# THE YEARS OF TRANSITION

**By**

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SOCIAL CREDIT

It was towards the close of the period of happy and interesting work that followed the First Great War that a letter I had written to one of the daily papers, attacking the Party system in politics, led to my receiving from an unknown reader a copy of the first edition of Mr. Marshall Hattersley's book on monetary reform, *This Age of Plenty*. Up to that time I had never made any study of economics, and although I was interested in the unemployment problem as a result of what I had seen of the hard case of the unemployed in Portsmouth, I considered that the solution was to be found in emigration to the Dominions. There was a great deal in Mr. Hattersley's book that I did not then understand but even the first reading led me to feel that the author had got hold of something extremely interesting and worthy of further study. (The actual originator of Social Credit is, of course, Major C. H. Douglas, whose researches to some extent led him to the same conclusions as the late Mr. Arthur Kitson, the pioneer of monetary reform.) For nearly two years I occupied myself in gaining a fuller knowledge of the new subject, obliging my Social Credit mentors to explain themselves to me in language I could understand and also getting orthodox economists to put forward their criticisms and stand up, if they could, to the Social Crediters' replies. It was only when I discovered that in the long run the Social Crediters always had the best of it in a fair argument that I became convinced that here at last was the key to the solution of the world's major economic troubles, and I started propaganda work for the cause and got to know some of its principal advocates. It was at this point that I began to experience a rather unpleasant surprise and come up against what, in my later years, has come to be one of life's most worrying discoveries – the Appalling Stupidity of the Ordinary Person! I am no Solomon myself: I have often made mistakes and done foolish things, sometimes knowing them to be wrong, which is inexcusable, but thank God – and I say it in all seriousness and all reverence – I do not seem to be such a *complete* fool as the majority of my fellow-countrymen on some of the most vital issues of the day! I often wonder whether crass stupidity is a peculiarly British failing or whether it is a characteristic of the majority of mankind, in all countries and in all ages. Perhaps it *is* more or less a world-wide complaint. Certainly Christ, the most patient and understanding Person Who ever walked this earth, and the most ready and able to make allowances for excusable ignorance, was on more than one occasion moved to protest with vigour at the blameworthy slowness in the uptake, not only of His enemies, but also His friends.

The Appalling Stupidity of the Ordinary Person has been most obvious during recent years in connection with the war, as well as in connection with monetary reform. War stupidity, though quite as maddening and even more disastrous, is, up to a point, understandable, seeing that a right judgment on war issues involves some capacity to substitute reason for mere emotion and often some experience – which most men and women lack – of the rules which have to be observed if human beings are to be handled in a manner which brings out in them the best and not the worst.

Willingness to take an intelligent interest in, and support, monetary reform, while it can rightly appear as a plain duty to the greatest saint on earth, should, however, also appeal to the most selfish sinner if, after the manner of sinners, he desires to increase his own comfort.

When, therefore, I first took up the advocacy of Social Credit, I expected to have a soft job. In Christian work the response was likely to be slow, for Christianity demands self-discipline and self-sacrifice, neither of which is particularly attractive to the ordinary mortal; but persuading people to have more money should, I thought, surely be easy, especially in view of their marked readiness to have more of *my* money whenever there seemed even a remote chance of securing it! However I got a surprise; a few converts were made, and are still being made, but the average individual declined to be interested – and for such extremely inadequate reasons! Some said it sounded too good to be true and could not be bothered to find out if there was a genuine snag or not, even though the issue might mean so much to their own comfort and happiness. Some said that they had no head for figures, regardless of the fact that I was not asking them to study any figures not easily intelligible to a child of ten. Some accepted the criticisms of the orthodox economists as final truth and could not be induced to do what I had done – hear the Social Credit reply and make the orthodox economists stand up to it if they could. Some were quite sure that nobody would do any work if people got "something for nothing". In vain did one point out that the money which it was proposed to issue would not be issued at all except in relation to a backing of goods produced by work and idleness would therefore bring its instant and automatic correction. Some were positive that nothing could be done except there was a general international agreement: in vain, did one point out that money is national and not international, and that even under the present system we "pay" for our imports, not with our own money, but with exported goods. Many were certain that dreadful inflation would result and talked sarcastically about setting the printing presses to work and turning out millions of valueless notes. In vain did one point out that no such unlimited creation of money unbacked by goods was suggested and that in any case most modern money exists in the form of cheques and *not* of paper notes!

