

**AN INTRODUCTION
TO**

**Social Credit
National Accounting**

Compiled by

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Preface

The ideas and information given in this publication are for the purposes of a guide only. Many suggestions are made but none of them is definitive. There may be many changes that can be made to improve or even simplify the recording of a National Balance Sheet and accompanying accounts.

The basis for the institution of a proper set of National Accounts is the philosophy of Social Credit. This philosophy is available in other available literature. It is suffice to say that Social Credit is the Policy of a Philosophy and that the Policy, which includes adjustment to the financial accounting is a means whereby all citizens of a nation, are provided with the opportunity to share in the wealth of their nation.

This includes not only the benefits that may accrue from the availability of natural resources but also from productive resoutces that provide for those basic things such as food, clothing and shelter.

It is hoped that this publication may light a spark and open up discussion on the subject and perhaps light a candle for others to see the benefits that may be gained.

“It is better to light a candle than to curse in the darkness”.

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A National Balance Sheet

We may well ask, “What is the importance of a National Balance Sheet?” and “Why is it considered such a necessity by Social Credit advocates?” The answer to these and other questions in the following explanation are considered and we leave the reader to judge for him or herself.

Every business entity is required by legislation to keep a proper set of books of account. That is one reason. Equally important is the fact that by keeping an accurate record of all the business activities engaged in by the business the proprietors and or the shareholders can ascertain whether or not the business is viable, i.e. making a profit or loss and not heading for the Bankruptcy court.

A normal business Balance Sheet is in reality a statement of the Assets and Liabilities, which show the financial position of the business at the date, specified. Also a normal Balance sheet contains information that breaks up the Assets into Current Assets, Fixed Assets and Intangible Assets.

Current Assets usually are those assets that can be realised or turned over quickly or in a short period of time, in the sense that they are either cash in hand or can be converted into cash in that short period of time. In the main these may consist of cash in hand, i.e., in the bank, debtors, other types of paper that can be converted such as financial documents like bills of exchange, short term deposits, stocks on hand of goods or raw materials, manufactured work in progress.

Fixed Assets consist of property land, buildings, plant and machinery, motor vehicles and can be regarded as those items that are necessary for the business to produce its trading income.

Intangible Assets are those that have no material existence. They have no real value in themselves and include such things as goodwill, patents, trademarks, and licence rights.

Although they may have no real value in themselves, they do have a complex value in that they may be worth more or less than the amount shown on the Balance Sheet depending upon, for example, the profitability of the business.

On the other side of the Balance Sheet are classified what is known as Liabilities. These, like the assets, are classified according to whether they are, Current, Deferred, or Capital, or Retained Earnings (undistributed profit)

Current Liabilities contain all those items that must be met within a short period of time. These would normally include payments to creditors for purchases and other expenses incurred in running the business such as telephone, electricity, and payments for tax, the bank overdraft, and bills payable.

Deferred Liabilities include those liabilities that do not have to be paid in the immediate future. Items classified under this heading are mortgages, debentures, and long-term loans.

Capital is the money originally contributed by the proprietors or shareholders in establishing the business. This changes according to whether or not the business is profitable. If profits are made and they are not distributed to the proprietors (in a private business) or shareholders in a public company they become retained profits and may be added to the Capital, or just shown as Retained Earnings. If the business is not profitable the Capital Account can be a negative figure because losses are transferred to the Capital Account also. Alternatively the Capital Account will remain as per the paid up Capital figure and the Losses shown separately.

This preliminary and brief introduction to a Balance Sheet is sufficient explanation for our purposes. To obtain an accurate view of the financial position of the business it is vital that any interested person must be able to read and understand the time worn areas to investigate.

These are (a) Liabilities to creditors that indicate whether or not the business can meet its obligations and pay its way. (b) Working Capital that is simply the difference between Current Assets and current Liabilities.

This difference indicates whether or not the business has the available funds to enable it to continue its daily activities. (c) Fixed Capital which as already explained include those factors acquired for the purpose of earning income. By comparing the Capital and Fixed Assets it is possible to determine if the proprietors or shareholders adequately financed the business or whether outside creditors have financed the whole of the investment in current assets but have also provided some funds that are locked up in Fixed and Intangible Assets.

Construction of a Balance Sheet

A Balance Sheet is not an account but a summary of ledger balances at the end of a financial period and is constructed in such a way that reflects the double entry system of bookkeeping i.e. debits and credit balances of ledger accounts. For every debit there must be a corresponding credit and the Assets show the debit balances whilst the Liabilities show the credit balances.

There are two ways by which a balance sheet may be adjusted or compiled. The first is by a direct debit to an asset item and a corresponding credit to an asset item. For instance a purchase of plant and equipment would have a debit to plant and equipment and a credit to the bank account item. Other adjustments can be made at the end of a balance period but these need not concern us here.

The other way is by the transferring the result of the Profit and Loss after all Trading and Overhead Expenses have been completed. All of these particular accounts are cleared at the end of the financial year period and the result is transferred to the Balance Sheet to Retained Earnings or Accumulated Losses depending upon the result being a profit or loss.

It is necessary to understand this brief and incomplete explanation only for the purpose of recognizing how a Balance Sheet may be affected by the accounting system adopted.

There is one item usually appearing on a Balance sheet that has not been mentioned because it does have special significance for Social Credit accounting. This is Depreciation that is applied to tools, plant and equipment to reflect a realistic value of those items. Depreciation is calculated at the end of a financial period and taken up as an expense in the profit & Loss and credited on the Balance Sheet under Accumulated Depreciation to offset the reduction in value of plant & equipment and furniture.. This represents an amount shown as an expense but not distributed to anyone although taken up as a cost..

On the other hand, as many companies have found to their regret or at least to the shareholders, appreciation of assets can be also very significant. A company that has property in the form of land and/or buildings and has not adjusted these values in their accounts may, and have found that their share value is underestimated and therefore are a target for a takeover. The result has been that they are taken over and then the company is closed down and the property assets are sold off for a value much higher than that shown on their balance sheet.

We can summarise at this point and say that a Balance Sheet is a summary of ledger balances at the end of a financial period and should be a true and accurate position of the worth of the entity at that point. It is affected by adjustments within the balance sheet items themselves or by the results of the trading within the specified period.

A Realistic Approach to a Balance Sheet

The first thing requiring understanding is that all recording in accounts and thus reflected on the balance sheet is done by the use of symbols. In Australia it is the \$, in the U.S it is the\$, even though these \$s are not the same thing. In the U.K. it is the £, in Japan it is the ¥ and for different nations different symbols with differing values to all others.

The symbol \$ is the symbol for signifying an amount in money terms. Thus \$2 means two dollars, or more correctly in Australia \$AUS2 or the U.S. \$US2 which are not the same thing. It is important to remember that these are symbols and intangible, and represent a monetary value of something physical and real in the sense that it is tangible and exists in the real world.

In studying a Balance Sheet from this perspective it can be readily seen that the Balance Sheet is comprised of tangible and intangible things. Remembering that a Balance Sheet is the result of double entry bookkeeping system it is necessary that the Assets and Liabilities be in balance.

If we apply this principle to all existing balance sheets throughout the world it is obvious that all debits must equal all credits. Taking this one step further and which is significant for the purposes of explaining a National Balance Sheet, if all money balances, i.e. debtors and creditors including loans, mortgages and any other claim to money, such as Bills of Exchange etc. were settled, the only things that would remain on Balance Sheets would be tangible items. These would include things such as property, buildings, furniture and fittings, plant and equipment, motor vehicles, and stock of finished goods or work in progress i.e. semi-manufactured goods or raw materials, classified as stock in hand or inventory.

All of these items are classified as Assets on the Balance Sheet but there would be no *Liabilities*. If one wished to show a *Creditor* it would have to be God, or Nature, or Shareholder's Equity. In this case it is preferable to show Shareholder's Equity representing a liability to the people of the nation.

A realistic appraisal of a Balance Sheet must recognise that the Balance Sheet provides information which is historic in the sense that it records a position at a point in time after events have occurred and that all activity has been recorded by the use of symbols. These symbols e.g. the \$ make the task of recording much easier than using other methods that would be required under a barter system.

However, the problem that has arisen is that the symbol has come to be regarded as a physical commodity itself, which is completely false and has allowed the reality to be clouded by a delusion. This does not mean that the symbol should not be used, just that it should be correctly regarded as a representation of the real thing and of no value in itself.

It is not, and should not be regarded as a commodity with a price value.

Introduction to a National Balance Sheet

Under current government financial accounting there are two aspects. First, all government expenditures and receipts are subject to appropriation through the Budget, which is set by the government each year. Second, the activity within the economy is recorded, not in accordance with current accounting principles but based on economic principles that do not reflect the correct financial situation. The figures that are compiled are recorded in a National Income and Expenditure Statement that by definition as set down by economists must be in balance. Briefly this is based on an assumption that in any given financial period the money paid out in disbursements to people i.e. the national income is equal to the national expenditure in the same period and therefore is equal to and provides a figure valued at factor cost that is referred to as the national output. This national output is regarded as the creation of wealth by the nation's industry.

We need not concern ourselves with the fallacies contained in the simplistic approach in the above except to point out that if there is any use at all for the compilation of such figures it would be for the purpose of obtaining information on trends that may occur. These trends may offer assistance in obtaining statistical information on changes that may be occurring within the economy. However the information does not reflect the true state of the economy.

