# Poverty and Over-taxation

THE WAY OUT

BY

The Duke of Bedford

Price SIXPENCE

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## THE WAY OUT

*by*

THE DUKE OF BEDFORD

IN old times before machinery was invented the chief difficulty was to produce enough goods for everyone even if every able-bodied man and woman had worked at some useful trade or occupation it is probable that there would have been only just enough to go round, especially in bad seasons. To-day we have an entirely different state of affairs, although many people think and argue as though we were still living in an age of scarcity. Owing to machinery and various other modern inventions there is no longer any difficulty about producing enough for everybody-the trouble nowadays is not to produce enough for everyone but to sell enough. In other words, the cause of all our troubles with poverty, unemployment and heavy taxation is simply and solely to do with money. There is not enough money for people to buy all the goods they need that industry can produce, nor is buying power distributed in the right way.

MONEY

CREATION OF MONEY

In very early times people often exchanged one kind of goods for another kind of goods without using money at all. This is rarely done, nowadays and we have a custom so general as almost to come to the same thing as a law that goods shall change hands only by the use of money. Imagine the case of a man who wants a pair of boots—he has no money but he has a sack of cabbages he has grown in his garden. How many boot shops would he have to visit before he found one bootmaker ready to exchange boots for cabbages, even though every bootmaker in the town were in the habit, sometimes, of eating cabbage? The use of money has taken the place of barter because in lots of ways it is so much more convenient; but there is one serious result—if a country that has abandoned barter for the use of money does not distribute enough money in the right way, then the lack of money will prevent men and women from satisfying their needs just as seriously as an actual shortage of goods must do.

Money is not really wealth, although we often speak of it as though it were. Wealth consists' of goods and services that satisfy people's desires and have a value in exchange for other goods and services. A doctor's skill or a musician's talent are "wealth", just as much as a butcher's meat or a baker's bread.

Money exists in three forms—coin, notes, and that mysterious but most important kind of money known as "bank credit", of which a cheque is the most familiar example. It might come as a surprise to some people to learn that about nine-tenths of the civilised world's money supply exists in the form of bank credit or "cheque money" as I am going to call it. It is by the use of cheques, bills of exchange, etc., that most big business deals are settled. It is most important that poor people who have no account at a bank, and perhaps think of money as consisting of little more than coin and notes, should realise that this cheque money which they never handle can make the whole difference to their lives by the effect it has on trade, unemployment and taxation.

All money is either created or issued by banks. Banks are private companies, including the Bank of England which is in no sense a department of the Government. Coin money is created by the Mint, and the Bank just sends to the Mint for the coin money which it may require, not paying for it with any kind of money that comes out of the pockets of the bank officials or the shareholders, but merely deducing the value of the coin received from the enormous debt which is owed to it by the Government. Paper money is created by the Bank of England, and cheque money is created by the banks generally.

Money, under the present system, is only created for three purposes: for making bank loans and overdrafts; for buying securities and investments for banks; and for buying gold for the Bank of England. When the Bank of England buys itself gold, it creates the money for the purpose in a way which may be compared with the writing down of money figures on a blank cheque. When the banks buy themselves securities they pay for them in the same kind of way, merely by writing down figures. It is important to realise that there is a big difference between what happens when a private individual pays by cheque for gold or securities that he has bought and when a bank does the same thing. The private individual pays for what he buys by cheque out of a fund of money already in existence; the bank, on the contrary, creates new money for making the purchase, merely by filling in the the cheque, so that the writing of the cheque leads to an actual increase in the total amount of money in existence.

When banks sell securities (investments), they destroy the money they receive as a result of the sale, which is, of course, another very important difference to what happens in the case of the private individual. On the whole, it is a bad plan that banks should be allowed to deal with securities in this way. In the first place it is obviously unfair that private companies should be able to buy themselves securities, which, of course, bring them dividends or interest, with money they have created at no cost to themselves, merely by writing down figures. In the second, by buying or selling securities, they can often alter their value and the amount of money in the country, in a way which is not good for industry.

BANK LOANS

The next point in regard to money which it is necessary to understand is the nature of a bank loan and the way in which it differs from an ordinary loan. If I have £100 and I lend a friend £50, then I shall have £50 and he will have £50, and when he repays me I shall have £100 again and he, will have nothing; in other words, an ordinary loan merely shifts money from one person to another without altering the total amount of money in existence. But a bank, when it makes a loan, has the right actually to create as new cheque money and as an addition to the amount of money already in existence, the sum it proposes to lend, simply by writing down the figures of the loan in its books. The mere writing down of the figure £100, if a bank is making a loan of that amount, is enough to bring £100 of new cheque money and new buying power into existence that was not there—before the entry was, made. The other important point to realise about this new cheque money which the banks have brought into existence so easily, is that the thing which gives value and backing to the money is not anything that the bank possesses, but the wealth in goods and the capacity to produce wealth of the country and of the borrower, be that borrower a person or a government.

Now just as the mere writing down of the figures of a bank loan creates money, so does the repayment of a bank loan destroy money. If a bank receives repayment of a loan of £100, when the debt of the borrower is cancelled, the cancellation also wipes out of existence the principal of the loan repaid, the bank keeping only the, interest for itself.

It will easily be seen what enormous power the banks possess of altering the amount of cheque money in existence—if they wish to increase it, all they have to do is to grant more loans and each loan granted adds to the total quantity of money in existence by its own amount; if they wish to reduce it, all they have to do is to go on receiving repayments of old loans while granting few, or no, new ones.

An imaginary example will, perhaps, make it more clear to the reader exactly how money is created by the granting of a bank loan and destroyed by its repayment. We will suppose that Mr B, a retailer, comes along and asks the bank for a loan of £1,000, offering it such security as satisfies it, and we will also suppose that Mr B, as often happens, is able to transact the whole of the part of his business we shall have under survey, purely through the medium of cheques without the use of a single note or coin. Having decided to grant Mr B his loan, the bank proceeds to make the following entries in its books. Under "loans and deposits" and under the general heading of "liabilities" the bank makes an entry which amounts to this—"We are prepared to allow Mr B to draw cheques on us up to a total of £1,000". Under "advances" and under the general heading of "assets" the bank makes another entry which means "We hold Mr B liable in a year's time to repay us £1,000 plus 4 per cent. interest". This double entry creates the money for Mr B's loan. Mr B now desires to purchase goods from Mr C, a merchant, and sends him a cheque for £500. Mr C pays this money into his account in another part of the banking system, and Mr B's bank makes an entry which means, "We are now only prepared to let Mr B draw cheques on us up to a total of £500". But the other entry, "We hold Mr B liable in a year's time, etc.", remains unchanged. The following day Mr B buys another £500 worth of goods from another merchant, Mr D. The cheque is paid into Mr D's account in yet another part of the banking system, and Mr B's bank makes another entry which means, "We now do not consider ourselves prepared to let Mr B draw any more money from us." But the other entry regarding Mr B's liability to repay stands unchanged, as before. The position, therefore, now is that there is still £1,000 more money than there was before the loan was granted, only it is now residing in that part of the banking system where Mr C and Mr D place their deposits, instead of in that part of the banking system where Mr B has his deposit, i.e., in Mr B's bank. In other words, a mere transfer of money has taken place from one part of the banking system to another after the original increase of the money supply by £1,000, due to the granting of Mr B's loan, had taken place.

Some time later Mr B sells the goods he bought from Mr C and Mr D to Mr X for £1,040 plus his profit (which latter item we will ignore for the sake of convenience). In real life Mr X would probably be the general public, but it is easier to postulate an individual. Mr X pays for his goods by sending Mr B a cheque for £1,040, which means that the sum of £1,040 is transferred from Mr X's part of the banking system to Mr B. Mr B sends the cheque on to his bank as repayment of the principal and interest of his loan. On receipt of the cheque Mr B's bank makes an entry which means, "We no longer hold Mr B liable to repay us anything". This entry, according to banking practice, also has the effect of destroying the principal of the loan repaid, i.e., £1,000 out of Mr X's £1,040 cheque. The £40 interest goes into the pockets of the bank and its shareholders. As a result, therefore, of this final transaction, the amount of money in existence has been reduced to what it was before ever B's bank made B his loan and £40 has been transferred from the part of the banking system where lay Mr X's deposit to the part represented by B's bank. After the loan was granted to Mr B, £1,000 of new money was transferred from Mr B's bank to the part of the banking system where Mr C and Mr D had their deposits. When the repayment was made, £1,000, i.e., as much as went to Mr C and Mr D together, was transferred from Mr X's part of the banking system to Mr B's bank and then destroyed. In regard to Mr B's profit, which we ignored, that would simply have operated as a further transfer of money from Mr X's part of the banking system to Mr B's part of the banking system, i.e., his private account in his own bank.

