THE

NATION'S CREDIT

A Précis of

Major C. H. Douglas' Proposals

BY

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(A)

THE PRESENT SITUATION

1. The inventions of the past 180 years have enormously increased man's power of producing **wealth** (*i.e.*, goods and services). Machinery, steam, oil, electricity, modern communications and organization have changed an eighteenth century world of comparative shortage into a twentieth century world of potential plenty. Industry* can today produce and transport all the necessities, and most of the luxuries, that we require, in abundance.

2. At the same time the problem of **poverty** remains to be solved. The goods are there, people want the goods, but they are unable to obtain them to the extent they want. In other words, it is not a problem of over-production, but of under-consumption.

3. Therefore, our means of distribution are at fault.
The device by which the goods and services produced by industry are distributed to those who want them is **money**. Money, then, is the essential link between production and consumption.

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*The word "industry" is here used in its broadest sense—to include all manufacturing processes, agriculture, public and private services, *etc*.

4. Nearly all the money used by industry to-day is "credit," *i.e.*, cheque money. Coins and banknotes are only the small change of society.

5. There is no physical limit to the amount of credit that can be created, and there need be no technical limit so long as credit and goods keep step with each other. Credit comes into existence in the form of loans, overdrafts, discounting of bills, and purchase of securities by the banks. "Every loan creates a deposit, and every repayment of a loan destroys a deposit" (McKenna, Midland Bank). The banks have the monopoly of creating credit, which they do by merely writing figures in their ledgers. They issue it to whom they choose, when they choose and for as long as they choose. They decide absolutely the amount of money there shall be in existence at any time, *i.e.*, they control the link between production and consumption.*

6. Owing to the system by which credit is issued and destroyed by the banks a situation has arisen in which the **prices** of all the goods and services produced by industry are always greater than the money available in the pockets or bank accounts of the public. The joint incomes of the public are now not even sufficient to buy all the consumers' **goods** (*i.e.*, those goods and services which we all want for personal use) which can be produced.†

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*The fact that the banking system controls the issue and cancellation of credit can be verified by reference to the Macmillan Committee Report (1931), H. M. Stationery Office, page 34, Section 74, and such standard works as "The Theory and Practice of Banking" by H. D. MACLEOD, and "Currency and Credit" by R. G. HAWTREY.

† Reasons for this state of affairs are given in the appendix to this pamphlet.

7. Taking token figures †† the present situation is that at any time the total incomes of the inhabitants of this country are £100, whilst the total prices of goods are £250. That is, prices exceed incomes by £150, and in consequence £150 worth of goods cannot be bought in this country. Every other industrialized nation is similarly situated, *i.e.*, they all have a greater or less surplus of goods which their own citizens cannot buy.

8. Neither inflation nor deflation can cure this state of affairs. If more money is issued as loans to industry or the public services, prices rise in proportion to the larger incomes distributed, since the loan money must be accounted in the costs of the products. If money is withdrawn from circulation prices fall, but so do incomes. In both cases there still remains the discrepancy between total prices and total incomes.

9. Each industrialized nation must sell its "£150 surplus" somewhere. As it cannot sell it at home, it has to try and sell it abroad. But industrialized nation A cannot to any extent buy the surplus of industrialized nation B since it is unable to buy its own surplus. Therefore, it tries to sell its surplus to the less highly-developed nations of the world (*e.g.*, Africa, China); but so do all the other industrialized nations. Failure to do so means national bankruptcy, enormous unemployment, and probably revolution. Therefore each industrialized nation competes frantically with its neighbour for foreign markets.

10. This competition between industrialized nations to get rid of their surplus production is literally a life

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†† These figures are used merely to illustrate the discrepancy between incomes and prices, which in normal times persists. They do not mean that the gap is invariably of the order of £150.

and death struggle. The logical outcome of this “peace” struggle is WAR. In war time there is not the same pressing necessity to sell the surplus abroad; it is distributed free to the enemy in the form of shells, *etc*.

11. It should be particularly noted that this competition to sell surpluses abroad is quite distinct from legitimate foreign trade. The former arises only because the surplus goods cannot be bought in the home market. The latter is a simple exchange of goods, which nation A **can buy,** but does not require, for goods, which nation B does not want, but which A does.

12. If civilization is to survive we must solve this one fundamental economic problem: how to distribute the goods which can be produced in such abundance. Otherwise we are threatened with the ludicrous fate of starving in the midst of plenty, or destroying ourselves in a greater world war.

13. The crux of the situation is the present financial system. It is the bottle-neck between the goods, which are there and the people who want the goods. Money should be subordinate to production and consumption; as matters stand to-day industry and the consumer are subordinate to money. The tail is wagging the dog!!

