answer to the problems of Poverty and Depression Social Credit proposes a definite solution, the most sensible and least difficult way out of our financial confusion. Social Credit points the way from depression to permanent economic security, achieved through the true financial valuation of America's Real Wealth and the provision of adequate buying power to American citizens.

Social Credit is founded on two propositions:

First, that money must accurately reflect the true facts of our Real Wealth. Second, that in any civilized nation where the money-system reflects the facts and performs its function of distributing goods and services for consumption, in that nation prosperity and permanent economic security will be achieved, and poverty, paralyzing debt, and depression banished.

Yet Social Credit is neither Socialism, Fascism, nor Communism, for it involves no confiscation and would sacrifice neither the liberty nor property rights of anyone. More than anything else it means every day common sense applied to money and business.

Should the principles of Social Credit be put into operation today by the President and Congress of the United States, within six months the economic security of every American citizen would be won, and the nation could enjoy the prosperity of plenty warranted by its rich resources.

Chapter 1
Facing the Facts of Today

In recent years we have suffered from a world-wide depression. Everyone wants business recovery. Yet millions are hungry while knee-deep in wheat, lacking clothing when cotton is plowed under, homeless while houses stand vacant. Surrounded by an abundance of the things we need, we experience want in the midst of plenty. What a sad contrast!

But this sorry spectacle becomes even more vivid when we contrast Producing-America with Consuming-America. When we compare America the manufacturer with America the shopper we find that the manufacturer can produce but the shopper cannot buy. In this situation the machinery of business is stalled.

Business recovery means economic recovery. Economics is a matter of everyday business experience for it is only the business housekeeping of society. Everyone in business is familiar with economics by practical experience. We needn't fear economics as something that is difficult to understand for we can talk about it in simple everyday words. Instead of struggling to grasp a mass of abstract ideas it is much better to think of economics simply as everybody's business.

If we are to talk about business we had better begin by defining it so that we may know just what business is. The process of satisfying desires with goods in exchange for money is called trade or business.

Business must be carried on because its transactions actually do satisfy our desires for goods. We know that we have constant needs for goods and abundant means for producing them. So to understand the meaning of any sort of economic recovery requires first that we know what is the purpose of the economic system.

Purpose of the Economic System

Let us picture in our imagination a vast plate glass shopwindow, reaching all the way across the continent from New York to San Francisco. Inside that window are all the goods that America makes. Outside it are 121 million of us, would-be shoppers, all of us with our noses flattened against the window just as we used to do when we were children.

Let's go into the shop and see what we find there. The first thing that impresses us is the amazing variety of goods that are on sale in the shop. There are almost a million items offered for sale — everything that we need in order to live in comfort and convenience and satisfaction.

Suppose we ask the shopkeeper how he can maintain this supply of goods? He will show us warehouses bulging with goods. Behind the warehouses is a chain of factories and behind the factories are farms and mines, and behind those, laboratories and schools, and back of all these things the American people themselves with their ambition, their enthusiasm, their inventiveness and their history. With these resources the shopkeeper can guarantee to provide us with a supply of goods beyond the limits of imagination.

That supply of goods and services is America's Real Wealth. The ability to produce and deliver these goods and services is the only true limit of our Real Credit. Recent surveys show that our present productive capacity can supply goods and services to every family in the nation at the rate of at least $2500 a year. So there is no question about the abundance of our tangible Real Wealth.

As we look around in this workshop of wealth, we remark how few people are working in it. Everywhere we look we see labor-saving machinery that has been designed and installed purposely to eliminate human drudgery. Thanks to Science, the curse of Adam has been lifted from the backs of men and transferred to the broader backs of Nature's forces by means of power:

steam and electrical energy. Our control over these forces can keep the shopwindow filled with goods, yet we have just begun to use our servants efficiently. The sight of all the goods they can produce in the store of plenty should make us feel very wealthy.

Now let's join the 125 million shoppers outside the window. *(The U.S. population when this book was written.)* What a change we find here! Instead of the orderly scientific cooperation of the productive system and all the abundance of goods created by it, when we get outside we find a struggling mob of worried people. Everybody is fighting everybody else and most of us seem to be getting the worst of it.

All of us are shoppers and consumers of goods. We need food, clothing and shelter in order to live. We have besides many other desires we would like to satisfy. Why have we built up this vast store of wealth and all the activities necessary to maintain its supply?

As shoppers and consumers of goods, if we ask ourselves this question the answer is obvious. We produce goods in order that we may consume them. The purpose of production is consumption. All of us know from experience that there are many goods and services that we must obtain from others who are better able to supply them than we are. Some systematic process for the production and distribution of these goods is necessary if we are to work together in an orderly and intelligent fashion. So modern business developed and its enormous capacity to produce goods and render services is now highly specialized.

Briefly, we may define the purpose of the economic system by saying that **it exists to deliver goods and services as, when, and where they are required for consumption.**

With this purpose clearly in mind and remembering that we are to contrast America the manufacturer with

America the shopper, let us look at our economic system of today.[1]

The general facts of our present difficulties are painfully familiar to all of us by personal experience. They may be classified in four main groups: Poverty, Debt, Taxation, and Depression. Of these it is hard to say which is the heaviest curse on our 20th century civilization. But it is significant that all four are found together in the greatest age of science and power over nature that man has ever known.

The Paradox of Plenty

Thanks to science we have at last achieved the long-desired age of plenty. Inventions and technological advances have, almost unbelievably, increased our capacity to produce real Wealth in the United States, yet we cannot distribute the consumable goods that even now we produce. And at least half of this immense productive ability lies idle.

Producers wish to sell. Their salesmen offer goods to distributors, who dare not buy because they cannot sell to consumers. Shoppers are eager to buy. Many are hungry and cold and homeless. But they cannot eat or clothe themselves or find shelter, for they have no money to purchase what the producer wishes to sell them.

This is the famous paradox, "poverty in the midst of plenty" of which we have all heard — a humiliating state of suffering and misery in the richest nation on earth. The Rt. Rev. C. E. Riley, Dean of Niagara, has referred to this paradox as a "damned blasphemy." Those are strange words from a clergyman. But stranger still, it seems that all this suffering is due to a glut of goods, to the very surplus of wealth itself.

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1 The author wishes to acknowledge indebtedness to A. R. Orage for the picture of the shopwindow and other material contained in Orage's Social Credit broadcast, London, Nov. 1934.

Ninety percent of the population of the United States does not manage to get enough to live in decent security. Worse than this, more than thirty million people, nearly one quarter of our total population, are living on a mere subsistence level, with barely enough food to keep them alive, a roof over their heads, and clothing to cover their bodies.

Taxation And Debt — and More To Come

Meanwhile business stagnates for lack of sales, and we struggle under an increasing burden of heavy taxation and debt. In 1932 our taxation exceeded 13 BILLION dollars which means that in that year **every person at work gave one day out of each two-and-a-half for the payment of taxes alone.** In 1933-34 taxes continued to climb. The promise of still higher taxation is fast becoming a painful actuality.

Increasing governmental expenditures for relief and recovery must be paid principally out of more and higher taxes. As tax-payers we are all headed for the day of drawing our belts still tighter over an already empty stomach. For the skyrocket of climbing taxation is on the way up, and the zenith of its course will bring an explosion of national bankruptcy. Must we patiently sit by waiting for this to happen?

Growing welfare and relief funds add to the burden of those who are employed. And already these funds are proving insufficient to provide a decent share of food, clothing, and shelter for the unemployed and their families.

The total number of persons now unemployed in the United States is estimated at about eleven million. Most of these are willing and eager to work, but we cannot find jobs for them. Yet somehow they must live. So to supply them with food, clothing, and shelter, we draft young men into camps, plan unnecessary building projects, and use hand labor when a steam shovel would do the work better and quicker. All this out of public funds, in the name of relief from unemployment. Where do these funds come from? The Government derives them mainly from taxes, so that in effect **all of us taxpayers are employing the unemployed.**

Even though the funds immediately necessary for relief are raised through bond issues, taken up mostly by banks, the bonds themselves must eventually be retired out of taxation. We are merely piling future debt upon present debt, mortgaging the future to pay for today's confusion.

The efforts of the government to distribute additional purchasing power through loans, civil and public works programs, relief measures and the requirements of the NRA, have increased employment and stimulated some producers, but the buying-power reaching the hands of the nation's shoppers has been insufficient to absorb the total of this production. Admittedly the NRA has reduced unemployment but many of the people thus employed are working part time, on hours so short that they do not actually receive half of the total NRA minimum wage requirements. The steady march of technological progress cannot be halted simply by limiting hours of work and over-burdening the payrolls of business.

In December 1934 there were 19,018,503 persons in the United States receiving relief from public agencies. Approximately one out of every seven of our population is dependent on welfare and relief funds.

It has been estimated that the sum spent on the government Recovery Program equals the stupendous figure of $12,000 per minute. This money is being **borrowed**, mainly from the banking system through government bond issues. At the same time statisticians estimate that more than 85% of the business assets in the United States are mortgaged to the banking system. Business cannot borrow, banks cannot lend, consumers cannot buy. In this vicious circle recovery is stalled.

Every man, woman and child in this country today is $226.00 in debt for Federal Government indebtedness alone and that figure is going up.[2] How can it ever be repaid? Yet the attitude prevails that payment of our debt is a small thing to worry about at the moment and we can go right on borrowing and enjoy spending ourselves rich. This is planned as the practical way of our present poverty!

How can more debt be the way out of our present indebtedness? We might as well try to stop the weather from getting cold by taking off more clothes.

The Stupidity of Sabotage

We also have the surprising spectacle of an organized and government-sanctioned plan of sabotage — the deliberate destruction of agricultural wealth to restrict production to the level of current consumption. How can wealth be made available to needy consumers by destroying it? Obviously the destruction of wealth also destroys corresponding human satisfactions.

Economic Confusion

Writing in the *Saturday Evening Post* of man's age-long dream of plenty for all, and his present inability to manage his own affairs, Garet Garret says, "In the very act of seizing the reality of unlimited plenty he is frustrated, not by anything that happens untowardly to the dream itself, but because the dream comes true. Plenty overwhelms him. He cannot manage it. And when he tries to say why, what he says does not make sense to his own ears. Because people can produce more than they can consume, they cannot consume as much as they want. Does that make sense? Yet he must behave as if it does, unable to think what else to do."

"With paper money out of the public treasury, which is his own pocket, he pays himself to plow up his cotton

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2 February 1935.

because there is too much cotton, hires himself not to grow wheat because there is a surplus of wheat, buys for himself young pigs and sows and kills them to be rid of them; with the same paper money out of his own pocket he pays himself to limit his hours of labor; and none of this makes sense, for obviously, by these means, if continued, he will make the world poor... Never was worse confusion. The wonderful economic mechanism we had been boasting of goes absurdly wrong."

Plain Facts

Certainly our rich natural resources, our fields and mines and factories, with all their productive ability, exist today as they did in 1929. And with still more certainty we know that the needs and desires of our 125 million people for food, clothing, and shelter, to say nothing of such things as radios, warm blankets, and automobiles, are as great, if not greater, than they ever were.

Yet we are told now that we are in debt. Since 1929 the value of our national wealth, measured in money, has shrunk by more than 100 billion dollars — nearly one-third of its total 1929 value.[3] The "financial experts" report that in terms of money almost one-third of our wealth has vanished into thin air.

Now, if one-third of our country had been destroyed by earthquake, fire, or flood we could understand how one-third of our wealth might have been destroyed. But there has been no such catastrophe. Nature has been kind to us. America is here as beautiful and plentiful as ever with her rich crops and her factories filled with machinery.

What has happened to this wealth that has made it lose its value? Nothing at all. **The wealth itself still exists, but its value in terms of money has been destroyed.** We have made the fatal mistake of confusing our WEALTH

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3 Figures of *National Industrial Conference Board*.

with MONEY, and we have thus deprived ourselves of the wealth we need.

Outside the shopwindow of plenty we stand looking in and wishing for more money, for more buying-power. Discouraged and bewildered, we yearn for the wealth of goods in the window when it is denied us simply by the limitations of our own creation, the Money System. What a tragic absurdity! And it is doubly stupid because it can be changed whenever we decide to change it.

Bewildered Business

Let's try to put the problem simply and precisely. Working from the known facts will perhaps give us a clue to the answer. Industrial engineers testify that we are able to produce in abundance all we require to satisfy our needs. Then why don't we do so? Plainly it must be because **we have already produced more than we can sell.**

Our clue must lie somewhere in this so-called "over-production." Why can't we sell these "surplus goods?" Because there is not enough buying-power in the country to equal the prices of the goods we have produced. That is plain to everyone.

"The trouble is clearly not lack of desire but lack of purchasing power."[4]

This shortage of buying-power in the hands of would-be shoppers is rooted in our money system. Yet money has been devised by man himself as a measurement of value for convenience in carrying on business.

Is it possible that as business operates today there must always exist this unsaleable surplus, which we have absurdly dignified by the name "over-production?"

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4 Digest of America's Capacity to Consume, *Brookings Institution studies p.* 57. General Hugh Johnson, former National Recovery Administrator, stated in 1933, "The ability of the people to buy is not so great as the total cost of what there is to sell."

Surely it is ridiculous to talk of over-production so long as consumers need goods and wish to buy them. The very idea of over-production is a stupid falsity so long as there is **unsatisfied demand**.[5]

Under-Consumption — And Why

Now we are getting close to the heart of the problem. Very apparently our difficulty is concerned not with over-production but rather with **under-consumption**. To be able to buy goods consumers must have buying-power. But there is a shortage of this necessary buying-power. Under-consumption exists because we have not sufficient purchasing-power to buy **the total of the goods we produce.**

There is ample provision for financing **production** but little and faulty provision for financing **consumption.** Producers can produce but **consumers cannot consume.**

And why do consumers lack buying-power? The answer is to be found in the financial system itself. This constant lack exists because the money system, which was designed to accomplish the smooth flow of goods from producer to consumer, **has inherent in its nature TWO FUNDAMENTAL DEFECTS so serious that the system has broken down**. These disastrous defects are the root causes of depression, poverty, debt, and taxation, because they give birth to a chronic shortage of buying power. The shortage has been with us both in time of "depression" and of "prosperity."[6]

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5 "The United States has not reached a stage of economic development in which it is possible to produce more than the American people as a whole would like to consume." *Digest of Brookings Institution Studies, p.* 57.

6 "Those who are most concerned about the existing economic situation are thinking of something more deep-seated and basic than the mere fluctuations of the business cycle. They observe that although we have great powers of production, some of which remain unutilized even during periods of prosperity, large sections of

The Failure of Finance

There must be no quibbling about the breakdown in the functioning of the money system. It is a fact. This is a serious charge, but there is ample evidence that it is well founded. The evidence is apparent not only in the records of what has happened; it is vividly demonstrated in our every-day experience.

The failure of the money system is felt by everyone even little children though they do not understand why they suffer. For the facts of modern money are quietly hushed in the newspapers, and the attention of the public distracted from the cause of its privations. Yet these facts are evident in the failure of **nearly half of the banks in the United States during the past ten years**, involving the loss of use and ultimate partial destruction of **deposits amounting to** $4,885,000,000.

If this is not evidence enough of the collapse of our money system, we may well remember the 1929 crash and its sudden destruction of financial values, when our national income shrank from 81 billion in 1929 to 48 billion in 1932. Or we may recall the "bank holiday"— what a happy name for it! — of March 1933 with its freezing of deposits, and the subsequent withdrawal from circulation of all the gold upon which our money is supposed to be based; the international failure of the gold standard; the necessity of the government's present deposit insurance guarantee plan, designed purely to stimulate confidence in the banking system; the wholesale default of bonds and mortgages; the failures of insurance companies and investment houses; and a long list of personal failures resulting in new all-time highs for suicide. We

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the population continue to have unfulfilled desires and needs. This paradox of want amidst what appears to be potential plenty had suggested that there may be a basic maladjustment which seriously impedes the functioning of the economic system." *Digest of Brookings Institution Studies,* p. 1.

know personally the pressure of the present scarcity of money and credit both for business and consumers, and the prevailing misery of our mortgaged and debt-ridden population.

Awakened by suffering, public interest has at last begun to focus upon this shortage of buying-power. The failure of the money system to accomplish the smooth flow of goods from producer to consumer can no longer be concealed. Let us face the facts. What has caused the fall of our financial structure?

With the coming of Power, Money has failed man. So long as production remained difficult, and goods were relatively scarce, our antiquated money system could operate well enough to enable business to continue. New markets were constantly being opened up to absorb the surplus of our production. But today, when we are able, through the use of power machinery, to produce on the greatest scale in history, the money system has not been adjusted to these new conditions. Science and invention have outgrown our old ideas of money.

To understand why this has happened, and to see clearly the basic cause of our chronic shortage of buying power, we must first know how the money system works in practical operation. Since its operation has resulted in failure we must discover the facts behind this failure. We have seen that the lack of buying-power is responsible for under-consumption. Now let us determine what causes the chronic shortage of money.