The contention that is being presented here is that the nation should be regarded as being similar to a large company and the accounting conducted on similar lines but not the same principles. A starting point would be to regard the nation, e.g. Australia as Australia Ltd.

A number of fundamental basics for the compilation of a National Balance Sheet would include:

- (a) An inventory of all national resources including people.
- (b) A change in the method of the original creation and distribution of money (credit which when used becomes money).
- (c) The establishment of a Statutory Financial Authority with specific functions.
- (d) The setting up of special national accounts.
- (e) An alteration in the government budget process.
- (f) A realistic assessment of the real situation in the economic process with regard to Production, Consumption, including Exports and Imports, and Appreciation and Depreciation.
- (g) A recognition and acceptance of the principle that all citizens are shareholders in the Nation and should receive the benefits of their association, and their cultural inheritance.

In detailing the particular aspects of the above grouping it will be seen that a change in certain philosophies will be necessary. It is no small assertion to state that it is precisely certain philosophies that have been and are a hindrance to the attainment of a change in national financial accounting principles for the betterment of the people in the world.

Balance Sheet

It should be understood that all production is the result of conversion of natural resources into another form and this conversion of matter from its natural state into another is attained by the use of energy. Energy can be from a natural source such as solar energy in the form of coal, oil, the sun, wind and water. It can also be from mechanical, electric or human energy. Mechanical and electrical energy are originally based on the use of natural resources converted by the use of human energy.

There are then two sources of energy, natural resources and human energy and even human energy can only exist supplied by natural resources.

This brings us to the point in normal double entry bookkeeping. Opening balances on the Balance sheet should be determined according to items listed. On the operational side there should be a National Credit Account, which can reflect the changes in a period similar to any normal commercial operation. The National Credit Account would be divided into two categories, one relating to Consumption Goods and the other Capital Goods. There should also be a National Resources Account, which reflects the changes that occur including the extent to which the Natural Resources may be added to, drawn upon and depreciated.

The results at the end of an accounting period would reflect the equity of all individuals as shareholders in the nation. It would show the ability of the nation as a going concern as in any business to produce both Capital and Consumer goods as and when required.

On the Balance Sheet there would be a transfer of balances to the respective asset balances with the net result being credited to the liability equity balance. This action is no different to the situation when a new business is commenced. The Bank Account is debited with a deposit of money received from shareholders and is shown as an Asset, whilst the corresponding entry has been credited to the Capital Account recognising the shareholders as the holders of the equity as a Liability by providing the business with the necessary funds

From a Social Credit perspective the Law of Cost means that the Cost of Production is Consumption. The real physical cost in a nation, of all its production is the total consumption that occurs in the nation for a given period. With the reality that the physical Cost of Production is Consumption, this fundamental Law of cost means that all production is paid for in full on consumption. This Law of Cost is consistent with the fact that there is no debt in nature.

Either the resource exists or it does not. The farmer cannot water his crops on next month's or next year's rain. A motor vehicle cannot run on petrol from oil that has not been discovered.

This physical fact should be reflected in the accounts in a National Credit Account, which would be in two segments, a Consumption Goods and Services Account and a Capital goods Account. From a National Accounting system that produces a National Balance Sheet and has a National Credit Account and a National Resources Account that these are not Accounts in the same manner as accounts in a business. They would be the result of a compilation of figures, which purport to reflect "flows" or changes in the economy.

For purposes of illustration we may start with a very simple example of what has been stated to this point.

**Australian Commonwealth
Balance Sheet
As At 30 June 2....**

AssetsNational Resources, Capital and Wealth Account**Fixed Assets****PUBLIC PROPERTY**

Non-Produced Physical Assets - Natural Resources
Land
Forests, River Systems, Water Resources and Dams,
Mineral Resources

Produced Assets Physical Assets

Buildings Domestic and overseas Dwellings
Roads & Bridges and other infrastructure
Transport Facilities – Railways, shipping, airfields
Plant & Equipment

PRIVATE PROPERTY

Land
Buildings
Dwellings
Plant & Equipment
Stocks on Hand

Non-Fixes Assets

VALUATION OF CITIZENS

Liabilities

National Credit Account
Capital - Shareholders Equity

General Ledger Accounts**National Credit Account****Consumption Goods**

Dr.	
Exports	Cr.
Consumption	Production
	Imports

Capital Goods

Dr.	
Exports	Cr.
Deaths	Imports
Emigration	Private Property
	Public Property
	Immigration
	Births

Resources Account

Dr.	
Depreciation on natural resources	Cr.
	Estimate of value of resources of nation.
	Appreciation of value of resources.
	Additions to known resources.

The above illustration is a simple attempt to highlight the differences between a business Balance Sheet and one compiled for a nation. A few explanations on items included will be clarified but it is necessary to indicate that this idea is not new.

The use of National Credit for the benefit of the nation was recognised in the South Australian Parliament August 23, 1939 when a motion was carried by 17 votes to 13 in the affirmative;

“That, in the opinion of this House, the National Credit of the Commonwealth should be used in the interest of defence, the primary industries and the general welfare of the people of Australia”.

On September 19th, 1939, the Governor informed the House that the Resolution as stated above was transmitted as Message No 9 to His Excellency the Governor-General.

Quite obviously this would have no effect on the Commonwealth as having originated in a States House but it does show that the idea of utilising the National Credit for the benefit of all its citizens is not new. There have been other attempts to design a National Balance Sheet both in Australia and the United Kingdom but these have been based upon establishing criterion for explaining economic decisions by government and the results that have occurred from those decisions. Since 1989 the Australian Bureau of Statistics has been experimenting with developing a National Balance Sheet that contained statistics recommended in the 1968 version of the United Nations System of National Accounts. In 1977, the United Nations published a proposal for countries to prepare national and sector balance sheets.

The suggestions offered here differ markedly from those other proposals because it is based on a philosophical base that encompasses the belief that “*The essential mechanism of genuine democracy is decentralised control of the real credit of the community*”.

Observations on a National Balance Sheet

Natural Resources

What should be recorded on a National Balance Sheet are the real physical non-financial assets that represent the real credit of the nation. Some of the items that would appear under this heading would include:

Fixed Assets:

These would be of two types, those that occur naturally and can be referred to as non-produced and those that are the result human energy production.

Non- Produced Assets

All natural resources. Land, water, forests, sub-soil assets such as mineral, gas, oil deposits.

Produced Assets

Government buildings residential and non residential, roads, bridges, all government infrastructures that assist in the production process, all plant and machinery (This would include all military and defence equipment).

Assets – Work in Progress

For the purpose of recording correctly expenditure on the creation of new assets such as a bridge, road, railway etc. there should be an appropriate accounting procedure to reflect the real situation.

Money made available in the course of construction should be recorded as a loan to the Department undertaking the project in the same manner as a progress payment. The loan should be reflected in the accounts in the same manner as any loan made through the banking system.

A credit would be established in favour of the Department or authority undertaking the project and a debit against the Assets – Work in Progress account in the National Credit Account .

As drawings are made by the Department of Authority their account would be debited and the Work-in-Progress account credited. When the job is completed the total value of the project would be taken up as an asset in the Capital Goods account in the National Credit account.

The accounting for the financial transactions could be done through the Reserve Bank.

There can be no question as to where the money for the project can come from. It could be conducted in the same manner as the construction of the Commonwealth Railway from Port Augusta to Perth, which simply involved a transfer of money from one Department to another. Under the suggestions contained in this National Balance Sheet the money would be new money created according to the results of the year's accounting.

Non-Fixed Assets

Whilst this may create some criticism it must be recognised that the individual is the most important part of society. As such there should be a valuation for the purpose of recording on a National Balance Sheet total productivity taken over the total population on a per head basis

National Credit Account

Consumption Goods

Exports

All exports of consumer goods in a given period represent a physical loss to the nation in that a real physical item leaves the nation and should be recorded as a loss by a debit to the National Credit Account - Consumption Goods.

Consumption

Under the Law of Cost, consumption is the cost of production. As production encompasses both Consumer Goods and Capital Goods part of Consumption relates to Consumer Goods and the other part relates to Capital Goods. For the purpose of simplicity at this stage the value of consumption should be debited to this particular account.

Production (Consumer Goods)

As natural resources are utilised in the production of Consumer Goods this should be reflected by a credit to the National Credit Account to record the increase in Consumer Goods. The amount by which the entry would be affected would be the total of wages, salaries and dividends paid out in the given period of production. Writing down the national assets would offset this credit grant by an equivalent amount. The consumption incurred in production is a cost; it is a diminution of real credit, and should be so accounted.

Imports

As all consumer goods imports are an addition to goods produced in the nation they should be accounted for as a gain and credited to the National Credit Account

National Credit Account

Capital Goods

Exports

All exports of capital goods represent a physical loss to the nation and should be recorded as a debit to the National Credit Account and credited to the relevant asset account to reflect the loss.

Imports

All capital goods imported are an addition to those produced domestically and are an addition to the physical resources and should be credited to the National Credit Account.

Births and Deaths

An adjustment should be made to the Valuation of Citizens according to the addition and loss under this heading.

Emigration and Immigration

The same principle applies here with respect to the loss and addition to the available physical assets.