It has been stated earlier that banks create money when they buy investments as well as when they make loans; and that they destroy the money they get by the sale of investments as well as the money they receive when the principal of loans is repaid. If, during a given period, banks destroy more money by selling securities than they create by making loans, the effect on the total of the money supply of the country will be such that it will *appear* as though the loans had not created new money, though in reality, of course, they still have.

BOOMS AND SLUMPS

Financiers are apt to pursue, alternately, two different policies with the object of exploiting industry to their own advantage, and these two policies are one of the main causes why industrial booms alternate with slumps. When the financier decides that it will pay him best to get his return from interest payments on bank loans, he grants large numbers of bank loans, charging a low rate of interest to encourage people to borrow. These new bank loans, of course, increase the amount of cheque money and they usually do it in a clumsy way before new goods are in existence to back the new money and give it proper value. The result is that inflation takes place, prices begin to go up and the value of money begins to go down. After a while the financier gets nervous. Money, the "commodity" he has the right of creating, is no longer worth as much, in goods, as it used to be, and the day arrives when, in his opinion, not even the interest he is getting on the loans makes up for the decline in value of all money. The time has come to call a halt, the financier deciding that the value of money must be raised again by destroying some of it as bank loans are repaid—even if he has to accept smaller interest returns for a time, it will pay him in the long run and it will increase his power, for the more scarce money is, the more valuable it is and the greater the influence of those who control the supply. The

DEFLATION

destruction of money, or "deflation" as it is called, is carried out in the following way. When a merchant who has been dependent on a regular succession of bank loans for carrying on his business comes for his usual loan, the bank refuses it, or asks him for such a high rate of interest that he dare not borrow—he is therefore unable to place his order with the factory—the factory owner is obliged to discharge work people—the workpeople, being out of employment, can buy less, and soon the slump is well under way. It should be noted, however, that the suffering and loss, are entirely due to the clumsy or selfish way in which the financier has been manipulating the money supply. At the time when he caused the slump to begin there was no falling-off in the capacity of industry to supply goods nor were the needs of the people any less than, before. True over-production, i.e. production of goods that nobody wants as distinct from production of goods that people want but cannot buy, is a rare thing and does not call for drastic check by reduction of the money supply to a degree that injures nearly every trade in the country.

GOVERNMENT BONDS

In the case of a loan made to the Government the latter issues Government Bonds to the amount of the loan. Government Bonds are really bits of paper which give their holders the right to receive interest out of taxation. When the Government Bonds have been issued the bank creates new money for buying them merely by filling in a cheque and sending it to the Government. This cheque provides the Government with the new money it requires and taxpayers have to provide interest on the Bonds. The security for the loan is really the wealth and capacity to produce wealth of the entire country and thus by writing down some figures at the cost of a few drops of ink and a fraction of a clerk's wages in order to provide new money to lend to the Government, the bank is able to secure for itself a safe income of millions of pounds. In 1935 we were paying annually in taxation at least £90,000,000 and probably much more, to provide interest payments to banks for money they created for lending at trifling cost to themselves.

It is well to remember that the very large sums paid by the country to the banking system are not all allowed to appear as profits in the banks' published balance sheets, as this might lead to hostile criticism and inquiry. Large sums of money are placed in funds known as "hidden reserves"; others are set against "bad debts", and others again are used for the erection of large bank buildings on expensive corner sites, the value of which may be written off as though they had become ruins within a few years.

WAR FINANCE

It is very important to realise that money is raised to pay for a war in two quite different ways. A certain amount is subscribed by private individuals, companies, etc., out of what they have saved or earned. It is, of course, quite just that these people should be repaid as they have given up real money when they have lent it to the country.

The greater part of the funds which pay for the war is, however, created by banks in the way that has been described—created—for it is most necessary to remember that the money that banks, lend is not the money placed under their care by their depositors. It should be hardly necessary to point out that there is, no moral obligation whatever to repay out of taxes all the money which it has cost the banking system almost nothing to create to lend to the country at a time of crisis. As a matter of fact it is not possible to do so, for the sums created are far too large and the result is that, as things are at present, the country will have to go on paying the banking system interest on these huge loans for ever. One way of dealing with the situation would be for the State to create cheque money to repay the principal of the loans. This could not cause inflation, since, according to banking practice, the banks would be obliged to destroy the money as soon as they received it. It has been suggested that another way of dealing with the problem would be for a law to be passed obliging the banks to keep notes behind the whole of their cheque money deposits. In order to obtain these notes they would be required to hand over to the State, Government Bonds to the same value. These Bonds the State would then destroy and no more interest would have to be paid on them.

In many cases the swindle—for it can scarcely be called less—of the huge bank loans that finance a war and inflict an unnecessary burden of interest on the taxpayer, are disguised by the action of the banks in creating sums of money by mere book entry to lend to people to buy War Loan with, thus making it appear that a much larger amount of money has been subscribed out of people's genuine savings than is really the case. As an example of the way the banks can create money, the following figures are of interest. In June 1914 the banks held about £75,000,000 in coin and notes, and the total of bank deposits was £1,070,000,000. In 1920 the banks held £191,000,000 in coin and notes and their deposits had increased to £2,184,000,000, so that in addition to the extra £116,000,000 of paper money, created by the Government, the banks had created by book entry £1,114,000,000 of new cheque money to lend at interest!*

Under a sensible system, if it were ever necessary, owing to some national crisis such as a war, to issue a lot of new money unbacked by an increased amount of goods and so cause some rise in prices and lowering of the value of all money already in existence, the Government should itself issue the money and so avoid the need of taxing the citizens of the country to pay interest on a loan. It is ridiculous for the Government to get the banks to issue as a loan the new money the country should issue for itself, and to oblige the people to pay extra taxes to pay the banks simply for writing down figures pricing the wealth that the people, and not the banks, have created.

BANKING SYSTEM

It is most important to realise that the banking system performs three distinct functions. First, it is the nation's

*1921 figures. Since then the issue of Treasury notes has been superseded by issue of Bank of England notes, so that only £58,000,000 of total purchasing power is State-created. Cf. *This Age of Plenty,* Appendix C.

accountant-in-chief; this part of its work it does admirably. Second, it is the nation's chief moneylending agency; this part of its work it does tolerably. Third, it creates and destroys the country's money; but here the existing system is proving a hopeless failure. It does not, and in its present form cannot, fulfil its first duty of providing enough money in a form free to buy consumable goods and services, to enable the nation to use all that it desires of what it can produce or import. It will be seen, therefore, that the common defence put forward whenever the banking system is criticised, that banks are very generous in making loans at a low rate of interest, is quite beside the point as the chief defect has nothing whatever to do with the lending side of the banks' work. Equally pointless is the argument that banks cannot create unlimited sums of money for lending. Except in war-time this may be more or less true, as it is the custom that Joint Stock Banks shall not create for lending more than ten times the amount of their cash reserves and in actual practice they do not usually create so much. A bank's "cash reserves" consist of the coin and notes in the bank, together with cheques drawn on other banks, which have not yet been cleared, and of any claim the bank may have on the Bank of England, which acts as a kind of bank for bankers. The fact, however, that banks do not usually create unlimited sums of money for lending and require security before they lend, does not in any way touch the grave faults in the system, for these have little or nothing to do with the way in which ordinary bank loans are made; with the rates of interest charged; or with the almost costless creation of money.

We often hear it stated that the British banking system is wonderfully sound and deserves great credit on that account. It is true that the British banking system has not encouraged serious inflation, that is to say, the creation of too much money; that it does not usually finance wild-cat schemes; and that it does its accountancy work in a business-like way, although in this latter respect it is no better than the banking systems of most other countries. A bank "fails" when most of its depositors rush to it at the same time and ask for all their money out in coin or notes, instead of being content to do most of their business with cheque money in the usual fashion. It is stupid of depositors to behave in this way, for two reasons. The first is that as long as the industries of the country are all right and are able to produce plenty of goods and services to back money and give it value, there is no reason to feel alarmed about one's money and still less reason to suppose that coin or note money is more safe and valuable and more to be desired than cheque money. The second reason is that no modern bank, including the banks in our own country, ever keeps anything like enough coin and note money to meet the claims of all its depositors for money of these kinds at the same time, for banking is run on the assumption that depositors will be content to do most of their business with cheque money. The chief reason why English banks have not failed recently is not because they are any better than the banks of other countries, but because English depositors are not panicky enough to ask the banks to give them far more coin and note money than they ever have to give.

There are still certain further points in regard to money which must be noted before we can deal more definitely with the cause and cure of our present troubles.