Chapter 2
Three Important Words

In every discussion about the money system we find three words frequently recurring. These three words are put to a great deal of abuse. And if we are to understand clearly why the operation of the money system produces a chronic and increasing shortage of purchasing-power, we must first have a definite understanding of these three words. They are all vitally related to each other. But their meaning has become confused.

The Meaning of WEALTH

The first of these words is Wealth. Wealth has been defined by Webster as "Large possessions, a comparative abundance of things desired, especially of worldly estate." From this definition it is apparent that wealth consists largely of goods. "All things possess the attribute of wealth if they can be used directly or indirectly for the satisfaction of human desire." The term wealth is thus a word used to express the total of goods which can satisfy human desire, as well as the means of producing such goods.

In considering our Wealth as a nation we must include as a very important part the great cultural heritage that has been handed down to us by our forefathers. The rich natural resources, the farms and factories which make America wealthy, would be of little use and could never have evolved were it not for the organized scientific knowledge bequeathed to us by our ancestors. This part of our wealth is an asset belonging to the entire nation.

"The modern economic production system is **not a system of individual** production and exchange of production between **individuals**. It is more and more the synthetic assembly, **in a central pool, of wealth consisting of goods and services** which are preponderatingly due to the use of power, to modern scientific processes and all sorts of organizations —."[1]

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1 C. H. Douglas, Oslo, Norway, Feb. 1935.

The real wealth of any person, or of any nation, may be measured by his or its ability to deliver wanted goods and services.

It is not always easy to measure wealth, for the value of any one article of Wealth depends directly upon the desire that people have for that article. But since we must all deal in wealth to satisfy our desires, it is essential to have some means of measuring its value in relation to our desires for the goods which compose wealth.

The necessity for dealing with wealth leads directly to the second of the words we must define in order to understand the money system. This word is Credit.

CREDIT — Real and Financial

"Credit is the vital air of modern commerce."[2]

The word Credit comes from the Latin "credere" meaning to believe.

"Credit . . . is something founded on belief."[3] All of us use the word "credit", and when we say a man's credit is good we mean simply that we have confidence in his ability to make good on his promise to pay. In other words credit rests upon the ability to pay or to "deliver the goods" as promised.

But it is not generally realized that there are two different and distinct kinds of credit, known respectively as REAL Credit and FINANCIAL Credit. "REAL Credit may be defined as the rate at which goods and services can be delivered as, when, and where required. Financial Credit may similarly be defined as the rate at which money can be delivered ... The inclusion in both definitions of the word rate, is of course, important."[4]

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2 Daniel Webster.

3 C. M. Hattersley, *This Age of Plenty, p.* 170.

4 C. H. Douglas, *The Monopoly of Credit, p.* 21.

Thus Real Credit depends upon the ability to deliver goods or services. Financial Credit depends upon the ability to deliver money, as required. This distinction is very important, and we must have it clearly in mind as we consider the monetary system. Let us note it well, for we shall refer to it later.

What is MONEY

The third word we must understand clearly is Money. Money is the title to life in modern society. But there is probably no other word in our language about which there is so much confusion and muddled thinking. It is no exaggeration to say that most of the wreckage in our stalled economic machinery is due to misunderstanding of the true nature and function of Money. Therefore it is vital to understand Money itself, even though this may require some revision of our former notions.

Money has been defined as a "medium of exchange, a means of expressing an effective demand for goods." In these days of economic hysteria this simple definition will remove much of the confusion that shrouds money in mystery.[5]

We read and hear a great deal about "Sound Money." What is this "Sound Money" the experts talk about? Certainly it is sensible to say that a sound money system is a system that works — a system that makes effective the existing demand for goods.

Money and Gold

The origin of the use of money is lost in the beginning of history. Originally men satisfied their desires by barter,

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5 Professor Walker's definition is as concise as any, "Money is any medium which has reached such a degree of acceptability that no matter what it is made of or why people want it, no one will refuse it in exchange for his product." Money is thus a claim on goods and services.

exchanging goods for goods. "As time went on however it was found a convenient practice to effect exchanges directly by means of some sort of currency tokens, which tokens were themselves objects of value such as cattle, hides, or gold."[6] Later these gave way to metal discs, and eventually coins, serving the purpose of tokens as accepted measurements of value, were issued by governments as **currency** or government money. Because gold was both scarce and easy to measure, it was used for coins and gradually became accepted as the basis of the value of money. Gold, which is simply one commodity, thus grew to be considered the foundation of the early monetary system.

"When merchants, in the later Middle Ages felt the need of some safe place in which to store their money ... the only people inspiring them with sufficient confidence were the goldsmiths, and the practice arose of depositing money with them. At first when a merchant had payments to make he would withdraw his money to enable him to do so. Later on he merely gave an order to the goldsmith to pay over the necessary sum . . "[7]

But as the trading of wealth increased, paper money or notes gradually supplanted the handling of gold. Metallic money gave way to paper notes about 1700 A. D. and the goldsmiths went into the banking business. From this we have evolved a still more convenient system: our banks, by extending credits, enable their depositors, by signing cheques, to issue bank-money which circulates so acceptably that it is now used for most of our transactions. Today this bank-money amounts **to more than eleven times** the currency-money issued by the Government.

One important point here deserves our consideration. Before cheques came into use gold was the chief mea-

6 C. M. Hattersley, *This Age of Plenty, p.* 35.

7 C. M. Hattersley, *This Age of Plenty, pp.* 37-38.

sure of value upon which money was issued. Now that we use cheques, and gold is out of circulation (most of the countries of the world having “gone off the Gold Standard” and our dollar having been devalued or “clipped”), the money system has become more and more a **bookkeeping** method to record values exchanged, and less and less dependent upon gold.

Some people still maintain that the price of gold is the only standard of value, but both history and present experience challenge this belief. On this point even the Supreme Court has been called into controversy! But for two good reasons we need not waste time on this conflict. In the first place, we are concerned chiefly with the practical workings of the money system, and gold is now out of circulation. And secondly, we have defined money simply as the medium of exchange, and we are observing the actual operation of this medium in business.

Chapter 3
The Nature of Money

We know then that goods are conveyed from Producer to Consumer by means of money. Money is thus the connecting link between production and consumption. It acts as a bridge between the desire for goods on the part of the consumer and their supply on the part of the producer. We might say that money is the equalizing medium between desire and goods, enabling the one to be satisfied in terms of the other. It functions as a force which, like electricity running a motor, is invisible, and we see only its effects transforming desire, which is mental, into physical goods which represent the satisfaction of that desire.

From this it should be plain that money is something numerical, not a material substance. **Money is not wealth**, but a symbol of wealth and a means of measuring its value. Money gives us a method for applying number values to goods.

If we stick to our personal experience, we cannot fail to realize that money is only a ticket, a ticket authorizing us to go shopping in the Nation's store of Wealth. Money entitles us to claim the wealth of goods in the store. A money-ticket is exactly like a railroad ticket except that a railroad ticket is only good for transportation while a money-ticket is good for anything in the store up to its stated value in prices.

"We thus arrive at a true conception of the nature of money; money is simply a social mechanism designed to facilitate orderly production and distribution. The money system is to all intents and purposes merely a system of tickets entitling the holders to goods and services. Above all, money as such is not a commodity; it has no intrinsic value apart from the function it performs, and to regard money as a commodity is proof of a radical misunderstanding of that function."[1]

Money is NOT a commodity with substance, size and weight, like wheat or steel. Thinking about money as a commodity, such as gold, instead of as a measure of value, has caused much of our confusion today. For even "financial experts" agree that commodities fluctuate in value according to supply and demand, and thus no one commodity by itself is suitable as a single absolute measurement of value for all others.

Prof. Frederick Soddy says, "Gold is in all respects about the worst commodity to choose as a money standard."[2]

Money is so important in our lives that we may well think of it as the keystone which holds together the whole of our economic structure. The reason why money is so important that people quarrel about it, is that these money-tickets are indispensable to our shopping. Money-tickets are just as necessary to our shopping as shopping is to our lives. In civilized society our lives depend on money and the money system. For without money that works, that is "sound," we cannot touch any of the wealth that fills the shopwindows of America.

But to deserve the name "sound," money must possess two important qualifications. For one thing it must have acceptability, which means simply that everyone who uses it has confidence that it can be exchanged for wanted goods or services. And secondly since it is the medium of exchange, we should expect to find money accurately expressing the current demand for available goods.

Any sort of a sound money system, in short, must reflect the true facts of production. It must provide enough of the means of exchange to keep goods moving from producers to the shoppers who consume the goods.

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1 C. M. Hattersley, *This Age of Plenty,* p. 37.

2 Prof. Frederick Soddy, *Money versus Man,* p. 53.

Two Kinds of Money

As we have already seen, there are mainly two kinds of money in use today. The first of these is **currency**, or tangible government money which circulates as coins; pennies, nickels, dimes, quarters, and dollar bills. The second is credit-money, or bank deposits circulating in the form of **cheques**.

Currency is only the pin-money of business. Credit-money (or cheques) is used in practically all large transactions, where coins or bills are not convenient. In fact, **more than 90% of our business is done with cheques**, or credit-money.

We know that currency is issued by the government as coins or printed bills, but many people do not know just where or how credit-money comes into existence. We use cheques because they are safe and handy, they can be written for paying an exact amount to specific individuals, and so long as they are acceptable we think no more about it.

The Birth and Death of Credit-Money

Suppose we look into the source of this credit-money with which we do at least 90% of our buying and selling. Where is it born? We know that a cheque is an order against a bank balance. The bank balance consists of deposits credited to an account. These deposits themselves may be in the form of cheques drawn upon other accounts. No currency actually changes hands in paying for goods or services with this kind of money. Complicated transactions involving immense sums of money are handled purely by means of the bookkeeping carried on by the banks, entering credits and debits on their books. In their bookkeeping the banks credit and charge the accounts of their customers.

It is clear from this that whatever money was once intended to accomplish, by means of currency, it is a different story now that we write cheques. **The cheque system today is simply a series of bookkeeping entries**, and our monetary system functions mainly as the circulation of these cheques. We do almost all our business by means of bits of paper, which are evidences of Financial Credit. **And this credit is itself created or destroyed in the bookkeeping process of the banks.** "The cheque system is in itself a great advance upon the use of tokens in many ways. But its invention has resulted in the banks, not indeed coining money as that is quite unnecessary, **but creating money without even the issue of printed notes...**"[3]

"The method by which the banker makes money is ingenious and consists largely of bookkeeping."[4] This kind of money is born in a bank and dies in a bank. And the bank is responsible both for its birth and its death. "The banker creates the means of payment out of nothing."[5]

The fact that banks create and destroy money by the bookkeeping process of issuing or cancelling credits is illustrated by any ordinary bank loan. Suppose we go to the bank to borrow $1,000. The banker passes judgment on our credit rating, accepts our note, and grants the loan, crediting our account exactly as though we had deposited this sum in cash. We are now "in debt" to our friend the banker. We owe him the $1,000 we have borrowed, plus the interest he charges for its use. We can then write cheques against our new account, and these cheques are acceptable as money.

Now the banks are permitted to lend up to ten times their actual cash reserve, and in so doing **the banker "creates" in the case of our loan, $1,000 (less interest) in new money.**

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3 Prof. Frederick Soddy, *Money versus Man, pp.* 31-32.

4 C. H. Douglas, Oslo, Norway, Feb. 1935.

5 R. G. Hawtrev, *Currency and Credit.*

But when the time comes to repay this sum the credit he has extended to us is destroyed. We can no longer write cheques against it. Indeed, we must pay the banker promptly or forfeit whatever security has been placed with him as collateral. If we cannot pay, our security then passes into his hands. In other words, **every bank loan creates a deposit and every repayment of a bank loan destroys a deposit.** Loans are made and deposits created by crediting the borrower's account in the banker's book. And the money thus created is destroyed in the same way, by debiting the borrower's account. What has it cost the bank to lend us $1,000? **Nothing but the expense incurred in its bookkeeping.**

As a result of the bookkeeping process of the banks, new money is constantly being created and destroyed. And this money, said by the Encyclopedia Britannica to be created "out of nothing," is really being manufactured out of little more than pen, paper, confidence, and a bottle of ink.

This bookkeeping process, the banking method governing the birth and death of money, is clearly described by Reginald McKenna, Chairman of the Midland Bank of London and former Chancellor of the Exchequer: "The amount of money in existence varies only with the action of the banks. Every bank loan creates a deposit..." and further, "there is only one method by which we can add to or diminish the aggregate amount of our money... The amount of money in existence varies only with the action of the banks in increasing or diminishing deposits. We know how this is effected. Every bank loan and every bank purchase of securities creates a deposit, and every repayment of a bank loan and every bank sale destroys one." [6]

When we think of our own hard-earned personal bank accounts we perhaps imagine that our deposits

6 Speech at General Meeting, *Midland Bank, Ltd.*, Jan. 25, 1924.

are used by the banks to create new credit-money. But the banks do not, as many people believe, lend such deposits. By virtue of their privilege of lending up to ten times their cash reserves, **banks create Financial Credit** which in their bookkeeping becomes a DEBT against the borrower."[7]

"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 arises out of the action of the banks themselves**, for by granting loans, allowing money to be drawn on an overdraft or purchasing securities a bank creates a credit in its books which is the equivalent of a deposit.[8]

"Although, then, we are stressing the function of the banking system as a manufacturer of money, it is far from our object to impress the reader with any suspicion that such manufacture is criminal. —Our object is to impress the reader with the importance of the fact that it is a private body, not responsible to the nation, which actually

7 One of the greatest authorities on banking, H. D. McLeod, tells us in his book, *The Theory and Practice of Banking*, that — "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 borrowing and lending money; but it is a manufactory of credit." "In the language of banking a deposit and an issue are the same thing." "It is commonly supposed that a banker's profit consists in the difference between the interest he pays for the money he borrows, and the interest he charges for the money he lends. The fact is, that a banker's profits consist exclusively in the profits he can make by creating and issuing credit in excess of the specie he holds in reserve. A bank which issues credit only in exchange for money, never made, and can by no possibility make, profits. It only begins to make profits when it creates and issues credit in exchange for debts payable at a future time."

8 Report of the MacMillan Committee on Finance and Industry, presented to Parliament, June 1931, Paragraph 74.

manufactures and controls the manufacture of money, and by so doing controls the nation's means of life."[9]

Our Economic Blood

Money circulates. This is a fact familiar to every one. In the economic system money may well be compared to the blood of the human body. Money in business is equally as vital as the blood in our bodies. It circulates, carrying life and vitality in its flow. Money is the medium of exchange. Business cannot survive without exchange. Exchange implies activity, and this activity is the flow of money, its circulation. The flow cannot cease, for money satisfies desire only when it is **exchanged** for goods and services. It has no inherent value in itself. Money itself cannot be worn or eaten but it can buy clothing to wear and food to eat. When money ceases to flow, its power to satisfy desire dies, exactly as we die when our blood stops circulating. Only so long as money circulates is business alive and healthy.

We know the time blood takes to circulate through the human body. We measure its circulation by our pulse rate. And in just the same way it takes time for money to circulate through business. Time and flow taken together give us a **rate of flow**, and this rate of flow is the way we measure the speed of the circulation of money.

But the likeness between money and blood is still closer. For both of them circulate; that is, the course of their flow is circular. Money tends to flow in a circle through business. Its circulation begins in a bank, since it is in the bank that most of our money is born. The banker, for example, makes a loan to a producer. The producer pays his workmen, executives and shareholders, who presently appear as shoppers, consumers of goods in the retail market. The retailer then pays the wholesaler, who in turn pays the producer, who at length repays his loan to

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9 Maurice Colbourne, *Economic Nationalism*, p. 138.

the bank. Whereupon that amount of credit is destroyed until the bank makes a new loan, when it creates more new credit.[10] Then the circle is repeated. And business is dependent for its existence on this life-blood circulating in its economic body.

Business Versus DEBT

Now our study of money grows exciting, for here we come face to face with Debt. We know debt well, for it is always at our door. And it poses as our friend credit, a wolf in sheep's clothing. More than that, Debt plagues us always, since every bank loan, in creating a deposit, at once puts the borrower into the clutches of debt. Banks, it is true, create "credit," which they are said to extend to borrowers. **But the bank's "credit" becomes the borrower's debt.** Strictly speaking, therefore, most of our business is done on debt, because the money thus created is issued as loans which must be repaid with interest.

The Deluge of Debt

The old Biblical tale of Noah and the Flood has its modern parallel. We are told that in Noah's day the world was submerged under great waters. But our modern flood is even greater than Noah's and just as real. For in our day we are steadily sinking under a deluge of debt. "We are not thinking of War Debts, or of International Debts, or of any relatives of these which may be in the limelight at any given moment, but of the system itself by which **all money is debt**. It is a debt to the banking system."[11]

Struggle against this as we may, so long as money comes into being as a debt to the banking system we are its slaves. As Colbourne says, "Even our vocabulary is perverted. When a bank is said to extend you credit it is

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10 "Credit originates in production and is extinguished in consumption." R. G. Hawtrey, *Currency and Credit*

11 Maurice Colbourne, *Economic Nationalism, p.* 146.

doing nothing of the kind; it is extending you debt."[12]

It may be a disturbing thought to realize that the bulk of our money is debt-money, created by the banking system on the basis of the country's resources and its ability to deliver wanted goods. But however disturbing it may be, it is nevertheless true. Our money is a circulating evidence of debt to the banking system. This is the solid fact which we must grasp: The bulk of our money is Debt-Money.

