

Social Credit

PREFACE TO THE FIRST EDITION

THERE is an ancient saying (which will bear consideration in these days of change and unrest) that the devil is God upside down. A consideration of many of the injurious and tyrannical practices which obtain support in Great Britain and America under the cloak of such words as justice and Democracy, and the object lesson provided by Russia, and possibly by Italy and Spain as the consequences of their extension, may serve to emphasise the necessity for clear thinking in this matter.

In the following pages an endeavour has been made to indicate the general lines which, it would appear, are essential in dealing not only with the concrete problems, but the perverted psychology which, in combination, threaten civilisation.

C. H. DOUGLAS.

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Part I: Philosophy

CHAPTER I: Static and Dynamic Sociology

WE have in England, probably to a greater extent than elsewhere, two distinct systems of education flourishing side by side. The distinction is clearly marked in the public schools and universities; but it is traceable through every grade of educational institution by the arrangements which are made to prepare candidates for public and other examinations. These two systems in the Public Schools are the Classical and the Modern sides, and have their equivalent Triposes and Honours Schools in the universities. One of these systems is Aristotelean, the second is Baconian.

Now, it does not seem to be so clearly realised as it should be, that these two systems of education are, considered separately, incompatible. The classical system is the embodiment of an attractive and artistic ideal or conception of the nature of society, and the conditions under which society lives, moves, and has its being. It is above, outside, possibly in advance of, facts. The modern school, of which inductive natural science, based upon the experimental ascertainment of fact, is the backbone, has not essentially to do with ideals at all. It is realistic; its first postulate is that forces act in a similar manner when placed in a similar relation to each other. It refuses to admit, as a fact, anything which cannot be demonstrated, and as a theory, anything which does not fit the facts. For example, the classical ideal contends that men "ought" to be good, brave and virtuous. The modern, that it does not understand the meaning of goodness, that bravery and virtue are not capable of exact definition, and, that so far as the word "ought" has any meaning, it postulates the existence of a force so far undemonstrated.

It will be recognised on a moderate consideration, that the effect on the everyday world of these two philosophies cannot fail to be disruptive. The logical outcome of the classical ideal is to lay the emphasis of any observed defects in the social organisation on defects in the characters of the persons composing the society. Wars occur because people are wicked, poverty, because people are idle, crime, because they are immoral. Material progress, which in its essence is applied Science, is repulsive to the Classical mind, because it does, in fact, stultify the rigid Classical ideal. Conversely, the scientific attitude tends to the opposite extreme, towards what is called Determinism; that people's actions, thoughts, and morals, are the outcome of more or less blind forces to which they are subjected, and in regard to which, both censure and praise are equally out of place.

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twice as much goods as another, except to investigate the difficulties, if any, in giving them to him. It observes, or thinks it observes, that it has sufficient data to predict not only that such a policy would work, but that it is the only policy in sight which would work.

The vast majority of discussions which take place in regard to industrial problems are prevented from arriving at any conclusion from the fact that the disputants do not realise the premises on which their arguments are based, and in many cases use words (and "justice" is an example of such words) which beg the whole question at issue. It is not too much to say that one of the root ideas through which Christianity comes into conflict with the conceptions of the Old Testament and the ideals of the pre-Christian era, is in respect of this dethronement of abstractionism. That is the issue which is posed by the Doctrine of the Incarnation.

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involved in the trial and punishment of a murderer in a court of law. But we do know that over every plane of action with which we are acquainted, action and reaction are equal, opposite, and wholly automatic. Consequently, there is nothing to indicate that the automatic consequences of a given action will exhibit any difference if committed under the orders of a superior officer, or not. Further, it may be observed that non-automatic "punishment" really constitutes a separate group of actions and reactions.

If we throw a stone into a still pool of water, the ripples which result are not eliminated by throwing in a second stone, although they may be masked, and to the extent that legal punishments represent, not the ripples from the first stone, but the casting of the second, it will be seen that a complicated situation is inevitable.

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$$\frac{dL}{dt} + \frac{dC}{DT} = \frac{dD}{DT}; \quad \text{K being fixed,} \quad \frac{dK}{DT} = 0$$

Assuming that the Cash in Hand is kept constant

$$\frac{Cd}{DT} = 0.$$

Therefore

$$\frac{dl}{DT} = \frac{DD}{DT}$$

which means, of course, that the rate of increase, or decrease, of loans is equal to the rate of increase, or decrease, of deposits.

Now this theorem that bank loans create bank deposits, and the deduction from it that the repayment of bank loans destroys deposits, is vital to an understanding of the process we have been discussing. The deficiency between purchasing-power, and goods with money prices attached to them, can be made up (at any rate to a large extent) by this process of creating bank money. This enables the business cycle to be carried through. And conversely, the refusal to create fresh money by banking methods or otherwise, whatever the cause of this refusal may be, is sufficient to paralyse both production and consumption. There is no doubt whatever about the facts; in the past three years we have had the two conditions side by side; in Great Britain a restriction of credit and consequent industrial stagnation; on the Continent, enhanced credit issues, and great industrial activity.

The repayment of bank loans, unaccompanied by the destruction of the article produced as a result of its creation, immobilises an equivalent body of price values, so that neither can the articles to which the prices refer be sold, nor in the case of machinery, etc., is it possible to make any charges in respect of consumption goods which are consequent on the use of such machinery, without still further increasing the disparity between the goods available still, and the money available to buy them.

This is surely plain enough; but it has also to be remembered that this process of repayment of bank loans, is a "chain" process, which starts with the repayment, by the last business concern engaged in the manufacture of the articles, of the costs and profits incurred by the stage of manufacture immediately preceding it. If this

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probably not a "levelling-down" movement of any description anywhere, which is unsupported from Lombard Street, Wall Street, and Frankfort.

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given period of production. The only portion of the total costs which can be decreased without loss to the producer are those represented by wages and salaries, the remainder being fixed charges based on the capital costs already incurred. Wages and salaries costs are purchasing-power, and collectively are much less than collective prices. Imagine both collective wages and collective prices to be diminished by an equal amount x . This may be written:

Costs = purchasing-power.

Costs are $<$ prices.

$$\blacksquare \frac{\text{Costs}}{\text{Prices}} \text{ is } < 1$$

$$\blacksquare \frac{\text{Costs} - x}{\text{Prices} - x} \text{ is } < \frac{\text{Costs}}{\text{Prices}}$$

An addition to both the numerator and denominator of the fraction, such as is brought about by a rise of wages, accompanied by a rise in price, has, of course, the opposite effect; it brings the ratio of purchasing-power to prices nearer, though never to unity, with the result, seen in Germany in the inflation period, of immense, though unstable, economic activity, accompanied by great hardship to the professional and rentier classes, both of whom have claims to consideration, and a most undesirable concentration of economic power, resulting infallibly in the enslavement of the artisan.

Even without demonstration, therefore, it is easy enough to see the effect of either deflation or inflation by the exercise of analytical methods; but nothing of the sort is now necessary. A full-scale demonstration of both of them has taken place since Chapter XIII of *Credit Power and Democracy* was written; and the course of events in Germany, under a policy of reckless inflation of credit, reappearing in prices, followed with some exactness the sequence, both economic and psychological, which was explained therein, and can be considered and compared with the contemporaneous restriction of credit in Great Britain. During a few months of 1923 a condition of fairly steady, though high, prices was maintained at the cost of increasing industrial stagnation; and the fact that this situation changed into an era of rising prices, accelerated by every effort to grapple with the "unemployment" problem by orthodox methods, should be conclusive proof of the inability of the existing financial system to carry out the policy of "Stabilisation."

The efforts to control prices by manipulating credit along orthodox lines culminated in the unmanageable fall of prices which began in 1928, a fall which complicated,

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although it did not cause, the financial crisis of 1929 in which the world is still (1933) involved.