People *are* extraordinary! Harassed weekly wage-earners whose life is one long torment of anxiety because of lack of money, present or prospective, just could not be bothered to study, and combine with their fellows, in the support of a plan which would have given them that economic security which would have meant simply everything to them; and they would not do it, even though the necessary preliminary study might involve little more than the reading of a simply-written four-page leaflet. Social workers could not be bothered to interest themselves either, though they were in daily touch with problems of acute need and were constantly striving to raise more money for their work. Landowners could not be bothered to interest themselves even though they were always grumbling about the heavy taxation and were being driven from their ancestral homes and being obliged to abandon, or curtail, many of their principal interests and hobbies.

At this point, for the enlightenment of readers who may not have studied the financial system, I ought perhaps to explain in greater detail what monetary reform is and means.

Under the present financial system money may only be created for three purposes: to enable banks to make loans; to enable banks to buy themselves securities; and to enable the Central Bank to buy gold.

The practice of banks when making loans and, normally, when buying securities is totally different from that of private individuals doing the same thing. Ordinary people can make loans, or buy securities, only with sums of money already in existence, and when they receive repayment of loans (in my experience a very rare event!), or sell securities, they keep the money so obtained. Banks, on the other hand, possess the right, within certain wide limits, of creating new money for making loans or buying securities. In the case of the loan the new "cheque" money is created by the mere book entries which record the bank's liability to the borrower and the borrower's liability to the bank; while in the case of the purchase of Securities the filling-in of the cheque which makes the purchase, itself creates the money for that purpose. The practice of banks when receiving repayment of loans, or when selling securities is equally different from that of private individuals, for the money representing the principal of the loans is cancelled out of existence and destroyed, as also is money obtained by the sale of securities. What the banks do retain for themselves is the interest on the loans or the dividends from the securities.

The great evil of the present system is that it places the important service of creating the nation's money in the hands of moneylenders, whose interests in the matter are contrary to those of ordinary citizens. It is in the interests of ordinary citizens that money should be plentiful but it is in the interest of moneylenders that it should be scarce, for when money is scarce more people will be compelled to borrow at interest and, by granting or refusing loans, they can exercise immense power – the greatest economic and political power in the world.

The use of gold in connection with a country's money supply, or even in connection with its foreign trade, is highly objectionable, and benefits only the moneylender and the owner of shares in gold mines. Under a Gold Standard a country's money supply is related, not to the thing, which money is needed to buy – its output and import of desired goods and services -, but to the amount of gold in its Central Bank, and the relation of the money supply to this limited, senseless and utterly irrelevant factor is just another device for keeping money needlessly scarce.

The chief points in a reformed financial system, most of which are common to all truly progressive schools of economic thought, including Social Credit, are as follows:

1. The supply of money of all three kinds – cheque, not and coin – should be related to all the country's maximum output and import of desired goods and services.
2. Money should be created and issued not in the form of interest-bearing debt.
3. The creation of money should be a public service entirely divorced from a moneylender's private, profit-making business.
4. The State should set aside for its use whatever percentage of an adequate, annual debt-free creation of money it is in the public interest that it, or the Local Government authorities, should spend, and it should use taxation, which can be graduated, solely for the purpose of collecting, for cancellations and destruction, surplus money for the prevention of inflation. (Inflation is a state of affairs where there is more money than can be backed by goods and services).
5. Persons who, through no fault of their own, are displaced from paid work (often by labour-destroying inventions and discoveries) must be given enough money to buy their fair share of goods, but this money must not be obtained by taxation, for taxation would needlessly lower the standard of living of their fellow-citizens.

Social Credit is distinguished from all other monetary reform schemes by two particular *methods* of issuing the new non-debt money recommended by all progressive economists. These methods are:

(1) The Price Discount, a kind of subsidy paid with new, non-debt money to retailers who have sold goods to their customers at a price reduced by an agreed fraction.
(2) The National Dividend, a kind of Pensions-for-All, paid with new, non-debt money and related in amount to the country's output and import of goods and services – increasing as these increase, but diminishing if these should diminish. The philosophy behind the National Dividend idea is this. The citizens of a civilized country are, as the years go by, increasingly indebted, for the amenities they enjoy, to inventors *who are now dead*. Up to a point even those who perform work in operating the inventions of the departed do not "deserve" the whole of the output and Social Crediters contend that, as we are all to some extent "undeserving" of our heritage from the inventors, the best thing we can do is to distribute, through the medium of money, claims on that heritage and rely on the forces of education and religion to make us worthy of our blessings. Slightly unorthodox Social Crediters like myself are inclined to favour larger National Dividend payments to persons such as miners, who are doing specially arduous but useful work; and, if need be, we are willing to agree to a denial of National Dividends to wilful idlers refusing work for which they are still required.