Unpayable Debt

Is it any wonder that we sink in a flood of debt when every article of wealth we buy must be paid for with money which itself is debt? Debt surrounds us from birth to the grave. We cannot be rid of its grip because of the ingenious financial device called INTEREST.

The deluge of our present debt can never be drained away because **interest requires that the debtor repay more than has been loaned him**. The process by which Debt-Money is created is cumulative — it grows. The debt cannot be liquidated because it grows faster than business can repay it. It can never be repaid, now or at any other time.

Thomas A. Edison is authority for the statement, "In all our great bond issues the interest is always greater than the principal." The total of principal and interest, which is more than the original loan, can be met only by the creation of fresh debt. Thus debt breeds more debt, and the more we struggle the deeper we sink.

But our situation, bad as it appears now, is growing worse. For example, when we try to use this borrowed money to draw wealth from the shopwindows of the nation **it becomes impossible, at the same time, to use the money to draw wealth from the shopwindow and to repay the debt**. If we borrow $5.00 to buy a pair of shoes,

12 *Economic Nationalism, p.* 147.

we have to choose between buying the pair of shoes and repaying the debt. If we choose to buy the shoes, we still owe the debt of $5.00. We can either have the shoes or pay the debt but we can't do both at once.

But this is not the whole story. Business depends upon the debt-money of the banking system. Every dollar loaned to business must be recovered in prices. "Now, money is never borrowed except to be spent; but, as it must subsequently be repaid, the borrowers have to spend it in producing, or inducing the production of, something that can be sold; which means that the harder the community works and the more it produces, the deeper it goes into debt to the banks."[13] So debt mounts at the expense of our ability to buy goods.

"It must, I think, be quite obvious to anybody that, if the world as a whole is consistently getting further and further into debt, it is not, as the ordinary business man would say, paying its way. — The public is paying all that it can, and buying what it can. The failure to pay more is therefore forcing the destruction of some of it and at the same time it is piling up debt ..."[14]

How fast does debt grow? "In the 17th century, that is to say, in the century in which the Bank of England was founded, the world debt — and we have plenty of accurate figures with regard to these matters — increased 47 per cent. The Bank of England was founded only at the end of the 17th century."

"By the end of the 18th century the world debt had increased by 466 per cent, and by the end of the 19th century the world debt, public and private, had increased by 12,000 per cent; and, according to some very exact calculations which have been carried out by a quite irreproachable professor of industrial engineering of Columbia University, Professor Rautenstrauch, taking the

13 H. M. M., *An Outline of Social Credit*, p. 25

14 C. H. Douglas, Oslo, Norway, February 1935.

year 1800 as the origin and taking one hundred years as the unit, **the world debt is now increasing as the fourth power of time**; that is to say, increasing as time goes on, not as the square of time and not as the cube of time, but as the fourth power of time; and that is in spite of the numerous repudiations of debt, the writing down of debts which takes place with every bankruptcy, and other methods to write off debts and start again."[15]

The Douglas Key to Deliverance from Debt

But we must not miss the one vital point which gives the key to this dilemma. The Debt-Money created and destroyed by banks is called "Financial Credit," and in this term it is the word "financial" that deserves our attention. The deluge of debt is purely financial debt since it is based upon what the banks call the "credit" they create.

Now we have already seen that there are two kinds of credit: Financial Credit and REAL CREDIT, and herein lies our key. It was to make this point clear that we defined both Financial Credit and Real Credit before we began to examine the money system.

Later on we shall have occasion again to return to our definition of Real Credit.

Our Findings Thus Far

At this point we may well pause for a moment to sum up what we have found in the money system, and see what conclusions are possible. We can list our findings as follows:

1. Money is NOT wealth. Money and wealth are two separate and distinct things.

2. Our modern money system has outgrown its former metallic coins, and become a system of bookkeeping.

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15 C. H. Douglas, Oslo, Norway, February 1935.

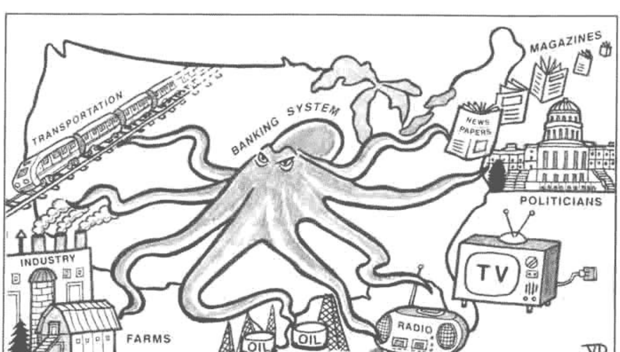
3. More than 90% of our money is created and destroyed in the bookkeeping of the private banking system.[16]

4. Money comes into being as a debt which is loaned to us at interest by the private banking system. The economic blood circulating in the veins of business is the blood-money of debt.

The first conclusion that stands out from all of this is that **a money system built on debt and interest can function in the long run only to create more debt**. And this is precisely what has happened. The facts of experience confirm our findings.

It is worth pointing out that this curious device of interest is peculiar to finance alone. It has no parallel in nature. It is one of man's inventions, and certainly not his happiest.

The second conclusion, which is perhaps not quite so easy to see, is that under this system a shortage of money is inevitable, making it increasingly difficult to buy goods. There are two fundamental reasons for this and we shall begin with the simpler of the two.



16 (1) Practically all purchasing power comes into existence in the form of a bank credit.

(2) Bank credits are created by the banks out of nothing." H. M. M., *An Outline of Social Credit, p.* 20.

Chapter 4
The Illusion of Scarcity

We have already touched on the old idea that gold is the basis of money. It is true that gold, itself only one commodity among many, was used as money for centuries before the present Age of Power was ever dreamed of. But it is indeed strange to find financiers today still believing that this one commodity is the only basis of money in our complex twentieth century world of business. «Money is gold, and nothing else,» said J. P. Morgan.[1]

Despite the absurdity of this statement many people have accepted it, and its acceptance has serious consequences.

Gold is a commodity whose supply is strictly limited; indeed, it is distinguished chiefly by its scarcity. Compared with the needs of industry and business gold is too scarce to be practical as money. In fact in this country it is legally a criminal offense for individuals to own coined gold. But if the value of money is based on gold alone, it is an easy step from thinking of the commodity, gold, to thinking of money itself as a commodity. And the real scarcity of gold can easily persuade many of us to accept quite naturally a corresponding scarcity of money.

If all the world's gold were sunk tomorrow in the middle of the Atlantic we could still write cheques. How long will people tolerate this illusion of gold and money? "Do you think that civilized countries have from experience and knowledge of economics reached a stage where they could drop the fiction, unreality, and chaotic state of a currency based on gold, and adopt a money back of which is real useful wealth...? This gold money ... is a fiction."[2]

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1 Testimony before the Pujo Committee, 1912. Cf. Supreme Court decision, Feb. 18, 1935.

2 Thomas A. Edison, quoted in *TODAY*, Jan. 13, 1934.

How is this fiction transformed into a fact of painful reality? We must remember that financiers today deal in money just as most of us deal in goods, except that they need very little raw material to manufacture it. We regard the flour or coal we deal in as a commodity, and when it is scarce we know that its value will rise. Just so financiers have come to regard money, and today that means credit, as their commodity, and quite logically they wish to keep it relatively scarce. For only so will it command great power over goods.

Since the value of money as a commodity is thus raised by limiting its supply, financiers naturally frown on any suggestion that it could be more plentiful. The supply of money is limited by the self-made rules of our existing financial system, but this is concealed from the public. On the contrary, the financial fraternity has woven in the public mind a deceptive illusion about the scarcity of Money.

We are beginning to realize something of what has happened. "...Arising out of this it would seem that financial credit is restricted because, at the present time, money is dealt in as a commodity, and by keeping money in short supply its value as a commodity is enhanced. For this reason **it seems undesirable that financial policy should be in the control of a private monopoly** whose interests are not identical with the interests of the community as a whole."[3]

The fact that this scarcity is a pure illusion has been repeatedly proven. We know by the testimony of bankers that banks create and destroy 90% of our money by a method that in essence amounts to nothing but bookkeeping. They are dominated in this process by private gain. But because money is issued as debt and kept in artificial scarcity by this singular illusion, it is not avail-

3 Report of the Economic Crisis Committee, *Southampton Chambre of Commerce, England,* 1933.

able in sufficient quantity to express the demand for goods which, as we have seen, is its prime purpose. The illusion of scarcity thus frustrates the fulfillment of the purpose of money. A constant shortage of purchasing power inevitably follows and the needs and desires of all of us as consumers must to this extent go unsatisfied. So long as the subtle illusion of scarcity is sustained by financial power this scarcity will continue.

A very interesting sidelight on this situation is given by the confidential circulars issued in 1877 by leading New York bankers to all national banks. "To repeal the law enacting national bank notes or to restore to circulation the government issue of money," the banks were told, "will be to provide the people with money and therefore seriously affect your individual profits as bankers and lenders." And again: "You will at once retire one-third of your circulation and call in one- half of your loans. Be careful to make a money stringency felt among your patrons, especially among influential business men."[4]

Well, the stringency has many times been felt. We know its painful power. But it has been a boomerang hastening the downfall of finance itself, to say nothing of its devastating effect upon the personal pocketbooks of the nation's shoppers.[5]

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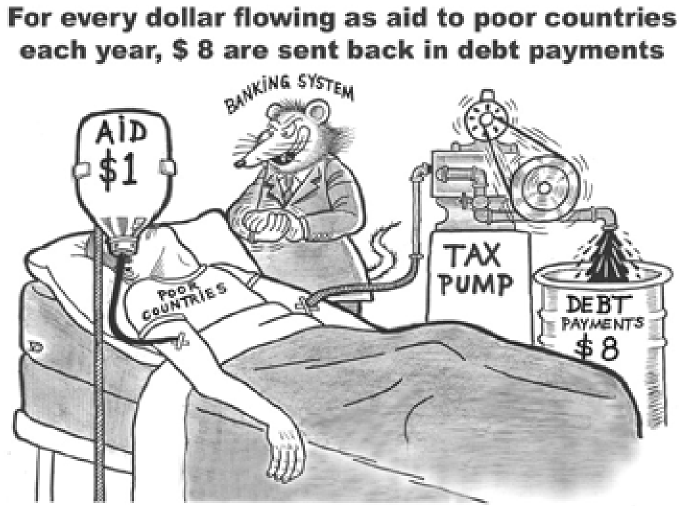
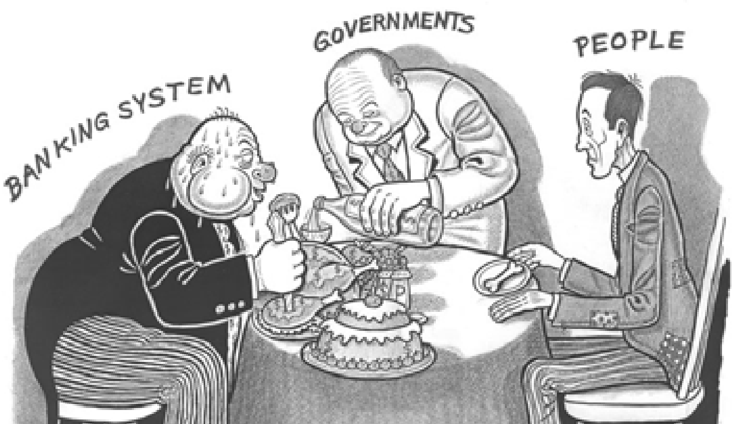
4 Arthur Kitson, *Industrial Depression*

5 *Destroying Credit Money*

Issuing it as a debt, the banking system can recall and destroy credit-money at will. Exercise of this power produced the panic of 1929. Deposits produced by bank creations of private money, lent as created, were contracted by wholesale. This started a shrinkage in demand back loans and deposits of 20 billions of dollars. It has resulted in a reduction of the volume of check-money turnover from 1200 billions in 1929 to less than 400 billions in 1933. This amounts to an annihilation of two-thirds of the money for the transaction of business.

Such deliberate shrinkage of private money by the contraction of credit and bank loans and bank deposits, produced the depression of





1907. Again in May, 1920, a meeting was held in secret by members of the Federal Reserve board, the Federal Reserve Advisory Council, and 36 Class A directors of the Federal Reserve banks which are owned by the private member banks; in this meeting, after an all-day discussion, it was determined to contract the nation's credit and currency.

As a consequence, beginning in July, 1920, the commodity price level declined from 166 to 93, as compared with the price level of 1913. Agricultural products fell by more than one-half while the value of farms declined from a gross of 79 billion to 58½ billions.

Chapter 5
The Monopoly of Credit

Any attempt to portray the facts of our monetary system would be incomplete without some specific mention of the monopolistic nature of the control over Money. Let it be said plainly that we are dealing only with facts as we find them. There is much disgruntled "bank-baiting" today, and we must never let ourselves engage in that stupid sport. Above all our attitude must be open-minded. But we cannot appreciate the need for a 20th century scientific money system without knowing where the faults lie in the broken-down financial failure that now impoverishes us.

We have seen how the banks, in the process of their bookkeeping, create and destroy the money underlying our use of cheques. And we have seen how more and greater debt is the necessary consequence of this bookkeeping process. We may justifiably conclude that "The power of the banking system, through its functions of creating, expanding and contracting, regulating and destroying money, is incalculable, unparalleled and sinister."[1]

"...over 97 per cent of the total money owned by the individuals of the nation is privately issued, and by far the larger part of it has no tangible existence whatever. It represents a debt owed to the individuals who own it, by the nation, enforceable by the law, which has, without the sanction of any national authority, been quietly added to the burdens of the nation by methods that resemble the tricks of the conjurer."[2]

President Wilson, speaking in 1916, pointed out that, "A great industrial nation is controlled by its system of credit — our system of credit is concentrated. The growth of the nation, therefore, and all our activities are in the

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1 Maurice Colbourne, *Economic Nationalism,* p. 151.

2 Prof. Frederick Soddy, *Money versus Man,* p. 19-20.

hands of a few men who ... chill and check and destroy genuine economic freedom."

Taxation and The Money Monopoly

"If you investigate the facts as to the ownership of these world debts and war loans you will find them preponderatingly held by large financial institutions. You have at once a very good business reason for large quantities of taxation if half of it goes to the service of national loans which are held by large financial institutions: that, as an ordinary business proposition is obvious. It is still more obvious when you consider that **these debts were actually created in the first place by financial institutions**, by the lending of that money to governments, and the receiving in return of large blocks of national securities which the financial institutions receive for nothing."[3]

Borrowing Our Own Credit

We read a great deal in the newspapers about "government financing" and the National Debt. What is the meaning of these terms?

A personal experience can best explain them. "Some years ago I happened to be in conference with the President when the Secretary of the Treasury came in, and, with tears in his eyes, expressed doubt that a necessary loan could be floated. Then the thought came to me, what an astounding situation it is for **the Government to borrow money from banks that the banks do not have**, and then, by redepositing the money, loan the same money back to the banks and **pay them interest on it.**"

"The Treasury of the United States, because of the so-called "national debt" has been largely under the control of the great banking houses of the country ever since the Civil War. The national debt now amounts to something over $26,000,000,000. The interest payments on the national debt amount to about $750,000,000 a year."

3 C. H. Douglas, Oslo, Norway, February 1935.

"Now, the total capital, surplus and undivided profits in all the banks of the United States is less than $7,000,000,000. The total amount of private loans borrowed from all banks is about $34,000,000,000 or $27,000,000,000 more money than the banks have to loan. In addition to that, of this $26,000,000,000 of Government debt, the banks hold $13,000,000,000. You understand they only have less than $7,000,000,000 to loan. They have loaned to private enterprise $34, 000,000,000 or $27,000,000,000 more than they have, and then they are loaning to the Government $13,000,000,000 of nothing in God's world but blue sky."[4]

Responsibility and Where it Rests

Surely a great responsibility is assumed by any group of men who exercise dictatorship and control over the monetary policies of a nation. And more than that, when this dictatorship involves a monopoly over the creation and supply of money, then the administration of this power, which affects the lives of millions, is a task requiring little less than superhuman wisdom. The life of every citizen rests in the hands of those who control money. "Control of the money system means the control of civilized humanity."[5] Rothschild's remark: "Permit me to issue the money of a nation and I care not who makes its laws" is filled with human importance.

Since money is the medium of exchange for goods, the control of money means in practice the control of Wealth itself. Moreover this control of money involves a parallel power of command over politics and business, influencing the economic destinies of producers and consumers alike.