Financial considerations

It will be observed that there is no provision for financial assets or liabilities such as Loans, Borrowings, Shares, Treasury Certificates, Investments either domestic or overseas or any other type of financial paper. Also there is no provision for foreign exchange holdings or liabilities. The National Balance Sheet is a statement or a summary of balances of accounts at the end of a particular period and reflects the position within the domestic economy. The only financial record that should appear is the financial figure of the \$ that represents the value of legal tender to balance the net values of assets and liabilities on the balance sheet. Obviously the values of the assets and liabilities would be expressed in terms of Australian currency.

Under the operation of a correct set of National Accounts there would be no need for such things as Capital Inflow, attracting overseas investment, or borrowing from other countries. Gold would be treated as a commodity only and its value would be determined by commercial market operations on its commercial properties usefulness.

The National Debt as it applies to the Commonwealth Government would not appear on the National Balance Sheet. Normally it would be expected that the National Debt represents the value of all public assets

Many other proposals for the construction of a National Balance Sheet include items that relate to the private sector. Some of these include things such as Trade Debtors, insurance policies, pension funds, bank deposits, Treasury bills, commercial bills, hire purchase figures, instalment credit, house mortgages and many other types of financial assets and liabilities. These have no place in a Balance Sheet based upon real physical entities.

In constructing a National Balance Sheet as proposed here it is recognised that many questions will arise as to what should or should not be included.

Whether it is on possible mineral or oil reserves, or land that may be regarded as wasteland it is of no importance at this stage as this proposal is in the early stages of development. The important principle to keep in mind is that it is based upon real physical matter, developed, underdeveloped, or potential as being available for the benefit and well-being of the citizens of the nation, and upon which its reflection is mirrored in the available legal currency to utilise it. This principle can be substantiated by a study of a Profit and Loss account of any business, which reveals that a portion of the profit is always at any moment represented by what are in fact physical assets. The remainder is represented by purchasing power.

NATIONAL CREDIT AUTHORITY

The Government should institute a separate statutory organisation named the National Credit Authority. Its responsibility and function would be to compile the National Balance Sheet based on information supplied by other authorities such as the Reserve bank, the Bureaus of Statistics and the Taxation office.

THE FINANCIAL AUTHORITY

A National Credit Authority would not determine policy but be responsible for producing a proper and correct set of accounts on which policy could be based. A Balance Sheet produced by the Authority would form the basis for financial policy on which the government of the day would determine its financial policy.

The Commonwealth of Australia Constitution Act (Chapter 1. Part V. Section 51) gives full power to the Federal and States Government to control the source and creation of currency, coinage and the issue of paper money as legal tender. A vital constitutional aspect to be observed is - that in respect of the whole question of money, the Commonwealth has no exclusive power, but power in conjunction with the states. It has powers with respect to all banks except State Banks.

A NATIONAL BALANCE SHEET

A National Balance Sheet would differ from an ordinary balance sheet in two ways. Firstly, no money would appear as an asset and secondly the assets and liabilities would not balance, because the resources, accumulated capital and wealth of the community would far exceed the total of all liabilities. This difference is the accumulated resources of society, and the embodiment of the Real Credit, which give value to all credit by whomsoever created and issued.

At present, this Real Credit cannot be used by the Community who are its rightful beneficiaries because it is not monetised. As soon as we have a balance sheet however, it will be seen that this surplus of assets over liabilities can be monetised and distributed to the community in whatever way deemed desirable so that consumption may keep pace with production, and so enable a continuous expansion of production.

For the first time Australia would become a Co-operative Commonwealth which would distribute a dividend to all its citizens instead of resembling a tin mine which, instead of distributing dividends, makes calls on its shareholders or a government resorting to taxation.

THE NATIONAL CREDIT AUTHORITY --GOVERNMENT AUTHORITIES AND BANKS

The equity that has been established at the end of a financial period could allow for certain occurrences. Part of the equity could be distributed as a National Dividend and part to apply the Compensated Price mechanism whereby retailers are rebated for discounts applied to the sale of their goods. The amount to be distributed for the National Dividend and the Compensated price would be determined on the formula relating Consumption to Production in the period under review. Retailers would be encouraged to register to receive the rebate and fulfil certain conditions.

One of these would be to reduce their prices to consumers by the amount advised as a percentage of the retail price. Another would be to agree to maintain a certain percentage on the margin of profit or mark-up. This does not represent price control or profit control as a retailer would be able to make as much profit as he is able to by increasing sales as a result of increased service and/ or better quality products.

Another portion of the equity that could be utilised at the commencement of the introduction of a National Balance sheet would be to make available to Local authorities loans without interest but possibly with a small service charge repayable over a period of ten (10) years for specific purposes. These loans could be used to gradually eliminate their interest paying debt and/or for the purpose of new capital works only. They would not be available for current operations.

Another portion could be available for lending to the banking system. Banks would become financial intermediaries as they are currently claimed to be, but in reality they are not. Banks would operate no differently as they currently do except they will be obliged to restrict their lending to the funds that are available through Capital, Reserves, and Borrowings. Any extra funds required may be borrowed from the Reserve Bank which funds would be eventually recorded against the equity on the National Balance Sheet. As Banks make repayments the reverse would apply.

Another use to which a portion may be allocated is for a major Government project such as the Snowy River Scheme. If the Reserve Bank or Development Bank provides a loan, such as existed with the extinct Commonwealth Development Bank it is simply a loan by the people to themselves and we may safely assume that the loan will be interest-free and no costs will be included for that purpose. The construction being undertaken will distribute wages and salaries and other costs which will be cancelled out on completion when the total cost which has been drawn against the National Credit Account will be treated as an asset with appropriate deprecia-

tion and appreciation charges accounted for.

A system of national accounting is necessary if the community is to have available sufficient money to provide an effective demand for the goods and services, which farms and factories can produce, at prices, which will allow producers to function profitably.

Other advantages would follow. Our present system of taxation would diminish and the financing of for example, Social Services could be paid for out of increased equity without the need for taxation for that purpose. People would be able to receive the benefits of their association past and present as a result of the Cultural Inheritance and Increment of Association as well as technological advancements.

The greatest blessing, however, would be that the present Debt System, in which the community can develop industrially, socially and culturally, only by getting deeper and deeper into debt, would be transformed into a Credit System in which the resources of Australia could be monetised and used for the benefit of all citizens. Under such a Credit System, the individual would be established in his personal sovereignty and freedom, and co-operation would replace compulsion as a means of securing participation in enterprises and projects. It does not necessarily mean that there would be no debt just that there would be no debt incurred as a result of a deficiency in purchasing power

Several aspects of national accounting have not been treated because of lack of space, but anyone who has grasped the principles enunciated above, will be able to apply them to any aspect of the subject.

Correction of Accounting System

There would be few informed people who would seriously question the fact that there is and has been for some considerable time, serious defects in the financial system.

This fact can be evidenced through the unpurchaseable surplus production (quite separate from the notion of built in obsolescence),

poverty expressed in lack of purchasing power accompanied by economic need, the "problem" of unemployment with its corollary of unemployment, the number of people in receipt of government benefits, the growing disparity between the haves and the have-nots, cut-throat competition, increasing personal, government and national debt, mounting pressures for countries to open their markets to increased competitive exports, and the immoral utilisation of cheap labour to support these endeavours.

Increasing speculative ventures in the financial markets around the world in buying and selling currencies none of which add to the productive process for the benefit of the people in general. Whilst all economic production is measured in terms of finance, science is reducing the energy requirement in the productive process. This is accompanied by a system that continues to maintain the importance of a scarcity of finance, which is or should be simply a claim upon the articles that are produced and potentially could be produced in abundance.

Economic democracy as a reflection of economic security can never be achieved until the defect in the financial system, which virtually controls the economic system, is rectified. The observation of the facts when presented in terms that can be readily tested can elicit only one answer to the question - who is benefiting? Take one example of the way in which unemployment is regarded. Now, we are talking about unemployment and not money or anything else. In a physical sense, whether it is human, mechanical, electrical, solar energy, the word "employ" means "to use something, or a person, to be occupied, or to use one's power". In other words it requires the use of energy, in some form. Economic production is simply the application of energy to available raw materials. If a means is attained whereby energy can be saved there is a physical saving and that in turn should be regarded as an asset, yet in conventional terms to be unemployed is regarded as a liability.

"...Economic production is simply a conversion of one thing into another, and is primarily a matter of energy. It seems highly proba-

bly that both energy and production are only limited by our knowledge of how to apply them”.

If a housewife obtains a washing machine, a vacuum cleaner, a dishwasher or some other appliance that can relieve her of the necessity to expend energy on a particular chore, it allows her more time to do those things that she would prefer to do rather than things she is obliged to do. The same analogy can be applied to industry in the use of increased technology and the use of human energy in the form of labour or “Employment”. Why then is this human energy not regarded as an asset?

This could be expanded to an article in itself, but any accountant would recognise that an industry that saved energy, no matter what form, would save money because money is the measure used to calculate the cost of the use of energy. The reduction of human energy employed in an undertaken must be translated into increased profits (all other things being equal) and this is reflected in an increase in the financial position on the Balance Sheet. The Balance Sheet would then reflect this as an increase in Assets or a reduction in Liabilities depending upon whether the undertaking operated on a credit bank balance or an overdraft.

The answer to the question of why people do not have economic democracy lies in the acceptance or rejection of an outdated philosophy, against the physical facts contained in a pursued policy. On the one hand we are offered an increase in an asset for the benefit of people in society, and on the other a denial of the benefits that should ensue to the people in their association. The very policy that results from the defect in the financial system that affects the distribution of the results of observable phenomena in the form of associations, by denying those benefits, is a matter of control.