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to the unemployment allowance is obscure (more particularly having in view the fact that it is based on compulsory unemployment insurance to which both employer and employed contribute), but it may be assumed that it did not, like Topsy, grow out of nothing. The payment of the thing itself is hedged round with such forms of indignity and inconvenience as the official mind, with every stimulus to activity, can devise, and although fundamentally when it ceases to be an insurance claim the dole is a small dividend on the National Income - a forerunner of "Dividends for All" - it is certainly the Cinderella of dividends, and is treated accordingly. Collectively, it is put in the foreground as being one of the chief sources of expense contributing to the burden of taxation under which the rest of the community is struggling, and thus has the effect of creating a feeling of hostility against its unfortunate recipients, which may be compared with the orthodox Socialist outcry against other and more familiar forms of dividend. The enforced leisure enjoyed by those who participate in it, is rendered practically valueless by the regulations which surround it. To be seen doing an hour's casual work is to render a member of the unemployed liable to penal servitude for fraud, and the passport system of Russia was simple in comparison with the forms necessary to regularise half a day's wood-cutting by an individual registered at a Labour Exchange. And it must be borne in mind that the dole does not represent anything but a claim on goods of the simplest description, of which the persons from whom it is collected in taxation already have enough for their needs, and thus are merely, and uselessly, restricted from the satisfaction of further requirements which would provide the "employment" said to be lacking.

And yet in spite of all this it is notorious that to be unemployed and drawing the dole for any length of time, means in all probability that the individual concerned will never seriously compete for steady employment again under the conditions which exist at present. That is to say, given the satisfaction of the primary necessity for bed, board, and clothes, even under the most disadvantageous conditions, the human individual can find more attractive forms of outlet for his activities than those which are afforded by the present-day industrial system, taking into consideration its hours of work, remuneration and general amenities; and it requires the assurance chiefly found in millionaires, to assess the comparative value of such activities either to the individual or the community, under the conditions which exist in the world to-day. It may be said that at any rate they do not accelerate the progress towards another Great War, which would be the result of general employment in production for export.

Now it is fair to say that Labour leaders are, although they may not consciously know it, amongst the most valuable assets of the financial control of industry - are, in fact, almost indispensable to that control; and the reason for this is not far to seek. They do not speak as the representatives of individuals, they speak, as they are never tired of explaining, as the representatives of Labour, and the more Labour there is, the more

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6.2 . In other words, goods were sold to the public at one-sixth of their apparent financial cost, and no one lost any money over it at the time. How was this done?

A considerable amount of this money (some of which may be in excess of the figures just mentioned) was created through what are known as the Ways and Means Accounts, and the working of this is described in the first report of the Committee on Currency and Foreign Exchanges, 1918, page two. Paraphrased, the process may be shortly explained as follows.

If ten million pounds credit is advanced at the Bank of England to the credit of Public (i.e. State) Deposits (which simply involves the writing up of the Public Deposits account by this amount), this amount is paid out by the Spending Departments to contractors in payment for their services, and when the cheques are cleared, passes to the credit of the contractors' bankers (joint Stock Banks) account with the Bank of England. The joint Stock Banks are accustomed to regard their credits with the Bank of England as cash at call and, therefore, ten million pounds is credited to the depositors of the Joint Stock Banks, and ten million pounds to the Joint Stock Banks' cash account.

As a result of this, the joint Stock Banks, working on a ratio of one to four between so-called cash and short-date liabilities, are able to allow their customers (working on Government contracts) overdrafts to the extent of forty millions, a portion of which their customers may devote to taking up Treasury Bills or War. Loans. The banks themselves may take up about eight millions of Treasury Bills or War Loan, out of their additional "deposit" balances, or they may lend about eight millions to the Bank of England to lend to the Government. Eventually, the result is the same, namely that the Government owes forty millions to the banks, through the Bank of England.

Now the first point to notice is that the result of this complicated process is exactly the same as if the Government itself had provided forty millions, in Currency Notes, with the important exception that the public pays 4 or 5 per cent per annum on the forty millions, instead of merely paying the cost of printing the Currency Notes. The effect on prices, while the forty millions is outstanding, is the same, and the contractors pay 6 or 7 per cent for their overdrafts instead of getting the use of the money, free. But if the forty millions is redeemed through taxation, or a Capital Levy, the public pays not only the 5 per cent per annum, together with the contractor's 6 or 7 per cent, plus a profit on both of them, but it pays the whole of the forty millions out of money which has been received in respect of wages, salaries, and dividends. So far as I am aware, no one has ever suggested that Currency Notes should be retired by taxation. It is true that when this forty millions has been repaid, both the original debt and the repayment cancel each other, and only the interest charges go to the Profit and Loss Account of the Bank. But since, as we have seen, the repayment of bank loans means the

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immobilisation of an equivalent amount of price-values, this only means that a fresh loan with fresh interest charges has to be created. A consideration of these facts will make it easy to understand the implacable opposition of bankers and financiers to Government paper money and their insistence on the importance of what they term redemption. The payment in current taxation of only one-sixth of the price of war stores, etc., meant, therefore, that a credit grant of the other five-sixths of the price was made to the Public. *The repayment of this credit is only justifiable on the assumption that banks own Public Credit.*

The average banker, if confronted with the foregoing statements, would, while being obliged to admit the facts, probably say, "Yes, but printing paper money has no finality. Once you begin, you have to go on." Without admitting his contention, let us see what is his alternative.

Since bank loans create bank deposits, it will be seen without difficulty that the process which has just been described would either produce a fantastic array of depositors' accounts, or else would necessitate the calling in of such large amounts of overdrafts as would make it impossible for the manufacturer to carry on his business. It therefore became necessary to fund these unwieldy sums. That is to say, to convert them from something which will operate as currency into "Capital Securities," the interest only of which will operate as currency; and it will still be fresh in the memory, that every inducement, including loans up to 80 per cent of the face-value, was offered by the banks to their depositors, to convert such deposits into Government Stocks of various descriptions. The result of this was to convert a large portion of their unsecured overdrafts into loans against Government security. Observe what happened. The Government loans, 80 per cent of the value of which originally represented nothing but bank overdrafts created by a stroke of the pen, were held by the banks as security for this same overdraft. At the close of the War, or rather about a year after the close of the War, the banks began to call in these overdrafts. Had they called in the whole of them, there would have been no money in the country except the four hundred millions of legal tender, most of it already in the banks. As a consequence of the partial extinction of existing credits, and the reduction in the rate of issue of new credits, Government Stocks of all descriptions were thrown upon the market, to obtain money wherewith to meet the bankers' calls. Their value declined until the margin of their market price over the amount which had been lent upon them had disappeared, and, as a result, the stocks came into the hand of the banks; so that it is probably true to say that 90 per cent of the holdings of Government War Securities were under the ownership or complete lien of the banks and financial houses by about the middle of 1922. From this time on, a process of reselling these stocks to the public at enhanced prices began, fostered by the stagnation of trade, which forced any available money in the country into fixed interest-bearing securities. Owing to the comparatively small

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amount of money available for this purpose, and the fact that a large amount of Government Stock was acquired by the direct creation of bank credits on bank account, it is probable that even yet 75 per cent of the total issue of Government Securities is still in the hands of the banks,* or is held by them under a lien; sufficient only being in individual hands to ensure the protection of the loan as a whole. The net result of the process, is that the public pays the sum of three hundred and twenty-six millions sterling per annum as interest on an immobilised loan of which it has not the use as money, but which it has to repay in the form of sinking fund. Such sinking fund must either be collected out of the costs distributed in respect of future production, the public being thus further prevented from purchasing home-produced goods, or by the creation of a fresh debt in an open or disguised form.

* At the time the first edition of this volume went to Press, the absorption of the Guernsey Bank by the National Provincial Bank was announced. For each £10 paid share of the Guernsey Bank two £5 National Provincial shares and £18 in 5 per cent. War Loan was given.