"Being now in a position to realize the extent to which

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4 Hon. T. Alan Goldsborough, Representative from Maryland, *Speech in House of Representatives,* January 7, 1935.

5 C. H. Douglas, *Social Credit,* p. 132.

a modern industrial community depends for its well-being on a wise and disinterested money policy, we see that the real rulers of any country are those who hold the power of money issue and money restriction."[6] There is an old axiom in banking and investment circles: "It takes money to make money." The inevitable result of the monopoly of money is the concentration of Wealth and Power in the hands of those who own and operate the monopoly. "The monopoly of the control of the money system is the greatest over-riding monopoly of the world as it is worked at the present time."[7]

The Attitude of Common Sense

The monopoly over money is controlled by private individuals. This fact deserves careful consideration. That the private banking system has the power to create and destroy the credit-money which constitutes the greatest part of our money supply has been publicly acknowledged, but the shopping public generally does not realize how its pocketbook is thus pinched. Yet this is the plain fact and we must be guided by common sense in our attitude towards it. As Mr. Maurice Colbourne says " ... criticism is not directed against the creation of money, but against the monopoly of the power to create it, a monopoly held by the banks."[8]

Right here we must understand a very important point. **We are not in any sense criticizing bankers as individual business men.** Above all let us keep malice out of our attitude toward this question. Knowing the facts we must appraise them wisely, in order to reach a true estimate of their consequence. Let us agree therefore that bankers as individuals are by no means so inhuman as to desire the evil effects of the system in which they work. We all know many of them, honest capable men. They are clearly not

6 G. H. Hattersley, *The Age of Plenty, p.* 110.

7 C. H. Douglas, *Oslo, Norway, Feb.* 1935.

8 Maurice Colbourne, *Economic Nationalism, p.* 141.

the subject of our criticism. They are the unwilling victims of the system in which they work. And the debt formulas of the goldsmiths govern the system.[9]

It is the peculiar defects in the banking system itself that command our attention. In these defects and their consequences, through which the money-power controls every phase of our economic life, lie the main causes of our present privation and suffering. And these defects must be repaired before money can accomplish the purpose for which it is designed.

9 "It is not necessary to assume that the bankers set out deliberately to will bad trade, unemployment, poverty, revolution, or war. They are probably in their way, humane men, good husbands and fathers, and hate these things quite genuinely. Nevertheless, they will the policy that brings them about, and must, therefore, accept responsibility for them. At present they have power, supreme power, without responsibility; and the blame for the evil results of their policy is successfully thrown on the Government, or the employers, or the workers, or the Communists, or on foreign competitors — on everybody in fact, but those on whom it properly lies: themselves. The truth is, their operations are so hidden from view that the bulk of the people, not being given to the practice of hunting for ultimate causes, do not connect them with their own misfortunes. But if the bankers persist in disclaiming responsibility they must make way for men who are prepared to accept it."

H. M. M.— *An Outline of Social Credit*, p. 51.

Chapter 6

The Shortage of Buying Power Arising from Prices

So far we have dealt mainly with money. "Practically all purchasing power comes into existence in the form of credit, and though it may be transmuted into cash in its passage through the hands either of poor men who have no banking account, or of rich men who require pocket-money, it resumes the form of credit to be extinguished."[1]

We have seen that the first fundamental defect in our money system is an artificial scarcity of money resulting from the monopoly over its supply and its creation as debt. The second defect is more subtle and, if possible, even more disastrous than the first, for it concerns the direct relation of money to goods. Its pinch is felt in every purse, from beggar's to millionaire's, since it involves the prices we must pay for the goods we need to live.

It is generally agreed that our trouble is not over-production but under-consumption, which results from a chronic shortage of buying-power. We must note carefully the word "chronic" for at any given moment the amount of money in our pockets is bound, under the present money system, to be insufficient to buy the total output of industry.

Why is this so? Let us recall again our picture of the shopwindow through which we looked at America's great store of wealth. On our visit to the store we were impressed with the million different items offered for sale, and the part which Science plays in producing them.

As we look at the goods in this shop, we cannot help noticing the fact that every article on sale carries a price tag. Where do these prices come from? They are manufactured, just as goods are manufactured. We find in the

1 R. G. Hawtrey, *Currency and Credit.*

shop two simultaneous processes of manufacture going on together. The first of these processes is a stream of real visible goods, articles of wealth we need and desire. The second is an almost invisible stream of figures in the form of **prices**. And these two streams — goods and prices — flow together side by side, uniting in the shop-window as goods for sale, with prices attached. Bearing this picture in mind let us see how prices become attached to goods.

Buying Power and Prices

Every factory is more than just a producer of goods. The goods it manufactures must sell at a price. And the price at which they sell must cover all the costs involved in their production. From the viewpoint of money, therefore, every factory produces not only goods but also **prices**. So that for every article of goods produced a price is produced also.

Now how do we, as shoppers and consumers, get the money to equal the prices of the goods we wish to buy? In the workshop of wealth we found two streams flowing together, the first one a stream of real goods and the second, a parallel stream of prices attached to these goods. Now to complete the picture we have to add a third and last stream of money-tickets.

The stream of real goods and the stream of prices both flow out of the productive system. So also do all the money-tickets with which to buy goods come from the productive system. They come to us, the shopping public, **as salaries, wages, dividends and profits**. And the total of all of these payments to us is what we call the "**buying power** of the Nation."

That personal income, derived from the productive system in return for services rendered, is the only shopping fund that the nation as a shopper possesses. It is all the money that the nation as shoppers has received to buy the price-values that the nation as producers has created.

So our incomes depend on business. Naturally we receive more money when the nation is busy producing and less when business slows down. But the most important thing that interests us is to compare, over any period, **the number of money-tickets trickling out of industry to the shopping-nation with the price-values created in the shop over the same period**. If the money received by Shopping-America were always exactly equal to the price-values created by Producing-America, then we could purchase all the goods we can produce. We might perhaps dispute about the distribution of the tickets but we would certainly have enough of them to buy our total production.

But we don't find this. Experience proves that it isn't true. What we find in fact is that the buying power of the Nation, flowing from the productive system as wages and salaries and dividends, **is much LESS than the price-values created in the same period**. The two streams, buying-power and prices, do not move together, either in volume or in rate of flow. **The stream of prices moving to the shopwindow flows much FASTER** than the stream of shopping tickets to the shopping public. And the result is that our buying power lags chronically behind the price-values of the goods in the shop.

Now, the only title to go shopping, and that means to live, is the money payments distributed as buying power to shoppers. But **the money distributed amongst all of us at any time is only enough to equal about TWO-THIRDS the price values in the shop.**

That is a matter of fact and not a matter of theory. It can be proved by simple arithmetic. And it is confirmed by experience. We can see it in any business operating statement. Beginning in 1920, it was Major C. H. Douglas who originally pointed out the gap between buying power and prices. He discovered the constant lagging of buying power behind prices. He has revealed to us why we are poor in the midst of plenty. He has shown us the gap separating us from the wealth of goods we can produce.

In that gap between Buying Power and Prices lies the root cause of depression, of poverty and human suffering, of strikes and riots, of bankruptcy and business failures. On one side of the gap is plenty of goods. On the other side is a chronic shortage of money.

No wonder then that there are always more goods than there are buyers! No wonder we fight each other for these precious money-tickets! No wonder everyone has to look for employment in the shop in order to live. Those who can't work in the shop have to be supported by the rest of us through relief programs and charity. And so long as the gap separates buying power and prices, permanent business recovery is hopeless.

An Everyday Example

For example, we can easily understand this chronic shortage from an illustration showing how modern business operates. Let us consider a radio factory which has been in business for the past five years. The owner of the factory finds that his competitors are installing new labor-saving machinery, which reduces their costs below his own figures. He must have these new machines in his plant in order to continue business, He calls on his banker and asks for a loan of $10,000 to buy the necessary machines. The banker, who considers the plan a sound one, grants the loan, incidentally creating the $10,000, which our radio producer now owes him. The latter hopefully buys his machinery and installs it. He finds that the new machinery will replace ten men, who are no longer needed. So he lays them off. Their place is taken by the new machinery, which costs him only its depreciation and power charges. He saves the pay of these ten men, who lose their jobs and their wages. Here is a real loss of buying power, arising out of the replacement of men by machines.

How Prices are Made

The process of price building extends all the way from raw materials to the shop window, but we can look at a cross-section of it right here in the radio factory. The first thing we see is that every cost, **including profit**, which enters into the production of a radio must be charged into the retail price paid by the consumer. Otherwise the factory cannot keep operating. All costs must be recovered in prices. That is a fundamental business principle. If the radio manufacturer fails to recover all his costs he will soon be out of business.

In his operating statement which records all his costs and payments, there are two different and distinct kinds of costs. Therefore we will divide his total costs into two groups, calling the first group “S” or Shopper’s costs and the second “B” or Business Costs.

“S”costs will be all payments that the factory makes **direct to individuals**, such as wages, salaries, bonuses, dividends, and profits.

“B” costs will be all payments made to **other organizations**, for such things as raw materials, machinery, light, heat and power, insurance, taxes, bank charges, advertising expense, and all the other external costs that appear in a business operating statement.

Now all the “S” costs are payments directly into the hands of individual consumers, who can use them for shopping. These “S” costs therefore represent actual and immediate **buying power**. For the persons who receive them as salaries and wages, they are shopping tickets that can be used immediately to buy wanted goods.

But the “B” costs are payments to other businesses which in turn distribute them. It is of course true that eventually most of the "B" costs will **some time** reach the hands of individual consumers, but in the radio factory which is the particular cross-section we are observing at the moment, only the "S" payments actually reach individuals who can use them for shopping.

However, all the "S" costs and all the "B" costs **must be charged into the total selling price** of the radios if the manufacturer is to recover his total costs, plus a reasonable profit. Consequently, the total selling price of the radios he produces must include all the "S" costs as well as all the "B" costs. Therefore his selling price must be "S" plus "B".

How the Shortage Arises

Now we have an interesting picture. The only immediate **buying power** so far distributed in the production of the radios is "S", and obviously "S" alone is less than "S" plus "B," which is necessarily the price. Therefore "S", representing salaries and wages which are money payments to individual consumers, **can never buy** "S" plus "B" which is the price of the finished radios. As A. R. Orage writes, "It is a fact of present financial practice that industry cannot distribute enough money to consumers by wages, salaries, etc., to enable them to buy and enjoy the goods it produces."[2]

Now when we, the shopping nation, want to buy a radio we must pay in its price all the costs involved in producing it. We pay no only for the radio but also for part of the costs of the machinery and other overhead charges of the radio factory. In fact we buy not only the radio alone, but also a part of the factory that produced it. In the price we must pay all of the costs involved in its production but we have only the money represented by the "S" costs to spend. That is all we receive for shopping.

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2 *Economic Nationalism*, by A. R. Orage, *Fortune*, Nov. 1933.

So the situation under our present price system comes down to just this: t**here is a chronic shortage of shopper's buying power generated in the flow of business**. The figures of research indicate that over a given period of time, out of the total costs of industry, **the money available as purchasing power amounts to only TWO-THIRDS of the value of the total output**.[3] This shortage of buying power is inherent in the process of price building.

What makes this gap between buying power and prices? "Now while the fact of the gap is the important thing, the explanation of the gap offered by Major Douglas appears to me to be convincing. He says that much of the money put into the productive system as bank loans never, in fact, gets out as income during the same period in which it is put in. It is used simply to transfer capital goods from one factory to another, and thus while it adds to the price-stream, it does not add to the income of us shoppers."[4]

From the shopper's point of view, retail prices come to us loaded with all the costs of production and distribution. They include repayment of bank loans, interest, depreciation charges on plant and equipment, and all other costs of production. All these costs must be paid for in the retail price we pay to buy the goods. But against them we have available as **buying power** only the thin trickle of shopping tickets that reaches us as salaries, wages, dividends and profits. So the more we borrow from the banking system to produce wealth, the wider grows the gap between buying power and prices. And meanwhile debt piles up to new high peaks.[5]2

3 See M. Colbourne, *Unemployment or War, pp.* 174-176.

4 A. R. Orage, Social Credit Broadcast, London, Nov. 1934.

5 "All the credit that the community gets and converts into money and spends or saves is manufactured by the banks out of nothing. It is lent to manufacturers, dealers, and others who require it for their business, and is circulated by them throughout the com-

The Time-lag

But if this gap has always existed, why have we not felt it sooner? Why have the effects of the chronic lag of buying power become so apparent only recently?

The very word **sooner** points out the answer to this question. It is largely a matter of **time**. The word "chronic" comes from the Greek word meaning "time." The flow of money in exchange for goods and services takes time. We have been looking only at one cross-section of this flow in the radio factory. But the flow is as continuous as time itself. It never stops. And as soon as we look beyond this cross-section, and take in a longer period of time we shall see the same thing repeated over and over again.

At every point, just as we saw in the radio factory, the "S" costs are LESS than the total "S" plus "B" prices,

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munity. Some of it goes direct into the pockets of consumers, as wages, salaries, or dividends ; and, in being spent, it transfers goods from the ultimate vendor or retailer to the consumer — that is its function. This we will call "consumer credit," and the costs it creates "consumer costs" — that is, costs representing purchasing power in the consumer's hands, costs he can pay."

"The rest of the credit issued is used to transfer goods, not from retailer to consumer, but from one business firm to another. This we will call "business credit," and the costs it creates "business costs."

"The distinction is purely one of function, and is made for elucidation purposes. So far as the business world is concerned it is not perceived to exist. If it was, the economic problem would probably have been solved long ago. Any bank credit will perform either function."

"Business credits, as defined, are nobody's income — that is the importance of the distinction made above — so business costs are costs the consumer has no money to meet and cannot therefore pay."

"Business credits are mere replacement credits, replacing earlier issues of consumer credit which have been spent and extinguished; for what is a consumer-cost at one stage of the productive process becomes a business-cost at all subsequent stages." H. M. M., *An Outline of Social Credit*, pp. 20-21.

so that over any given period of time the total prices (S plus B) must always be greater than the total shopper's buying power (S). The payments of money to individual consumers who use the money for shopping **are always lagging behind** the prices of the goods that shoppers want to buy. And the longer the time the greater the lag.

If we go back to the radio factory to the maker of its machines, we find the same situation that we saw in the radio factory itself. And if we go still further back to the foundry that made the parts of the machines and even to the mining of iron ore, it is again the same story. All along the line the amounts of money distributed by industry as buying power are less than the price of the finished product. At the root of this lies the factor of time. The lagging of buying power behind prices is a time-lag. Time and money taken together give us a "rate of flow of money." **The rate of flow of money payments to shoppers always lags behind the rate of flow of the price** of goods.

All Along the Line

At any given moment there is a shortage of the buying power necessary to equal prices. And this shortage is cumulative, it keeps growing larger. The flow of costs into price starts with the prime producer and builds up to the retail selling price which shoppers must pay for the goods they consume. These goods tend to flow through business in a straight line from the raw material producer to the consumer. It takes time to move goods from one step to the next. At every step along the line all the costs involved in this step, plus a reasonable profit, are added into the price of the goods. As shoppers we must pay the total of all these costs. But we have only the "S" payments to spend and therefore when the goods come on the market we can never pay "S" plus "B", the price of the goods we need. **Even if no profits are added, we are always short of buying power.**[6]

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6 In addition to this fact we must remember also that profits

The importance of this lagging of consumer buying power behind the flow of prices is especially noticeable when we consider the time it takes to produce and distribute any article of merchandise. For example, we may assume that a period of eight weeks is required to assemble a radio from raw materials and to complete its construction in the factory of a producer. A week later the producer sells the radio to a wholesaler. Finally after another week, the radio is sold to a retailer who is now ready to deliver it to a shopper. At every step along this ten-week line of production and distribution, salaries and wages (S costs) are paid to consumers. The wages paid during the first week are spent for food, clothing and shelter during the second week, wages paid during the second week are spent during the third week and so on to the end of the ten weeks when the radio reaches the retailer. At every point along the line the wage payments (S) are spent soon after they are received. Yet at every step the costs (S plus B) progressively pile up and when the radio reaches the retailer most of the salaries and wages out of which it must be bought **have already been spent**. As shopper's buying power they are no longer available. They have gone back into the bank accounts of business again where they are again divided into "S" and "B" costs. So buying power continues to lag behind prices.[7]

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and dividends distributed are themselves BUYING POWER because they are payments to individuals who can use them to buy goods.

7 "If all the costs of production were traced back to their original source, it would be found that they consist of payments made to somebody or other for services rendered, real or imaginary; so, at a first glance, it might seem obvious that, no matter what the cost of production may be, there is always bound to be sufficient money in the community's hands to buy the whole product. That is far from being the case."

"What is overlooked is that the various items appearing in costs today represent payments made over a long period of time. Some were made last week, some last month, some last year, some many

The Vicious Circle

Now let us remember how money circulates through business, beginning in a bank with a loan and ending with the repayment of the loan to the bank. The radio producer in our example has borrowed $10,000 to install his new machines. This $10,000 must be paid back to the bank plus accumulated interest. The producer must recover this money by including in the price of his radios not only repayments on the loan **but also interest**. So the public has to pay more than the producer has borrowed!