For the satisfactory working of an economic system, it is not enough that there should be a lot of money of some sort somewhere. It is absolutely necessary that at any given moment there should be enough money in a form immediately available for buying consumable goods to clear from the market all die consumable goods that need to be, sold at that moment, if consumers' needs are to be fully satisfied and sellers are to escape a glut of unsold articles. Now money is not always money free to buy consumable goods; money that has to be set aside for buying raw materials or machinery; money lying in a depreciation fund; money being saved up to repay a bank loan; or even money lying on deposit at the bank which the depositor, probably with very good reason, dare not take out and spend (because he knows that if he does so he will be unable to recover what he has spent or get any more), is not at that moment money free to buy consumable goods, for the same sum of money cannot be doing two different things at the same time. We see, therefore, that it is not merely a question of having a lot of money, *but of there being a right proportion* between the money which is immediately available for buying consumable goods-food, clothes, houses, etc. and the other money which cannot immediately be available for this purpose because it has to be doing other things.

FUNCTIONS OF MONEY

People sometimes say that money is only a medium of exchange. It is true that money can be a medium of exchange, but it is most important to realise that money is not only a medium of exchange; it is also a claim on goods and services, and this function of money is becoming more and more important. The point of the distinction is this—if we say that money is a medium of exchange, we mean that a person who has produced goods of a certain kind can sell them for money and use the money he obtains to buy himself goods of a different kind from someone else. But we know very well that as long as a person has money in his pocket, and as long as goods have been produced somewhere to the value of that money, he will be able to buy goods even if he has not produced any himself to "exchange". Seeing that machinery is displacing human labour in producing goods, it is no longer wrong to give people money which will enable them to claim goods, even though they do not appear to have produced any themselves; it is both right and necessary.

It is interesting to notice that the same unit of money may have different characteristics at different times, and that every transfer of money from one person to another does not necessarily involve the purchase and consumption of some article.

If I, on Monday, use a £1 note to buy tea from the grocer, on Monday my £1 note is money in the fullest sense, claiming goods for consumption. But if on Tuesday the grocer uses the £1to pay wages to an employee, on this occasion the money is creating a problem of costs and debt against some future would-be consumer. The reason is that wages are part of the costs of a business and have to be added on to prices, and we may imagine a customer of the grocer's coming in on Tuesday evening, and having to pay £1 as an item in the price of what he buys to recoup the grocer for the £1 he has spent on wages. On Wednesday the grocer's employee uses the £1 to buy boots from the bootmaker. On Wednesday, therefore, the £1 is money claiming goods again. On Thursday the bootmaker uses the £1 to repay part of the principal of a bank loan, and since all money used to repay the principal of a bank loan is destroyed, anyhow as something that can be a claim on goods and services, the result of this transaction is to reduce the £1 to mere paper-lying-in-a-bank. On Friday a merchant obtains a new loan from the bank and asks for the use of some cash to pay wages. Our £1 note goes out to him, regaining the character of money-creating-a-cost, since bank loans have to be included in the price of goods to be sold.

VELOCITY OF CIRCULATION

A considerable amount of confusion exists, even in the minds of economists, on the question of the importance of the velocity of circulation of money, that is to say, the pace at which money passes from hand to hand. Social Crediters are often accused of making far too much of the quantity of money, and ignoring this other factor.

The velocity of circulation has its importance, and could be allowed for under Social Credit, but its importance is nothing like so great as it is often made out to be. An example will perhaps show how much and how little velocity counts.

I, a gentleman of independent means not engaged in a business with costs to meet, use £1 to buy an article from another gentleman of independent means not engaged in a business with costs to meet, and if he uses the £1 in turn to make a purchase from a person in a similar situation, it is quite true that the £1 achieves the purchase of £3's worth of goods and in cases of this description velocity is a very important factor. Transactions of such a character, however, are by no means common. What happens more usually is something of the following kind. If I use my £1 to buy £1's worth of meat from the butcher, the butcher cannot, as is often assumed, use the whole of that £1 to buy bread from the baker. For the reason that the butcher is a man engaged in a business which has costs to meet, he will probably be only able to use 1/- out of that £1, that is to say, his profit, for the purpose of buying bread. Nineteen shillings may have to go back to the farmer for the bullock from which the meat was obtained, and from the farmer it may go back to a bank and be cancelled out of existence when used to repay the principal of a bank loan. It might, of course, make a somewhat longer journey, passing from the butcher to the farmer, from the farmer to the cattle food merchant, from the cattle food merchant to the importer of cattle food and from him to a bank, for as money originally starts as a debt under the present system, ultimately it must find its way back to the banking system which first created it in the form of a loan. As long as money is travelling backwards in payment of costs and in satisfaction of an earlier debt, no matter how many hands it may pass through and no matter how much it may be split up, it cannot achieve the purchase of a second lot of consumable goods. It is certainly true that when the money finds its way back to the bank a debt is cancelled and the whole transaction settled up and the bank may then consider itself in a position to create a fresh lot of money by granting a fresh loan. The velocity of the money in returning to the bank may make a difference to the time at which this fresh loan is granted, but even so, it can easily be seen that the quantity of money, in a case like this, matters infinitely more than velocity. Even when business is prosperous, money travelling back in payment of costs is apt to move in a decidedly leisurely fashion through the medium of quarterly payments. Too much, therefore, cannot be expected of velocity, and an adequate quantity is all-important.

FAILURE OF PRESENT FINANCIAL SYSTEM

There are five reasons for the failure of the present financial system.

1—When the, State needs money it obtains it in three ways, all equally foolish.

*(a)* It may resort to taxation, which means that it demands money from people (taxpayers) who are forbidden by law to create money and whose total income, for reasons given elsewhere, does not (as it should) bear any real relation to the money value of the country's highest possible output and import of wealth in the form of desired goods and services.

*(b)* It may levy customs and excise duties which hinder and restrict trade.

*(c)* It may obtain a loan from the banking system. The latter creates *new* money for the use of the Government, but expects interest on its loan and this is provided by the overburdened taxpayer. It has been calculated that out of every 5/- paid in income-tax, as much as 4/9 goes in interest and debt charges, etc., only 3d. being available for paying for the ordinary services of the State.

2—The banking system, by its loans, creates the money for the principal of those loans, but it expects to be repaid, not only principal, but interest as well. No adequate fund, however, is created out of which the interest money is to come, and the banking system may be represented as constantly creating and lending £100 and asking back £104. The interest as well as the principal of earlier loans can only be repaid by robbing the fund created by the principal of later loans, making the chances of repaying both the principal and interest of the latter still more hopeless and causing national and industrial indebtedness and insolvency to increase at an enormous rate.

3—The chief duty and purpose of money should be to enable the citizens of a country to buy all they wish of what they can produce an import, and the total volume of money in a form free to buy goods should therefore be related as far as possible the total output of desired goods and services. Instead of that, however, it is kept in a some relation to the amount of gold in the Bank of England and to the Bank's holdings of Government Securities, which have no connection with the country's output of real wealth whatever.

4—Whenever money is taken from the profits of an existing industry (or saved from the wages and salaries it has distributed) and is invested and used, it may be, to erect a factory for a new industry, the sum so created must appear as an item in the prices of the goods of both industries, but it can only appear as buying power for the goods of one, with the result that the other finds the market short of money—demand for its goods by the amount of the sum so utilised. The reason is this. The profits of an industry naturally have to be included in the price of the goods it sells. If the profits of industry A are £100, then if all the goods of industry A are to be sold, consumers must have £100 in their pockets together with a sum equal to the whole of the costs of the industry which, added to profit, make up the total price of the goods to be sold. If the item of £100 profits of industry A were all spent by the people in industry A on buying the goods of that industry then everything might be quite all right and all the goods could be sold. But if the £100 profits from industry A is used for putting up a factory for the new industry B, then things will get into a muddle. Just as profits must form part of the price of goods and, if all goods are to be sold, a sum equal to profits must be in consumers' pockets in a form ready to buy them, so likewise must any money spent on erecting a new factory be included as a depreciation charge to replace the building when it wears out, and this charge also consumer's will need money to meet. If an item of £100 profits from industry A is used to put up a new factory for industry B, that £100 will have to figure as part of the price of the goods of *both* industries. If it is used by the men employed by industry B to buy the goods of industry A, then industry A will be all right but, when industry B comes to put its goods on the market, it will find that there is a shortage of £100 in consumers' pockets for buying them. If, on the other hand, the men in industry save the money which we are assuming has been paid to them as wages and buy the goods of industry B when these come on the market, then industry. A will find itself £100 short of money-demand for its next lot of goods and will be unable to make its usual profit. For this reason, when new industries are started new money must be made available to buy their output in a way which does not cause difficulties for older industries.