The beauty of the transaction, however, is only seen in its entirety when it is recognised that the repayment of the loan, either by taxation or otherwise, unlike the repayment of the costless book-credit which originally created it, does not mean its extinction, but merely its re-transformation into the form of purchasing-power, since the sinking fund represents a cash payment to the holders of the loan in return for their securities. The public will therefore pay the interest and sinking fund for the term of the loans in order to get back the use of their money - and as the banks would be likely to hold most of the loan, the latter would get the money. In the third part of this book it will be necessary to consider the question of the beneficial ownership of financial credit; and a grasp of the results of the present method of operating the credit system as indicated by the financial operations of the past few years, is necessary for that purpose.

It may be asked why banks only pay a dividend of 25 per cent or so. The answer is simple.

Their real earnings are measured by the control over industry which they acquire - earnings so rapid that in a few years the control will be absolute, if not checked. The amount distributed in dividends is, or could be, any desired dividend on this capital control.

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CHAPTER VI: Taxation and Servitude

IN a remarkable document which received some publicity some years ago, under the title of "The Protocols of the Learned Elders of Zion," a Machiavellian scheme for the enslavement of the world was outlined. The authenticity of this document is a matter of little importance; what is interesting about it, is the fidelity with which the methods by which such enslavement might be brought about can be seen reflected in the facts of everyday experience.

It was explained in that treatise that the financial system was the agency most suitable for such a purpose; the inculcation of a false democracy was recommended; vindictive penalties for infringements of laws were advised; the Great War and the methods by which it might be brought about were predicted at least twenty years before the event; the imposition of grinding taxation, more especially directed against Real Estate owners, was specifically explained as essential to the furtherance of the scheme. The methods by which the spurious democratic machinery and the journalistic organs of "Public" opinion could be enlisted on the side of such taxation, and an antagonism between the interests of the town and the interests of the country could be created, were explained with an accuracy of detail which can only be described as Satanic.

It is quite possible that this document is inductive rather than deductive in origin, that is to say, that some person of great but perverted talents, with a sufficient grasp of the existing social mechanism, saw and exploited the automatic results of it. If that be the case, the world owes a debt of gratitude to that mysterious author. He was substantially accurate in his generalised facts, and the inductive prophecies from them are moving rapidly towards fulfilment.

Making all due allowances for the defects in it which are only too obvious, the Anglo-Saxon character probably remains the greatest bulwark against tyranny that exists in the world to-day. That is a thesis on which a large number of volumes have been written, and it does not seem necessary to expand it further. But if it be granted, it will be agreed that any attempt, either conscious or unconscious, to establish an effective hegemony over the whole of the world would be likely to concentrate on such methods as would paralyse the Anglo-Saxon.

Now, the British population, men, women, and children, are at the present time (1933) taxed to the figure of sixteen pounds seven shillings per head (or about sixty-five pounds per family), which is nearly three times the taxation per head of any other country in the world. Large estates are subject to succession and legacy duties which make it impossible for them to remain in private hands, and force them into the market in which they are acquired by corporations having access to the methods of

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creating financial credit. These two forms of taxation are concurrent, *i.e.* the enormous Capital Levy imposed by Succession and Legacy Duties, *so far from reducing general taxation, has been accompanied by a steady rise in such taxation.* In the United States the estimated value of all real and personal property (1923) is two hundred thousand million dollars. The bonded debt, public and private, payable in gold is one hundred and twenty thousand million dollars, and it is estimated that the total time for interest and taxation to reach such proportions as will require the whole equity value of the United States to be mortgaged to meet it, is about twenty years. It is perhaps hardly necessary to mention that the bonded debt of the United States is held by very much the same class of financial organisation as that which is the chief owner of the bonded debt of Great Britain. The banks and financial houses are our creditors; and Capital Levies in reduction of debt are merely levies for the benefit of these institutions and enhance the attractions of the country paying them, as debt-contractors.

The portion of this taxation which is represented by interest on public debts, created more or less in the manner outlined in the previous chapter, is onerous in proportion as its destination is centralised. It is easy enough to see that it would not matter very much if the Debt of Great Britain were ten times what it is, even though the service or payment of that Debt were made on "orthodox" principles if the ownership of the Debt was uniformly distributed over the tax-paying population. Sixty-five pounds per annum per family would be collected in taxes, and (disregarding the cost of administration) the sixty-five pounds per annum would be distributed as dividends. The operation would, in fact, be meaningless, from which observation we may deduce the interesting fact that present-day finance and taxation is merely an ingenious system for concentrating financial power. No proposal to *redistribute the National Debt has ever received the slightest encouragement from Socialist leaders.*

Now at first sight this would appear to lend colour to the simple Labour-Socialist idea that many men are poor, because a few are rich. *Post hoc, ergo propter hoc.* But once again, the matter is not quite so simple. It is perfectly true that a few men do become very rich by this process, and very many more have hopes of riches; that is how their co-operation is secured. But it is also equally true that their collective riches, in visible form, would represent a very small sum if equally distributed amongst the general population. The main tendency of the process is to concentrate the control of credit in a potential form in great organisations, and notably in the hands of the great banks and insurance companies.

It is well worthy of notice that the proposal for a Capital Levy, which was one of the main planks in the programme of the British Labour-Socialist Party, was for a levy on individuals, not on corporations or businesses.

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Apart from any more subtle explanation, even great banks hesitate to distribute their true profits for fear of attracting too much attention. It is an interesting and symbolical fact that every corner site, whether in town or village, sooner or later, falls into the hands of a bank. Corner sites are potential key positions. It may be stressing the theory a little too far, to use it as an explanation of the fact that a recently built bank in Cleveland, U.S.A., has been designed with bomb-proof walls, and has machine-guns mounted at each corner of it. A polite intimation that his overdraft must be reduced, is a more effective argument to the average man than a threat by a machine-gun. But the idea is no doubt not dissimilar.

An organisation can only grow powerful at the expense of those involved in it, just as a tree can only grow at the expense of its soil. Corner sites, granite and marble buildings, to name only two of the more tangible signs of growth in the banking organisation, represent undistributed profits. Undistributed profits are simply cancelled credits; they are "savings" by an institution. They are credits transformed from a visible form represented by deposits, into a potential form such as, for instance, the security for loans or mortgages. Every credit cancelled in this way, whatever form the cancellation may take, simply represents so much purchasing-power destroyed without the destruction to an equivalent amount in book price values, and the effect of it is that its equivalent amount in goods-values cannot be bought in one and the same credit area. It will be seen, therefore, that this concentration of securities in the hands of large organisations is a matter of much greater importance, than if even the same concentration took place in the hands of individuals who, in one way or another, disbursed the large sums thus received, since the disbursements would, in the nature of things, be spread over a very wide field of activity. But a functional organisation like a bank is only interested in consolidating the power and importance of banking, and uses the credit power that it obtains with the single aim of fostering this result. That is why we are building branch banks and other industrial buildings, instead of houses, and why such houses as are built are mostly cheap and nasty. There is not much granite and marble about the average post-war bungalow or cottage.

But however that may be, one result of the process is indisputable. It still further restricts the money and purchasing-power at the disposal of individuals, and concentrates this money power in financial institutions. If the process is allowed to proceed without interruption, and it remains true that the possession of money is the only claim to the necessities of life, then it is not difficult to see that within a short space of time, that condition of universal slavery to which the writer of "The Protocols of Zion" looked forward with such exultation, will be an accomplished fact.

The concentration of control over business firms, which is the accompaniment of the increasing dependence of the business world upon banking accommodation, is

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paralleled by the rapid elimination of a class of any considerable dimensions which can maintain its customary standard of life without commercial employment. Both commercial employer and commercial employed are therefore coming under an invisible control which is not subject to any criticism of its actions in respect to the giving or withholding of this "employment" without which civilised existence is becoming impossible. The obsolete system of chattel slavery had the vital defect that the slave could not fail to be conscious of his slavery, and consequently required guarding. But the more insidious subjection with which we are threatened, promises a condition of affairs in which servitude will only be granted as a privilege, and starvation following on degradation will be the alternative.

