SOCIAL CREDIT ECONOMICS

Part 1 : The Origin of Economic Dysfunction in the Modern World

The Fulfilment of the Economy's True Purpose

Seven Stages of Economic Development

Oliver Heydorn (1) is a philosopher, who graduated from the International Academy of Philosophy at the Pontifical Catholic University in Chile. He is also, now as a Canadian resident, founder of the *Clifford High Douglas Institute for the Study and Promotion of Social Credit* in Canada. Clifford Douglas was in fact an English engineer and accountant in the first half of the 20th century, who happened to have a particularly strong influence in Canada, and who was the originator of the so called *social credit* movement in the Anglo-Saxon world. Heydorn starts his monumental tome by outlining Douglas' stages of economic development.

Whenever the primary, or *first*, condition of economic progress has been met, for Heydorn as for Douglas, whenever the *time-energy units procured are greater than those units consumed*, how the surplus units are to be spent is up to the hypothetical lone individual. The *production of tools, secondly,* also results in the *acquisition of knowledge,* the knowledge of how best to use these tools and the knowledge necessary to replace them after they have been worn out. It also occasions the knowledge required to improve them and to create new types of tools. Both types of *inheritance, thirdly, tend to enrich themselves as each generation* does not merely receive from the past but adds its own discoveries and accomplishments to those that preceded it.

The lone individual can then enter into an *active economic association* with other individuals in pursuit of a common objective, thereby multiplying the economic power of each member. This constitutes the *fourth* discernible stage in the human development of raw productive capacity. The *fifth* stage in raw productive power via the *application of human creative power* involves the conscious *harnessing of forms of energy other than mere human labour* in the process of production. The introduction of solar and other natural energies has a significant influence on efficiency.

This brings us to the *sixth* stage, the introduction of the now *self-operating machine.* A society which has given rise to such will find itself in the grips of a dichotomy. On the one hand, engineers, scientists, industrialists and others, by furthering the development of technology, will be *working incessantly on labour displacement.* On the other hand, politicians and the disadvantaged will be ever more *preoccupied with the elimination of the growing, consequent "unemployment problem".* There is then, for Douglas, *a hopeless conflict of objectives.* If the scientists and engineers succeed more and more people will be displaced. For the unemployed and political caretakers society should go back to manual labour. It is impossible for both lines of action to be realized simultaneously.
In reality though, *the release of a certain percentage of the workforce from the necessity of toil is a definite component of true economic progress*, indicating as it does the capacity of the community to liberate at least some of its members from the economic duties imposed by nature. This will require that other ways be found by means of which the

unemployed can nevertheless have access to the fruits of production. *Being unemployed must cease to be synonymous with being poor or destitute.*

The *seventh* and final stage in the development of the human dimension of raw economic power begins with *the introduction of "intelligent" machines*, that is machines that receive, store, process, transform and transmit information. Information technologies and the emergence of artificial intelligence, made practicable by development in electronics, such as the transistor and the silicon chip, hold the potential to increase the raw productive capacity of an association to an enormous degree, while simultaneously magnifying the phenomenon of labour displacement. As Douglas noted, the Marxist view is :

.. based on the fallacy that labour, as such, produces all wealth, whereas the simple fact is that production is 95% a matter of tools and process, which tools and processes form the inheritance of the community not as workers, but as a community (Douglas C.H., 1974, *Economic Democracy.* Sudbury, England. Bloomfield Books)

The standard enumeration of the factors of production by economic orthodoxy, then, in terms of land, labour and capital has ceased to be accurate because it has failed to incorporate precisely those factors that are most important in an industrialized economy. For Douglas :

The original conception of the classical economist that wealth arises from the interaction of land, labour and capital was a materialistic conception which did not contemplate the preponderance of intangible factors in the modern production process. The cultural inheritance, and what may be called the "unearned increment of association" represent factors that are increasing in importance so rapidly that other factors are becoming negligible in comparison (Douglas C.H. *Social Credit.* New York. Gordon Press).

The Present Stage of Economic Development in Britain

In 1923, almost a century ago, Douglas was able, as an experienced engineer, to give the following assessment of his native England's stage of economic development :

One tenth of the available labour, working short hours but with the whole of its attention directed solely to the objective of the most efficient production, could supply all the general demands of the population of the country, either by direct production, or by exchange of proper methods for the production of other countries, in respect of articles which cannot reasonably be produced at home; in other words, production, as a problem, has been solved long ago (Douglas C.H., 1979, *The Breakdown of the Employment System.* Vancouver. The Institute of Economic Democracy).