Now when the producer repays his loan, that $ 10,000 goes out of existence. It has disappeared although it is still charged in prices against the shopping public. That amount of money has been destroyed and **the shopping public is left without a corresponding buying power**. There is no way of putting into circulation again the money represented by the loan except by another loan from the bank for **further production**. When this occurs, the whole vicious circle is once more started. Even if bank loans are renewed instead of repaid, the money payments reaching the pocketbooks of shoppers keep lagging behind the price value of goods.[8]

Thus we go round and round the circle of money and over and over the path of production. But **our incomes**

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years ago; but to be effective as purchasing power now — as they would have to be in order to buy today's products — every penny of those payments would have to be saved. We know, however, that most of the money was spent as it was received — had to be spent by the recipients in order to live — and no longer exists as purchasing power ; for, as we shall see later, money, or purchasing power, is extinguished in buying goods for final use or consumption." H. M M. *An Outline of Social Credit*, p. 12.

8 What actually happens is that the money or credit received by consumers in connection with cycles of production not yet completed — that is, not yet materialized in final (consumers') commodities — is taken from them via the prices charged for goods belonging to cycles which are completed. H. M. M. An Outline of Social Credit, p.23

never catch up with the prices of th goods we need and desire. We are like squirrels in a cage — we can make the cage go round but we can't get anywhere.[9]

Savings and Investment

Our plight is still more serious when we remember that all of salaries and wages cannot be used to purchase goods. Some salaries and wages must be held as savings against emergencies and inevitable old age.

Money used for investment cannot be used for consumption. Investment diverts it back into further production thus creating a new set of costs with lessened buying power to equal them. So investment results in widening the gap between buying power and prices.

Whatever savings we can scrape together reduce our present buying of goods for consumption. As for hoarding, hoarded dollars are idle money, simply withdrawn from circulation.

The Gap is Growing

As we have seen, the more automatic machinery replaces men, the wider becomes the gap between buying power and prices because salaries and wages are thus reduced, leaving other cost items proportionately increased. When we stop to realize that the gap is constantly widening as efficient machine-power rapidly replaces inefficient man-labor in doing the work of the world, it becomes evident that we are reaching the senseless absurdity of a maximum production and a minimum of consumption. Yet we wonder at the paradox of poverty in the midst of plenty!

What Keeps Business Going?

"If you ask, quite naturally, how in that case the goods are ever sold at all, the answer is that there are more ways

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9 THE DIFFICULTY IS THUS TWOFOLD. It centers in the fact that BUYING POWER *is not in the right hands at the right time,* that is, in the hands of shoppers when they need it to buy wanted goods.

of killing a cat than choking it with butter. The gap can be artificially bridged even if it is not actually closed."[10]

Here we find the final answer to our question — "Why haven't we felt the gap sooner? If this chronic shortage of buying power was always present why did its effects only become so apparent in 1929?"

To begin with, we must first recognize a fact necessary to supply the background for our understanding. Briefly, it is "that in the modern economic system the industrial side is subservient to the financial or money side."[11]

A number of artificial stimulants have enabled our ailing financial system to conceal its weakness. "For instance, goods can be willfully destroyed. Or they can be practically given away under the compulsion of bankruptcy. Or they can be disposed of in return for acknowledgement of debt, that is to say, by mortgaging our future income of money-tickets."[12] But we shall have to content ourselves with listing the chief drugs that have postponed the breakdown of finance for adequate comment on them would require a volume in itself.

New Bank Loans to Finance Production

The extension of so-called "credit" from the banking system furnishes the main motive power in keeping money flowing through business. Without the extension and renewal of loans, the lag in buying power would soon become directly noticeable. Naturally, as we have seen, new production distributes fresh buying power to consumers. But it also creates additional goods beyond the reach of this purchasing power. Eventually we get a glut of goods and insufficient buying power in the hands of shoppers to claim them for consumption. "These loans are like a drug; the more we take the more we have to

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10 A. R. Orage, *Social Credit Broadcast,* London, Nov. 1934,

11 C. M. Hattersley, *This Age of Plenty,* p. 34.

12 A. R. Orage, *Social Credit Broadcast,* London, Nov. 1934.

take, until in a short time we pass completely into their power."[13]

Over-Expansion in Capital Goods Industries

Industry is engaged in the production of two kinds of goods: consumer's goods and capital or non-consumable goods.

During and after the war vast sums of money borrowed from the banks were poured into the capital goods industries, engaged in producing non-consumable goods (machinery, etc.). This production greatly increased our productive capacity. While these industries were producing rapidly an apparent prosperity boomed. But the resulting expansion of plant and equipment (the cost of which must be recovered in prices) only widened the gap between buying power and prices. Now with idle factories, restricted production and shrunken incomes, we are paying the piper.

Sabotage and Restriction of Production

We have already referred to the stupidity of sabotage and deliberate restriction of production. Yet in our own country these are going on every day, both in industry and agriculture. Most obviously we see them in agriculture, where food-stuffs, cotton and other products desperately needed by millions are destroyed on a vast scale. In industry, machines stand idle or are scrapped. And all this in an effort to cut production to fit a dwindling buying power. How long can we go on destroying our real wealth instead of using it?

Business Failures, Liquidations and Bankruptcies

Business men have swallowed a strong dose of these bitter medicines in the past five years. Liquidations and mark-downs on merchandise are ruinous to business. Nevertheless, by lowering prices they give a tempor-

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13 Maurice Colbourne, *Economic Nationalism, p.* 169.

ary increase in the buying power of the shopping public. But the gap continues between buying power and prices because the benefits to buying power thus gained are counterbalanced by unemployment, the failures of banks and similar losses caused by bankruptcy.

The Export Market

In the past, exports absorbed much of the domestic production which American buying power was unable to purchase. Exports are largely financed by foreign loans, once easily arranged but now increasingly difficult. Our own shortage of buying power requires that exports increase as machines increase our productive capacity. But the possibility of exports diminishes as mounting tariff barriers, unpaid international debt, and competition between nations prevent us from dumping our surplus abroad.

Worst of all, competition for survival in the export market breeds economic conflict which is the forerunner of military war itself.[14] "Peace? Why ... is there any man here or any woman . . . any child — who does not know that the seed of war in the modern world is industrial and commercial rivalry? The war was a commercial and industrial war. It was not a political war."[15]

One More War?

When war comes, the necessity of national preservation sets aside the old rules of finance. Production has the right of way. Salaries and wages are thus distributed,

14 "As things are, one nation can only expand its foreign market at the expense of other nations ; and, as an expanding market is a matter of life and death for all of them, the end of the scramble is, clearly, war."

"War, in our day, whatever it may have been due to in times past, is an outcome of the efforts of industrial nations to avert excessive unemployment; since that endangers their existence." H. M. M. *An Outline of Social Credit, p.* 15.

15 Woodrow Wilson, Sept. 1919.

but for producing munitions that are to be blown up and other goods to be consumed by the fighting forces — for goods, in short, which never appear in the shopwindow to be sold to the shopping public. The nation pays the bill, and the buying power of consumers, enriched by these new wages and salaries, is enabled to absorb a greater proportion of the goods that are for sale. Temporary prosperity reigns.[16]

But then, when the war is over, the inevitable debt to the international banking system that financed it must be paid. The outlet for goods is once more restricted, productive capacity is greater than ever, and depression ensues.

The horrid memory of the war is still fresh in our minds. The price of death and destruction is too high to pay for wartime prosperity. We are told that the next war will be many times more destructive than the last. Can any sane man look forward without a shudder to the blotting out of civilization?

How Debt Develops Depressions

Looking over this list of futile palliatives it is easy to see that every item in it, except perhaps sabotage, is tainted with the disease of debt. Altogether they are a hopeless lot of remedies to combat the spread of this disease. Slowly and surely the poison of debt-money infects the blood of business until the breakdown is reached and financial collapse follows the ravages of the debt-disease,

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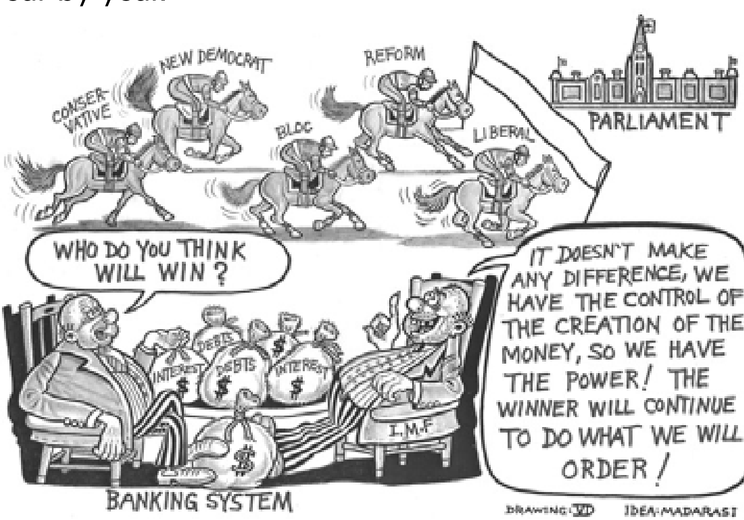
16 "War cures unemployment by providing millions of men with jobs in the army and navy ; and the rest of the nation is kept busy supplying them with munitions. Credit may be difficult to get in peace time; but in time of war it flows like water, ensuring plenty of money to spend. Plenty of money to spend means a ready sale of goods, and rising prices; and what is not sold for peaceful consumption is blown into the air or otherwise destroyed. Production is at a maximum; but the market never becomes overstocked." H. M. M., An *Outline of Social Credit, p.* 16.

as it did in 1929. To save themselves the banks are forced to sell securities and recall loans, thus cancelling credits and destroying the very money they have created. Falling prices, business paralysis and unemployment follow. The sequence is familiar to all of us in business. Surely "such attempts to cope with the strains and stresses of a modern economy by a money system which has been proved unable to sustain them is repugnant to both science and common sense."[17]

To sum it up, business goes on despite the shortage of buying power because it must go on. We need its goods and services in order to live. But the economic system is burdened with debt, chronically crippled by the lag of buying power behind prices. It hobbles painfully along delivering only a fraction of its potential goods and services. We pay the price of its progress in poverty and suffering. Adequate buying power would prevent our paying this price. But we keep on paying the price of poverty because the money system as it operates in prices **is not self-liquidating**. And the burden of debt grows heavier year by year.



17 A. R. Orage, *Fortune,* November 1933.

Chapter 7
Revolution or Evolution?

So long as the present gap separates buying power and prices what good can be expected from international Peace Conferences? And what relief can be accomplished by new and greater government bond issues to finance a "relief program" based on more and bigger debts?

With increasing speed we are being driven to make a choice. Will we deliberately choose to continue in debt and poverty while we follow the lead of Russia to a revolution of senseless violence in this country? Or will we choose instead prosperity and plenty following a necessary, orderly, and peaceful **evolution** in the bookkeeping of our money system?

This is the choice America must make. This choice is inevitable because all our productive machinery is worse than useless unless we can use its products. Its sole purpose is to produce and deliver wanted goods and services for consumption. These wanted goods and services together with our ability to produce them, constitute our real national wealth. Furthermore this wealth is the only real basis of our National Credit. But we cannot use that Real Credit today because the perverted bookkeeping of our broken-down money system shows it as unpayable **debt, not as a credit**. The burden of that debt will continue to paralyze business until we realize that the credit of the United States is a national asset. It is only common sense and good business to show in our bookkeeping the ability to produce **as a credit**, not as a debt to the bookkeeper. We have still the opportunity to choose. Why should we wait for another bookkeeping failure to force us into national collapse?

We have seen that a sound money system must provide circulating money, free of debt as the condition of its issuance, in sufficient quantity to express the effective demand for available goods. With the supply of money in the hands of men who must be interested primarily in their own profits, how can we expect money to be reasonably related to the supply of goods? A financial monopoly from which money is born as debt can only result in a money system that ignores the needs of consumption. It is simply common sense that such a system should result in a chronic shortage of purchasing power.

The dangerous illusion of scarcity, with the power it gives over human life, exists because, in the past, it has worked to the advantage of those who control Finance. Few people realize how subtly they have been involved in this deception. The world's money-masters and their paid economists have practiced their craft for so long that the illusion appears to most of us as a fact, instead of a transparent sleight-of-hand trick, or as Prof. Soddy terms it "le(d)gerdemain."

The evidence is clear that so long as we tolerate the artificial illusion of scarcity, with which the popular idea of money has been surrounded, **Financial Credit can never be a true reflection of Real Credit**. Yet by its very nature no money can be sound unless it adequately expresses the demand of the shopping-nation for existing goods and goods that can be produced. "But so long as private people can get money created for them and destroyed again when they have done with it, money must be capricious in its value and business a game of chance."[1]

We need hardly wonder that the monopoly over money has broken down. We might better wonder how the monopolists have been able to operate it so long. So schooled have they been in sustaining the strategy of their illusion that they have become the victims of their own creation. It is a curious paradox that to the international banker the Wealth of a nation appears as something on which he may place a mortgage to issue

1 Professor Frederick Soddy, *Money versus Man,* p. 59.

money as an evidence of debt; while to the shoppers of the nation, its consumers of goods, that same Wealth represents the satisfaction of vital needs and desires. Yet freedom from poverty is frustrated by the shortage of money-tickets.

The obvious necessity for clean-cut changes is everywhere evident in the banking system. "The whole financial system of this country is so rotten that it cannot face a genuine inquiry."[2] Many broadminded bankers are aware of this fact, but Finance cannot save itself. Too many of its own executives have fallen under the hypnotic spell of the power they must have wielded. The necessary changes in the banking system **must come from outside the system itself**.

The Choice is Ours

Strange as it may seem the monopoly over money exists simply because we have allowed it to continue. In terms of human suffering we know the miserable consequences of its power. Who chooses blindly to tolerate poverty? The public can close any bank it wishes to close at any time, by refusing to do business with it. An actual demonstration of this occurred in 1933, when public fear and distrust closed every bank in the country. The money-monopoly can dominate our lives only so long as we continue to allow it to do so.

But there is still a stranger fact about the private control of the supply of bank-money in circulation. While the total amount of money issued by the banks varies only in accordance with their own action in increasing or diminishing deposits, yet the Constitution of the United States explicitly provides that Congress shall have exclusive power to issue money and regulate its value:

"The creation and circulation of money by the banking system is a direct usurpation of the essential prerogative of government, giving to that system paramount in-

2 Professor Frederick Soddy, *Money versus Man,* p. 112.

fluence over the national well-being."[3] The Government, in allowing the banking system to enjoy a practical monopoly of this power, has forfeited a duty which now it must resume. In the present abundance of goods the artificial illusion of the scarcity of money is a prime cause of human misery. **And we ourselves as citizens and taxpayers are responsible for this situation.**

The time has come for the Government to assert its constitutional right to control the issue of money for the benefit of every citizen. If we want business recovery we can get it only by closing the gap between buying power and prices. We can do this either by reducing prices or by raising buying power until the two are equivalent. But the most effective method to close that gap is to raise buying power and to lower prices **at the same time**.

To accomplish the raising of buying power and the lowering of prices clearly necessitates a change in our broken-down money system. **What we require os a supply of credit at all times correlated with our supply of goods.** The monopoly of credit can no longer continue to issue money only as debt.

The first immediate necessity is to restore to the nation the right to control its own money system. The Constitution grants this power to Congress, as the elected representatives of the people. The assertion of this power is the first step in the direction of permanent business recovery and freedom from our slavery to the money-monopoly.

The time for the change has come. It is here and now. The overwhelming forces of economic necessity require that we face this fact, and give our earnest attention to the design and operation of a money system that is sound, that will equate our buying power with the supply of goods we can produce. To refuse this challenge is nothing less than national suicide.

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3 C. M. Hattersley, *This Age of Plenty,* p. 105.

Chapter 8
The Social Credit proposals

Social Credit meets this challenge. The Douglas solution to this, the greatest problem of our day, provides a scientific money system by basing the supply of credit directly upon the supply of goods. Douglas has defined Social Credit as **"The ability to monetize our existing real wealth for the benefit of society."**[1] Social Credit gives us a definite practical plan for the control and use of this money system, designed specifically to overcome the chronic shortage of buying power.

In Major Douglas' own words, "The business of a modern and effective financial system is to issue credit to the consumer, up to the limit of the productive capacity of the producer, so that either the consumer's real demand is satiated, or the producer's capacity is exhausted, whichever happens first."[2]

Moreover Social Credit aims directly to start immediate and permanent business recovery. Its object is "to cease the accumulation of national, no less than international, debts, and put an end to the continual and simultaneous existence of glut and poverty."[3]

With growing certainty the voice of the shopping public demands that the deluge of debt be replaced by individual security. Depression must give way to lasting national prosperity founded solidly upon Real Wealth. In this Age of Plenty, brought about by our progress in scientific achievement, we have already learned that every consumer is a partner of industry. Production cannot go on without constant buyers.