Owing to investment, to the increasing use of machinery, and to the demands sometimes made by banks for the repayment of loans before the last of the goods (the production of which the loans financed) have been sold in the case of consumable goods, or worn out in the case of capital goods (factories, etc.), at any given moment and therefore at every moment and therefore all the time, an increasingly small amount of money is being paid out in the only form which is at once available for buying consumable goods, namely, as wages, salaries, interest and profits, and an increasingly large amount is being temporarily hung up paying for raw materials, plant, depreciation and bank loans. The result is that sellers of goods are obliged to charge a higher price than can be met by the total of consumers' incomes. In order to escape from this difficulty, without any risk of inflation, Major Douglas, the author of Social Credit, proposes that retail sellers should reduce their prices to consumers by an amount which will enable the latter to buy what they desire, retail sellers receiving from the State a sum of new money equal to the difference between the new lowered price and the old one. The present system, however, does not allow money to be created for such a purpose.

5—Science and machinery are destroying the need for human labour but are increasing the output of real wealth in goods. Clearly, therefore, the men displaced from paid labour by machinery, together with other citizens, must be given money to buy their share of the output of the machines that displace them, and equally obviously this money must not be taken out of other people's pockets or you will only be robbing Peter to pay Paul; neither must it be borrowed, or you will only be increasing debt and adding to taxation in the future. Again, however, the present system does not permit of the creation of "gift" money for such a purpose.

Increasing mechanisation also causes an inevitable shortage of consumer-purchasing-power, since so long as mechanisation is *increasing,* the amount of money paid out of depreciation funds for, renewals can never balance the larger amount which is being collected from consumers, through prices, and put into such funds.

REMEDY Having gained some knowledge of the ways in which money is made and issued and of the reasons why the present money system works so badly, we may now turn to the remedy. Putting it in a nutshell it comes to this—that without in any way interfering with the proper work of the banks in looking after people's deposits and doing their accounts for them, without necessarily even depriving the banks of their right of making loans to industry to finance the production of real wealth, the State should direct the banking system to create and issue, *not* in the form of debt, as much money as is needed to enable the citizens of the country to buy at a price fair to sellers all that they desire of what industry and commerce can produce or import. Money would then become the servant of industry, aiding the consumption and production of goods, instead of being, as it is at present, the master of industry, limiting both.

STATE REVENUE

There are four main items in the necessary reform. First, the levying of taxes by the State for revenue purposes should be brought to an end. The State should create the money needed for its services, having due regard to the amount of goods available to back and give value to money; to the amount of money already in existence; and to the proportion of the country's goods and services which it is in the public interest that the State should claim. It may here be pointed out that the State already has and exercises the right to claim that proportion of the country's goods and services which it deems fit, only at present it makes its claim on an unnecessarily restricted total of goods and services, whereas under Social Credit it would make its claim on a much larger one, production being no longer hindered as it is at present.

There could be no temptation to any member of the Government or of the Treasury to issue too much or too little money. If he did the former, *he would lower the value of his own income* and everyone else's by inflation, and if he did the latter he would incur needless unpopularity. Taxation under a sane monetary system would only be used if need arose to collect superfluous money for destruction in order to prevent inflation and at the same time permit the continued steady issue of money to finance all consumers, including consumers of the poorer classes.

ABOLITION OF GOLD STANDARD

The second item in the reform should be the permanent abolition of the Gold Standard and of any gold basis for the issue of money or, indeed, of any basis other than the country's output and import of real wealth. When a country has a gold basis for the issue of its money it means that a certain proportion has to be kept between the amount of paper and cheque money and the amount of gold in the Bank of England. This is a most stupid custom of advantage only to financiers, as it enables them to increase their power by keeping the supply of money rather short and therefore extremely valuable. There is only one sensible thing by which to regulate the supply of the country's money and that is goods, the only thing which gives value to money under any system. It is most important to realise *that it is goods and not gold which give value to our money.* If a person were on a desert island with £1,000 in gold and £1,000 in paper money backed by gold, what use would either be to him? But if on the other hand he were living in a civilised country without a single ounce of gold but with paper money as acceptable as bank notes are in this country to-day, how could he feel the loss of gold?

INFLATION

It is most important that people should realise what inflation is and what inflation is not. It is extremely easy to understand and it is very strange that even economists should often make stupid mistakes about it. Inflation is letting the supply of money get above the supply of desired goods—when this happens prices tend to rise. Increasing the supply of money is *not* necessarily inflation: increasing the supply of paper money above the supply of gold is not inflation either. If a country has 100 lots of goods that people want immediately, which are worth £1 each, and if it has £100 in a form free to buy them, that is the perfect balance between goods and money. If it increases its supply of goods and money *together* until it has 1,000 lots of goods and £1,000, that is Social Credit; the perfect balance between money and goods is retained and there is still no inflation. But if a country with 100 lots of goods and £100, without increasing its goods-supply, increases its money supply to £200, then there will be inflation and the goods which were selling at first for £1 each will soon be selling for £2. Or, if the country with 100 lots of goods and £100 met with a disaster and the quantity of goods dropped to

50, if it did not destroy £50 of its money, or "deflate", as it is called, again there would be inflation, even though the money supply had not been increased. It is neither sense nor logic to argue, as many people do, that because all cases of real inflation have been accompanied by increases of money, therefore all increases of money must be real inflation.

LABOUR-DESTROYING AGE

Whether we like it or not the effect of machinery and of fresh scientific inventions is to destroy the demand for human labour. Fewer and fewer people need to be employed in spite of the fact that new industries are often started. Even if the reform of the money system brought prosperity to industry and made it possible for producers of goods to do what they cannot afford to do at present, viz. employ more people for shorter hours at a high rate of pay, the reduction in unemployment would only be temporary. As an example of the extent to which machinery is destroying the need for labour it has been stated that the boot factories of Britain, working to full capacity, could in seven weeks produce enough boots to satisfy the needs of the people of Britain for a whole year and this kind of thing is going on in other trades as well.

WORK AND INCOME

Now it is true that it is a very good thing for a person's character that he should have some kind of occupation, and it will be necessary to teach people to spend their spare time wisely doing various kinds of "unpaid" work-research work, arts, hobbies, crafts, etc.—if there is no need for them to do work of any other sort. But it is most important to understand that it is perfectly useless and senseless to go on trying, to cure poverty by getting everybody a paid job in industry.

NATIONAL DIVIDENDS

Because the machine *does* do the work of hundreds of people, it becomes more impossible each succeeding year to find paid work for everyone. The time has come, therefore, for a policy of National Dividends, that is to say, for the payment by the Government of a sum of new money to every citizen, in work or out of work, the amount depending on the country's production of real wealth, that is to say, of goods and services. The more goods produced and imported, the more money would be paid to every citizen to make it possible for all the goods to be bought. This new money would not mean money raised, by taxation, nor by a loan that has to be paid' back in the future. Paper money, turned out by the machine that makes paper money for the bank, is a simple example of one kind of new money. It is quite safe to turn out more money in this very easy way so long as the increase in the supply of money is accompanied by an increase of goods to give the money real value and backing. What is called "inflation of the currency" can only have a bad effect when a lot of money is issued with no increase in the amount of goods produced in the country. When this is done, people selling goods, and knowing that there is more money about for the same amount of goods, start putting up their prices, so that their customers find themselves paying more for everything they need. Real inflation of the currency is a very bad and foolish thing, but the country which is so afraid of inflation that it will not issue more money, *in a safe way,* when it is needed, is like a stupid father who nearly starves his children to death because he has heard dreadful stories about what happens when children over-eat themselves.

Under a policy of National Dividends, even if a man could not find work, he would still be able to live in reasonable comfort without being a burden on others, and he would be able to help the man in work by being in a position to buy his goods. It would still pay a man to get work if he could, as wages would be paid *extra* to National Dividends, which must not be confused with the money now given only to persons out of employment. If too many people became lazy, and decided to live on National Dividends only, a natural check would at once come into play, for, since the amount of National Dividends depends on the country's production of goods, if production dwindled through there not being enough labour, the amount paid to each citizen in National Dividends would also become less, until the idle, in self-defence, were forced to go back to work in sufficient numbers. If too much idleness were greatly feared, the Government could also disqualify from receipt of National Dividends people known to be refusing work for which they were still needed, or it could pay a larger amount of National Dividends to people in work, especially those doing work of an arduous or unpopular kind.

National Dividends could probably be paid most conveniently through the Post Office. As a large proportion would go to the poorer people, who are the most numerous class, it is certain that most of the money would be spent quickly on buying goods. Undue hoarding would be most unlikely, but its effects could easily be countered by issuing less money for a time until the hoards had been spent.