THE PHYSICAL BASIS OF SOCIAL CREDIT

To commence the explanation on the physical basis of Social Credit it is interesting to recall some of the incidents involving C. H. Douglas who can be regarded as the founder of the ideas that are encompassed in what is known as Social Credit.

Originally it was referred to as Douglas Credit by many but he quickly rejected that designation because he acknowledged that he was not the originator of the Credit of Society. That Credit in the form of all the natural resources was provided for Man. Whether one wishes to acknowledge that everything that existed before Man is attributable to God or simply natural phenomena is not in question. The fact is, all the physical resources necessary for the life of Man existed independent of Man.

Before he entered into a study of the problems which confronted people in obtaining the benefits of their work and working together he had noticed certain things operating in the economy which did not appear to make sense to him.

In an address to members of the Canadian Club at Ottawa early in 1923, when in Canada by invitation to lay his views before the Canadian Parliamentary Committee on banking and commerce, Douglas gave an outline as to how his ideas began to formulate.

The story began, he said, when he was in India about fifteen years previously, (1908) in charge, of the Westinghouse interests in the East. He was surveying for the Indian Government a large district which revealed a good deal of water-power. In Calcutta and Simla he asked what was going to be done about this; to which came the reply "Well we haven't any money". At that time manufacturers in Great Britain were hard put to get orders and prices were very low indeed. Major Douglas said he accepted the statement made, and, he supposed, pigeonholed the fact and circumstances in his mind.

At that time he dined frequently with the controller general of India, a man who used to bore him very much by continually talking about something he called credit. "Silver and gold", said his friend, "have nothing to do with it. It all depends on credit". Douglas remarked that had his friend given him a short sharp lesson on Mesopotamia it would have been as intelligible to him at that time. Nevertheless that fact also must have stayed at the back of his mind. He proceeded to say that just before the war he was employed by the government in the building of a Post Office underground railway from Paddington to Whitechapel. There were no physical difficulties, but first he received orders to get on with the job, then to slow up and pay off the men. "And as a matter of fact", said Major Douglas amid laughter, "the railway is not finished yet. (1923) "Then came the war," he said "and I began to notice that you could get money for almost any purpose." And that struck him again as being curious.

On being sent during the war to the Royal Aircraft Establishment at Farnborough to assist in its operation, he decided that it would be necessary to go very carefully into the costing process. His friend Sir Guy Calthrop suggested that he should make use of tabulating machines, and so after a time Major Douglas began to concentrate very carefully on them. One day he noticed with regard to the figures on the cards emerging from those machines that wages and salaries at the weekend did not represent the price value of the goods produced in the same period. "You might say that anybody would know that, and I suppose they would," said Major Douglas. But to him it followed that if that were true, it was true every week and in every factory at the same time. Therefore the wage and salary purchasing power each week was insufficient to purchase the goods according to the price each week.

This is a matter which eighty years later in 2005 still eludes those economists and others who argue that Douglas only looked at the results of one factory and ignored the whole economy. It appears that the reasoning is that if a problem is made bigger it will disappear.

If one factory produces price values in any one period greater than the wages and salaries paid in the same period, the factory next door must be the same. This must be true of all factories in the world but there are those who believe this to be incorrect because Douglas did not look at all factories operating in the economy. Their argument is, that if he did look at the whole economy and all factories then he was wrong in his calculations in relation to one factory.

On completion of his work at Farnborough, and confronted with industrial disputes, he found that the best way out of the difficulties with those who were fighting for more wages was to give it to them. "It settled everything" said Major Douglas amid laughter. Then he went to Richborough, one of the new concrete cities built during the war and was immensely impressed by the fact that in spite of the withdrawal of something like seven millions of the best producers to the armed services, plus millions more engaged in the production of immense quantities of materials to be destroyed, leaving behind only the old and the very young, they were able to raise such wonderful new concrete cities, and yet everybody in the country was living at least at as high a standard as before the war. These facts also became pigeon-holed in his mind. Then his attention was attracted to a persistent propaganda that was being conducted to the effect that "we must produce more". And he began to think what would happen when the whole of this intensive production was diverted in peace time. The persistent propaganda gained in volume, to be supplemented by a new cry that they were a poor, poor nation, and only hard work would save them from destruction.

The first article written by C. H. Douglas was *The Delusion of Super-Production*. In this article he stated:

"It must be borne in mind that manufacturing, or what is commonly called production, is conversion, and just as the conversion of mechanical energy into electricity or heat into mechanical energy involves a dispersion, which for practical purposes is a loss, so the conversion of manufactured articles can never take place with out a similar economic dispersion".

This very important factor was again emphasised by Douglas in his article *Social Credit Principles* in which he said:

“That economic production is simply a conversion of one thing into another, and is primarily a matter of energy. It seems highly probable that both energy and production are only limited by our knowledge how to apply them”.

The starting point to understanding Social Credit is the acceptance and understanding of the physical realities with which we are confronted. We have natural resources provided without the intervention of Man and we have the use of energy by Man to convert those resources for the benefit of Man.

In his book *Introduction to Social Credit* in the section *Physics* Dr. Bryan W. Monahan one time Chairman of The Social Credit Secretariat wrote:

“From the purely physical material aspect man is like a machine performing work by the conversion of energy. Food is his fuel and the primary condition of life will obviously be that the amount of energy obtained from the food shall be sufficient to allow for the expenditure of energy in the searching for and consumption of food. We may imagine a state of life in which the energy obtained from the food just balanced the energy expended in the searching for and consumption of food, allowing also time for necessary sleep. Life must have begun at slightly above this level for otherwise no progress or other activity beyond this would be possible. Now the difference between the energy necessary merely to sustain life and the total energy directly available represents true profit in its most fundamental sense. It forms the basis of the ability of the Man to pursue other ends than the mere obtaining of food.

(When that true profit is used to make more tools it is regarded as an investment in new capital equipment.)

“An individual which has to devote the whole of its time to obtaining the mere necessities of its existence has the nature of its activities wholly determined by this necessity. But as soon as it has surplus energy above this fundamental requirement, it has a choice as to how it will expend it. There are of course many ways in which the surplus energy may be expended. One of them, however, is of very special importance, and that is the use of this energy to improve the efficiency of the individual as a machine – to further increase the useful effect produced by a given expenditure of energy”.

C. H. Douglas in his *Economic Democracy* drew attention to the fact that the *fundamental currency* in which in the last analysis an individual can liquidate his or her debts is potential effort over a definite period of time. In other words the real of the world's currency is effort into time which he referred to as time-energy units. Without any other form of energy it is human energy in a certain period of time in which an individual can obtain the necessaries of life.

By liquidating “his or her debts” is a reference to the fact that he or she is drawing against the Credit – the Natural Resources – provided by God or Nature. In the same manner it is by working (using energy) that Man can pay his debts in society.

Another way to regard this is to imagine a Balance Sheet where all money transactions were cancelled out by payments of all debts to creditors. All that would remain would be physical assets. Who would be shown as the creditor – God?

We know that Man has been able to utilise his energy to the extent that there is a surplus with which he has been able to put the surplus energy to increasing benefits. The construction of tools for instance which allows not only the procurement of basic necessities in less time with less expenditure of human energy, but renders possible processes hitherto impossible.

This is the basic physical reality underlying the modern conception of investment. It is the devotion of energy to the increase of efficiency in the consumption of energy, and is intrinsically a multiplier. That is, it multiplies the energy directly available for any given constant expenditure of energy. Notice that it begins in the individual human being and originally benefits him directly. Tools and the knowledge of process utilizing the individual's own human energy alone have resulted in a great expansion in the possible results of effort.

We have now reached a position of understanding the physical basic realities. All natural resources are made available to Man to utilise for his own benefit. The physical use of human energy can convert these natural resources to other things which are of increasing benefit. The knowledge of how to do things, make tools and increase the use of human energy provides a physical profit which can be utilised to further increase benefits. Those benefits include the ability to make more tools or to spend some time in leisure.

Another factor which enters into the equation is the discovery that by associating with one or more other persons it was possible to further increase benefits because it was found that two or more persons working together could achieve something which one person on his own could not achieve. Thus a further physical profit could be gained which we refer to as the *Increment of Association*. The knowledge of how to do things, make tools etc. both of which, the knowledge and tools, are passed on to future generations we refer to as the *Cultural Inheritance*.

Dr. Bryan W. Monahan explains in his *Introduction to Social Credit* the real physical aspects in production.

"We have only to think of the changes due to the use of the spade in horticulture. What is also important of course is not only the spade but a knowledge of spade practice and the habits

of plants, and this principle can be extended over all the fields of man's activities, past, present and to come. Tools commonly outlast the life of their makers and are passed on to a succeeding individual. This we call physical inheritance. There is also the knowledge of how to do things which includes how to replace the tool when it is worn out. In all its wide ramifications we call this the cultural inheritance. This is again a fundamental conception of immense importance, as real as and more important than the longevity of tools and structures for it not only enables the adequate use of the tool, but ensures the possibility of the tool's replacement as well as simplifying the basis for further possible improvements. We have thus found three basic elements at the very core of our subject. Profit we may define as improved efficiency accruing to the individual; and investment as the application of profit to the increase and enhancement of efficiency. Profit, investment, and inheritance, especially cultural inheritance, are basic elements of economies, and a correct understanding of them, quite apart from any economic, and particularly financial theory is vital.