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CHAPTER VII: The Bid for World Power

TAKING into consideration the fact that all business is at present carried on with the express purpose of "making money," it might be imagined that even if the details of the money system were not matters of general knowledge, at any rate there would be little room left for discussion in regard to its main principles. But there is not even elementary consistency and agreement on the subject. One of the more obvious examples of this is the confusion which is in evidence in regard to matters of foreign exchange, and War Reparations.

It will be remembered that we are constantly being told that Great Britain, in particular, lives on exports of goods and services. In orthodox circles there is never any discussion in regard to this statement. It is regarded as axiomatic. It is how we become "rich." On the other hand, as a result of the determination to inflict punishment of all descriptions upon Germany for her crime of losing the War, and to reward other countries for their virtue in winning it, severe economic penalties were imposed by the Treaty of Versailles. These penalties were assessed principally in terms of currency. It is common knowledge that these penalties, generally referred to as reparations, have not so far been successfully inflicted. Germany has herself expressed her willingness to pay; France in particular amongst her opponents has expressed her determination to make Germany pay. Germany has printed large quantities of paper money and has also incidentally greatly expanded her economic ability to produce, and thus, it might be imagined, to pay, but the payment has not taken place. The reason for this is quite simple, and has been explained in many orthodox quarters. Such payment can only take place by the export of German goods and services in return for a pledging of German credit based on the ability to deliver these goods and services. Notice the grim humour of the situation. At one and the same time and from one and the same source, it is being stated that Great Britain can only become rich by exporting goods and services. Germany, however, can only be penalised and presumably become poorer by exporting goods and services. A science of finance and economics which will permit absurdities of this description to pass almost unnoticed, can hardly fail to produce chaos in the world. The country on which the "penalty" of reparations was inflicted is straining every nerve and sinew, not merely to export an amount equivalent to the money figure attached to the reparations, but to add to this amount by every means in her power. Great Britain, which was one of the nations very vocal in asserting that Germany must pay, is feverishly searching for methods either by tariffs or otherwise, which will prevent German goods, which are by common consent the only method by which Germany can pay, from entering this country, and is providing Germany with credits - in order that she may *import* British coal.

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There must be in every country, a sufficient, if small, minority of persons who see these absurdities and understand that they proceed, and can only proceed, from a radically defective or obsolete financial system. It can only be assumed that the silence of such persons is either dictated by fear of the results of a general exposure, or by complicity in the policy which is furthered by the existing situation.

Considered merely from the point of view of financial operations, and without trespassing on the domain of world policy, it is not difficult to see that every advantage to finance, as a business, lies in rendering the Reparations Clauses of the Treaty of Versailles ineffective. To a financier, a country is simply something on which to base a mortgage. Just as a private estate which is not mortgaged is, to a money-lender, an excrescence on the landscape, so a country whose National Debt is not as large as is consistent with security is an object of solicitude to International Finance. If Germany's productive capacity for the next twenty years or so were effectively hypothecated to the service of the allies who were engaged against her in the late war, it is fairly obvious that she would not be good security for loans.

For this reason, if for no other, the efforts of the financial interests are likely to be directed to obstructing the payment of reparations, and finally to the cancellation of the obligation to pay them - a state of affairs which in the existing financial arrangements would no doubt be signalled by the grant of an "international" loan to Germany for a reconstruction of which, by all accounts, she is in no need.*

* This paragraph was written in 1923. It has been justified in detail by events. - Note to ... Revised Edition.

If this line of argument be accepted, it will no doubt occur to the reader that the insistence by the United States on the payment of the British Debt to America would seem to furnish a contradiction. It must be remembered, however, that it was necessary for someone to pay war debts, or the repayment of Financial Debt would be gravely discredited, and that the U.S. Government has so hedged round the repayment of the sums borrowed, as to make the British Debt merely a political weapon for the control of British policy. Further, it is to be remembered that the financial system is a centralising system; it can only have one logical end, and that is a world dictatorship. There seems to be little doubt that the temporary headquarters of this potential world dictatorship have been moved from country to country several times during the past five or six centuries. At one time it was in Italy and specifically in Genoa, then in the Low Countries and Lombardy, from whence came the Jewish Lombards who gave their name to Lombard Street. During the eighteenth and nineteenth centuries it has unquestionably been in London, but there is every indication that a change of headquarters to New York is contemplated. The financial and economic crippling of Great Britain, which under existing methods of finance would be the result of the payment of a sum of £1,300,000,000, carried out by the process of purchasing

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American dollars or State Securities and cancelling them, would be a logical and necessary step to what is hoped will be the establishment of a final and indisputable Regency of the world.

We may therefore expect to see a greater diplomacy in operation, having as its objective the psychological, political, and military isolation of Great Britain contemporaneously with the economic and industrial emasculation which is at present proceeding. By forcing a policy of deflation on Great Britain, while at the same time pursuing a policy of inflation, the powers operating through the United States Political and Financial Government have, during the years 1918-1930, succeeded in destroying, to a considerable extent, the immense increase in productive and fighting power which existed at the time of the Armistice. A continual drain of the most skilled mechanics from this country to America has been the result of the immense disparity between the wages paid in the two countries during the same period of time. No pressure has been applied from Washington or Wall Street to secure a repayment of the indebtedness of any country other than Great Britain; and, as a result, the onus of unpopularity has shifted to London in view of the impossibility of meeting American indebtedness without collecting the sums due from continental countries.

In short, it is impossible to doubt that the bid for world control, which emerged into the open in 1914, and was temporarily foiled in 1918, has merely shifted from Berlin to Washington and New York, and that the apparently better relations which exist between this country and America can only be attributed to a decision that effective resistance to the fresh attempt is for the moment impossible. The promptness with which any suggestion of departure from the imposed financial and fiscal policy has been followed by a severe fall in the sterling exchange on New York is, I think, sufficient evidence that the somewhat contemptuous friendliness which subsists in regard to Anglo-American relations at the present time can, and will be, replaced by unrelenting severity at any moment that British policy appears to run contrary to that of her creditors.

Just as, in the main, the mass of Germans were merely passive tools in the policy which resulted in the first Great European War, so it is no doubt true that the American people, as individuals, would repudiate personal complicity in any similar plans. If it is true, as seems probable, that effective resistance to an imposed group policy is nearly impossible so long as the group has control of the credit of the individuals composing it, it is beside the point to pay serious attention to such a factor. The only line of action which can be effective in the emergency with which the world is confronted must be one which can paralyse or break up the group control of credit to which the majority of individuals in every country have become helpless slaves; and it is not without interest that the antagonism between the American people and the

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United States Government is crystallizing into an attack on the mutual support given to each other by the interests symbolised by Wall Street and Washington.

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"In Europe we know that an age is dying. Here in America it would be easy to miss the signs of coming change, but I have little doubt that it will come. A realisation of the aimlessness of life lived to labour and to die, having achieved nothing but avoided starvation, and of the birth of children, also doomed to the weary treadmill, had seized the minds of millions. " - SIR AUCKLAND GEDDES.

CHAPTER I: The Strategy of Reform

IN considering the design, either of a mechanism or of an undertaking, it is first of all necessary to have a specific and well-defined objective, and, after that, a knowledge not only of the methods by which that objective can be obtained, but also of the nature and treatment of the forces which will be involved, the materials available, and their reaction to those forces.

The decision of objectives is the domain of policy. The decision of methods is technics, and the carrying out of those methods is technique. With the latter two the general public can have nothing to do, and therefore the submission of detailed schemes to the consideration of the public is a mistake where it is possible to avoid that course. It is a sound proceeding to submit a proposal to make a railway between A and B to the public as such; but to submit the engineering details of construction to the same general criticism would be absurd.

We have seen in the preceding pages that there is a definite policy in operation in the world at the present time, and that policy is being supported from sources which seem superficially antagonistic. This policy, for want of a better term, can be described as the "Moral" or Classical policy; its mechanism is the mechanism of rewards and punishments; and its inevitable corollary is limitation - inhibition.