We have seen that the present shortage of buying power in the hands of consumers is due to two fundamental causes, both of them rooted in the system of

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1 Lecture, *The Evolution of Finance — New* York, April 1934.

2 C. H. Douglas, *Credit Power and Democracy, pp.* 106-7.

3 A. R. Orage, *Fortune,* November 1933.

Debt-money. The proposals of Social Credit are designed to remedy these causes and to **eliminate the shortage of purchasing-power**. “Now, broadly speaking, what we are aiming at in the Social Credit Movement is, in the first place, simply to increase purchasing power so that the money system shall become self-liquidating, and, secondly, we are aiming to meet that condition.... that fewer and fewer operators are required to tap the machines of industrial production.”[4]

This may sound like a large order. Now let us see how it is to be filled. Social Credit says that it is as possible as it is logical and necessary. “To claim that a world which has witnessed the marvelous mechanical, scientific and cultural progress of the past 150 years cannot adjust a system which is merely a combination of accounting and ticket-issuing so that it truly reflects the physical facts as they change from time to time, is to ask too much of the credulity of an exasperated public.”[5]

4 C. H. Douglas, Oslo, Norway, Feb. 1935.

5 C. H. Douglas, *The Premises of Social Credit.*

Chapter 9
The National Credit Account

If we want money to work for us instead of against us we must use Credit-money instead of Debt-money. We can only enable the economic system to deliver wanted goods and services by closing the gap between buying power and prices. As more debt-financed relief programs fail to bridge this gap the necessity for action becomes increasingly plain. Equally obvious should be the fact that the most effective method to close the gap is to raise buying power and lower prices at the same time.

But how can this be done in practical operation? It is self-evident that any lasting and general prosperity depends upon maintaining a constant balance between a high rate of production and an equally high level of consumption. This balance results from continuously satisfying the vital needs of consumers with the actual physical goods of producers. To make their demand for goods **effective** consumers must have sufficient money to buy the goods. Demand, without money to implement it, is impotent, ineffective. **The only actual limit to the satisfaction of the shopping nation's need for goods is the limit of our productive capacity**, of which we are now utilizing only a small fraction.

Therefore sufficient money must be available to express accurately the demand for wanted goods. Money, being the bridge between desire and goods, **must depend upon our Real Credit**; that is to say, the rate at which we as a nation can deliver the goods and services we require to live.[1]

In other words, money must reflect the true facts of

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1 "Real credit is a correct estimate... as to the capacity of a community to deliver goods and services as, when, and where required." C. H. Douglas, *New and Old Economics,* Section I.

See also: "From Debt to Prosperity," reference to REAL CREDIT, Chapter 2, p. 28.

our Real Wealth. Since money is the accepted means to express the effective demand for available goods, the balance between our ability to produce and our ability to buy and consume what is produced must be accomplished by money.

Permanent business recovery requires then that we level up consumption to balance with production. The nation as shoppers and consumers of goods must be able to buy what we produce. If America as shopper is to buy the output of America-producer we must begin to raise consumption up to the level of productive capacity. **This can be accomplished only by controlling the total amount of money in circulation so that it will be increased or expanded at exactly the same rate as production and consumption are increased.** Only in this way can the balance between production and consumption be maintained, and the desires of consumers for goods be satisfied in permanent prosperity.

A money system that is sound, that delivers wanted goods to shoppers for consumption, must be a true expression of Real Credit. Furthermore **Financial Credit must be fully equal to this Real Credit.** Otherwise money cannot reflect the true facts of our Real Wealth. "The re-identification of Real Credit with financial credit is the vital issue."[2]

What Must be Done

Two things are necessary to make the money system reflect our Real Credit. Both must be done by the government of the United States, acting as the representative of the people. Both can easily be done by existing governmental agencies.

We have seen that the first necessity is to restore to the nation its Constitutional right to control our own money system. The government must exercise its sover-

2 C. H. Douglas.

eign power to control the money supply of the nation. This includes credit as well as currency. This action is the first requirement for permanent business recovery.

Second, the government must gather together the facts and figures of our ability to produce and deliver useful wanted goods for consumption. As we have seen, our Real Credit rests upon this solid foundation.

Once the nation regains constitutional control of its own money system, the immediate practical step proposed by Social Credit is to appoint a non-political Federal Credit Commission. As its primary duty this Commission would take a national inventory of our actual productive capacity for wanted goods. Based on this capacity to produce wealth a **National Credit Account** would be established in the United States Treasury.

The National Credit Account is simply a business statement showing the known facts of our ability to produce wealth in goods compared with cur ability to buy those goods, to consume them. This Account provides the practical means by which *the government can monetize the nation's Real Wealth*, that is, to express its value in money. The purpose of this Account is to keep the price-values created in the nation's workshop of wealth in constant balance with the money-tickets distributed for shopping. Its object is to provide a constant supply of credit correlated exactly with our supply of goods.

Social Credit proposes to supply the money necessary to level up the balance between production and consumption by means of the National Credit Account. This money will be created as credit by the Government, acting through the United States Treasury. The money itself will be Sound Money in every sense of the word, for its value will be based upon the Real Credit of the United States.

Monetizing our Real Wealth means the transformation of our present vast Real Credit into its financial equivalent. This is necessarily a bookkeeping operation, exactly like the present creation of money. But Social Credit requires that instead of the nation's money supply being created in the bookkeeping of the private banking system **as debt**, it would be created in the bookkeeping of the United States Treasury as **credit**.

How to Do It

The non-political Federal Credit Commission would gather together and show in a national balance sheet all the facts of our enormous productive capacity as compared with our present limited, restricted consumption of goods. The nation would be credited with its production of wealth and charged with its consumption. This balance sheet would show the real limit of the national Credit. By means of this business-like method **the surplus of production over consumption would be made available as credit to increase consumption.**

Sufficient money in the form of credit would then be issued by the Treasury **direct to consumers** to enable them to buy all the wanted goods produced. This credit-money will be exactly sufficient in quantity to enable our established productive capacity to deliver goods and services to shoppers for consumption. The amount of the money must therefore be based on the current relationship between production and consumption.

In essence the National Credit Account is simply a **statement of the facts of the nation's business, of the production and consumption of Real Wealth over a given period**, reflecting the truth of our Real Credit. This Real Credit is transformed into Financial Credit in the bookkeeping of the United States Treasury by the constitutional power of the Government.

The administration of the National Credit Account would be the duty of the Federal Credit Commission, a non-political body of commissioners comparable in authority in the realm of business to the Supreme Court in law. The members of this commission would be appointed by the President, by and with the consent of the Senate, to serve for a definite term of office. The membership of the commission would change in rotation as seven year terms of office expire. The commission could not be politically influenced because its work would deal only with the facts of production and consumption.[3]

But we must understand clearly the most important point to be grasped about this controlled issuance of credit-money based on the Real Credit of the nation. **The money thus created is backed 100% by the Wealth of the nation**, its ability to produce and deliver wanted goods and services.[4] This wealth, created by the industries of the nation, is an Asset. Social Credit recognizes this wealth as an added national value, a true asset, **not as a debt to the banking system.**

A rough example in round numbers will illustrate in a general way how the National Credit Account provides the facts necessary to monetizing our Real Wealth:

(SEE FOLLOWING PAGE)

In terms of this example, based on the Real Credit of the United States, the Treasury could issue 25 Billion dollars in CREDIT-money, thus transforming this Real Credit into Financial Credit available to consumers for shopping.

Banks and Bankers — An Important Necessity

The institution and keeping of the National Credit Account **does not require any "nationalization" of the banks.** As a matter of fact, such nationalization would be

3 Furthermore, no more than four of the commissioners could be members of the same political party.

4 "We are simply saying in effect : 'Credit, convertible into money, is a correct estimate of the capacity of society with its plant, culture, organization, and moral, to deliver goods and services desired by individuals."' C. H. Douglas, *Credit Power and Democracy,* pp. 133-4.

At quarterely intervals, the Federal Credit Commission would submit the following statement of Real Credit to the U.S. Treasury — **NATIONAL CREDIT ACCOUNT** (figures in billions of dollars)

Credit (Additions to Real Wealth)		**Debit (Substractions from Real Wealth)**	
1. PRODUCTION		1. CONSUMPTION	60
(a) Shoppers goods	70	(Shopper's goods at retail including National Dividende spent)	
(b) Capital goods	25		
2. Imports (Real Wealth received)	3	2. Exports (Real Wealth sent abroad)	6
3. Appreciation (Increase in commercial capitalized value of operating assets)	2	3. Depreciation (Wear and tear on plants, business equipment, etc.)	9
4. Payments on Foreign Debts (Received from other nations)	?	4. Payments on National Debt (Spent to retire bonds held by banks, reduce Taxation, etc.)	?
Total ADDITION to Real Wealth (Enrichment)	100	Total SUBSTRACTION from Real Wealth (Impoverishment)	75
REAL CREDIT BALANCE (Surplus Net Enrichment of Real Wealth)	25	Available to finance additionnal consumption. (By means of Discount and Dividend)	

(These figures are merely illustrative, not factual) a great mistake. "I am not myself, for instance, an advocate of the nationalization of banks. I believe this again to be one of those misapprehensions so common in regard to these matters, for the nationalization of banks is merely an administrative change: it does not mean a change in policy, and a mere administrative change cannot be expected to produce any result whatever in regard to this matter. A change in monetary policy can be made without interfering with the administration or ownership of a single bank in the world."[1] Only **monetary policy** need be under national control. The present banking system could just as efficiently carry out a policy for the national benefit as today it carries out policies for its own private profit.

While Social Credit would do away with the monopoly over the **supply** of money as now maintained by the banking system, it would preserve banks and protect bankers. The government would assume, as its proper constitutional function, full authority for the supply of money. But this change does not imply any violence, nor does it contemplate putting the banks out of business. As proposed in the United States, Social Credit would save the banking system for private ownership. The banks would operate under the supervision of the Government as agencies of the Treasury. They would handle money, accept deposits and carry on the bookkeeping necessary to the use of cheques and the transaction of business. In fact " ... the bank as repositories of the people's money and as efficient debt collectors, are most useful institutions, and banking is one of the fine arts of the modern world. The machinery of the banks should as far as possible be retained — perhaps extended — although monetary **policy** should be withdrawn from private control."[2]

This simply means that the banks would no longer

1 Speech by Major C. H. Douglas, at Oslo, Norway, 1935.

2 C. Marshall Hattersley, *This Age of Plenty,* p. 194.

hold as a monopoly the power to create and destroy money as they do today. Business and individuals alike need the facilities of the banking system to carry on their activities. All the useful functions of banking must be preserved for the service and convenience of business. But the banking system would also be the means through which the government dispenses money and credit to consumers. Bank loans as a service to business would be backed by cash on hand, not created "out of nothing" as a debt. Fees for service rendered would be the bankers' recompense instead of interest on money created as debt.

The Social Credit proposals would require and reward the ability of every capable and public-spirited banker, "since their function as bookkeepers and agents of the National Credit Authority still requires to be carried on."[3] The opportunities of bankers for rendering valuable and profitable service to the public would multiply as increasing prosperity is achieved.

The National Credit Account, reflecting our Real Wealth and equating Financial Credit with Real Credit, would provide sufficient circulating credit-money for business and consumers. The practical op- eration of the National Credit Account means the transfer of the control of credit from the banking system to the government as the representative of all its citizen-consumers.

No confusion or discarding of present business practice need attend the introduction of the National Credit Account. In fact the first steps in this direction have already been taken by the Government, through its purchase of bank stocks for the purpose of operating the Deposit Insurance Plan. The government has used its authority to determine the eligibility of banks for participation in this plan. This is in reality the beginning of widespread recognition of the necessity for Government

3 A. R. Orage, *Fortune*, November 1933.

control of monetary policy, even though, in a strange paradox, the Deposit Insurance Plan was necessary to bolster up public confidence in our present inadequate banking system.

Public opinion will bring pressure to bear when enough of us realize that artificial scarcity continues and the present shortage of buying power is increased because self-made methods of the banking system restrict our supply of money. When the facts are known public demand will change this situation. Is it not absurdly stupid that banks continue to monopolize money and credit only by our consent? The Government is empowered by the Constitution to issue and control the value of money. Why should it not exercise this right? Yet we not only allow the banking system to continue its monopoly, but even the government itself borrows its own credit, piling up an increasing burden of public debt to the banks!

A Guarantee Against Inflation

The suggestion that the government create money to be issued as buying power to the nation's shoppers may cause some people to fear "inflation" as a result. "This word inflation is one which is always raised by bankers and those whose interests are with bankers, when any question of modification to the money system is raised ... The first thing to realize is the true meaning of inflation. **Inflation is not an increase of purchasing power,** it is an increase in the number or amount of money tokens, whether paper or otherwise, accompanied by an increase in price, so that both the money-to-spend side is, in figures, raised and the price side is also, in figures, raised. That is true inflation."[4]

It is common knowledge that inflation is dangerous because it is characterized by rising prices, ruinous to the buying power of wage earners. But Social Credit would

4 Speech given by C. H. Douglas at Oslo, Norway, 1935.

avoid and prevent inflation by automatically controlling the money supply, not only **in its issuance** but in relation to the wealth in goods against which it is issued. The amount of money issued through the National Credit Account would be so regulated as to avoid both inflation and deflation. The panics, crashes and depressions of the past would no longer threaten the security of our economic life. Social Credit would positively insure the direct control of money in relation to goods — a relative stability of prices and values — by means of the Just Price.

The Twofold Use of Consumer Credit

The money created on the basis of the National Credit Account would be used in two ways to close the gap between buying power and prices, to overcome the present shortage of purchasing power. The first way is called **the Just Price** and is designed to increase the buying power of every shopper's dollar while preventing the inflation of prices. The second way is called **the National Dividend**. Let us consider first the Just Price.

Chapter 10
The Just Price

"The Just Price is the pivot of a sound economic system, balancing the outward and inward flow of credit with the production and consumption of goods; and it cannot be determined by the higgling of the market, the present method of determining prices. It is a matter for scientific calculation, based on recorded statistics; but quite a simple calculation for all that."[1]

More Buying Power for Everyone

As soon as the National Credit Account makes our Real Credit available for use, the second step necessary for permanent business recovery is to establish a scientific pricing system designed to apply this credit where it is most needed. This pricing system must operate specifically to close the gap between the Nation's present insufficient trickle of shopping-tickets and the price value of the goods in the shop.

Business survival demands that all costs must be recovered in prices. We know that to buy goods shoppers must present their shopping-tickets or establish credit in the store of wealth. It is here that the total cost of production and distribution is collected from the shopping public. The logical way then **to increase buying power and at the same time to lower prices is to bring new money into existence as a DISCOUNT on the retail prices of goods and services.**

By this discount on retail prices Social Credit proposes to lower prices and add to buying power. The Just Price is simply the regular retail price **minus this Discount. The discount would apply on all goods sold to shoppers at retail for consumption.** The Retailers is the point of contact between business and the consumer, the last link in the chain of distribution connecting production with consumption. Accordingly the retail price must include

1 H. M. M., *An Outline of Social Credit*, p. 35.

all the costs of production and distribution and whatever profits are made. The total of all these costs and profits is the Retail Price. Hence it is here, at this final point, that the balance between production and consumption must center.

The adoption of the Just Price would raise the purchasing power of every shopper by establishing a continuous retail discount on all retail purchases. "The object of Price regulation (at the Just Price) is to put an end forever to the alternating recurrence of inflation, when credit is said to be plentiful, and deflation, when credit is said to be scarce. By means of the Just Price, industry will be able to receive a proportion of its costs of production from the National Credit Account, so that it will no longer depend wholly on the inadequate purchasing power which it now distributes to consumers."[2]

To balance the money payments which consumers receive from business with the total retail price of the goods offered for sale, the Retail Discount would be extended to all shoppers and consumers of goods.

How The Discount Would Work

Perhaps this may sound complicated in practice so let us apply it to our everyday experience and illustrate its operation. For example, suppose we have for a long time been wanting to buy a new tire for the family Ford. But we have postponed our purchase for lack of cash. The retail price of the tire is $10. The retail discount rate at the time is 25 per cent. Now applying a discount of 25 per cent to the retail price of $10 would give us a Just Price of $7.50. With the extra buying power which the discount gives us we go to the tire dealer and buy our $10 tire for $7.50.

At first thought, the idea of buying a $10 tire at less than cost may seem surprising. It is certainly a bargain

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2 A. R. Orage, *Fortune*, November 1933.

for us. But it works to the tire dealer's advantage too. Let us follow the handling of this translation to see how it works. The sales clerk who sold us the tire records the sale, showing on his usual sales slip the retail price and also the amount of discount that has been allowed us. The retailer then follows his usual practice of depositing his receipts in his bank. But he includes together with them a discount voucher showing all his transactions and the total discount allowed on all of them. The bank then credits the retailer's bank account with the total retail value of all his transactions, thus giving him the total retail price, recovering all his costs, and enabling him to balance his books.