Further factors that enormously extend the effectiveness of individual effort are:

- (1) The association of individuals to achieve a common objective.
- (2) The introduction of solar and nuclear energy in place of human and animal energy as the basis of work done.
- (3) The arrangement of automaticity in mechanical and electrical operations.

In examining the first factor it will be noted that the first result of association is that a given job may be accomplished more quickly and more easily. But not only may two men lift a heavy weight more easily and more quickly than one man but two men may lift a weight that neither alone could lift.

Within reasonable limits this result can be extended. There is a benefit from association of all kinds far beyond simple arithmetic progression and this is what is called the unearned increment of association which really is true profit. A money system, when used, must be made to conform with this reality otherwise it will eventually break up the association in which it is involved. There is nothing that modern man does that does not rest somewhere on this unearned increment of association. the various forms of which are of great complexity. In addition to primary association there is the association of associations which produces further increments. A notable example is the telephone system. The telephone itself the result of complex associations not only increases in usefulness with the number of users but increases the efficiency of the whole of industry and human society; and human society is exactly the same thing as human association. So important is the study of association for those who desire to investigate Social Credit seriously, that the first chapters of Dr Tudor Jones textbook "Elements of Social Credit" are entirely devoted to it. It is important to remember that human society is "an association -the most complex association we know: a vast construct, or complex of separate associations."

Society, from the aspect which concerns this paper "is a complex of observable phenomena and phenomena are observed results in nature, and all phenomena (all observed results in nature) appear to arise from some mode of association". Every association has a result, and this is its increment of association. We can divide associations into different classes, Material, Mass and energy associations for instance. The cultural heritage which increases the power of human beings in association to do things is the conservation of means of doing things.

The second factor which incalculably extends the power of human beings to produce desired results is solar energy, which includes energy stored in the form of wood, coal, oil and water power derived from the changes in the distribution of water due to the sun's direct heat.

It is most important to be very clear that it is energy and not machines as such which we are considering here. Machines are only elaborate forms of tools through which energy is transformed and directed. Their importance lies in the great and easily controllable rate at which they can transform and direct energy, compared with the individual human being. At the present day humanity has at its disposal vastly greater direct sources of machine energy than that of the total man power of the whole earth's population.

Thus an important ratio

<u>Machine time energy units</u>	this could be	<u>20</u>	<u>50</u>	<u>100</u>	<u>400</u>
Human labour time energy		1	1	1	1

ranging from at least fifty to units in some cases many hundreds is increasing daily. Add to this atomic power and the still more spectacular possibilities of thermo nuclear and the magnitude of the picture may perhaps be glimpsed. In fact human energy is becoming negligible and as with automation could for the most part be dispensed with entirely.

The third factor which the individual now has in his power to increase benefits is the use of automation. Increased technology, computerisation, and the division of labour which further multiplies the use of energy all add up to what Douglas referred to as a *catalyst*.

In fact human energy is becoming negligible and as with automation could for the most part be dispensed with entirely. Its importance lies in quite another direction. The term "catalyst" is used in chemistry to denote a substance, the presence of which either enables a chemical reaction to take place, or to take place much more readily. The rate of production depends on the rate of transformation of energy. A man may control the speed of a giant machine by the mere energy at his finger tips. The multiplying factor of automaticity via amazing electronic devices is even greater still. Certain *functions* of human thinking can be performed with incredible speed by certain electronic machines which the late Robert Theobald an English economist, referred to as cybernation, i.e. the use of computers together with electronic robots such as used in motor vehicle manufacturing. In rocket research most complex and vital mathematical calculations that would take more than a year for an individual to complete can be done in minutes by computers.

So far removed is man from mere animal existence that it is all too easy to miss the *significance* in every day life of the importance of the foregoing considerations. The very division of labour confuses the total picture and conceals the totality. Mankind during its history, but especially during the last one hundred years or so, has been engaged in the *construction of an industrial machine*, the result of which has been to transfer the burden of the maintenance of life from the "backs of men to the backs of machines."

In Major Douglas' unsurpassed description, "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 of men set free to lengthen it increases". This is simply recognition of the fact that human energy is reducing in comparison to other energy used in the productive process.

This process is of the nature of acceleration and involves the ever greater rate of production of things to make things with; the leverage of real capital. But there is a limit to the amount of capital goods that can be utilized usefully, and barring unlimited export into outer space we are approaching this limit ever more rapidly. It must be emphasised that our *capacity* to produce *capital goods* -things to make things with is far greater than actual capital goods in existence.

Dr. Tudor Jones in his *Elements of Social Credit* refers to derived associations, i.e., associations which add to or lead from one to another. It is of extreme importance that the physical associations with which we are dealing are those that lead to positive results. An association of people working together to produce a result they do not want is not even considered. However an association of people working together to produce a result they do want includes all of those factors that have been explained such as the Increment of Association, the Cultural Inheritance and the use of energy in all its forms.

"There are some very important names given to derived associations. They lead straight on from one to the other.

"The **CAPACITY** for doing work may be great or small.

"It (the capacity for doing work) = **ENERGY**."

"The ability to expend energy in doing work = its **POWER**.

"**POWER = THE RATE AT WHICH THE CAPACITY (ENERGY) CAN BE EXPENDED**".

These three words, **CAPACITY, ENERGY & POWER** should be marked indelibly in the mind because whether or not there is a small amount of energy such as human energy or a great amount energy utilising machines and all capital equipment (tools) the limitations are those as described by Douglas. That limitation is the knowledge which gives the **POWER** to apply them.

This brings us to a characteristic which is overlooked and not even considered in the productive process. It is best described in the words of Dr. Tudor Jones.

"AN IMMENSE AMOUNT OF WORK IS DONE WITHOUT THE INTERVENTION OF MAN.

"All instances of work done without man's assistance are:

- (1) all instances of growth
- (2) The natural movement of wind and water.

"Note that the capacity (energy) for doing work may be stored up. That is to say, *there are natural stores of energy*. Such are Solar light and heat. This light and heat is being expended in work done all the time on the earth. Thus a constant circulation of water is effected, movements of the air, and the manufacture of food materials by plants, which food materials are thus made available for animal consumption. Some of these materials are not so used, or were not used in the past, and they slowly converted into highly

combustible substances, coal, peat and oil, capable of liberating heat energy, a particular form of the capacity (energy) for doing work, whenever the appropriate circumstances are established...or that is to say the *appropriate associations*.

"This brings us to the fundamental important matter in relation to the Social Credit.

"The establishment of appropriate associations admittedly involves some work.

- (1) **HOWEVER GREAT OR SMALL THIS AMOUNT OF WORK MAY BE, THE CAPACITY (ENERGY) FOR DOING IT IS NOT THE STORE OF ENERGY MADE AVAILABLE BY DOING THE WORK.**
- (2) **UNLESS THE ENERGY MADE AVAILABLE IS GREATER THAN THE ENERGY EXPENDED IN MAKING IT AVAILABLE THE UNDERTAKING IS UNECONOMICAL AND USELESS".**

"To put the matter in a simpler form if we refer to bread as the staff of life and that Man exists on bread alone it is easier to understand. If a farmer sows his seed, grows wheat, harvests the wheat, grinds the wheat into flour, and makes bread from that flour it provides him with the energy to go out and plant the seeds etc., to make more flour the next day. The bread that he eats today that gives him the energy to go out and repeat the process tomorrow is not the energy that allowed him to sow his seed etc. in the previous period, yesterday. It is simply a recognition that all of the conditions that existed from the beginning on this earth provided Man with the necessaries for life. His work is simply a further addition to the energy. It is not the energy of the food-materials consumed in collecting and liberating stores of energy which is stored in the store collected, *one store is an addition to the other store, not a transference of it.*

We may more profitably confine ourselves to direct objective reality. The ultimate meaning of true industrial progress is that the amount of human work necessary in order to sustain a very high standard of living steadily decreases. In the words of Major Douglas, "the primary fact on which to be clear is that we can produce at this moment foods and services at a rate very considerably greater than the possible rate of consumption of the world". This then is the physical and realistic basis of leisure and/or the ability to devote time and energy in the production of more capital goods to reduce human energy even further. Quite clearly, only either leisure or 'employment' *outside useful production* can dispose of the so-called "Unemployment problem". All problems of economics and politics *are absolutely conditioned by the physical realities* described. Short of sabotage or cataclysm the progress of the situation is inexorable. Anyone perceiving what is involved will see through the confusions which result from the wrong positing of problems. If employment is regarded as the problem then the result will be increasingly artificial employment.

"As a result of obvious and deliberate policy together with the working of a long outmoded economic and financial system "full employment" is made to appear to be the legitimate object of the economic system. "The modern machine with its marvellous capacity for utilizing power is capable of releasing man from much of his human labour and for providing for his economic independence so that he can be set free for other ends. Yet people's ideas have changed been so perverted that they have become slaves of the machine, ever more definitely rivetted to an invisible slavery".

If the only access to food, clothing and shelter is through money, the only access to money is through employment, then unemployment means starvation. This sequence is not logic. It is what the Russian psychologist Pavlov called 'conditioning'. It applies to animals just as effectively as to Man, the place of employment being taken, for example, by jumping through a hoop.