Denunciation of this policy in the abstract is beside the point; while natural, it is an attitude of mind not very dangerous to the system criticised. The point on which it is necessary to concentrate is that, whether or not this system has been the best method by which humanity could be brought to the point which it has now reached, a state of affairs has arisen out of it which is not merely intolerable in the abstract, but which in fact the modern man and woman will not tolerate. A policy which the majority of individuals concerned will not tolerate is a bad policy from a practical point of view.

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If it be objected that there is, in fact, no other policy operative in the world to-day, the only short answer which can be made is "Look at the world today"

The classical ideal is an imposed ideal. It is authoritarian, However hopeless at the moment may seem the alternative, there will, I believe, be nothing but strife and distress in the world until an imposed *policy* is replaced by an agreed *policy*.

It has already been suggested that the chief aim of persons who may be regarded as executives of the Classical Policy is to avoid as far as possible any discussion on the policy itself and to direct public attention to a profitless wrangle in regard to methods. In Great Britain, Conservatives advocate the raising of prices by means of tariffs; Liberals advocate the lowering of purchasing-power by means of increased Death Duties and Insurance Schemes; Labour, the strangulation of individual initiative by means of nationalisation or a Capital Levy. The choice offered to the free and enlightened elector is between being hanged, boiled in oil, or being shot. In the United States every effort is made to rivet the attention of the public on tariffs or Prohibition, while crisis succeeds crisis, and the mortgagee grips the land with ever greater tenacity.

In this world it is action which counts. The only sense in which the phrase "Right is stronger than Might" is anything but pernicious nonsense is that, in the last event, might depends on the actions of individuals, and if it is possible to affect the actions of individuals by something which we call "Right," "Might" and "Right" may eventually be found on the same side.

Now, we never get mass action out of altruism. Altruism is an occasional characteristic of individuals, never of mobs. It is part of the miasma of propaganda with which the world is flooded at the present time to pretend that such mass action as the entrance of Great Britain or America or France or any other nation into the Great War proceeded from altruistic motives. It is perhaps hardly necessary to stress the point that this was not so, but it is not without practical use to consider the methods by which mass action was attained.

Passing over the causes which induced, for instance, Great Britain as a nation to declare war against Germany, because very few persons would accuse nations of altruism, the first result of that declaration was an order to Regular Troops to proceed overseas. No altruism entered into the obedience to this order; mutiny would have been punishable by death. It is not unfair to say that the original means by which this Regular Force was enrolled was by the offer of a stable economic future, combined with an interesting career.

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Subsequent to the departure of the regular army, volunteers were called for. Amongst these volunteers were most unquestionably numbers of people actuated by great devotion to patriotic ideals. But it would be erroneous and misleading to say that these were in anything but a small minority. Love of excitement, pressure of public opinion, hopes of glory and advancement, fear of invasion, and by no means least, the very attractive financial terms which were offered, all played their part. The Derby Scheme by which the population was divided into categories was a remarkable example of enlisting a majority to coerce successive minorities. When finally these failed, the residue, by this time reduced to impotence, were compelled by conscription and by stark threats of punishment to join those who had been captured by more ingenious methods.

There was an exact parallel to this method of procedure in the proposal put forward in 1922 by the Labour Party, for a Capital Levy on fortunes over £5000. The minority is first penalised; and the majority is subsequently to be enslaved in successive batches.

As a result of the consideration of the care with which the financial and legal organisation of the world has been perfected and has entrenched itself, it seems difficult to avoid the conclusion that when the milder methods, and the ability to manipulate public opinion, no longer function, the mask will be thrown aside and stark compulsion will be ruthlessly invoked. That is already happening in portions of the Middle West of America, where strikes are indistinguishable from minor military engagements; and much the same phenomena are observable in Germany. The "castor oil" methods of the Italian Fascisti were similar. The British Government representative on the Board of our only aeroplane company is, by a curious coincidence, the President of the Bankers' Institute. All this is important in considering the emphasis to be laid upon such questions as to whether the attainment of reform by political, that is to say, Parliamentary methods, or whether some variant of the "Direct Action" principle is the only possible path to effective change. There need be very little doubt that the forces of the State could all be applied to enforce a Capital Levy or the nationalisation of mines. Would those forces function to enforce a modification of the powers of banks and the methods by which the credit system is operated? The derisory results obtained in regard to the very modest efforts to interfere with the price system during 1917-1918 lead one to doubt it.

Assuming for the moment, however, the comforting assumption that the will of the people, as expressed by their votes, must prevail, there is no doubt that the defeat of the power of political caucuses to draw up the agenda of an election is the immediate objective. The exact method by which to attain this end is immaterial so long as it is attained. The invalidation of an election, if less than 50 per cent of the electorate voted on the issues submitted to them, would be as good a method as any other. The recognition of the danger to the Hidden Government which is contained in some such

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procedure is no doubt responsible for the proposal (and in, certain areas, the Law) constituting abstention from voting a penal offence.

It would then be necessary to obtain a straight vote on major questions of policy. This does not seem to present insuperable obstacles. There seems to be no fundamental reason why an election should not be held on an issue as "Do you want employment, or do you want goods?" From this point, however, progress would appear difficult. The power of appointing members of committees - in short, the power of patronage - is a jealously guarded asset. Short of holding an interminable series of elections, both on personnel and terms of reference, it is difficult to see how any effective check could be exercised over a determined and organised obstruction and misdirection of public attention such as is certain to be exercised by the interests attacked.

This superficial examination of the situation may be sufficient to indicate the unsuitability of Parliamentary machinery as an agency with which to deal with the issues involved. Let us, therefore, return to the springs of action in individuals. There is, doubtless, a certain small number of individuals whose interests are indissolubly wedded to the present economic and social system. The essence of their attachment to it is the fact that it places them in positions of enormous, if frequently hidden, power, and this power, far more than any material reward, is the object of their concern. These individuals are not amenable to any argument other than *force majeure*.

Now it is quite incontestable that the power of money is by far the greatest power which is wielded by this small minority of persons. The power to reward and punish, which is the power that they prize, is almost solely due to the fact that most people in the world want money, and most people in the world cannot get it, except eventually by the acquiescence of those in executive control of the Financial System. By this power of money, this small minority can obtain the assistance of the majority, and thus retain the determinant of force.

Taking the situation as a whole, therefore, it seems indisputable that sooner or later this monopoly of money power has to be attacked; that for reasons already explained, it is not being attacked now, and that taxation, so far from attacking it, enormously strengthens and consolidates its power; that until it is attacked, and successfully attacked, it can, by bribes under various disguises, always retain a majority. By the aid of this majority it can defeat an antagonistic minority, quite irrespective of whether that minority is "right" or otherwise, and the only method by which the minority can ensure that right is might, is by obtaining the control of those inducements which do, in fact, ensure mass action. This means, I think, that if we regard the distribution of money power to all individuals, in opposition in the present tendency to concentrate it in group-organisations, as the first aim of economic freedom, we are driven to a

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somewhat hackneyed conclusion - that the means and the end are in this case identical. We can only defeat money power with money power.

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CHAPTER II: Sound Money

IF we clear away from our minds all the over-growth with which our conception of the industrial system is obscured, one fact seems to emerge clearly. The primary inducement by which the co-operation of the great majority of persons is obtained is through the necessity of "getting a living." That is to say, the first policy of an industrial system which would obtain the unhesitating acquiescence of the majority, is that it should deliver the goods and services that they require with the minimum amount of trouble to everybody. Not only is it indisputable that the industrial system does not do this at the present time, but it is not even publicly contended that this is its object. As a system, it is only considered to be open to criticism when it fails to provide full employment for everyone.

So far as the generally accepted methods of democracy are adaptable to the situation, there is no shadow of doubt that the first and most important task of the majority is to vote on this single issue. And the first task for any executive, genuinely empowered by the majority to serve its best interests, is to devise means by which the desires of the majority can be given effective embodiment.