Persons who are inclined to object to the policy of National Dividends because they do not like the idea of money being given away should first face up to the alternatives—there are only five. 1-To go on with the present system getting steadily worse and worse. 2-To destroy machinery and go back to handicrafts. 3-To destroy money and go back to barter. 4-To put every citizen of the country to work for four or five hours a day; produce, with the aid of machinery, enormous quantities of goods in excess of what anyone can possibly use; throw the surplus into the sea at regular intervals; and then set to work to make some more! 5-To reduce hours until every citizen goes running down to the farm or factory to put in his ten seconds a day, that being all the time that is required of him, with the aid of machinery, to produce all the goods the country needs! National Dividends for all, with wages as the extra reward for those who do paid work, and unpaid creative activity for those for whom paid jobs no longer exist, is surely the least foolish plan to follow.

Some readers, perhaps, may still be a little puzzled by the use of the term "new" money." Where is this new money coming from they may ask. The answer is "From the same place that new money comes from under the present system, namely the paper-money-making-machine in the case of notes and the pen of the bank clerk in the case of cheque money".

PRICE FACTOR SCHEME

We now come to the third item in the reform.

We have seen already that, owing to the fact that at any given time too little money is available in a form free to buy goods, sellers are obliged to charge a higher price than, taking the country as a whole, can be met by consumers' incomes. Quite as much good can be done by lowering prices as by increasing the amount of money, for if goods that used to cost a shilling can be sold for sixpence, a person with a shilling can buy twice as much as before.

There is a way by which, under a reformed system, prices can be lowered for the consumer without inflicting any loss on the seller, but actually helping him to get more money by increased sales. The Government would obtain a working knowledge of the value of all the goods sold for consumption during the preceding period of, say, six months; the amount of money needed to replace all machinery, etc., worn out during the same time; the total value of all goods sent abroad; and the amount to be paid out as National Dividends under the scheme. All these figures would be added together. The Government would also find out the value of all consumable goods produced in the country in the preceding six months; the value of all the new machinery made and factories built, etc., over and above replacements; and the value of all the goods imported into the country for sale; and these also would be added together. The first lot of figures would then be divided by the second, and that would give a fraction. By this fraction, applied at the retail end of business, the cost of all articles sold in the country would be multiplied.

$$\frac{\text{Goods consumed} + \text{depreciation} + \text{exports} + \text{national dividend}}{\text{Goods produced} + \text{appreciation} + \text{imports}}$$

If this came to $\frac{£200,000,000}{£300,000,000}$ for the half-year the

the fraction would be two-thirds. Messrs Jones who, in the past have been selling a certain quantity of goods for £12 plus their profit would be asked during the coming half-year to sell for only £8 plus their profit (since £12 x 2/3 = £8) and on every lot of goods they sold (not made) the State would grant them through their banks £4 of new cheque money. Consumers would gain by very low prices and would be able to buy more goods—sellers would gain by the increased sales (usually encouraged by lower prices to the consumer), at a total rate of return to themselves the same as before. Instead of, only selling a few lots of goods at £12 plus their profit they would be able to sell more lots of goods at £8 plus £4 plus an agreed profit.

It may be desirable once more to draw attention to the fact that no attempt is made to "fix" prices in the ordinary sense of the term. If half-way through the period a seller of goods found that his costs had altered he would merely be required to multiply his new costs by the same fraction as the old one—2/3 in our example.

The question may be asked, "Why do you use these particular figures, and no others?" The aim of the whole thing is, of course, to find out how much the nation's wealth (stock of goods) has increased, and how much additional money is needed and what sale prices are desirable to enable the people to buy and use the increased amount of wealth. The goods sold and consumed during the six months must be set against the new goods produced. In a way, we may call the food that people eat while they are growing a crop of corn the true "cost" of that new crop, which will be a much larger amount of corn than the growers actually eat while growing it. A farmer and a ploughman do not, in a year, eat anything like all the corn that a harvest on their farm produces, and the same is true of other goods that people produce. Then worn-out machinery (depreciation) must be set against the new machinery made during the six months in addition to that required for replacing the worn-out machinery—this is called appreciation. If one factory wears out during the six months, and the factory owner builds two, one to replace the old one and another in addition, then the "appreciation" is *one factory* because the country has two at the end of the six months, whereas there was only one at the beginning.

Exports must be weighed against imports, for exports are wealth sent out of the country, and imports are wealth (goods) brought into it. Lastly, National Dividends must not be forgotten because these are new money issued to buy new wealth and, if we forgot to allow for them, we should find that we had issued two lots of new money against the new goods and that really would cause inflation.

It is very important to realise that the suggestion is not, in each period, to issue new money to the *full* value of all the goods produced. The proposal is to issue only as much new money as is needed to *supplement* the purchasing power already being distributed as wages, etc., so that the total output of desired goods can be sold at a price fair to sellers and to producers. Undesired, i.e. true surplus, goods would earn no money-grant for retailers because they would not be sold and producers would have to pay the cost of their production out of their own pockets, thus receiving a lesson not to go on making unwanted articles.

All the figures needed for making these big calculations are easy to get; most of them, indeed, are already being obtained for the Board of Trade returns, for the taking of "trade censuses" for taxation purposes and for the working of the Employers' Liability Act. Extreme accuracy would not be necessary because the reckoning would be made anew every six months. An under-estimate or over-estimate in the increase of goods, or in the need for new money, that chanced to be made in one period, could easily be corrected and allowed for in the next, before any harm had been done. If it were desired to make certain that too much new money could not possibly be issued at any time, the Treasury could easily make a rule to take the lowest estimate when dealing with all figures appearing to justify an issue of new money; or it could arrange to knock 10, 20, or even 30 per cent. off all its estimates when dealing with figures of this kind. Even if 50 per cent. were knocked off we should still be better off than at present, *for the point cannot be made too strongly that any attempt, no matter how rough or how cautious, to adjust the nation's purchasing power to its output of real wealth, must be a vast improvement on the present system which restricts the output of real wealth to the supply of purchasing power.* As a matter of fact, the condition of the shops, alone, would provide quite a useful guide and warning in regard, to the amount of new money being issued. If the shops were being cleared of goods faster than the factories could fill them, it would show that there was need to go slow with the issue of money; if, on the other hand, goods were hanging unsold in the shops even though it was known that people would have liked to buy them, it would be a sign that the next issue of new money could safely be made a little more generous.

It has sometimes been objected that the payment of National Dividends and the working of the Price Factor scheme would involve an enormous amount of difficult and expensive administrative machinery. This, however, is not the view of those whose work has made them familiar with civil administration. In a modern State, huge numbers of people are readily dealt with for purposes of National Health and Unemployment Insurance, pensions, taxation, etc. An arrangement, moreover, which has made it possible for a nation to consume all that it could produce and import would justify a hundred times over almost any extra cost that its working might involve. No citizen in his senses would grudge a service that brought him so rich a return. During the war, it may be remembered, *every* person was dealt with for the purpose of providing food-ration tickets.

COMMON FALLACIES

Attempts have often been made to prove that the price reduction scheme is unnecessary since, unless there has been too much saving, industry must distribute enough money in a form free to buy all the goods produced. Various fallacies underlie the views of the critics.

It is admitted by some that the wages, salaries, interest and profits distributed by a single industry making consumable goods may not be enough to buy the total output of that industry, but it is supposed that by adding the wages, etc., of the industries that produced raw materials and machinery for the consumable-goods industry, to those of the consumable-goods industry, enough money will be made available for buying the latter's total output. This, however, cannot happen, for when consumable goods are the result of a series of industrial processes *all* the wage and *all* the non-wage costs of *all* the earlier processes (including those of the machinery-making industries) have to be included with those of the final process in the price of the finished article. Therefore, the wages paid by the earlier industrial processes find themselves countered by

FARMING INDUSTRY

Wages, salaries, interest and profits costs. Non-wages costs.
(i.e., payments for raw materials, plant, machinery depreciation and bank loans.)

**£10** ———————— **£10**

Price of wheat—**£20**

MILLING INDUSTRY

Wages, etc. costs Non-wages costs.
(£10 plus £20 raw materials.)

**£10** ———————— **£30**

Price of flour—**£40**

BAKING INDUSTRY

Wages, etc. costs. Non-wages costs.
(£10 plus £40 for raw materials.)

**£10** ———————— **£50**

Price of bread—**£60**

Wages, etc. total—**£30**

their exact equivalents in the price of the consumable goods—and by a lot of "non-wage" items as well. This point may be made more plain by the diagram given on p. 30. For the sake of simplicity the figures used are purely imaginary since it is not necessary for them to correspond exactly, in their proportions to each other, to those which actual investigation of the industries concerned might reveal.

It will be seen that the total amount of money distributed, during the period under review, in a form immediately available for buying bread, is only £30, whereas the price of the bread has to be £60, and even if we imagine another industry with wage costs £10 and non-wage costs £10, which is making machinery for all the processes of the bread-making industry, that will only raise the price of bread to £80 and the, amount of money distributed in a form free to buy bread, to £40, and the gap remains as wide as before.