In the case of Socialists, the Appalling Stupidity of the Ordinary Person is commonly associated with what monetary reformers often term the "revenge complex". Not only have they said so long and so loud that all our economic troubles are due to production for profit and to private ownership that they do not like to admit that they have overlooked a third factor infinitely more important, but they cannot bear to give up their cherished dream of making the idle rich sweat for a living. Sooner than allow the poor to benefit by a reform not made at the expense of the privileged classes, they would rather, it seems, allow them for an indefinite period to continue in poverty. In fairness I ought perhaps to add that the Conservative well-to-do sometimes provide an exhibition of folly well-nigh as deplorable, for, sooner than expose the working classes to the moral danger of receiving unearned income – which for some strange reason is not injurious to their own characters – they would rather allow themselves to be taxed out of existence!

I am afraid, too, that it must be admitted that Social Crediters have, to some extent, themselves been responsible for the progress of their idea being less rapid than it might have been. Brilliant as he is as an economist – and for his great discovery I personally owe him a debt which I can never repay – Major Douglas is not always quite at his best as a tactician. He has been known to disappoint audiences who wanted to hear his proposed remedies, by confining himself to an analysis of the cause of our economic troubles. When confronted by, and giving evidence before, a committee of persons largely representative of the interests of Orthodox Finance, he is a little apt to overdo the part of the canny Scot and, by his reticence due to a determination not to be "drawn" by his enemies, he may give the false impression of not being complete master of his subject. It is possible, too, that he has not always been altogether wise in his handling of the famous A + B theorem.

Briefly this theorem, which explains the money shortage inherent in the normal peace-time working of our economic system, is as follows. The only money ("A" payments) distributed by Industry in a form immediately available for buying consumer goods during a given period, consists of wages, salaries, interest and profits, but the price of such goods contains other items ("B) payments) as well – for example, charges for raw materials, overheads, depreciation, etc. It is clear, Major Douglas argues, that "A" money will not be enough to meet A + B prices – hence bad trade and failure to sell goods which people may want but cannot afford. Whether the strictly orthodox A + B theorem is quite watertight, even though I am now a Social Crediter of many years' standing, to be honest, I cannot state positively. The issue involves highly complicated questions of comparative rates of flow of purchasing-power and prices and is nothing like so simple as most of Major Douglas's critics arrogantly suppose. The inclusion of raw material charges in "B" costs cannot be dismissed with the reply that in time these all turn into wages, etc. i.e. "A" payments. Major Douglas never suggests the contrary. What he does say is that they do not, during any given period turn into "A" payments *fast enough* to clear from the market all the goods that need to be sold *during that same period.*

Whether the orthodox A + B theorem is completely sound or not, one thing is quite certain – that there is a shortage of consumer purchasing-power inherent in the normal peace-time working of the existing economic system which is due to increasing mechanization and to investment. As long as mechanization is increasing – and at present the end of this process in modern industry is not in view – the amount during any given period, paid out of depreciation funds for renewal of worn-out plant and machinery (and becoming available as consumer purchasing-power in the form of wages, etc., paid to the men carrying out the renewals) will be less than is being collected from the price of goods sold and put into such funds for future renewals of the ever-increasing amount of plant, machinery, etc. The difference between the amount paid out of depreciation funds for current renewals and the larger amount being collected and put in for future renewals represents a shortage of consumer money or, in other words, bad trade and unemployment, and the fact that money in depreciation funds is commonly invested makes in ultimate analysis, no real difference at all.

The indirect results of investment are in themselves another source of trouble. Whenever money is taken from the wages, salaries, interest payments, or profits distributed by industry and, instead of being used to buy consumer goods, is employed to start a new industry, or extend an existing one, as soon as the new industry, or the extension, is finished and starts putting goods on the market *additional to all the other goods turned out by industry before,* if no new money be created there will be a consumer money shortage for the obvious reason that, without getting into great and unnecessary difficulties, you cannot sell an increased amount of goods with a fixed amount of money.

Other reasons why Social Credit has spread less rapidly than it might have done have, I am afraid, been the jealous and intolerant spirit displayed by Social Credit groups and organizations. Some of these have not only refused point-blank to co-operate with other monetary reform organizations on the right side of the fence, but they have definitely been out to "down" all other organizations, even within the Social Credit movement if they have not considered them 100 per cent orthodox.

At times, too, Social Crediters have alienated thoughtful people by an over-enthusiasm which has led them to represent monetary reform as absolutely the only thing needed to establish, immediately, Paradise on earth.

The question is often asked why well-known economists do not support Social Credit, or even monetary reform. The reasons are these. The financial interests which desire to retain the existing system take good care to see that no one is appointed to a post which will give him a national reputation as an economist unless he is more or less in sympathy with the existing system, or, from a Socialist angle, can be trusted to keep people barking up the wrong tree at private ownership or production for profit.