14. This is caused by the fact that money is issued and destroyed by the money-monopolists (the bankers) at a false rate: at a rate that suits their trade as dealers in money. Like all monopolists, they seek to increase the value of their wares by keeping them in short supply. By their absolute control of money the bankers control in principle all industry and all consumption (*i.e.*, the standard of living of the whole community). They also control the political government, which can only carry on the services of the nation with money

borrowed from the banks. Consequently the banking system is to-day the real government of this and every other country.

15. The banks do not own the nation's credit, although they act as if they did. They create it and account for it, but it is not their property. The only real basis of credit is the nation's power of producing goods and services, using all available skill, organization, labour, plant, *etc*. This belongs to the nation as a whole. At present it is hypothecated by a group of private trading companies (the banking system),* responsible to no one but their own shareholders.

16. As Douglas has observed a bank "loan" is about the only instance of "lending" something you haven't got and making a profit on the transaction; the loan money not belonging to the bank anyway, and having been obtained free in the first instance.

17. A great deal of rubbish is talked about these bank loans. They are not 'loans' at all. If I lend Smith £100 I go without the use of the money till he pays me back. If a bank 'lends' Smith the same sum it creates the £100 at the moment of lending it, and in effect does not go without anything.

18. Much heavy propaganda is used about the 'Taxpayer's Money' as a reason why something cannot be done. This is a dishonest attempt to suggest that all new money originates with the general public. As we have seen this is not so. The only part played by the public under the present system is being com-

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* Since this was first written, the Bank of England has been nationalized, and is in effect a Government Department, which makes it all the more fantastic that the Government should 'borrow' the money they require from one of its own departments at a high rate of interest; this interest being paid by the Taxpayer.

pelled to pay via taxation an exhorbitant interest for the use of their own credit created by the banks.

19. In short the present situation is one of GRAND USURY. In the spacious days of Edward I, at the end of the 13th century, a law was passed forbidding usury. A conviction entailed the loss of the usurer's nose, or ears, or both. The complaint against the moneylenders of those days was that they charged too high a rate of interest for their loans, which however came from their own reserves.

To-day's moneylenders (mainly the banks) do not labour under these disadvantages. Not only are their noses and ears safe, but they do not risk their own money as loans; by monetizing the Nation's Credit, and pretending that the money belongs to themselves, they in effect control all our lives.

20. All this of course does not mean that the banks are unnecessary. Not only do they perform many useful services for institutions and individuals but their help would be required in connection with the remedy suggested in Section B, below.

For this they are entitled to adequate payment.

(B)

THE REMEDY

21. We have seen that our present troubles arise because the public in this country (and in all other countries) has not the money to buy the goods, which are there and which they want, at the prices which industry must charge. The problem is to make a £100 income buy commodities priced at £250.

22. The solution is to ensure that incomes and prices are always equal to each other.

23. One method by which this can be done is **to sell goods to the public below financial cost** and to make up the remainder of the price of the goods to the retailer by money specially created for the purpose by the State, *i.e.*, again taking our token figures, the public would pay £100 for the goods, and the other £150 would be refunded to retailers by the State.

24. As a result the public would get the goods they want at less than financial cost; *i.e.*, their purchasing power would be greatly increased. The retailers would recover the full financial cost of their goods (including their profit) partly from the public and partly from the State. They would then repay wholesalers, who would repay manufacturers, who would repay the banks the loans by which the manufacturing process was initiated. The latter would then cancel the money representing the loan, as they do at present, except that this cancellation would only take place after the goods, which the loan has brought into existence, have been consumed (*i.e.*, bought by the public).

25. Two questions naturally arise. Where is the £150 to come from; and what is to decide the fraction of cost at which retailers will sell their goods to the public?

26. Nearly all money, as we have seen, is to-day financial credit; *i.e.*, merely figures written in books. In the past this credit was limited by the gold in circulation and in the reserves of the Bank of England. This limitation has now ceased to operate in this country. We have the opportunity to use a better basis for our credit than gold. The most obvious basis is the **real wealth** of the nation; *i.e.*, the goods already produced and the nation's capacity for producing more goods. This basis has the advantage over gold that it

reflects physical facts, and would be in addition an automatic regulator of our supply of money.

27. Our power of producing goods greatly exceeds our power of consuming them. Only a fraction of the goods we can produce are goods for personal consumption. The remainder (such as factories, machinery, railways, roads, *etc*.) are not bought by individuals, but are means for producing future consumable goods. All these are the real credit of the community, and it is on this basis that the £150 mentioned in paragraph 25 would be created.