At this point it is valuable to recognise the parallelism which exists between the attributes of a political majority, on the one hand, and the economic consumer, and the political minority, on the other hand, and the economic producer. Just as a political majority is likely to be right on a matter which truly comes within the domain of policy, but is very probably wrong in its ideas as to how that policy can be made effective, so, conversely, it is undoubtedly true that the industrial technician (the "intelligent minority") is very apt to hold distorted views on the objective of the producing process in which he is so keenly interested; while being unquestionably the right and proper person to decide on the technique to be applied to a given programme of production. The parallelism extends with sufficient completeness to the proper relationship between the consumer (the "majority") and the programme of production, the consumer being only legitimately interested in results.

It is also vital to notice that, so far from these relationships being in any sense theoretical, they are so automatic and inherent that they exist in a definite form in the world to-day. In spite of all the agitation for what has been called workers' control of industry (an agitation which has been pressed forward in every part of the world) such a thing has never been in effective operation, for the reason that it is against the nature of things. Finance directs, and always has directed, the programme of production. Finance is the technique of credit; and the origin of credit (though not the whole basis of credit) should be the consumer. "Workers' Committees," Soviets, and so forth, are crude credit-distribution societies, whose working is inferior as such to that of the

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orthodox bank. It is possible to remove every factor from the industrial system, except effective demand, and some sort of industrial system, however primitive in kind (even to the extent of digging for roots and climbing for fruit), will remain; but take away the desire, the need or the belief in the ability to consume, and not a seed will be planted nor a tool employed. It is not for lack of technical ability, but for lack of effective demand, that civilisation today stands on the brink of irremediable catastrophe.

There is, therefore, no room for doctrinaire theorising in regard to the "aims of industry"; the trouble about industry is not that its aims are wrong, but that it fails to achieve them. And it fails to achieve them for a simple reason - the individual is divorced from the credit which is his, and, in consequence, does not duly function as a consumer. It is only necessary to recognise the natural relationships which underlie any sort of functioning of an economic society. If we recognise and admit these relationships, and make our arrangements accordingly, we have a machine which is designed to work in accordance with the only forces which are available to work economic machines, and the result is smoothness and efficiency. If we refuse to recognise these forces, or pretend that they have a direction which is contrary to the facts, or clamour for a change in their nature (a "change of heart"), we are likely to get an economic machine which is about as successful as would be a plough if installed for the purpose of driving an Atlantic liner. We are in the position of a would-be engineer who refuses to accept the principles of thermodynamics, and, instead of endeavouring to improve the steam engine, tries to alter the properties of steam.

The financial relationships which correspond to these principles are fundamentally simple. The credit power which is based on the demand of the community as a whole for goods and services can only be effectively directed in detail by trained technicians, using that description, in the words of the Labour Party, "to include workers by hand and brain." But just as it is in the nature of things that ownership and finance are indissoluble, so, while emphasising the sphere of the technician in production, it is equally certain that his *product* belongs not to himself, but to the community from which he derives his financial energy. It is the business of the scientist, the designer, and the inventor, to place before the individuals who compose the public the achievements which are considered possible. It is the business of the public to say in what quantity and in what priority it considers those achievements desirable, and it is the business of the producer, in the general sense of the term, to act in accordance with the verdict, and to hand over the product to the general public - the consumer - of whom alike the producer and the inventor are a part. That is practically what happens at present, with the vital exception that the order system which connects the individual with the producer does not function; whether by accident or design is largely immaterial.

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One method by which it is possible to visualise in a familiar form the embodiment of such a set of relationships is in the conception of, let us say, Great Britain, Limited. If we imagine a country to be organised in such a way that the whole of its natural born inhabitants are interested in it in their capacity as shareholders, holding the ordinary stock, which is inalienable and unsaleable, and such ordinary stock carries with it a dividend which collectively will purchase the whole of its products in excess of those required for the maintenance of the "producing" population, and whose appreciation in capital value (or dividend-earning capacity) is a direct function of the appreciation in the real credit of the community, we have a model, though not necessarily a very detailed model, of the relationships outlined. Under such conditions every individual would be possessed of purchasing-power which would be the reflection of his position as a "tenant-for-life" of the benefits of the cultural heritage handed down from generation to generation. Every individual would be vitally interested in that heritage, and his clear interest would be to preserve and to enhance it. Contemporaneously with this, he might also be a "producer," and although it is probable that the money incentive in the form of wages could be made small in comparison with the dividends he would receive as a shareholder, the relation between these two forms of effective demand offers a flexible method of transition from the existing arrangements. It will be obvious that such a set of relationships does not impinge on what is commonly called the rights of property, so long as these rights are "consumers' " rights. It renders each individual immune from economic penalisation for his personal views, and thus forms the only effective bulwark against tyranny, and it places the underlying facts of co-operative production in a light in which they can be seen and grasped by the most modest intelligence. Under such an arrangement, wages and salaries become what they are in fact at present - merely a credit grant against future production, and a measure of the *human* energy put into production. This credit grant would be cancelled by the writing down of the national assets to an extent represented by the sum of wages and salaries, the assumption being, of course, that the wages and salaries represent the consumption of goods over a given period which have to be debited against the production of the same period. The dividend which is declared over the equivalent period represents the division of the difference between actual consumption and actual production (both of actual products and production capacity) over the same period.

Pursuing this line of reasoning, it is not difficult to see that in the modern world a workable financial system is far more in the nature of an accounting and order system than an exchange system.

When each man ploughed, sowed, and reaped his own harvest it was a reasonable argument both ethically and pragmatically that what he produced was his own to be used or exchanged for other products, as he saw fit. In this exchange process the use

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of tokens was an obvious development. Our word "pecuniary" (Latin, *pecus*, cattle), no doubt derives from the practice of using leather discs to represent a cow or a horse. The owner of the animal parted with the disc in return for suitable consideration, and when convenient the holder of the disc presented it and obtained delivery of the property. It is of importance to realise in this connection that (a) The owner of the cattle and the original issuer of the money were the same individual; (b) To the extent that the system was in use, it was obviously its intention that production of goods and production of monetary units should keep in step - that each unit of real property should be represented by an equivalent unit of money and the destruction (or final delivery by its original owner) of a unit of real property would consequently involve the cancellation of the equivalent monetary unit, or its re-issue by a new owner.

It is easy to conceive that a simple monetary system of this nature would be an immense convenience to a pastoral community limited both in numbers and in the variety of its property, but that abuses (probably forgery and inflation) would grow as the system was enlarged and modified to meet a civilisation of greater complexity. These abuses would naturally produce a group of experts to deal with them and at once the general outlines of a nascent banking and credit system become evident. The transfer of the right to issue money from the property owner himself to a group of specialists alleged to be acting on his behalf would be an easy step.

Now, as emphasised in Chapter V, the factor transcending all others in importance in the modern world is the cultural inheritance by the aid of which wealth in practically unlimited quantity can be produced by a small and diminishing amount of human labour. In order that a financial system may work in accordance with the necessities of the conception on which money rests fundamentally it is necessary:

- (a) That the money equivalent of this property shall arise from and vest in the owners of the property.
- (b) That it shall increase only as this property increases and decrease only as it decreases.
- (c) That the relationship established between a unit of property and the money unit representing it shall be maintained.

The original conception of the classical economist that wealth arises from the interaction of three factors - land, labour, and capital, was a materialistic conception which did not contemplate and, in fact, did not need to contemplate, the preponderating importance which intangible factors have assumed in the productive process of the modern world. The cultural inheritance, and what may be called the "unearned increment of association" probably include most of these factors, and they

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represent not only the major factor in the production of wealth, but a factor which is increasing in importance so rapidly that the other factors are becoming negligible in comparison.

It is both pragmatically and ethically undeniable that the ownership of these intangible factors vests in the members of the living community, without distinction, as tenants-for-life. Ethically, because it is an inheritance from the labours of past generations of scientists, organisers, and administrators, and pragmatically because the denial of its communal character sets in motion disruptive forces, threatening, as at the present time, its destruction. If this point of view be admitted, and I find it difficult to believe that anyone who will consider the matter from an unprejudiced point of view can deny it, it seems clear that the money equivalent of this property, which is so important a factor in production, vests in and arises from the individuals who are the tenants-for-life of it.