Almost every economist, also, has his own theory as to what is wrong with the existing system, if he is willing to admit that anything *is* wrong. He has also his own pet remedy, and until he has seen that remedy tried without success he will not look at a reform suggested by someone else, even though that reform may in reality be far more fundamental.

Economists like the late Lord Keynes, for example, advocated, in the event of a money shortage, more bank loans at a low interest. Seeing that a bank loan is a creation of new money it is obvious that more loans would be a palliative of sorts, but they certainly would not be a satisfactory substitute for a proper and businesslike adjustment of the money supply to the goods-output and import, nor would they remove the evil of an ever-increasing burden of interest-bearing debt.

Other economists like Sir George Paish attribute all our troubles to the fact that governments, often by reason of political spite, put up trade barriers against the exports of other countries. It is quite true that hindrances to trade do help to make a bad economic position worse, but even the policy of the most ideal Free Trade government would prove inadequate to the task of providing maximum prosperity as long as a faulty monetary system kept the nation short of purchasing power for the goods brought in from abroad.

Although Social Crediters have their faults it would be very unfair to attribute slow progress wholly, or even mainly, to the Social Crediters themselves. For years past an extremely subtle and well-organized "smear" – to use an Americanism – and suppression campaign, covering all the main agencies of propaganda, has been carried on to discredit monetary reform and prevent people from obtaining information about it, and only a few independent local newspapers have escaped its malign influence. Many years ago a man who had been connected with the Press told me that at one time the Press Association received orders not even to mention Major Douglas's name. It has always been extremely difficult to get letters explaining or defending Social Credit accepted by any of the big national newspapers, which, however, have not been backward in publishing articles of an extremely hostile character. Occasionally tactics are varied and a Social Credit letter is allowed to appear. This is replied to by an orthodox economist who points out the Social Crediters' "fallacies". When the unfortunate Social Crediter attempts to reply he finds the correspondence columns have been permanently closed against him, and readers of the paper conclude (as they are intended to do) that the orthodox economist has wiped the floor with his opponent!

Much capital has been made by unscrupulous organs of the finance-controlled Press out of the alleged "failure" of Social Credit in Alberta. The truth is that the Central Government of Canada under the influence of the bankers and helped by our Privy Council, forbade every measure which the Albertan Government introduced in order to put real Social Credit into operation. Notwithstanding the terrific opposition a Social Credit government has been returned with a large majority at three successive elections, and the very minor reform measures it has succeeded in putting into operation have made Alberta probably the most prosperous section of the Empire. A common line of attack on the Albertan Government was, incidentally, that for many years it paid no interest to overseas investors. This was due to the fact that it inherited a bankrupt Treasury from its predecessor and very properly decided that the interests of its overtaxed citizens should have precedence over those of moneylenders living outside the Province. When substantial prosperity had at length been restored all the claims of the investors were honourably met.

The question is sometimes asked, “Is it really true that there is a plot of wicked bankers to enslave the world? The bankers I know seem very well-meaning individuals.” The ordinary bank manager is certainly honest and well-meaning and often strangely ignorant of the true significance of the system he helps to operate. I have met many bank managers who were unaware that a bank loan is a creation of new money and who really believed that they lent their customers’ deposits. When I have used arguments to prove the error of this idea some of them have replied, “ I never looked at it like that before. I must get someone in the City to debate with you.” . . . “Someone in the City” – there, among the heads of the Central Banks and the Trading Banks, one is apt to find the real root of the problem. A percentage, even of these, have no doubt persuaded themselves that they are rendering a true service to the community; but not all. Ruthless, selfish and unscrupulous in their lust for wealth and, still more, for power, the Big Men of Finance who control governments and dominate the world, now and again show their hand, it may be in a threat of non-renewal of an overdraft made to some business man who becomes too active in his advocacy of Social Credit; it may be in a statement *not* intended for public consumption which comes to light (usually in America), and reveals a calculated, predatory cynicism which is all too well in accord with observable facts and which, like Matilda’s statements, “makes one start and stretch one’s eyes”!

The control of the financiers over governments and politicians is exercised in many ways; by propaganda appealing to their prejudices and emotions; by advice, taking advantage of their prodigious ignorance; by bribes (often technically legal), taking advantage of their cupidity or ambition; by intimidation, threatening them with unpopularity as a result of a hostile Press campaign.

In this country financial control over the political world starts with the Bank of England, which, by a judicious system of wire-pulling (not necessarily in any way altered by nationalization), ensures that the most important officials of the Treasury are always in sympathy with the methods and policy of Orthodox Finance. The Party Whips are closely connected with the Treasury and they in turn control the Party members of Parliament, few of whom, for obvious reasons, care to offend those who have at their disposal the plums of office and preferment.