28. We have, therefore, to make our financial credit an exact reflection of our real credit. If net production increases, our money will increase; if it decreases, our money will decrease.

29. Next, what is the fraction of financial cost at which retailers will be asked to sell goods to the public? Putting aside the question of money, the real or physical cost of any undertaking is the amount of things used up or consumed in the process. In other words, the real cost of production is **consumption**. For example, the real cost under all conditions of growing an ear of corn is the seeds from which it grows.

30. Relating this fact to financial cost, we can say that the JUST PRICE (*i.e*., the price at which retailers should sell to the public in order to reproduce the physical facts of production and consumption) is:

$$\frac{\textbf{Total National consumption}}{\textbf{Total National production}} \text{ X financial cost}$$

31. An example may illustrate this. Suppose it is decided to introduce this system on 1st January of any year. It would first be necessary to ascertain the figures

for total national production and total national consumption measured in terms of money for the previous period of, say, six months. Imagine that the ratio between these two is found to be 5 : 2. Then the JUST PRICE of consumers' goods during the six months following 1st January would be 2/5 of their financial cost, calculated on the average price level for, say, the preceding year. That is, consumers could buy goods from retailers at 2/5 of the usual price, and retailers would be reimbursed the remaining 3/5 by the State, the money for the purpose being created against the real credit of the nation.

32. No question of inflation could arise, as prices would be automatically regulated by the 'price regulating factor,' i.e.,

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

33. No legal compulsion would be necessary. Retailers who would not accept the JUST PRICE scheme would be free to sell at the ordinary financial price, but in that case they would receive no money from the State and would have to try and sell their goods in competition with others, who had accepted the JUST PRICE and were in a position to undersell them.

34. As a result everybody's money would buy more. Industry would be correspondingly stimulated, and before long would be working at full pressure. Unemployment would temporarily cease, and a much higher standard of living for all would be ensured.

35. The position as regards the value of the pound sterling in relation to the dollar, the franc, *etc*., would be this: the foreign exchange value of the pound, apart from gambling in exchanges, which has only a

temporary effect, depends ultimately on the price level ruling in this country. If the purchasing power of the pound is increased, as would be the case under a Social Credit regime, the pound will buy more goods in this country, or, in other words, the price level will be reduced. As foreign merchants tend to buy in the cheapest market, there would be a rush by foreigners to buy British goods at the reduced price. In order to do so they must obtain pounds for their dollars, francs, *etc*. An increased demand for pounds with which to buy our cheapened goods would cause the foreign exchanges to swing heavily in our favour. It would then become an administrative question whether to allow the foreigner to buy our goods at the JUST PRICE or at any fraction of cost between this and full financial cost.

36. After the JUST PRICE had been in operation for some time there would undoubtedly come a moment when all the necessary production of this country could be carried on by only a fraction of the working population aided by the latest machinery. In other words, the work of everybody would not be wanted for the necessary programme of production.

37. It would then become necessary, if only to ensure that the goods produced were distributed, to allot to every member of the community, worker and non-worker alike, a **dividend** or share in the amount of goods produced. This could conveniently take the form of money, based also on the real wealth of the nation. In addition to this dividend, those who were required to work would receive a reward for their services in the shape of wages, salaries, profits, *etc*., as at present.

38. The immediate results of selling goods at the JUST PRICE, and later distributing a national dividend

to all, would be the abolition of poverty, the reduction of the likelihood of war to zero, rapidly diminishing crime, the beginning of economic freedom for the individual, and the introduction of the "leisure state." The ultimate results can be left to the imagination of the sociologist.

(C)

THE PHILOSOPHY OF SOCIAL CREDIT

39. There are three possible purposes for an economic system:

(a) That it is an end in itself for which man exists.
(b) That, while not an end in itself, it is the most powerful means of constraining the individual to do things he does not want to do, *i.e.*, it is a system of government. This implies a fixed ideal of what the world ought to be.
(c) That the end of man, while unknown, is something towards which most rapid progress is made by the free expansion of individuality, and that, therefore, economic organization is only a specialized activity of man, which has as its objective the production and distribution of goods and services for man's use.

40. Excluding (a), for which policy there are probably few supporters, we have quite definitely to make our choice between the two alternatives: Does an economic system exist to enforce work; or does it exist to produce goods?

41. There can be no compromise. If we decide that work is our objective, we must scrap all modern machinery, *etc*., and go back to hand-production.