The bank in turn reports to the U. S. Treasury the total amount of the discount it has disbursed. The discount is charged against the debit side of the National Credit Account as consumption. The bank is repaid with Treasury Credit Certificates, thus balancing its books.

What is the net result of this bookkeeping process? The retailer's books balance, the bank's books balance, and the National Credit Account, by this simple procedure, raises the buying power of all of us, balancing consumption with production. The whole process is in fact less complicated than many business methods already in common use. That its results would add to our buying power hardly needs to be pointed out.

Where does the money come from to finance this increase in buying power? It is created by a bookkeeping process exactly as it is now created by bookkeeping. But it is derived directly from the Real Credit figures shown in the National Credit Account, instead of from the debt figures of the private banking system.

We have seen that in the National Credit Account the shopping nation is credited with the production of Wealth and charged for consumption. The production of Real Wealth must necessarily always run ahead of consumption. The Retail Discount is determined by the difference between the actual production of Wealth and its consumption. So the credit to finance the discount thus comes from monetizing the surplus of production over consumption as shown in the National Credit Account. The creation of this credit grows out of the excess of Real Credit production over Real Credit consumption:

Real Cost — and Why

The Just Price is based on Real Cost — that is, on the principle that the true cost of any article is the total of all that is consumed in producing it. If we make a table, for instance, a certain amount of wood is consumed, a tree has been cut down somewhere in the forest; there has also been a certain amount of depreciation in the saws, logging tools, freight cars, machinery in the mill and factory, and so on down to the truck that finally delivers the table to our home. At the same time other products such as food and clothing, have been consumed by those engaged in cutting down the tree, sawing it into lumber and making the table. At the end of the whole process the tree, the food, and all the rest, have been partly or wholly used up; the table is left. Now what has it cost us? Obviously the total of the things consumed in making it.

In the same way, if we look at our total production of goods for any given period of time, we can say that its real cost has been our total consumption over that same period of time. And if production has exceeded consumption, then in terms of Real Wealth we show a net profit on our work. Our Real Credit has increased.

The Just Price, or retail price less the Discount, is based on this fact that the real cost of Production is Consumption.[3] But we know that all the many fixed charges on cap-

3 "The real cost of production is consumption. If we momentarily disregard the financial aspect of Industry and concern ourselves with goods only, it becomes clear that the actual physical cost of things produced is the material used up and machinery worn out in

ital investment, interest, repayment of loans and other financial costs must enter into the total retail price of every article. A moment's thought will show us that the Real Cost of any finished article will always be less than its Financial Cost. Social Credit proposes that by means of the Just Price consumers should pay the Real Cost, or what is consumed in real wealth, and that the balance of the total retail price should be represented by the Discount. The function of the discount is to overcome for consumers the difference between Real Cost and Financial Cost, to bridge the gap between buying power and prices.[4]

What We Pay For in Prices

As we saw in the radio factory, industry produces not only goods, but also prices. And we found that the shoppers who bought a radio paid in the price not only for the radio alone but also for a share of the factory that produced it.

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the making. What does a community gain during any given period: New factories, new processes, development of mines, and goods of every kind, manufactured or imported — in other words, new capacity to supply men's needs, new Real Wealth. And what does the community lose during that period? Plant worn out, machinery scrapped, mines worked out and goods consumed or exported. The community gains Appreciation of Real Wealth at the cost of Depreciation, and, as we know well, the production of Real Wealth is ever greater than the simultaneous consumption thereof." — C. M. Hattersley, *Men, Machines and Money*, pp. 33-34.

4 "All social advance is held back by the fact that the whole body of production costs has to be met out of the consumer's income; and as the two things are incommensurate, a mere trickle of good reaches him. If any change is to take place, if the trickle is to become a flow proportionate to the productive power potentially present, the consumer's income must be increased; but the increase must come from somewhere outside the productive system; it must not appear anywhere as a cost, or costs will rise in proportion as the consumer's income is increased, and no more goods will reach him. In other words, it must be a free issue of money." — H. M. M., *An Outline of Social Credit*, p. 22.

Just so, all goods produced, under the present method of price-building, must sell at a price that includes not only the direct cost of each article but the cost of the means of production as well. All the financial costs involved must be recovered as well as the real cost.

When we consumers buy a sack of flour, we also have to pay part of the cost of the railroad that transported the wheat and the mill that ground it into flour. To be sure we eat only the flour, we have no appetite for railroads and mills. But after we have eaten the flour in our daily bread, the railroad and the mill which we have helped to pay for, still remain. And in them still remains the capacity to deliver more flour.

When we buy goods, **we buy what we want to consume**. Yet under the present price system, we pay not only for what we consume but also for factories, workshops and machinery, which we cannot consume. And after we have consumed the goods we buy, the factories and machinery are still in existence, ready to produce more goods.

The purpose of the Just Price, based on Real Cost, is thus to enable us to pay as we go for what we actually do consume. Social Credit rightly regards the means of production as useful assets. It is false accounting to regard new money created by a bank for the production of wealth, as a debt against the shopping nation to be recovered in prices. Honest bookkeeping would credit the nation, on the strength of whose resources the money was created, with the value of the resulting new capital assets. Our capital plant and equipment for production is a part of our Real Wealth. When we pay for the means of production we are buying what we cannot and do not consume. Social Credit insists that in the Just Price we pay for what we do consume. The other costs involved in retail prices are met with the Retail Discount.

So we see that the word “Just Price” are not merely a phrase. We are simply applying the actual facts of production and consumption to the prices we pay for goods and services. The Just Price is a logical as well as a convenient way to conform the business practice of accounting to the facts of our ever-lagging buying power.

When we consider the many complex discounts which play so large a part in every business today, it is evident that a uniform discount on the retail price of all goods sold for consumption would be easy to record and control. The Just Price involves no changes in our present efficient business structure, no futile attempts at price-fixing, no Government interference with business.

The Control of Credit

Another important feature of the Just Price is that it would put the control of how credit is used **into the hands of consumers themselves**, since the discount applies only on sales actually made.

The credit put to work in the discount as increased buying power **is only issued when goods are sold** so that the relationship of goods and money remains exact and constant. Thus Social Credit prevents the inevitable inflation and collapse which follow the expansion of money under the present bank-debt system.[5] Nor would

5 "New money, under Douglas' plan, comes into circulation as the result of people spending money on something they want. If goods remain unsold, there is no reimbursement to retailers, and no new money is issued in respect of them.

The above suggestion is especially interesting because under it the issue of new money, far from raising the general level of prices, is actually instrument in lowering it. The suggestion is in no sense of the word inflatory. Most other proposals for increasing the purchasing-power of the public entail first an issue of new money and secondly some device to combat the natural tendency of prices to rise. But Major Douglas' suggestion begins with prices. The issue of new money is itself the device whereby prices are not merely prevented from rising but are in fact reduced to their proper level." — C. M. Hattersley, *Men, Machines and Money*, p. 36.

any speculation be possible in the use of this credit, for it would come into business against specific goods at the moment of sale.

Since the Retail Discount would reduce the price of all consumers goods **it would make an actual addition to the buying power of every dollar of our income**. For example, at a 25% discount $4000 worth of goods could be bought with a $3000 a year income. The discount would provide extra buying power which we could use in any way we wish. The Retail Discount thus adds to shoppers income and reduces the prices of the goods in the shop, effectively closing the gap that now breeds poverty, depression and war.

Yet the operation of the Just Price would destroy neither profits nor competition.[6] On the contrary, by causing a greater turnover of goods it would provide a healthy stimulation for business, in which competition would be for an adequate purchasing power instead of a deficient one, as at present.

"The usual objection raised to a procedure of this kind is that it is inflation. Why a procedure which is legitimate on the part of financial institutions should become dangerous when used for the benefit of the general population is never made very clear. The suggestion is inherent that an increase of money must necessarily be an evil, and is, in itself, inflation. Inflation is nothing of the kind. It is, on the contrary, an increase in the number of money tokens, accompanied by an increase in general prices. This latter state of affairs is now openly claimed to be the objective of the orthodox or banker's financial system, so that the objection raised against the proper and scientific use of social credit to — at one and the same time — lower prices and increase purchasing power appears to be doubly irrational." C. H. Douglas, *Christian Science Monitor*, April 3, 1935.

6 "Selling under cost in the way described would not deprive anyone of a farthing of his income. The adjustment in prices corrects a flaw in the financial bookkeeping which keeps prices above incomes and so hinders the distribution of goods. There is no question of penalizing anybody or making him poor : that is quite unnecessary. The whole object is to make everybody rich, not a few only." H. M. M. *An Outline of Social Credit*, pp. 39-40.

How The Just Price is Determined

In considering the many advantages of the Just Price we must remember that the amount of Retail Discount at any particular time would be determined by the existing facts of production (which includes new plant and imports) and consumption (including depreciation and exports). These facts are shown in the National Credit Account. The Just Price is then determined by an accurate mathematical ratio between the total production of wealth and the total consumption of wealth.[7]

Social Credit proposes to put the Just Price into effect thus adding to our buying power and reducing prices. It is suggested that we would start with a very conservative discount of 15 per cent on all retail purchases for consumption. This initial discount rate, however, would not be permanent but in the future would vary periodically in accordance with the facts of production and consumption. For example, after a three months period of operation at a discount of 15%, during the next three months period the discount might be fixed at 20%. In the following period actual 1929 production figures might be used

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7 Refer to example of National Credit Account. p. 80.

In terms of this example, the Retail Discount would be calculated as follows:

$$\left.\begin{array}{c}\text{Retail}\\\text{Discount}\end{array}\right\} = \frac{\text{Net Real Credit Balance}}{\text{Total Additions to Real Wealth}} = \frac{25}{100} = \frac{1}{4} = 25\%$$

The current quarterly rate of Retail Discount would then be 25%.

National Dividends are also paid out of the National Credit Account. As explained later (see Chapter 11) the total of National Dividends paid would be added to consumption since the Dividend would be used for consumption.

For the benefit of those scientifically inclined, the following formula is used for arriving at the Just Price:

$$\left.\begin{array}{c}\text{JUST PRICE or}\\\text{Regular retail price}\\\text{less retail discount}\end{array}\right\} = \begin{array}{c}\text{Financial Cost}\\\text{of All Goods}\\\text{Produced}\end{array} \times \frac{\text{Goods consumed}}{\text{Goods produced}}$$

to calculate the discount. Thus business would pick up gradually and surely. We would then have accurate reliable data to determine the discount just as the insurance companies base their rates on actuarial statistics. The rate of discount would then be revised quarterly, as the National Credit Account records changes in the relationship of production and consumption.

From a business viewpoint the Just Price coincides exactly with current business practices. The procedure for recording and accounting of the discount is familiar to every accountant. Under the present N R A codes every business would simply agree not to make more than a specified rate of profit on turnover. This would prevent profiteering and together with price competition, would effectively limit any tendency to raise prices. Any retailer who tried to take undue advantage of the increased purchasing power would forfeit his right to dispense the discount, which would leave him at the mercy of his competitors. Cheating would not pay.

Business Recovery

In practical operation the Just Price would furnish immediate relief from the present depression, by starting the wheels of industry turning to supply the new goods called forth by this increase in shopper's buying power. And by applying the whole amount of the discount against retail purchases for consumption, we should soon consume the "unsaleable surplus" that exists today. No longer would we destroy cotton, pigs, and other useful wealth that we had sweated to produce, nor let our factories stand idle while their products were wanted .[8]

This immediate relief would be still further stimulat-

8 In fact, "The industrial system has never functioned at more than 25 per cent of its productive capacity, having been hampered by the defective purchasing-power of a debt-burdened and over charged body of consumers. — Guy W. Mallon, *Bankers vs Consumers*, p. 20.

ed by a psychological factor. As consumers we should hasten to take advantage promptly of the discount, for in advance of its quarterly revision we should not know how much increased business might cause it to diminish in the next quarter.

To visualize the effects of the Just Price we need only ask ourselves "What would I do with a 20% increase in my income?" Certainly we would put the money to use immediately to buy goods. And that buying would start America's workshop of wealth to producing and delivering more goods. As shoppers we could buy all the wanted goods in the shopwindow. Business would begin to move forward and grow again. The economic system could fulfill its function of supplying the nation's shoppers with wanted goods and services for consumption. The Just Price provides the sound business basis for permanent recovery.

The natural tendency of any civilized nation possessing the advantages of machine-power production is to grow constantly richer and richer as new Real Wealth is produced. "Now it is manifest that in any modern community appreciation far exceeds depreciation. Ultimate commodities cannot for any length of time be consumed faster than they are made, and capital appreciation (new factories, new machinery and the development of mines, etc.) continually outstrips simultaneous capital depreciation. Even — one might almost say — especially — during the late war, productive capacity was enormously increased, while ultimate commodities were replaced as fast as they were consumed or destroyed."[9]

But because our false bookkeeping requires that **we monetize our wealth as debt to the banks**, this flaw in the money system makes us poorer and poorer instead of increasingly wealthy. The consequences of such stupidity are filled with human suffering. The adoption of

9 C. M. Hattersley, *This Age of Plenty,* P. 213.

the Just Price would end it at once by making prices reflect the facts of our production and consumption of Real Wealth.

We can only liquidate the crushing burden of debt that now paralyzes industrial activity by making payments against it out of the profits resulting from increased business. Years of prosperity are required to accomplish this but the Just Price provides the most practical means for its achievement.

Much as the Just Price would accomplish to end depression and debt, obviously its advantages could not be enjoyed by those who have no money at all to spend. What then of the unemployed? The pick-up in business would unquestionably provide employment for many of them, but what of the rest? Social Credit meets this problem of unemployment with the National Dividend.

Chapter 11
The National Dividend

How to provide the necessities of life for the millions of unemployed, many of them eager to work, is perhaps the most urgent of our problems. Yet the need for their services in industry decreases daily. ”All that is certain is that the number of workers required, however small today, is almost certain to decrease still further tomorrow. The machine becomes more automatic, the number of machines that can be power-driven becomes limitless, and the quantity of power available from rivers, lakes, seas, and the sun itself, limitless.»[1] As machines replace men in man's own struggle to abolish human drudgery it becomes more and more evident that what we have thought of as the "evil of unemployment" is simply the natural result of our success in harnessing nature.

Science has so rapidly replaced man-labor with machine-power that today the amount of work necessary to keep everybody employed simply does not exist. "You have to recognize that some of the best brains (scientists and others) have for 150 years or more been endeavoring to put the world out of work — and they have succeeded."[2] To take the attitude that everyone must work in order to live is simply to characterize oneself as an ignorant remnant from the bygone days of scarcity.

The use of modern power-machinery is here to stay. Were we to throw away our scientific knowledge and the labor-saving devices it has produced, we should turn civilization back to barbarism. We must realize that we have a problem not so much of "unemployment" as of **unempayment** — a condition of lack of money and inability to get it by working. The need is not to make work for the unemployed but to adopt some practical means to provide them with the buying power they require to live.

1 A. R. Orage, *Fortune*, Nov. 1933.

2 C. H. Douglas, Oslo, Norway, Feb. 1935.

"The industrial machine is a lever, continuously being lengthened by progress, which enables the burden of Atlas to be lifted with ever-increasing ease. As the number of men required to work the lever decreases, so the number set free to lengthen it increases."[3]

We have agreed that the economic system exists to supply goods and services for consumption yet we make the stupid mistake of behaving as if it **existed to supply jobs instead of goods**. "Increasing with a diminishing amount of human labor, abundance is possible for all; that is the reality that can no longer be hidden."[4] We are driven to the conclusion that a new leisure, a forced freedom from the necessity to live by the sweat of our brow is an inescapable by-product of modern science. We must accept this conclusion as a fact and deal with it accordingly.

The Final Step

If we are to turn this new leisure from a curse into a blessing, some practical method of supplying buying power to the unemployed must be put into operation. The third and final step in achieving economic security is to adopt another means in addition to employment to distribute money-tickets to the nation as shoppers.

Fortunately, we already have a working example of this method. In 1929 we all knew people who lived on dividends — some of them still do. They are not employed. We do not call such people unfortunate victims of unemployment — we call them instead fortunate persons of leisure. But the economic difference between the man who has no job and lives on dividends and the man who has no job and can't buy food for his family, is that one has the tickets that constitute buying power and the other lacks them.

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3 C. H. Douglas, *Credit Power and Democracy*, p. 20.

4 A. R. Orage, *Fortune*, November 1933.

It is an accepted business principle that the dividends of shareholders come from appreciation or increase in net earning power of investment value. To understand the practical background of the National Dividend, we may well consider the United States as a great business association, U. S. A. Inc., of which every individual consumer is a member. The business of this association is to produce and distribute wanted goods for consumption. In this business association every citizen-consumer is a partner, a shareholder in the total enterprise. The association exists for the benefit of each and every citizen and it has elected officers and directors represented by the Government.