The question of its net increase is also beyond reasonable question. Every scientific invention and discovery, besides forming a real asset in itself and being essentially an addition to the assets of civilisation, reacts on other assets in a manner which automatically increases their value, just as the addition of a new subscriber to a telephone exchange automatically increases the value of the telephone system to the existing subscribers by giving each one of them an additional line of communication. This factor, probably far more than the material assets of civilisation forms the basis of its real and growing store of wealth. To be set against this, is merely the depreciation and obsolescence of material assets, including consumption goods, and it is beyond question that on balance the yearly appreciation of wealth is greatly in excess of depreciation.

The relationship of money issued, to the goods against which it is issued, is completely maintained if prices are in the first place related to costs, and the value of the unit in which costs and prices are computed is consistently related to the changing ratio between production and consumption. This is not satisfactorily attained by any of the devices for the production of stabilised money, even if it were possible to achieve them, since a stabilised unit of money involves the adjustment of past values on a scale which seems to me, at any rate to be, fantastically impracticable. But if, without varying the accounting figures which apply to plant, machines, and other real property, we vary the purchasing power of these units for which they are accounted in accordance with the fundamental proposition that the true unit of account derives from the ratio

$$\frac{\text{consumption}}{\text{production}},$$

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the whole of our production values are automatically adjusted in accordance with the facts as these vary from day to day.

This may be put in the following mathematical form.

Let Y be any arbitrary unit and $t =$ time, then the total production at any time is $P = f(y.t)$ and total consumption at any time is $C = \phi(y'.t)$. Rates of change of P and C with respect to time are

$$\frac{dP}{dt} = f'(y.t) \quad \text{and} \quad \frac{dC}{dt} = \phi'(y'.t)$$

Price varies as

$$\frac{dC}{dt}$$

This is an instantaneous value. Mean values can be found for a period and the price factor then becomes

$$\frac{\int_{T_1}^{T_2} \frac{dC}{dt} dt}{\int_{T_1}^{T_2} \frac{dP}{dt} dt}$$

i.e. price factor =

$$\frac{\text{mean consumption - rate for selected period}}{\text{mean production - rate for selected period}}$$

It should be emphasised that the practical operation of a price factor of this character involves no difficulty and is, in fact, in various forms a commonplace of business operations at the present time. As compared with the complex system of discounts which are a feature of every business, and vary not merely from business to business, but from one department of the same business to another, the application of a uniform price factor for the purpose of reducing the general price level is a matter of elementary simplicity. As an **appendix** to this book a model scheme, intended in the first place to apply to Scotland, is attached, and it will be seen that a number of considerations not apparently arising from this theorem have been included, but on

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consideration it will probably be realised that the general principles explained in the foregoing pages form the basis of the conception underlying the proposals.

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CHAPTER III: The Critical Moment

THERE are two hypotheses as to the method by which changes of so far reaching a character as those we have been discussing might come about, one of which may be described as the evolutionary method, and the second as the revolutionary. For my own part I am inclined to believe in the probability of a combination of the two.

The outstanding fact in regard to the existing situation in the world at the present time, is that it is unstable. No person whose outlook upon life extends even so far as the boundaries of his village, can fail to see that a change is not merely coming, but is in progress; and it requires only a moderately comprehensive perception of the forces which are active in every country of the world to-day, to realise that the change which is in progress must proceed to limits to which we can set no bounds.

That is to say, the break-up of the present financial and social system is certain. Nothing will stop it; "Back to 1914" is sheer dreaming; the continuation of taxation on the present scale, together with an unsolved employment problem, is fantastic; the only point at issue in this respect is the length of time which the break-up will take, and the tribulations we have to undergo while the breakup is in progress. But while recognising this, it is also necessary not to fall into the error which has its rise in Darwinism; that change is evolution, and evolution is ascent. It may be; but equally it may not be. That is where the necessity for the revolutionary element arises; using, of course, the word revolutionary in a constructive sense.

There will probably come well within the lives of the present generation, a period at which the blind forces of destruction will appear to be in the ascendant. It does not seem to me to be necessary that this should be so, but it does seem to be probable.

There is, at the moment, no party, group, or individual possessing at once the power, the knowledge, and the will, which would transmute the growing social unrest and resentment (now chiefly marshalled under the crudities of Socialism and Communism) into a constructive effort for the regeneration of Society. This being the case, we are merely witnesses to a succession of rear-guard actions on the part of the so-called Conservative elements in Society, elements which themselves seem incapable, or undesirous of genuine initiative; a process which can only result, like all rear-guard actions, in a successive, if not successful, retreat on the part of the forces attacked. While this process is alone active, there seems to be no sound justification for optimism; but it is difficult to believe that the whole world is so bereft of sanity that a pause for reflection is too much to hope for, pending a final resignation to utter catastrophe.

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When that pause occurs mankind will have reached one of those crises which no doubt have frequently been reached before, but which so far have failed to avert the fall of humanity back into an era of barbarism out of which new civilisations have slowly and painfully risen.

The position will be tremendous in its importance. 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 splendour as we can at present only envisage dimly.

It is this necessity for the recognition of the psychological moment, and the fitting to that moment of appropriate action, which should be present in the minds of that small minority which is seized of the gravity of the present times. To have a clear understanding of the principles which underlie the problem is essential to those who may hope to play a part in its solution; it is even desirable that skeleton plans should be in existence to meet the situation as it can be seen to exist; but nothing can be more fatal to a successful issue than the premature publication of cut-and-dried arrangements which are likely to be out of date before their adoption can be secured. As the world is constituted to-day, effective action is only possible through certain centres of influence; that is to say, short of complete social anarchy as a preliminary to a new world, it is necessary to work through the arrangements which have grown up in the system with which we are all familiar.

While the evolutionary process depends most probably on the formula to which the present civilisation is working, and, given adherence to that formula, is independent of human psychology, it is fairly obvious that the effectiveness of "constructive revolution" does depend, to a large extent, on this latter factor alone. In other words, although we can float down the Rapids and over the Falls without any struggling either on our part or on the part of those with whom we come in contact, the possibility of avoiding that uncomfortable journey, if there remains a possibility, requires definite exertion. And if the cataract must be run, a safe arrival on the waters of the placid lake which may lie beyond, is surely conditional on some sort of expert navigation. If the present onerous taxation is continued into an era of rising prices, we shall not have long to wait.

There are certain factors operative in human psychology which it is possible to recognise as helpful or the reverse. During a visit to New York I saw considerable numbers of fervent men and women carrying sandwich-boards and collecting-boxes through the financial quarters in and around Wall Street, bearing on them the legend, "The Salvation Army is Father Knickerbocker's best friend." It is perhaps hardly

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necessary to explain that Father Knickerbocker is generally taken to represent the respectability of solid, or perhaps preferably, liquid capital. That is to say, it may be taken as a scientific statement of fact that one of the most dangerous opponents of a better, cleaner world, is the sentimental spirit which is entirely concerned with the beauties of a prospective Heaven, whether that Heaven is theological or moral. The head of the institution to which I have just referred, has recently elaborated the preceding statement by an intemperate attack on the "dole," basing his objection to it on the "demoralisation" of the recipient and not, of course, on the financial jugglery which accompanies it - an attitude entirely similar to that of the Puritan in his abolition of bear-baiting; not because it was cruel to the bear, but because it gave pleasure to the populace. The practical outcome of this Puritanism is always negative. In short, there is a type of sentiment which, under existing conditions, is able to attain great respectability, but which can, with very little difficulty, be identified with the formalism against which the Great Reformer of nineteen hundred years ago launched his most bitter invective; and wherever that is found, the prospect of effective assistance is not encouraging.

Again, it is only rarely that we find a response from those who have been "successful in business." On the whole, the most promising type of mind is either that which has always been free from financial anxiety and yet, at the same time, is familiar with the technique of the modern world, or, on the other hand, the worker, whether by hand or brain, whose incentive is very largely artistic in origin, in the ranks of whom may of course be included practically all persons of really scientific temperament. Most unfortunately this latter class is, of all the divisions of Society, that least equipped, either by temperament or organisation, to exercise effective pressure.