There is no other means by which the unemployed can be permanently absorbed into industry. If we decide that goods are our objective, we must logically ensure that these goods are produced by the most efficient methods, *i.e.*, by using all the latest inventions. And if they are produced, they must be distributed, since industry cannot go on producing goods which are not sold to somebody.

42. Two points of view appear consciously or unconsciously to influence those who advocate work as the objective of an economic system:

(a) That it is immoral to give men “something for nothing.”
(b) That men cannot be trusted to behave themselves unless they live under the direct compulsion to work.

43. The first point of view is a product of a classical system of education which encourages deductive as opposed to inductive reasoning. Deduction has the weakness of starting with a theory and subsequently arriving at the facts, too often ignoring those facts which do not fit the theory. It tends to be rigid and to prefer fixed to relative morality. During ages of man’s history all labour was hand labour; the maximum production could only be ensured if everybody worked his hardest, and those who shirked work were in fact traitors to the community. Now, although the problem of production has been solved, the classical mind still insists that work is in itself “moral.” It would be as sensible to argue that because it is right and expedient to ration the water supply of a party of explorers in the Sahara desert, the same discipline in

regard to water if the party is transferred to a boat on Lake Superior.

44. If a moral justification is required for distributing a share of our surplus products to all members of the community it can be found in the cultural inheritance of the race, which is one of the chief factors of production. This inheritance consists of our natural resources and the thousands of devices and processes, the inventions of persons long since dead, and the property of all rather than of any single individual.

45. The second point of view [see 42 (b)] has its origin in fear—fear of one's neighbour; fear of the unknown. It manifests itself in the will to power, and its reasoning is also deductive, in that it constantly exalts abstractions at the expense of the individual. In effect it says that man exists for institutions, not institutions for man. It is evidenced by the increase of centralized control in all departments of our public life, and it works by means of a system of rewards and punishments.

46. Whether one approaches the question from the point of view of orthodox Christianity or of pure ethics, this lust for domination is equally anti-social. One cannot at the same time fear or distrust one's neighbour and love or respect him as oneself. What is perhaps even more to the point, society founded on such a basis cannot endure. All tyrannies, which over-emphasize control as an end in itself, finally dissolve in anarchy. The increasing importance of human co-operation for effecting human ends makes control essential for achieving definite and limited objectives, but it is not the way to decide how whole peoples shall live their lives. In respect of any undertaking

centralized control is the way to do it, but is neither the correct method of deciding what to do, nor of selecting the individual who is to do it.

47. By far the strongest force in the world at present is the centralized power of finance. It is all the more powerful because it is not generally recognized. Probably nine out of ten bankers have no other motive than to retain the position of material advantage which their business ensures them, but it seems probable that there exists a small minority of men at the head of the international financial hierarchy to whom profit in the ordinary sense is a secondary consideration, who are actuated chiefly by the will to power. They aim quite definitely at a financial hegemony of the world, and their ideal is the servile state.

48. By their monopoly of credit they determine the size of national incomes, they control directly or indirectly all important organs of public information (the Press, the B.B.C., *etc*.), and, as we have seen, the policy of political governments. They are adept at directing popular ideas to their own ends. For instance, the world-wide interest in the United Nations as a safeguard against war has been focused upon the "inter-dependence of nations," which idea, logically pursued, leads to a centralized international government, dependent for its policy on such bodies as the International Monetary Fund and the International Bank for Reconstruction and Development. (The World Bank). The movement in favour of rationalization in industry for reasons of efficiency has received powerful support from the fact that this process tends to supplant the small independent trader by the huge combine, which is more easily controlled by the money interest. The attacks on the privileges of the land-

owner and the rentier aim at eliminating a class which is potentially independent of financial control. Such superficially opposite political movements as Fascism and Bolshevism have obtained support from international finance because they are both examples of centralized control.

49. The schemes for centralized financial control of the world are all the more dangerous because their chief supporters are probably perfectly sincere in their motives, and are, moreover, extremely able men, who can command all the best brains which can be bought for money. Whether these motives arise from the kind of cynicism, which led one eminent financier to remark that Major Douglas's proposals might save civilization, but the civilization was not worth saving, or whether they are the outcome of a peculiar form of religious mania which envisions an imperfect world kept together only by the divine control of plutocracy, is an interesting psychological study. But the practical issue is that individual freedom and real democracy are impossible until these schemes are finally defeated. In the last resort individual freedom cannot exist until men are in a position to choose or refuse one thing at a time.

APPENDIX

TWO EXAMPLES OF WHY THE NATIONAL INCOME CANNOT BUY THE NATIONAL PRODUCTION

A

1. Imagine industry to be one gigantic concern which produces all goods and services. All incomes (wages, salaries and dividends) are derived directly or indirectly from industry.