The Value of Our Cultural Inheritance

The chief asset of this great association, the richest on the face of the earth, is its enormous power to produce wealth. This power is made possible principally by the sum total of our scientific knowledge such as chemistry, physics, engineering and the control over nature with which these sciences have endowed us. Our ability to produce Wealth in abundance is perhaps four-fifths due to the efficient organization of modern business intensified by the knowledge which centuries of discovery and research have given us.

This body of knowledge is the Cultural Heritage of the Nation. More and more in our daily life we depend upon this inheritance. Even in the last fifty years the findings of science have given us for everyday use energies and abilities undreamed of by our grandfathers. The airplane and the radio are outstanding examples. We do not ordinarily think much about our inherited power of control over the forces of nature. But our present standard of living is the fruit of the thought, scientific inventions, and labor, of many generations of men. The names of many of them are unknown to us now. In the production of any article today the discoveries of the past are equally as important as the efforts of the living. Now, these discoveries of the past belong to all of us. We inherit them as a birthright. In fact "... it is quite beyond doubt that, to use legal phraseology, the living population of any country is, without distinction, the tenant-for-life of the cultural inheritance."[5]

Yet we carelessly take for granted the value of our association. We seldom think of the achievements of our ancestors who labored to discover and organize the knowledge which makes possible our present standard of living. We use telephones, we drive automobiles over paved streets and we live in steam-heated houses lighted by electricity. All of these are every-day experiences of our common cultural inheritance.

By virtue of our association together and our joint participation in this knowledge, every citizen shares in the values of the nation's cultural inheritance. Every consumer is a joint beneficiary of the great national legacy of wealth left to us by our forefathers.

Basis of the Dividend

As a shareholder in the cultural heritage of this rich association, every American can receive National Dividends as a birthright. The fact of citizenship would entitle each of us to the right to share in the fruits of the total productive capacity of the U. S. A., Inc.

Such dividends can equal the basic necessities of life — food, clothing and shelter. The dividend represents our share in the increasing benefits of power production. As the machine displaces men, the wage income previously paid to these men, must continue to be paid by the machines that displaced them. The dividend is thus the logical successor of the wage.

"Under such conditions every individual would be possessed of purchasing power which would be the re-

5 C. H. Douglas, *The Premises of Social Credit.*

flection of his position as a "tenantfor-life" of the benefits of the cultural heritage handed down from generation to generation."[6] We have the wealth and the means to provide more of it in abundance for all. But we lack the money to buy our wealth. For the good of all, consumers must be enabled to consume. For when consumption is shut off by lack of buying power, our wealth grows useless to all, producers and consumers alike.

The National Dividend depends upon our increased ability to produce and deliver wealth. It is based directly upon **appreciation**, in the actual value of our Real Wealth. On this solid foundation National Dividends can be paid to every qualified American citizen as soon as the National Credit Account reflects in money the actual facts of this Real Wealth.

Let us outline briefly how the Dividend would work in immediate operation. Suppose, for example that the first of next month, and thereafter the first of every month, every qualified American citizen, employed or unemployed, should receive a cheque for $12.50 signed by the Treasury of the United States.[2] The cheque, drawn against the National Credit Account and issued through an authorized bank, arrives by mail in a government envelope. The postman who delivers our mail would leave it at our residence.

To visualize what would happen we have only to remember the miserable conditions of poverty everywhere evident today. Millions now living on a bare subsistence level would at once satisfy long-suppressed needs and desires for goods. The Dividend cheque would be cashed immediately and the money used to buy needed goods.

This effective demand for goods would be felt first by retailers, then by wholesalers and producers, resulting in millions of dollars worth of new business.. We can hardly exaggerate the impetus that this would give to business and industry, in the form of confidence alone,

6 C. H. Douglas, *Social Credit,* p. 185.

to say nothing of the actual draft upon our unused productive capacities.

At first thought this example may perhaps seem extreme but in fact it is only a first timid step toward the Plenty that is now possible for all. Necessity, is driving us in this direction, and we cannot resist its pressure. Mounting taxes and growing debt wreck the efforts of business to produce and deliver wanted goods. The burden of increasing relief requirements financed by debt-money borrowed from the banking system is fast becoming as intolerable as it is hopelessly inadequate.[7]

In its first month a National Dividend would accomplish much to revive business. And the operation of the Retail Discount and the National Dividend together would gradually provide a rising standard of living for all American citizens, including the millions who today are struggling to keep body and soul together. It must be clearly understood that increases in the National Dividend depend directly upon increased production and consequent appreciation of Real Wealth as reflected in the National Credit Account. Beginning immediately and growing in time the payment of National Dividends will progressively abolish poverty and make economic security a fact.

The Importance of Banking

The credit to finance the National Dividend is created by the United States Treasury from the National Credit Account, and would be backed by the finest security

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7 " We believe that the most pressing needs of the moment could be met by means of what we call a National Dividend. This would be provided by the creation of new money— by exactly the same methods as are now used by the banking system to create new money — and its distribution as purchasing power to the whole population. Let me emphasize the fact that this is *not* collection-by-taxation, because in my opinion the reduction of taxation, the very rapid and drastic reduction of taxation, is vitally important." C. H. Douglas, Oslo, Norway, Feb. 1935.

available — America's Real Wealth.[8] As consumers cash their Dividend cheques or exchange them for goods, the cancelled cheques will return to the banks, to be charged against the National Credit Account. The credit represented by the Dividend thus returns to its original source where it is cancelled as production is consumed.[9]

The banks, as agents of the Treasury, would accept and cash Dividend cheques, handling such transactions exactly as they do now. Our present banking system has all the facilities necessary to carry out this function. The banks and their trained personnel are an essential factor in the practical administration of Social Credit. In every field of their public service the banks must continue to operate, minus only their power to create and destroy money at will, and for their services rendered they would be recompensed by service charges. No disruption of the banking system need attend the Dividend.

This great association, U. S. A., Inc., must continue operating on a large scale or go bankrupt. We have the materials, the equipment, the power, and the skill, to produce at least three times as much Wealth as now. Only the lack of money prevents us from doing so; a shortage of buying power denying us the prosperity and the dividends that our resources justify. How long will the shareholders tolerate this shortage, when necessity demands that we declare dividends and achieve a prosperity never before experienced?

Wages Plus Dividends

We must understand that of course the payment of

8 It is important to understand that the Dividend is financed out of appreciation, that is, the increased Real Credit of the Nation.

9 This is the importance of issuing the Dividend in the form of a cheque instead of currency. The amount of money represented by the Dividend is used to finance consumption and having accomplished this purpose, the Dividend cheques return to their source (The National Credit Account). This provides an additional safeguard against inflation.

salaries and wages would continue as at present, based on the worker's contribution to society. The economic and social usefulness of each worker must always govern earning-power. But we know definitely that the aggregate of salaries and wages, no matter how high they maybe raised, can never purchase the total of the goods that industry produces. The failure of the N R A has demonstrated that raising wages and limiting hours of work cannot solve the problem. Buying power must be increased from some source that does not add to costs and thus raise prices. The National Dividend breaks this vicious circle. The Dividend is the logical answer to the problem of a living wage.[10]

Our minds are so accustomed to scarcity that it is difficult at first to realize the physical and mental benefits resulting from equating buying power with the price of production in this country. Perhaps it sounds too technical when we speak of it in that way. But the Discount and the Dividend would not only stimulate business with a new demand for goods; the creation of new and richer human values in the life of every citizen would be more valuable than the material advantages gained. A new understanding growing out of the mutual cooperation of man with man would enrich the experience of every American. The effects of this addition to the positive hu-

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10 The Brookings Institution studies of America's Capacity to Consume show the economic necessity for the National Dividend. Their findings indicate that *even in* 1929, our *most prosperous year,* there were about 12 million families or more than 42 per cent of the total, in a "subsistence and poverty group" with annual incomes under $1,500. Since the average family is considered as 4.4 persons, this group received an average per capita income of about $364 during 1929. This means about $1.00 per day to meet all the expenses of living, yet we called 1929 the "year of Prosperity."

"If $2,000 may be regarded as sufficient, at 1929 prices, to supply the basic necessities for a family, we find that 16 million families, or about 60 per cent of the total, were below this income level." Since then the national income has approximately been cut in half.

man values in our national life are beyond calculation.

However, the immediate need for a National Dividend is economic: the need to provide for the millions now on relief by a direct drift upon our unused capacity to produce. The Dividend would deliver goods to consumers instead of destroying or plowing them back into the earth. Sabotage would be stopped and surplus turned into useful supply.

Not a “Dole”

Some people on hearing for the first time of the National Dividend, fear that it may be some sort of “dole.” The Dividend is not a dole. The dole, like our present relief program, robs Peter to pay Paul. The dole takes money by taxation from the already inadequate incomes of the employed to support those who are unemployed. The dole does not add a penny to the total national income. The Dividend, on the contrary, is the means of tapping a new reservoir of credit, unused today, but immediately necessary to distribute the goods America can produce. It would add directly to the national income. And to every shopper and consumer of goods it represents the right to share in the benefits of modern civilization.

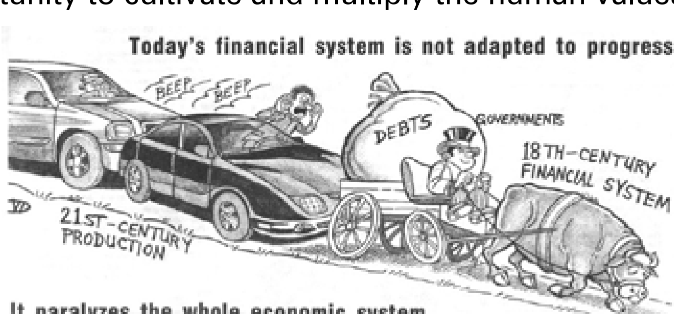
Other people imagine that, like some forms of welfare work, the Dividend would breed laziness. To begin with, the Dividend, although it would provide a basis of definite security, would not be large enough to support any one in luxury. It would increase only as the National Wealth increases. Anyone too lazy to contribute to this increase would simply be reducing the Dividends of those who do wish to work.

But aren’t there always some people, we may ask, who are congenitally lazy and would rather exist on a low standard of living than exert themselves in order to have more? This is a psychological question. Perhaps there are, and such people are supported today out of the pocketbooks of the rest of us. We maintain these drones out of our own personal income and this would become unnecessary.

The Blessing of Leisure

The subject of the National Dividend is a fascinating one from both the economic and human points of view. But despite its many advantages we shall leave this subject with the remark that **the National Dividend would abolish Poverty**. It would bring economic security to all consumers and put an end to the existing exploitation of human labor. "To be re-leased from all forced labor, to engage only in voluntary work whilst security and plenty are assured to all — what else has been the motive force behind every invention and discovery since the great industrial awakening?[11]

As machines replace men to take over human drudgery and the true dignity of labor is at last realized, the curse we now call unemployment will become the blessing of leisure. This leisure represents time for education and recreation in their fullest sense, the enjoyment of books, the arts, the pleasures of the outdoors, the opportunity for study and self-development. Unemployment is a present fact, but when out of this fact we use our intelligence to create leisure, then the present evil will become a true blessing. Only through leisure do we find the opportunity to cultivate and multiply the human values.



11 A. R. Orage, *Fortune, Nov.* 1933.

Chapter 12
Economic Security for All

"There have been times in the history of the world when some event or discovery has enabled the human race to take a great step forward. Major Douglas's discovery is of this type. It brings economic emancipation within our reach, if we can free our minds sufficiently from economic superstitions to understand and grasp what is offered."[1]

"What are we trying to get? What are we aiming at? We are endeavouring to bring to birth a New Civilization. We are doing something which really extends far beyond the confines of a change in the financial system. We are hoping by various means, chiefly financial, to enable the community to definitely step out of one type of civilization into another type of civilization, and the first and basic requirement of that, as we see it, is Absolute Economic Security."[2]

In considering the Retail Discount and the National Dividend, we have noted some of the many advantages contained in each. But before leaving them we must understand that **both the Just Price and the National Dividend are inseparably linked together in a constructive economic program.** The importance of this coordinated functioning of the two cannot be overstated. Both must operate together. The Just Price equates purchasing power with total retail prices, prevents inflation and stabilizes price levels. The National Dividend supplies buying power to those of us who have none at present. **The two are conjoined in purpose, in operation, and in effect.**

Our everyday experience proves that the outworn financial formulas of the past can never again be made to provide a lasting prosperity. It is unthinkable that we can

1 H. M. M., *An Outline of Social Credit,* pp. 46-47.

2 C. H. Douglas.

find the way out by burying ourselves under new and higher mountains of debt. The way out is not through more debt, **it is through the use of our REAL CREDIT.**

The knowledge of what Social Credit is and how it will provide Economic Security is imperative to every intelligent American today. The issuance of National Credit direct to consumers, based on America's Real Wealth, is our greatest single necessity. How long must the artificial illusion of scarcity stand between our physical needs and the Real Wealth that is ours? The opportunity to grasp prosperity is here at hand; we must take it now, or be regimented in poverty.[3]

Of the present world crisis Major Douglas has written, "The breakdown of the present financial and social system is certain.... A comparatively short period will probably serve to decide whether we are to master the mighty economic and social machine that we have created, or whether it is to master us; **and during that period a small impetus from a body of men who know what to do and how to do it**, may make the difference between yet one more retreat into the Dark Ages, or the emergence into the full light of a day of such splendor as we can at present only envisage dimly."

We are just beginning to realize that **human** values

3 The reform suggested is not put forward as an alternative to Capitalism, but as an alternative to chaos. So long as the present system can provide the majority of people with a living of some sort, no alternative, however attractive, has much chance of being considered. But if it becomes obvious that the system is breaking down — and the manifest difficulty of providing employment and doing profitable business are two of the evidences that it is breaking-down — the only alternative that has a chance of being successful is the one that can reconcile the greatest number of interests with the minimum of disturbance. The Social Credit proposals of Major Douglas fulfill these conditions. Their title to general support is that they can make the poor rich without making the rich poor, and involve no change in administration, only a change in financial policy." — H. M. M., An *Outline of Social Credit,* p. 48.

are equally as important as money-values. But we can never begin to say that "we love our neighbour as ourselves" until we are first freed to live together liberated from our slavery to money.

Wishing and waiting will not solve the problem — the necessity is to act. There is overwhelming evidence that the present Administration is day-by-day being driven in the direction of the Social Credit proposals. In the Government's failing struggle to overcome the problems of unbearable taxation and unpayable indebtedness, many observers see the beginning of the coming turn to the philosophy of plenty. **Social Credit provides the only known means for increasing buying power but at the same time preventing inflation.** When the hypnotic spell of the illusion of money-scarcity begins to lose its hold over sensible Americans, the servitude of man to money will at last be abolished and economic security for all will become a fact.

SOME ADDED FACTS

This booklet has only presented in a general way the major principles of Social Credit. We have given little more than an outline of the practical application of these proposals to prices and purchasing power. We have not even touched upon how the Just Price and National Dividends would enrich our personal lives. Indeed that would require a book in itself.

This booklet is only a first step toward the understanding of what national action is necessary to achieve economic security in the United States.

Some further facts are added here in the hope that they will prove of value to the reader.

America is the richest nation in the world. We can produce WEALTH in abundance. But MONEY is scarce. To move goods from producers to the hands of consumers MONEY MUST MATCH the facts of WEALTH.

Most money is CREDIT — we cannot deal in WEALTH without it. REAL CREDIT, based on Wealth itself, is the soundest foundation for money. Social Credit says: "MONETIZE our REAL WEALTH — make Financial Credit match REAL CREDIT." Then we can satisfy the needs of our people with the wealth we can produce.

There is no excuse for poverty when we can produce enough wealth for all. Anything that is PHYSICALLY possible is FINANCIALLY possible. That is only common sense.

Social Credit is sound and practical. It is based on methods already in use in business.

Social Credit guarantees business recovery, a new era of lasting prosperity for Americans. Social Credit will reduce Taxes and liquidate Debt. It will ABOLISH Poverty and PREVENT War.

Social Credit is not Socialism or Fascism. It is not based on state ownership or state control of production. It involves no confiscation or redistribution of existing wealth but would provide instead more wealth for all of us based on our ability to produce that wealth.

Social Credit stands for the American principles of individual initiative, freedom and liberty. It is opposed to financial or any other sort of dictatorship. Major Douglas says "Systems were made for men, and not men for systems, and the interest of man, which is self-development, is above all systems, whether theological, political, or economic."[1]

Social Credit does not advocate the nationalization of the banks. Social Credit would save the banking system. But it would require the nation to resume its sovereign power to issue money and regulate its value, while the banks would co-operate with the Treasury and distributive agencies of credit, receiving their recompense by service fees.

1 C. H. Douglas, Economic Democracy.

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More books on Social Credit

For those who want to deepen their knowedge of Social Credit, we suggest the following books:

Social Credit explained in 10 lessons. A. Pilote. 150 pages
In This Age of Plenty. Louis Even. L. Even. 410 pages
A Sound and Efficient Financial System. L. Even. 32 pages
What Do We Mean by Real Social Credit. L. Even. 32 pages
The Money Myth Exploded (also available in leaflet form)

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