Since, however, most men are complex characters, it is probably true that an effective appeal can be made to a large majority if the appeal is made in the right way. It is my considered opinion that the right way with most people is to discountenance severely any discussion of the general advisability of such matters as we have been considering, and, as far as possible, to put the appeal in the form: "Suppose that you yourself were offered certain conditions, such as we suggest, under which to carry on your business or your own personal economic life, would you accept them?"

With a majority of persons there is (no doubt as the result of the collective hypnotism generally referred to as education) a tendency to uphold a social ideal from which their personal existence is a continuous effort to escape. That is to say, their social ideals and their social actions bear about the same relation to each other that the aspirations of the average individual in regard to an immediate translation to Paradise, as expressed on his occasional Sunday church-going, do to his wishes as expressed by his business activity during the week, and his concern at the onslaught of a cold in the head. If he can be kept on the more or less solid ground of his individual tastes, and

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the means which would enable him to achieve them, he is amenable to reason; let loose on social ideals, and we generally have something of about equal value to the theology of the Salvation Army - a thing which clearly has definite uses in connection with a given set of premises, but is not a hopeful source from which to look for a new direction of objective - is, in fact, frequently a vicious obstacle.

It hardly needs emphasis that a constant binding back of proposals for reform, to the moving events of the world, is of the utmost value; in fact, if it be possible to clarify the relation between the analysis of the financial system, the foci of discontent, and the logical remedy, with sufficient emphasis and over a sufficiently wide area, then the stage will be set for the greatest victory which the human individual has, within history, achieved over the forces which beset him to his fall.

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DRAFT SOCIAL CREDIT SCHEME FOR SCOTLAND

(1) Obtain from existing sources, such as company balance-sheets, land registration offices, and insurance companies, such information necessary to place a money valuation upon the whole of the capital assets of Scotland, such as land, roads, bridges, railways, canals, buildings, drainage and water schemes, minerals, semi-manufactured materials. No distinction between public and private property. Replacement values to be used where the property is in use.

Add to this the sum representing the present commercial capitalised value of the population. Such a figure exists and varies with the actuarial expectation of life and the plant capacity of the country, and is something like £10,000 for a citizen of the United States at the age of twenty-five. From the grand total thus obtained a figure representing the price value of the Scottish capital account could be obtained. Financial credit to any equivalent can be created by any agency such as a Scottish Treasury empowered by the Scottish people.

(2) As from the initiation of this scheme, the holding of any stock, share, or bond by a holding company or trustee will not be recognised. It is the intention that no shareholding in any industrial undertaking shall be other than in the form of equity shares of no par value, *i.e.* preference or common shares or stock. Bonded indebtedness will be recognised for purposes of compensation where held by individuals, upon a proper investigation, but where held by corporations will be subject to such terms of redemption as may seem desirable.

No transfer of real estate directly between either persons or business undertakings will be recognised. Persons or business undertakings desiring to relinquish the control of real immovable estate will do so to the Government, which will take any necessary steps to re-allot it to suitable applicants. No Government Department shall administer either directly or indirectly any business, whether agricultural, productive, or distributive, other than the administration of the financial and credit schemes, or receive payment for any services rendered to the public, other than in bulk.

THE INITIAL NATIONAL DIVIDEND

(3) For the purpose of the initial stages an arbitrary figure, such as 1 per cent of the capital sum ascertained by the methods outlined in clause (1), shall be taken, and a notice published that every man, woman, and child of Scottish birth and approved

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length of residence, with the exception mentioned in the paragraph that follows, is to be entitled to share equally in the dividend thus obtained, which might be expected to exceed three hundred pounds per annum per family. It will be clearly understood that no interference with existing ownerships, so called, is involved in such a proceeding. The dividend to be paid monthly by a draft on the Scottish Government credit, through the Post Office and not through the banks.

Any administrative change in the organisation of the Post Office should specifically exclude transfer of the money and postal order department and the savings bank. No payments of the national dividend will be made except to individuals, and such payments will not be made where the net income of the individual for personal use, from other sources, is more than four times that receivable in respect of the national dividend. The national dividend will be tax-free in perpetuity, and will not be taken into consideration in making any returns for taxation purposes, should such be required. Except as herein specified this dividend will be inalienable.

"ASSISTED PRICE" FOR REGISTERED BUSINESSES

(4) Simultaneously with the publication of the foregoing notice a figure to be published known as the discount rate, to replace the existing bank discount rate, a suitable value of this for initial purposes being 25 per cent. It is important that the figure should not be less than 25 per cent, and it might reasonably be higher.

(5) Simultaneously, an announcement to be published that any or all business undertakings will be accepted for registration under an assisted price scheme. The conditions of such registration will be that their accounts, as at present required under the Companies Acts, should contain an additional item showing the average profit on turnover, and that their prices shall, as far as practicable, be maintained at a figure to include such average profit, where this is agreed as equitable for the type of business concerned (the suitable profit being, of course, largely dependent on the velocity of turnover). Undertakings unable to show a profit after five years' operation to be struck off the register.

HOW FREE CREDITS WOULD BE ISSUED

(6) In consideration of the foregoing, all registered businesses will be authorised to issue with sales to ultimate consumers an account on suitable paper for use as explained in the following clause.

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(7) Payment for goods will be made in the ordinary way, either by cheque or currency. The purchaser will lodge his receipted account for goods bought with his bank in the same way that he now pays in cheques, and the discount percentage of the amount of such account will be recredited to the consumer's banking account. Unregistered firms will not be supplied with the necessary bill forms for treatment in this manner, with the result that their prices will be 25 per cent, at least, higher than those of registered firms. (It is obvious that the larger the discount rate can be made, the greater will be the handicap of the non-registered firms.)

The total of the sums credited by the banks to private depositors in respect of these discounts will be reimbursed to them by a Scottish Treasury credit. The capital account will be "depreciated" by such sums, and "appreciated" by all capital development. The existing banks will be empowered to charge an equitable sum for the services thus rendered.

HOURS AND WAGES

(8) The hours of Government offices will be reduced to four hours per day. To meet the temporary congestion of work, additional staff will be employed, such staff, however, doing identical work with the existing staff in the form of a second shift, and sharing with the existing staff the chances of promotion irrespective of seniority. (The object of this is to discourage the well-known bureaucratic tendency to enhance the importance of existing staffs by employing additional numbers of persons ranking by virtue of seniority below the original officials, and, at the same time, to afford an opportunity of appointing a duplicate set of officials to check reaction without dislocation of existing routine.)

(9) Wage rates in all organised industries will be reduced by 25 per cent where such reduction does not involve a loss to the wage-earner exceeding 20 per cent of the sums received in the form of national dividend. The wage rates ruling in 1928 to be taken as the basis against which the reduction would be made.

Any trade union violating a wage agreement to render its membership liable to suspension of national dividend, and any employers' organisation committing a similar offence, to be liable to suspension of price assistance or wage reduction.

MUST ACCEPT EMPLOYMENT, OR -

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For a period of five years after the initiation of this scheme, failure on the part of any individual to accept employment in whatever trade, business, or vocation he was classified in the last census, under conditions recognised as suitable to that employment (unless exempted on a medical certificate), will render such individual liable to suspension of benefit in respect of the national dividend.

(10) Taxation of specific articles or specific forms of property to be abolished. Any taxation found to be necessary to take the form either of a flat non-graduated taxation of net income or a percentage *ad valorem* tax upon sales, or both forms of taxation together.

NOTES.

The price level of 1928 has been taken for the rough estimate of the items which, when added together, make up the Real Assets or Real Capital account of Scotland. The Financial Credit, which is equivalent to this, appears in a National Account as a contra-item. Money and Real assets are on opposite sides of the account (and should balance) not, as in a commercial account, on the same side of the account.