We can well believe that if some animals may think the chief end in life is jumping through hoops, even a flaming hoop. In the case of Man, the hoop is represented by employment, and the flaming hoop by employment no matter how degrading.

The sequence '*unemployment means starvation*' is a convention just as the sequence of a *ringing bell* means salivation in a dog is a convention. The depression was terminated by the employment associated with preparation for war. Preparation for war means the *construction or* conversion of factories, the manufacture of armaments and arms, the stock-piling of materials, and the employment of a proportion of the population in doing these things. Of itself, clearly it contributes nothing to the standard of living. But it does distribute money, allowing access to whatever standard of living is available through the efforts of those not diverted to the production of munitions.

When a maniac in charge of the world's most powerful military organisation is threatening to make war, production of munitions to meet the threat is a necessity. But insofar as war, under modern conditions, involving the mass slaughter of non-combatants, is an incarnation of evil, employment in the production of the means of this slaughter is degrading employment. But it still distributes incomes, virtually the only access to the means of life.

The production and distribution of pornography also distributes incomes; so does the production of essentially useless gadgets. Employment of any kind, useful, neutral, useless or vicious, is paid for in the same way, by means of money. What enhances the standard and quality of life is remunerated indifferently with what degrades life and despoils the earth. We pay, of course, for this indifference. Wasted effort dilutes the value of useful effort; this is the reality underlying the financial phenomenon of inflation.

The proper objective of the economic system is not employment, *but the production of goods and services as, when, and where required with the minimum of labour and inconvenience.*

In order to see clearly how the institutions of society can be made to minister to the true welfare of man spiritually, materially, individually and socially, we will need to take a careful look at some important discoveries and enunciations contained in Social Credit.

The first of these is that the "cost of production is consumption". This is a real, natural, and fundamental law of economics; being expressed more fully in the statement that the Real cost of production is measured by the consumption incurred in that production. If we refer back to the analogy of the farmer and his bread, this can easily be seen. The cost of producing today's loaf of bread was the bread produced yesterday and consumed today. Put another way, we can say that the true cost of a given programme of production is the consumption of all production over an equivalent period of time. Cost is only the natural penalty or condition paid by human beings in reaping the result of increment of association, one aspect of which is the fruitfulness of the earth. The ratio of food consumed to food produced is always a fraction less than one. This applies to all consumption items. The difference between that fraction and one represents true profit in the most fundamental sense.

Therefore: $\frac{\text{Food Consumed}}{\text{Food Produced}}$ may be equal to $\frac{1}{2} \frac{1}{4}$

It is difficult for some people to understand the meaning of the statement that *cost is the natural penalty paid by human beings* but this should be related to what was said earlier. *The fundamental currency in which in the last analysis an individual can liquidate his or her debts is potential effort over a definite period of time.* The cost in real physical terms represents a penalty; a penalty in the form of potential effort over time. People must expend some energy in a certain period of time to obtain something.

By way of explanation, the following article is an excerpt from *The Elements of Social Credit* by Dr. Tudor Jones one time Chairman of The Social Credit Secretariat.

“The notion of ‘cost’ is obscure. One can go back to Imperial Roman times – probably much further – without finding anything but double-meaning in the words used for cost, and rather significantly, the same double-meaning persists today. Thus *sumptus* meant cost and also expense; *impensa* (from *impendo*, I lay out) expense, outlay, cost; *praemium*, that which is taken *first*; advantage (which, in the natural world, is not taken first but *at the time* an association is effected). The word also meant gain, profit (the increment of association), an honourable reward, recompense, a promise and (ironically) punishment. *Merces* meant wages, hire, pay, fee, salary, reward, interest, rent income. It also meant *punishment*. *Caritas* meant costliness, dearness, high *price*, scarcity of money, and also affection and the dearness of *e.g.*, one’s children; while *carus* signified high-priced and also dear and beloved.

“There is no natural connection between the high price of (say) tomatoes and natural affection. The rest of the meanings indicate either the plain effects of monetary customs (agreement associations) *e.g.*, the reward for services in negotiable money tokens instead of kind, or they are ironical.

“Legend attaches to the discovery of fire-making the punishment (said to have been for theft) inflicted upon Prometheus, whose liver was eaten in the day-time by birds, regenerating at night. Thus suffering might be regarded as the cost of the fire. Quite another ‘cost’ of fire is the fuel to stoke it. This, however, only transfers the ‘cost’ to the fuel. If the ‘cost’ of the fire is its fuel, what is the ‘cost’ of the fuel? Did the invention of money render costly what was costless before?”

A distinction is drawn between penalties exacted by man-made law and natural law to obtain a useful notion of ‘cost’.

“Let us suppose that the gain of wealth is invariably accompanied by penalties exacted from the consumer. A few minute’s work in our ‘laboratory’ will show that this is untrue, for instances of wealth will disclose themselves to which no obvious penalties are attached, *e.g.*, the wealth generated by the consumption of fresh air and sunlight.

“To discover whether or not a penalty of any description is *naturally* attached to goods and services is not to discover the nature of the penalties or the names and addresses of the natural payees. Natural penalties are not, in fact, payments made *to* anybody. They are the natural conditions in which a desired result may be secured.

“Let us take, then, any desired result and see as far as we can, what are the natural conditions in which it may be secured? Broadly, they are the establishment of the appropriate associations.

“Take the case of a loaf of bread. Loaves of bread are consumable goods, resulting, under modern industrial conditions, from a long and complicated train of associations, *e.g.*, the cultural heritage (knowledge of effective methods of irrigation, breeding of desirable strains of wheat, the discovery of the aerating properties of yeast, natural mechanical principles embodied in the construction of machinery for mixing and transportation, fire-making, the modes of rendering heat energy available, the art of brick making, traditional knowledge of the behaviour of artificially implanted grain, and so on.) No natural observable penalty is exacted in regard to any of these associations or their increments, unless it is the penalty of having to do work to establish the associations anew in order to profit by them. Energy is the capacity for this work.

“We may say, then, that the penalty exacted for using the cultural heritage (which, we see, is a large item in the production of a loaf of bread) is the work done by men in establishing the appropriate associations. Let us say, for it is the traditional symbol, that bread itself is the source of the energy providing the capacity to do this work. In other words, the cost, or penalty, exacted naturally, here is consumption by living men engaged in establishing the appropriate

associations made available by inheritance. A part of this cost may have been "paid" in respect of some men who have died, let us say, since they established the appropriate associations for producing bricks or some other part of the capital equipment of the bakery.

"If we take the land on which the wheat is sown, there is no discoverable penalty attached to its use. If there were, we should have to say that man had to pay a natural penalty for living. If we consider anything done to the soil, either to drain, clear, or irrigate it, or to increase its fertility, we find that the natural penalties here are the same as before; consumption by the men involved of energy-producing substances.

"So in regard to transport of grain etc., so in regard to the actual making of dough and the handling of it in cooking ; so in regard to the wood or coal for heating ovens : the natural penalties exacted are the sum of consumable goods consumed throughout the process. These consumable goods are not all bread; nor strictly, are they all energy-producing: they may be goodwill-producing, increasing efficiency in the application of energy available or determining the direction of its employment. The consumption is of produced goods.

"Thus we may say that in regard to physical realities:

"THE TRUE COST OF A GIVEN PROGRAMME OF PRODUCTION IS THE CONSUMPTION OF ALL PRODUCTION OVER AN EQUIVALENT PERIOD OF TIME

"As everybody knows, a standard method is in use of evaluating cost in terms of money. Before we try to discover the correctness or otherwise of the use which is made of this method, let us try to see what is involved,

"It is always better to take very simple cases whenever the objective is to discover fundamental principles. The modern industrial system is complicated, and it is fatally easy to lose track of the events occurring within it and of their real meanings.

"Suppose we go to that paradise of economists, an island. Let it be an island where coconut palms grow, and where a small population subsists entirely upon fruit. The pulp, let us say, provided the people with food, the shells with houses, the fibre with clothes. If the island did not produce enough for a large population, the excess of population would die, so we need not concern ourselves with the sufficiency of production. If the population of the island cared to concern themselves with this matter, they might increase production and increase their own numbers, though doubtless not indefinitely.

"In this case, the cost of production of all the coconuts of the island would be all the coconuts of the island, or the cost of a coconut would be a coconut. But suppose the islanders to be capable and willing to produce more coconuts than sufficed for their needs, let us say twice as many, then the production would be twice the consumption, and the penalty exacted for making two coconuts available would be one coconut. It is never possible for the mean consumption rate to be greater than the mean production rate in any period without there being a source of goods not revealed in the production figures that is to say without extending the period considered to cover an excess of production of goods which could be stored.

"Now this is a very remarkable result, which must surprise some of us, who have so prominently in our minds notions of equity that we recoil from the plain fact that it is possible for the true cost of a volume of goods to be a fraction of the goods. We are in the habit of thinking that since one coconut is as good as another, more or less, no exchange is equitable that is not on the basis of coconut for coconut. Yet it is evident that in certain circumstances, namely a higher mean rate of production than of consumption, the true cost of production is a fraction of itself.

"Now, we do not need to know much about money to see that if the islanders are "rewarded" (quite unnecessarily in this case) for their production of, let us say, a hundred coconuts with a hundred little pieces of paper, upon each of which is written a letter "M", the "cost" in "M's" of one hundred coconuts is one hundred "M's".