2. The goods and services produced by industry can be divided into two classes:

(a) **Cousumers' goods**, *i.e.*, the goods and services which are bought by individuals for their own consumption, *e.g.*, a loaf of bread, a suit of clothes, a theatre ticket.

(b) **Capital goods**, *i.e.*, the goods and services not bought by individuals, but used for producing future consumers' goods; *e.g.*, railways, docks, roads, factories, *etc*.

3. Take any factory or productive organization.
The prices of all the goods produced by this firm during a given period can be analyzed under two headings:

(A) **Personal Incomes**, *i.e.*, the wages, salaries and dividends drawn by the employees and share- holders of the firm.

(B) **Payments to other firms** for raw materials, machinery, plant, *etc*.; plus overhead charges.

4. The price of the goods produced by this firm cannot be less than A + B. But only the A incomes are available to buy these goods. The money representing the B payments was wages, *etc*., spent in the past by the recipients in order to live. It has long ago gone back to the banks in repayment of loans and has been cancelled.

5. As A is less than A + B, it is obvious that the joint income of employees and shareholders cannot buy all the goods they have produced. This is true of all firms, individually and collectively, so it is true to say of the whole nation, and of all nations, that its total income cannot buy its total product.

6. But can the nation's total income buy all the **consumers'** goods available? In amplification of paragraph 3 above, let:

Al = all payments made to individuals (wages, salaries, dividends) by producers of **consumers'** goods and services.

A2 = all similar payments by producers of **capital** goods and services.

B1 = all payments to other organizations by producers of **consumers'** goods.

B2 = similar payments by producers of **capital** goods.

Then prices of consumers' goods = A1 + B1.

And prices of capital goods = A2 + B2.

7. As we have seen, incomes represented by Al cannot possibly buy goods priced at A1 + B1; neither can incomes represented by A2 buy goods priced at A2 + B2. In the latter case it is usually objected that they do not need to.

8. The question is: can A1 + A2 = A1 + B1? *i.e.*, can the joint income from consumers and capital goods buy all the available consumers' goods? They can, if **A2 = B1**. If A2 is greater than B1, prices of consumers' goods will rise; if A2 is less than B1, prices of these will fall; and if the fall continues, bankruptcy and restriction of output will ensue, since producers cannot continue to sell their goods below cost.

9. Theoretically it is possible to make A2 = B1.
But practically it is impossible to do so continuously, since it means that capital goods must always be produced in quantities sufficient to provide a fixed purchasing power (*i.e*, A2 = B1), irrespective of

whether this volume of capital goods is required or not. The result would be a surplus of capital goods, which must either be exported, in the face of severe competition with other nations, or must be bought by home producers, in which case they become B1 costs in future consumers' goods.

10. Add to this problem the activities of the scientist and the engineer. Their inventions result in reducing labour costs and increasing plant charges. As a result B costs are always increasing relatively to A costs. In a primitive community B costs are very small compared to A costs, but in a modern industrialized nation B costs are not only large relatively to A costs, but are continuously growing.

11. If B2 is expanding relatively to A2, and A2 = B1, which is expanding relatively to A1, it follows that B2 is expanding **rapidly** relatively to A1. By adding A2 to each side of this latter statement we see that A2 + B2 is expanding rapidly relatively to A2 + A1. Therefore, loans to finance capital development (A2 + B2) cannot possibly come out of savings from A2 + A1, the total national income. They can only be found by creations of bank credit.

B

Appendix A may perhaps be criticized as giving too rigid a view of the present situation, *i.e.*, not emphasizing enough the TIME factor and the comparison of the two rates of flow; the flow of incomes to individuals and the flow of prices on to the market, both of which are continually changing.

Probably the best exposition of this difficulty is the booklet, *The New and the Old Economics*, by C. H. Douglas, being an answer to criticisms by Professor D. B. Copland of Melbourne University, Australia and Professor L. Robbins of the University of London. This booklet was first published in 1933 by Messrs. Brown, Prior & Co. Ltd. of Printcraft House, 430 Little Bourke Street, Melbourne, Australia, but has since been reprinted in "The Social Crediter"é of July 10th and 24th, 1954. (K.R.P. Publications Ltd., 245 Cann Hall Road, Leytonstone, London, E.l1.).

It would be more satisfactory if Appendix B contained a précis of *The New and the Old Economics*. But an attempt to compress Major Douglas's booklet would not do justice to his closely reasoned argument. And the inclusion of the whole booklet in this Appendix would have made this pamphlet unwieldly.

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