Some persons fall into the error of reasoning as though, when a consumable goods industry makes a payment to another industry for machinery, *the whole* of the money received by the latter is at once paid out as wages and profits to those engaged in the machinery-making industry. As a matter of fact only a small percentage of the money received can be paid out by the machinery-making industry in a form at once available for buying consumable goods. Most of it has to be used for making payments for other machinery, plant, overheads, depreciation, loans, etc.

Another extremely common fallacy takes this form. The critic reminds us that all the processes of industry and finance are being carried on side by side in all their various stages. In one part of industry a payment may be made for raw materials. In another part, at the same moment, a producer of raw materials may be using some of the money paid to him by an industrialist, to provide wages for his employees. This, the critic thinks, in some way makes the total of purchasing power distributed by industry during any period, equal to the total prices of consumable goods needing to be sold during the same period. The answer is that it does nothing of the kind and introduces no new factor not already fully allowed for in the Social Credit contention that wages, salaries, rent, interest, and profit, from whatever source they come, cannot buy the total output of consumable goods whose price must include many other items of cost *besides* wages, salaries, rent, interest, and profits. No producer of primary commodities can payout the whole sum that he receives from the industrialist for his product, in the form of wages. Moreover, money used for wages which has been taken from a sum received earlier as payment for raw materials is just a part of the wages of the period we are considering; it is not an *addition to wages!*

Some critics of Major Douglas's scheme imagine that if purchasing power were really unequal to the total of prices the system would have broken down sooner. There are, however, certain factors which can delay this collapse. As long as a country can make for export enormous quantities of capital goods—buildings, machinery, railways, etc.—which are financed with newly-created bank loan money and which do not increase the output of consumable goods within its boundaries, the wages paid to the men making these capital goods will help to clear the home market of a fair quantity of consumable goods. The same thing happens if a country can import raw materials, make them up into manufactured articles and *re-export* them instead of selling them at home. During the last century England was in this position, but now that foreign countries are beginning to manufacture their own goods and no longer want anything like as much of our railways and machinery, the factors which prevented the inherent defects in our monetary system from being felt are able to give us less and less relief.

The creation of new money to finance Public Works, re-armament, and wars, also helps to bolster up the faulty monetary system by increasing buying power without increasing, by the same amount, the prices of ordinary consumable goods on the market.

The belief is often expressed that the new money issued as National Dividends and to those retailers who have sold goods to consumers at lower prices, would in the end pile up and cause inflation. This need not happen for the following reasons—the bulk of the money, working round through the ordinary channels of business from consumer to retailer, from retailer to wholesaler and from wholesaler to producer, would, in the end, be used to repay the principal of some bank loan for production and whenever it was used for that purpose, like all money used to repay the principal of a bank loan, it would be destroyed. We have seen already that when new industries are to be started, they cannot be financed out of the profits of existing industries without trouble being caused. Some of the new money issued would perform a necessary and useful service in starting these new industries. Earlier in this book we defined real wealth as the total of desired goods and services. Services undoubtedly are real wealth and have a money value, yet in regard to certain kinds of services, a musician's skill, for example, it would be impossible for a Government official to make an accurate estimate of their money value. Part of the new money, therefore, issued as National Dividends, would go to pay for services which possess a money value, though not one which could be estimated beforehand. Finally, as long as the desire of a civilised community for goods and services continued to increase and the capacity of science and machinery to meet that desire continued to increase—and it is very difficult to foresee an end to either process—there would be a need for an increase of the amount of money actually in circulation if the increase of goods and services was to be sold at a level price. If, when all these needs had been met, it were found that a certain percentage of the, new money issued still threatened to pile up and cause inflation, it would be quite easy to collect by taxation, for destruction, as much money as was needed to preserve

ANTI-INFLATION TAXTION

the value of the money left, and to permit ,continued issues of new money to the right people in the right way. There would be nothing new in collecting money by taxation and destroying it, for this is done under the present system whenever money is taken from taxation and used to reduce the National Debt. Note, however, that this does not amount to a proposal *for increasing the present rate of taxation.* Taxation under Social Credit would be very light because all or almost all existing forms of taxation would have come to an end, as the State would be creating money needed for its services.

To sum up the whole matter, we may picture industry, during any given period, as incurring costs to the amount of £100 in the production of goods but as only paying out £80 of that £100, in the period under consideration, in a form free to buy those goods. Social Credit distributes £10 to the citizens of the country in the form of National Dividends so that their income available for spending is raised to £90. It then arranges that retailers can sell their goods to consumers for £90 and, when they have sold them, it gives them £10 on their sales. All costs are thus recovered and all debts repaid. Part of the "delayed" £20 which was distributed in the course of the production of the goods, but, getting temporarily hung up in the forming of other, funds and the making of other payments, did not become available for buying the goods during the period within which they needed to be sold, will come in useful for the various purposes just alluded to, and any sum—say £5—which is really redundant, could be collected by taxation and destroyed.

FOREIGN TRADE

The question is often asked "What effect would Social Credit have on foreign trade?" If all countries adopted the reform, trade relations and international relations generally would become much more friendly and sensible and the economic causes of war would be removed. Tariff barriers would come to an end because Governments would have no difficulty in obtaining all the money they needed and because, under Social Credit, imports become a far greater advantage than a drawback, since we should no longer have to worry about employment. The more goods imported from abroad the more National Dividends could be issued to everyone, including the unemployed.

The struggle for dumping grounds and favourable trade balances would come to an end when the people of a country were allowed enough money to buy enough of the products of their own industries (or the equivalent value in imports for their exports) to keep those industries in a flourishing condition.

Finally, foreign debts could be easily settled, because they could be paid in the only sensible way in which, they ever can be paid, namely, with goods. The country receiving payment would simply issue to all its citizens money to the value of the goods sent in so as to enable them to purchase and enjoy them.

If only one country adopted Social Credit, no serious difficulty of any kind would arise and the fear that one country could not do it without the agreement of the rest of the world is completely without foundation. It is very important to realise that under any system, foreign trade must always be, at bottom, an exchange of goods for goods. When an English merchant buys goods from abroad, he does not pay for them with English money, for the simple reason that English money is of no use to foreigners in their own land, just as foreign money is of no use for buying goods in England. Through the mechanism known as "bills of exchange" which the banks operate, the foreigner is paid in the money of his own country, and exactly the same arrangement would continue under Social Credit.

For the purpose of success in foreign trade and for getting the imports that we need, there are really only two things that matter under any system. The first is largely uncontrollable under any system, but our position under Social Credit would be rather stronger than it is now—the other is controlled absolutely under Social Credit and our position would be very much stronger. The largely uncontrollable factor is the foreigner's desire for our goods; if a foreign nation no longer wants any of our goods, then under no system that can possibly be invented can we continue to do business with that country and receive imports from it. All we can do, as far as that country is concerned, is to produce and consume more for ourselves; we could do that under Social Credit; we cannot even do that under the present system. But the more important factor is what is known as the internal value of our money, that is to say, what the British pound will buy in Britain. As long as the British pound will buy a nice quantity of goods in Britain, and under Social Credit it would buy more than it can do at present, the foreigner desiring to come shopping over here, as it were, would value it highly in terms of the money of his own country.

NO GAMBLING IN CURRENCIES

As a matter of fact, under a sensible money system no private individual or private institution would be allowed to buy, sell or own foreign moneys and so alter their value in a way disturbing to trade. When a country's money is treated as a kind of goods (which it should never be) and is actually bought and sold with the money of another nation, if more people want to buy than want to sell the price goes up, and if more people want to sell than want to buy the price goes down. It is easy to sec how difficult trade might become for the merchants of two different countries if they agreed beforehand on a business deal when the relative value of their respective moneys stood at a certain figure, only to find later, when the time for payment arrived, that the values had been altered owing to some wretched financier gamblers having bought or sold a large quantity of one of the moneys concerned. An expected business profit might thus easily be turned into a loss.

All foreign moneys to which a right has been acquired by a nation through the sale abroad of its goods should be held for the nation by its Central Bank. The individual citizens of that nation would then receive payment in the money of their own country when they sold goods to the other country, a right to some of whose money their Central Bank held.

RATES OF EXCHANGE

The question is sometimes asked, "How, if we abandoned gold as the basis for our issue of other kinds of money could we decide, for trading purposes, the value of the English pound in relation to the moneys of other countries?" Even if we no longer kept the supply of paper and cheque money related to the amount of gold in the Bank of England, we could quite easily, for trading purposes with, shall we say, France, agree for a certain period to regard the English pound as worth so many grains of gold and the French franc as worth so many. An alternative plan would be to ignore gold altogether and find out the value of a ton of wheat in pounds in England and of a ton of similar wheat in francs in France, and this would, of course, give the relative value of francs to pounds. It would even be possible to fix the relative value of the two currencies for a certain period without troubling about' any" standard" at all.