To quote from C. H. Douglas

"The true cost of a programme of production is in general not the money cost, but considerably less than the money cost, and a given programme of production can only be distributed to the buying public if sold at its true cost."

"Why, in the case of the nuts an " M "represents the *monetary* cost of one cocoanut ; but one cocoanut represents the *real* cost of two?"

Major Douglas has defined this production *capacity* (energy) as the ability to deliver goods and services, as, when, and where required, and is called by him the *real credit* of the community. This most important factor modifies the fundamental law previously stated, namely, that the "cost of production is consumption," and the important ratio consumption - affected by it.
production

Two interesting revelations emerge from the foregoing considerations. Firstly neither individuals nor the community of individuals can go into "debt" for true cost. If cost is consumption, it is discharged on consumption. Cost is properly measured as a ratio, in which production potential, the denominator, is increasing much more rapidly than actual consumption, the numerator; therefore real costs are falling.

The physical reality is that in the fraction Consumption to Production. Consumption is always less than Production. It is a physical impossibility to consume more than has been produced. Surplus production may be saved and consumed later but in totality it is not possible to consume more than has been produced.

We have seen that human energy is reducing in relation to other forms of energy in the productive process. This means that production must be increasing at a greater than consumption. Now if the cost of production is consumption it follows that the real cost is being reduced with respect to production. In other words goods for consumption should be less costly because human energy is being used less and less.

This is the situation as described in the case of the production of cocoanuts.

However, the introduction of money in whatever form and attached to a unit of production conceals the physical reality. It is like a magician's slight of hand trick or some kind of black magic that hides the truth from people.

If the real physical cost is being reduced this should be reflected in a money system which should reproduce the same conditions with a money price.

Dr. Tudor Jones in his *Elements of Social Credit* explains this very simply.

"What is the meaning of the excess of production of cocoanuts on the island?"

(1) Leisure for a period covering their consumption

(2) Applied to a more highly organised productive system, the consumed nuts and the unconsumed nuts may be taken to represent consumable and unconsumable goods. Then total product = the sum of consumable *plus* non-consumable goods.

Total consumption = sum of consumable goods only. Non consumable goods cannot enter into consumption.

True cost of non-consumable goods, therefore = a PART OF CONSUMABLE GOODS.

True cost of consumable goods = the OTHER *part* of consumable goods.

Many people have in their minds the picture presented by the over-elaboration of the means to produce (production of capital goods, through some misdirection of effort) and consequent diversion of effort from production of consumable goods. Not only industrial mal-adjustment but financial and political factors may determine such an event. BUT NOTE THAT, IF CONSUMPTION IS REDUCED, THE TRUE COST OF TOTAL PRODUCTION IS REDUCED, and the community has provided itself with assets the true cost of which is already covered.

(3) Note that neither individuals nor the sum of individuals in the community can go into "debt" for cost. If cost is consumption, it is "discharged" on consumption. If consumption goods are available they can be consumed, not otherwise. Tomorrow's dinner may be small or nothing, but it cannot be eaten today: it becomes today's.

(4) People (other than expert producers trying to gauge future demand) worry about what "ought" (ideal conception) to be the relationship between capital and consumption goods. The answer is the "correct relationship" as indicated by the availability of goods for consumption. It does not matter what the degree of elaboration of means to produce is, provided they are correctly related to the "power in association to produce the result intended" (that is to say, intended by those associating). Their intention may cover economy of effort and of resources.

Only they know.

All this means that the physical reality in the productive process reveals that the cost of production which is consumption covers the production of everything i.e. consumable goods (Consumption) goods that are consumed and capital goods (tools and equipment) to be used in future production.

We have reached a point where we can summarise.

Man exists in an environment which provides him with a credit in the availability of all of the natural resources. Man is indebted to God or Nature for the provision of that credit. Man can only liquidate his debt in the usage of those resources by utilising his time and energy. Over and above the provisions of necessities to exist Man can produce more than he needs to consume. The surplus production is in reality a profit which can be used either for leisure or for the production of tools (capital equipment) to further increase consumer goods or capital goods.

With the use of more capital equipment the amount of time and energy expended by Man is reduced and transferred to the use of the capital equipment i.e. machines, automated machines etc. As the real physical cost is reduced this should be reflected in the profit made available to Man.

However, within the system in which we live, costs and prices are based on rules of accounting in which money values are attached to the units of production and thus consumption. The reality is that in as shown in the case of coconuts no accounting is allowed for in the real production process for the increment of association or the use of capital equipment. There should be an accounting process that equates costs of production with the consumption in the same period of time.

One of the problems facing those who attempt to unravel the truth is the use of language and the common acceptance of words and expressions. It is absolutely vital to clear the mind and have no preconceived ideas. Dr Tudor Jones in his *Elements of Social Credit explains*.

"The phrase "Cost-price" shows how closely the ideas of cost and price are related in the popular mind.

"Cost, when there is any, is something actual. Price, on the other hand, is an arbitrary statement in financial terms concerning the amount of money which must change hands to effect a sale. Cost and price have, therefore, *not necessarily* anything to do with one another. They may be brought into relationship by evaluating cost financially, while, at the same time enforcing obedience to a system of rules, which would be correctly described as "The rules to be obeyed in accounting for costs and prices", or briefly, "The rules of Accountancy". Alternative rules could, of course, be devised. In their broad outline the rules which have been adopted and which are now being obeyed (more or less) have become sufficiently invariable to make it *appear* to those who obey them (that is, all of us) that they are not arbitrary but natural.

The illusion is thus created that there is a natural relationship between cost and prices. This is an illusion.

"In an earlier lecture we saw that the practice of measuring costs in terms of a monetary unit disguised the fact that in certain circumstances the true cost (or real cost) of producing anything was only a fraction of itself. Since cost and price are in practice related through the use of this monetary unit the disguise affecting cost will affect price as well. We must gain some precise notion of price.

The idea of price is often confused with that of cost, with which it has not necessarily anything in connection. True cost is a natural penalty which must be paid to secure production involving human agency. The cost of production is consumption. Price, on the other hand, although the word is often used to express what we may call the buyer's view of cost plus profit, cost being the vendor's view of price *minus* profit, is merely an evaluation in monetary units. The only way to express prices is "in plain figures," and such figures express the number of monetary units in the particular price. We have handed back to us, in our enquiry, therefore, our old friend the monetary unit from a new angle, and it is imperative that we should understand again that this unit does not measure anything but itself, and that the numbers (pure numbers, figures) used measure only the size of a monetary quantity in terms of this monetary unit. The "price", to the user of the inductive method, is what a particular individual has to pay in money (so many units of money) in order to possess himself of some things he wants (*e.g.*, freedom from confinement, discomfort and underfeeding about to be imposed upon him by authority, or goods or services.)"

The price of anything is denoted by the number of *monetary units* paid or to be paid. In all cases, the price either asked or accepted is a sum of money. There is no relation to the real physical cost. The *price* of anything is built up by the addition of *financial* costs of production and is calculated in terms of money.

The idea that cost, and price are indissolubly connected is thus an-illusion. The commonly spoken of "cost of living" is really only the price of living. This is another revelation. Price is merely the figures expressing the number of money units in a particular price. Now the numbers or figures of price measure only the size of a monetary quantity in terms of the monetary-unit. What follows is of great importance. Whether price represents true cost or is equivalent to it or not, the purely monetary character of price throws light upon the fact that the monetary unit measures nothing but itself.

In particular money does not measure "value", use value, moral value, aesthetic value or any other form of value. C.H. Douglas in his book *Social Credit* explains.

"A conception which is closely connected with the theory of rewards and punishments, is that of "Value". In effect, value may be defined, to fit the orthodox conception of it, as that quality which gives to anything maximum exchange-ability under present conditions.

"Now, so far as this attribute called "value" can be said to have any basis in the nature of things, it consists in that quality which renders a given object serviceable in the attainment of a given end. But it will be found on consideration that this definition is eventually antagonistic to the more orthodox description of the quality previously given. For instance, if it is necessary for me to cross a large river, a boat would seem to be my immediate requirement. Its utilitarian value to me consists in its ability to transport me across the river with a minimum of inconvenience and a maximum of speed. But the generally accepted opinion of its value would be directly proportional to my ability or the ability of someone else, to submit to penalization (Douglas here reverts back to the real physical cost incurred as against what is paid in money) financially for the use of the boat, and this again would be directly proportional to the urgency of my need and would be enhanced by the absence of other boats. It should be particularly noticed that this kind of value is not inherent -it is one remove away from the simple usefulness of the boat.

"As a result of this conflict of ideas and consequently of objectives, the value of anything which has a use is, according to the popular idea enhanced by its scarcity and it is quite fair and unimpeachably logical that a world which seeks after "values" should proceed to create them through the agency of scarcity.

"It is not only logical, but what is more important it is what happens. The process of creating "Values" by creating a demand which is in excess of the supply is called advertisement, and by restricting supply so that it is always less than the demands, is technically known as Sabotage. Advertisement has its exposition on every hoarding; Sabotage is its commercial complement, and is one of the most widespread features of our existing civilisation, and yet one which on the whole passes unnoticed, in anything like its true proportions, by the general public. It is not confined to any one class of business or profession, although its cruder manifestations, as might be expected, are found amongst the less fortunately placed masses of the people. It is, of course, the only theory, if it can be so-called, underlying the strike, the assumption being that if the whole of the available labour can be taken-off the market the financial value of it immediately increases. The higher manifestations of it are slightly more subtle but identical in principle, the modern objective of big business is to obtain the maximum amount of money for the minimum amount of goods, or to put it more accurately, to obtain a maximum total price in money for a minimum total cost in money. As a result of this, business acumen is measured by the ability to create price rings in indispensable goods while decreasing the purchasing power or "costs", distributed during their manufacture and storage."