The fear is sometimes expressed that foreign financiers, annoyed by our adoption of Social Credit, might try to harm us by driving the value of the English pound very low on the foreign exchanges, or raising it very high. This they might try to do by buying or selling with some kind of foreign money, large quantities of English pounds in the foreign money markets, assuming, of course, that they were still allowed to do so. When money is treated as though it were goods and actually bought or sold, the same rule applies to it as often applies to other goods; namely, when more people want to buy than want to sell, the price goes up, and when more people want to sell than want to buy, the price goes down. But even here, a Social Credit country would be perfectly safe. Foreign financiers would be most unlikely to try and lower the value of the English pound because lowering the value of a country's money on the foreign exchanges is the very best way of helping that country's export trade. The reason is this—when a foreign merchant wishes to buy our goods, for the reason that foreign money is of no use in England, he has, through the banking system, to buy with the money of his own country English· pounds to buy English pounds' worth of goods. If the value of the English pound is low it will mean that, with a small quantity of his foreign money, the foreigner will be able to buy a large number of English pounds and in consequence a large number of English pounds' worth of goods. This will mean that English goods will be a nice bargain for him, and when he wants goods of the kind that we make, to import and sell in his own country, he will buy them in England in preference to anywhere else because he will be able to get them cheaper. This will be good for our export trade and it is indirectly with our exports that we are able to "buy" the imports that we need.

If, on the other hand, foreign financiers tried to run up the value of the English pound very high on the foreign exchanges in the hope that foreign merchants would find our goods too dear to buy, under a Social Credit system we could still defeat them quite easily. Our Government would simply say to our people engaged in the export trade, "We understand that your foreign customers are beginning to say that they can no longer buy from you, because they have to use such a tremendous lot of their own money in order to buy English pounds. Very well then, offer them for £5 the goods for which you have been charging them for, and on every lot of goods you sell, we will give you £5 of new English money".

There is one last point of importance in regard to foreign trade. The fact that we adopted a sensible money system would not make the smallest difference to the quality or good workmanship of the goods we make in this country for the export trade, and the reason why the foreigner, under any system, buys our goods is because he finds them useful and not because he approves or disapproves of the way in which we choose to create and issue money to our own citizens, a matter which cannot interest or affect him in any way.

FOREIGN LOANS

People whose ignorance of finance causes them to regard foreign loans as harmless and useful transactions need to learn something of the folly and mischief of international moneylending as it is actually carried on in the world to-day. Just as a bank loan differs fundamentally from a private loan, so also does a loan by one "country" to another differ from a loan by one citizen to a fellow-citizen of the same country.

The reasons are these—in the first place, one country cannot, in the strict sense of the term, "lend" money to another country at all because money is not international. English money, generally speaking, is of no value in Austria and would not be accepted by Austrians as payment for Austrian goods. Austrians want, and use, only Austrian money. In the same way, Austrian money is of no value to English people who can only use English money in their own country. Furthermore, Austrians have no power to create English money and English people have no right to create Austrian money.

When "England" lends money to Austria, what really happens is this. An English private company, i.e. a bank, creates English money by mere book entry to be paid to Englishmen who make English goods to send to Austria, and the only way in which Austria can repay the loan is by selling Austrian goods in England until, by their sale, she has collected enough English money to make the repayment. Our Government, however, will probably object strongly to Austria selling Austrian goods in England. It is dumping, they say, and will add to unemployment, so they do their best, by tariffs, to keep the Austrian goods out. Therefore the unhappy Austria will at the same time be abused for not paying her debts—and denied the means of doing so!

It does not, however, much matter to a bank if it does not get the principal of its loan repaid, since, when a bank lends money, it creates the money it is going to lend, merely by writing down figures, and when the principal is repaid it destroys the money received. What most concerns the bank is the interest on the loan, which is the profit it keeps for itself, and as long as Austria, in our illustration, can by hook or crook manage to sell enough goods in England to collect money for paying the interest on the loan, the bank will be well satisfied. Indeed, it will rather prefer the principal *not* to be repaid for, if it were, the bank would have to destroy the money, and its interest-income on the loan would come to an end.

The position of the individual Englishman who "invests money abroad" is not so easy or safe. When an Englishman "invests money in Austria" it means that he gives his English money to be paid in England to Englishmen who are engaged in making goods for export to Austria; or he may get his English money used to buy Austrian money to buy Austrian shares with. Not being in the privileged position of a bank, however, he cannot, when, he wants to lend money, or "invest it abroad", just create for himself the money he needs for the purpose—he can only lend money he has saved or earned and, if it is not recovered, not only the interest, but also the principal will be a dead loss to him. As in the case of the bank, the only chance the private individual has of receiving interest on his loan or investment, or of being able to sell his investment to someone else for as much English money as he gave for it, lies in plenty of Austrian goods being sold in England. If they are not sold he will lose his money, as has happened in hundreds of cases over a long period of years where money has been "invested abroad".

Even under Free Trade "foreign investments" are an uncertain proposition enough, and it is scandalous that the Government in the past should have permitted British citizens to be encouraged to "lend money to Germany" when they knew perfectly well that they meant to put a tariff on German goods and so hinder repayment. When trouble ensued, ignorant people started stirring up ill-feeling between the two countries by asking why Germany was allowed to spend so much money on armaments, etc., when she ought to be repaying her debts. The answer, of course, is that the money Germany spends on herself is *German* money; but the money she has to repay us with is *British* money, which she has not the right to create and which we put obstacles in the way of her collecting.

One sometimes hears people say that if Social Credit were adopted foreigners would withdraw their money from Britain. Foreigners have not got any of their money in Britain to withdraw, for the simple reason that foreign money is no use in Britain, and even if they had, seeing that it is useless to us, it would not matter if they withdrew it! If what is meant by this misleading phrase is that foreigners would not use their money in their own countries to finance the production of goods for sale in England; or that they would not use their money to buy English money wherewith to purchase English shares, the objection is equally without serious weight. Social Credit is a Free Trade reform, and Free Trade, by removing tariff barriers, would encourage and not hinder both the sale of goods in foreign countries and the purchase of foreign goods in our own country. It would also oblige the foreigner who wished to sell his goods over here to take what he considered an equal value of our goods in return, for in no other way, under Social Credit, could he obtain payment for what he sent.

FREE TRADE

Money created by the banks during the War to finance the production of arms for the use of an allied country is a debt for the repayment of which there is no moral justification. The bankers have already been rewarded, in interest, fifty times over for the slight service of creating money to pay the bill for arms supplied to their country's ally.

In cases where a country should have been allowed to create its own money to develop its own resources, but where foreign financiers have insisted on creating the money of *their* countries to finance the production of goods to be sent to the country in need of development or rehabilitation, there is also no moral ground for repayment. There is good reason for supposing that the Bank of England has disgracefully exploited both Germany and Austria in this way. Instead of allowing them to restore their countries by creating their own money to develop their own resources, the financiers who controlled the economic policy of the Allies through the League of Nations insisted on putting the defeated countries in their debt by arranging for the Allies to provide the goods with money created by the Allies' Central Bankers.

The only debts deserving of recognition are those incurred to the private citizens of other countries who have given up their savings and earnings to finance the production of goods received by the debtor country; also debts owed to foreign banks which have financed the production of goods which the debtor country had not the means of producing for itself even if it had had the money.

As a matter of fact, however, even in the case of complete default by a debtor country on war debts, there is not the slightest reason why any private citizen of a creditor country should lose his money. His own government can easily create and give him new money to the amount of his loss.

It may here be pointed out that a country having an enlightened monetary system and wishing, from motives of humanity, to assist the development of a backward and impoverished country, could do so easily. Its government would *create* money to pay for the production of goods and services to be given to the backward country. No financial burden would be incurred by its own citizens, and care alone would have to be taken not to create so much money for the purpose of making goods for export as a gift, that the total amount of money in the country rose above the total value of consumable goods for sale *in* the country, thus causing inflation. Not only could backward countries be helped in this way, but neighbouring countries as well. Were we not governed, by fools incapable of new ideas we should long ago have achieved international peace and friendship by spending on the production of goods to help the people of other lands the money we have created for armaments that increase their hate and fear.

WRONG METHODS OF PAYING FOREIGN DEBT

We have said that there is only one sensible way of paying a foreign debt—with goods. There are, however, several foolish and harmful ways, at present much favoured by financiers.

1—By borrowing another sum to payoff the first loan. The absurdity of such a practice is obvious, but is very nice for the financier who in this way is able to go on getting his interest on money it cost him nothing to create for lending.
2—With gold ( or silver). The objection to this method of payment is two-fold. In the first place there is not nearly enough metallic money to pay off any large debt; in the second, if a payment is made in gold, there is a most mischievous rule whereby the banks of the country which has made a payment to another country in gold *then proceed to destroy a lot of their country's non-gold money as well,* so as to keep the supply of non-gold money still in proportion to the now reduced amount of gold. Although their country's capacity to produce goods remains the same as before and although the need of its citizens for goods remains as great as ever, just because some hard yellow metal called "gold" has been sent away a lot of other money has to be destroyed, causing increased poverty and unemployment when there has not been the slightest decrease in the country's capacity to produce true wealth in goods and services!
3—By the debtor country obtaining some of the creditor country's money to pay the creditor country with. The objection to this plan is that this transaction does nothing to assist the real need of the citizens of the creditor country, which is for more of the money of their own country for them to spend on consumable goods. The debtor country has no power to increase the total amount of the creditor country's money, and all it can do is to collect some of it from one lot of the latter's people and transfer it to another lot.

CRITICS

The question is often asked why, if Social Credit be the ready remedy that its supporters claim, it has so few adherents among important people in the political world and among those who have the reputation of being distinguished economists.

The position with regard to members of Parliament, Cabinet Ministers included, is this. All of them, practically without exception, are remarkably ignorant of the monetary system, nor do they see any reason for troubling to make themselves better informed. They take the line that their duties bring them in touch with a number of highly technical problems, of which finance is only one, and that their right course is to seek the advice of the recognised experts on such matters. If the experts differ, they prefer to take as little action as possible. Politicians, as a class, are also very timid people. Their main concern is to keep their party in power; to do nothing that will expose them to such hostile criticism as may damage the reputation of their party; and to make no move unless they are certain of having the bulk of public opinion behind them. It may seem strange that no men in prominent positions possess vision and courage in regard to monetary matters, but at the time of writing such is undoubtedly the case, as anyone who takes the trouble to make the necessary inquiry can discover for himself.

Lack of support from persons who have a reputation as orthodox economists may be due to a variety of causes, and it is well to remember that no one is usually appointed to a post which will give him a national reputation as an economist unless he is known to be more or less in sympathy with the present money system. Selfish financial interests may therefore be involved and incomes or salaries might suffer if support were given to liberal ideas. In the case of men of higher principles, devotion to a particular theory is the usual explanation. In the field of economics it is easy to mistake for the root cause of trouble something which is in reality an effect of the deeper and more fundamental cause. Financial experiments and reforms being comparatively rare, it is easy for an economist to continue to pin his faith to a particular remedy, the futility of which is never demonstrated nor is ever likely to be demonstrated by practical trial. As long as his own theory remains untried and therefore not discredited by failure, the economist refuses to give serious consideration to any other theory. Some bankers, for example, attribute our troubles entirely to the action of politicians in setting up tariff barriers, demanding impossible war indemnities and refusing to trade with, countries whose governments they happen to dislike. Until they have seen the trial and failure of the perfect politician who never commits these mistakes, they will not admit that more drastic changes are necessary.

Bankers also are curiously ignorant about, the true nature and cause of inflation. To them any increase in the money supply appears to be inflation and likely to reduce the value of their depositors' money. It does not penetrate their minds that only an increase of the money supply above the supply of desired goods can produce the evil of inflation which is a rise in prices.

Some economists, again, rely on raising and stabilising prices to put everything right, and since there is little chance of doing either under a system where new money appears first as debt and consumers are starved of buying power, their faith in their remedy remains unshattered. Others, who are Socialists, are unwilling to see any hope of improvement apart from the adoption of the full programme of Socialism. It would appear like disloyalty to their ideals to do so.

Many Socialists also are highly suspicious of any scheme which removes the poverty of the poor by a method which does not involve taking money away from the rich and inflicting upon them a certain degree of hardship which they consider the rich deserve. This desire for revenge is perhaps understandable when we remember how in the past the workers have been exploited by selfish employers and landlords, but for all that it is not really sensible.

People sometimes find it a little difficult to see just how one would begin to put Social Credit into practice. As a friend of the writer once said, it would be almost as simple as introducing daylight-saving and cause as little fuss and bother. The Government would simply repeal the Bank Act which gives to the Bank of England its present despotic power and would say to the banks, "Carry on as you are doing, but in addition to your present work, we require you, in the country's interests, to create and issue to such and such persons so much money on the following terms".

BENEFITS OF SOCIAL CREDIT

Social Credit is a reform which is in the interest of people of all classes, of all political parties, and of all types of character. Even the commercial banks would gain, since, owing to the greater ease with which industry would be able to sell its goods they would be able to make more loans on better security and would be more sure of punctual repayment. Social Credit is in the interest of the Conservative and man of leisure, because it frees him from an intolerable burden of taxation without interfering with his personal liberty.

It is in the interest of the Socialist because it frees the weekly wage-earner from the terrible evil of crippling poverty. The Socialist, moreover, remains just as free as before to pursue the aims and ideals of Socialism and it is certain that Socialism can never bring to its supporters the benefits promised, so long as the supply of money, the life-blood of industry, remains in the control of private and selfish hands, and so long as the present fatal defects are allowed to remain in the methods by which money is created and issued. Without reform in the *method* of issuing money, the mere nationalisation of banking would certainly be useless and possibly even harmful. Without necessarily in any way weakening in their determination to overthrow the injustices of the Capitalist system, Socialists would do well to realise much more clearly the most important fact that the present financial system is *not* a harmonious and necessary part of the Capitalist system. It is the enemy of the average capitalist, just as it is the enemy of the average worker and *both* are at present suffering and being made poorer by reason of it. Some of the worst evils attributed to the Capitalist system have been largely due to the financial system. Wage-cuts commonly follow a falling market brought about by the injurious working of the financial system. Many an employer who would have been reasonably considerate as long as the market was good, has begun to exploit his workers when finance obliged him to choose between a reduction in his own income, or even bankruptcy, and a reduction in theirs.

The fear has sometimes been expressed that if Social Credit were introduced without Socialism, the wage-earning class would be robbed of its benefits by reduction in wages and by increase in rent. This could not happen. Labour is becoming increasingly powerful in its ability to offer organised resistance to injustice, and employers and land-lords would hardly dare to attempt acts of exploitation that would be far less easy to defend when the general condition of the country had become more prosperous and their own financial position greatly improved. It is, moreover, increasingly widely recognised by industrial leaders, that, even apart from considerations of humanity, it is good business to pay employees wages that enable them to maintain an effective demand for goods produced. Just as a rich man cannot enjoy an income, however ill-gained, without spending it and thereby distributing money among others more needy than himself, so an industrialist cannot become wealthy if he fails to sell the output of his firm. For this latter reason there is no fear that too much money would be diverted from the purchase of consumable goods into channels of fresh production. If a rich man, instead of spending his money, invests it, he has no chance of any dividends unless he finances some undertaking *which is able to sell its products,* thereby proving that its products were required. If the money he invests results in the production of goods that nobody will buy he will receive a sharp lesson that in future he will get more satisfaction out of his money by spending it, or giving it away, and, whatever some people may think, there is no limit to the amount of money a man can spend or give away.

Socialists, should be particularly careful to avoid the mistake of thinking and arguing as if every reform which does not necessarily abolish certain evils they object to must therefore in some way help them to continue. The writer has frequently heard a Socialist express his determination not to support Social Credit because it does not do away with the private ownership of land, nor with the running of industry for profit, nor with some other evil he dislikes in the present system. If for the words "Social Credit" he had substituted "the abolition of the Means Test", and had said "I refuse to support the abolition of the Means Test because it does not do away with the private ownership of land", etc., he might have realised the unsoundness of his own reasoning.

Social Credit is in the interests of Christians because, while they will not be blind to the dangers and temptations of increased wealth and leisure, they will welcome the ending of the kind of poverty that injures and degrades, as well as the release of large sums of money for good causes now hindered from lack of funds.

Even self-indulgent and pleasure-loving people will get more of what they enjoy by living in a richer world, although whether their gain will be real gain is a matter on which opinion will be divided.

All those interested in Social Credit, and desirous of a more complete introduction, are advised to read *This Age of Plenty* and *Wealth, Want and War,* by C. Marshall Hattersley, M.A., LL.B. (Sir Isaac Pitman, 3s. 6d.), *This Unemployment—Disaster or Opportunity"* by the Rev. V. A. Demant (2S. 6d.), and Major Douglas's *Economic Democracy.* Helpful information and literature can also be obtained from the Social Credit Co-ordinating Committee, Greno House, Swinton, Mexborough, Yorkshire.

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