We have reached a point where we can see the diversion from reality to the unreal. The reality is the physical and the unreal is money. Why is money classed as unreal? Because it has no intrinsic value; it has no use other than that which we as people wish to give it. It is or should be like a mirror reflecting reality because without reality there is no need for money.

Money is any medium that has reached such a degree of acceptability that no matter what it is made of or why people want it no one will refuse to accept it in exchange for their goods and services if they are a willing seller.

C.H. Douglas drew attention to the fact that if it can be any medium it can be anything and that the only physical limit to the amount of money should be physical resources (Man, Machines and Natural Resources).

Value is subjective and immeasurable although an absolute. If an article or each unit that makes up an article has, for no matter what reasons placed against it, a money value of say one dollar, then money simply measures the fact that two articles or units will be two dollars and three 3 dollars etc. It is in this sense that money is a '*rate measurer*' of the rate of production in fact, not a measure of value. The fact that one article has a *money* quantity of one dollar placed against it has nothing to do with the nature of money itself. Neither can money measure relative value except theoretically for one instant in one case.

Production wealth and consumption can only be properly measured in rates. Also the economic system is not static but dynamic and here we approach the heart of the whole matter.

If we attempt to look at the matter from a static point of view we are sure to make the mistake which formed the point of the story regarding the committee of "scientists" who it is said, were asked to report upon the nature of the hum in a humming top. Their report was that the whole subject was nonsense, as they had taken the top carefully to pieces and were able to report that there was absolutely no sign of the existence of any hum:

If we grasp this ideas we shall not find it difficult to accept the statement that the wealth of a country, and therefore the basis of its financial credit, is not so much in the things that it actually possesses as in the rate at which it can produce them.

Now, the rate at which it can produce them is a composite thing, *because side by side with production we always have consumption*, so that we can say that the net rate of production is the gross rate of production minus the rate of consumption and it is also possible to say that the absolute cost of all consumption is the rate of consumption divided by the rate of production.

We are now getting to a very interesting stage, because it is only a step further to say that if we issue money at a rate corresponding to the rate of production we should not take it back at the same rate (which is what we do at the present time when we charge all financial costs into prices but we should only take it back at the rate of consumption, which results in the startling conclusion that we ought to charge less than the price for articles sold, even if the rate of consumption as compared with the rate of production remains constant. But we know that it does not remain constant.

Every improvement of process, machines, and the application of power to industry increases the rate of production without necessarily increasing the rate of consumption, so that not only ought we to have the prices of goods below the price which is the cost to the consumer, but we ought to have them decreasing in relation to cost/price. So that the rate at which we can issue additional credit (money) is easily seen to be dependent upon the rate of increase of productive capacity, while the rate at which we take back existing credit and the new credit should be dependent upon the rate of consumption. It is vital to be clear about the fact that there is a real natural and indissoluble connection between production and consumption.

If the rate of production is increasing against the rate of consumption it means that consumption must be a fraction of production and

thus the fraction – $\frac{\text{Consumption}}{\text{Production}}$

C.H. Douglas was quite clear in his statement in *Economic Democracy* when he observed:

"Real Credit is a measure of the effective reserve of energy belonging to a community and in consequence drafts on this reserve should be accounted for by a financial system which reflects that fact".

We know that the fraction of Consumption to Production must be less than one. Whatever that fraction may be, $\frac{1}{4}$, $\frac{1}{2}$, $\frac{1}{40}$, $\frac{1}{400}$, it cannot be established until after the end of a period. This can only be done by an accounting process that is instituted under a correct set of accounts in a proper realistic manner and based on physical reality. C. H Douglas referred to real credit as the *rate* or dynamic capacity at which a community can deliver goods and services as demanded. In his book *Social Credit* he wrote:

".... the only possible basis of real credit is a belief amounting to knowledge in the correctness of the credit estimate of a society, with all its resources, to deliver goods and services at a certain rate 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."

"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 be fantastically impracticable.

Further, this perversion is held in being by the powers that decree that all financial credit be created as a debt. It is well to note here too that true profit is something *real* as we saw earlier, and not an arbitrary *money* quantity.

In his booklet, "*The New and the Old Economics*" published as a reply to Professors Robbins and Copland, Major Douglas puts the matter most succinctly as follows: "...under the existing financial system it is necessary for the producer to recover costs and prices from the public at a greater rate than he makes disbursements. This means that the consumption rate represented by prices is greater than the production rate represented by direct costs and is the direct reversal of the physical facts. Nevertheless, it is an essential to the producer who is bound by the conventions of the financial system; otherwise he would make a loss on a year's work, having issued more money than he recovered."

There is yet another fundamental aspect to all this. Apart from other factors making for real progress, the rate of production is practically proportionate to the energy applied to it; the energy output of machines not the input, applied directly to the production. If one unit of human labour with the aid of mechanical power and machinery produces ten times as much production as the same unit working without such aids then either output will increase ten times or only one-tenth of the amount of labour will be required for the same original output. As production per man increases either requirements must increase, or the number of men required in production must decrease. When overall production increases beyond *individual* requirements as the ratio

Machine time energy units
Human labour time energy units

rises towards near saturation level when very few men would receive wages and salaries to purchase the product, then price per unit production would have to fall so that the smaller amount and area of wage distribution would purchase the total product, some of which would otherwise remain unsold.

With automated or near automated production beyond the largest requirements of the relatively few wage and salary earners means surplus goods would not be purchased, and at the same time displaced labour would have no power to purchase. Therefore, both pragmatically, and ethically owing to the social nature of the cultural heritage, the distribution of a social or national dividend is demanded. Between the two extremes of individual and totally automated production there is a correct ratio of dividend to wage and salary to reflect the true physical situation; the only way of providing genuine opportunity for true leisure.

The true physical situation makes progress towards this status inexorable unless catastrophe supervenes. We are far from it at present. In place of genuine leisure we have full employment, hydrogen bombs and the race into outer space. The conquest of outer space is not in itself to be deprecated. The question is one of priority. The nature of the cultural heritage and its operation increasingly through co-operative machine production is making producer and consumer increasingly interdependent. The natural born inhabitant of a country is becoming inherently less a wage earner and (but not in present practice) more of the nature of a shareholder in his country. With rare insight Major Douglas describes it thus.

"Now, 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 the 'unearned increment of association' probably include most of these factors, and they 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 those 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 times its destruction. If this point of view be admitted 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*.

This means that the ownership of money equivalent of the intangible factors should be vested in the community and not private institutions such as the banking system.

Every scientific invention and discovery, besides forming a real asset in itself and being essentially an addition to the assets of civilization, 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 story 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.

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, or Australia 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 "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 'consumer's' rights.

It renders each individual immune from economic penalisation as distinct from the physical penalty exacted for doing work and thus forms the only effective counter against control by finance and those who control finance under the current existing system, and it places the underlying facts of co-operation production in a light in which they can be seen and grasped by the most modest intelligence. Under such 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 would 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.

At present, this Real Credit cannot be used by the Community who are its rightful beneficiaries because it is not monetised. As soon as we have a balance sheet however, it will be seen that this surplus of assets over liabilities can be monetised and distributed to the community in whatever way deemed desirable so that consumption may keep pace with production, and so enable a continuous expansion of production.

The prevalent assumption that human work (employment) is the foundation of purchasing power has more implications than it is possible to deal with here. It is the root assumption of a world philosophy which may yet bring civilization to its death grapple. It consists in *the domination by a financial system* over all effective individual dissent and is inextricably linked to a policy of *full employment* where employment (the expenditure of human energy which is a diminishing factor in production) is absolutely necessary to receive an income to receive the benefits which are increasingly being supplied by other forms of energy.

The means whereby the accounting methods would be corrected to reflect the physical facts are contained in the establishment of a National Balance Sheet. This is a matter for financial discussion together with with the physical basis of Social Credit. It should be sufficient to say that a National Balance Sheet properly constructed would be the link, between the physical reality and the monetary symbol reflecting the reality, to the distribution of benefits accruing to individuals from the physical basis of Social Credit.

EPILOGUE

One of the main difficulties that is experienced by new readers to the subject of Social Credit is to divorce their thinking in monetary terms and accepting physical reality.

It is only when the importance of physical reality is realised that an understanding can be achieved.

To substitute physical facts for symbols which in fact do not reflect those physical facts, which they should, means reversing the thinking which is associated with the use of those symbols.

It is not the symbols such as the \$ or € or £ which mean anything but the real things which they should correctly represent.

Bibliography

The information contained herein and the quotations have been extracted from Social Credit publications and/or addresses by C. H. Douglas.

The main contributors are:

C.H. Douglas ***

Dr. Bryan Monahan ##

Dr Tudor Jones ++

It is suggested that for those wishing further instruction or clarification a reading of the following would be advisable.

Economic Democracy ***

Warning Democracy ***

Credit Power & Democracy ***

Control and Distribution of Production ***

Monopoly of Credit ***

Elements of Social Credit ++

An Introduction to Social Credit ##