Empirical confirmation of the general accuracy of Douglas' above statement, according to Heydorn, was most spectacularly provided in his own lifetime by the activities of the U.S. during the Second World War :

During the war, the general standard of living in America rose by 40%; at the same time 21 million people were engaged in the armed forces and in munition production, and were therefore a pure drain on the resources of the country .. demonstrating that a small *proportion of the population could provide the requirements for a high standard of living for the whole population* (Monahan B, 1967, *An Introduction to Social Credit.* London. K.R.P. Publications).

The effect of labour displacement is now so great, then, and the capacity for re-absorption so correspondingly small, that it is becoming impossible to hide the brute physical efficiency of the economy; unemployment is becoming an ever greater problem. At the same time, in Douglas' view, the likelihood is that the real percentage of the available workforce that will be necessary to produce the desired goods, as and when and where required with the least trouble to everyone, will be less than 20% of the employable population. Overall then, for Heydorn, we are somewhere between the beginning and completion of the seventh stage of economic development and rapidly progressing toward "the end of economic history". What does that more specifically mean for the nature and scope of a "social credit" economy?

Poverty in the Midst of Plenty/Servility in the Place of Freedom

The true purpose of economic association, for Douglas as we also saw from Rudolf Steiner, earlier, is twofold : *first, to deliver the goods and services that individuals desire, and, second, to do this with the least amount of trouble to everyone*. Insofar as any economic system fails to achieve the first end to the extent that it is physically possible and desirable, *we are confronted with the phenomenon of "poverty in the midst of plenty",* and insofar as any economic system fails to achieve the second end to the extent that it is physically possible and desirable*, we encounter the phenomenon of "servility in the place of freedom".*

The expression "poverty in the midst of plenty" then describes a paradox that has characterized the economic life of nations from at least the early years of the 20th century. On the one hand, *we live in a "developed" world which, thanks to the industrial revolution with its introduction of machines and its harnessing of new sources of energy, can easily supply all the goods and services that individuals can profitably use*, and yet, on the other hand, *we live in a world where an enormous real demand for both goods and services is left unsatisfied.*

In developing countries, this phenomenon is most commonly experienced as a lack of useful production even though the raw materials, the labour, the knowhow and the desire to consume are all present or could easily be acquired. *How many people then in Africa, Asia or Latin America are threatened with starvation, suffer from preventable diseases, or are illiterate or unskilled, when the physical means to present all of such exist?* How is it that the astonishing rates of unemployment in the third world (which represent their productive capacity) happen to co-exist alongside massive poverty?

In developed nations, the phenomenon of "poverty in the midst of plenty' manifests itself not so much in a lack of useful production as in the ability to fully satisfy the needs and desires of consumers because already existing production cannot be distributed. We have, on the one hand, a situation in which the productive system produces more goods and services than can be distributed and is even capable of producing much more actually and potentially. On the other hand, there are many people who, though in need or desirous of certain goods and services, are nevertheless forced to go without.

Furthermore, as technology advances, the number of people required to work in the industrial system is continually decreasing. These realities are not duly reflected, however, by the current economic arrangements that govern modern, industrial societies. Instead, *there is almost universal insistence on the objective of "full employment" as an ideal state of affairs. Instead of enjoying release from the economic necessity to work in terms leisure, artificial "make-work" is imposed* on the individual since this is typically the only way he can obtain the money he or she needs to look after necessities. For Douglas :

If the ordinary man has to work hard and long hours to obtain a precarious existence, then for him civilisation fails. (Douglas C.H, 1922, *The Control and Distribution of Production,* London. Cecil Palmer).

Moreover :

The abolition of poverty in the midst of plenty, important as that is, is not the core of the problem. It is conceivable that people might be provided for as well-fed slaves. (Douglas C.H., 1936, *The Approach to Reality.* London. K.R.P. Publications).

All Conventional Systems Fail to Fulfil the Purpose of Economic Association

Which of the conventional economic systems has abolished poverty in the midst of plenty? Some have been more successful than others but which has *completely* abolished the spectacle of poverty when, in the modern world, it is perfectly practical to do so, from a realistic assessment of our economic potential. Neither *Laissez Faire* capitalism, not Marxist Socialism, nor a Mixed Economy, has succeeded.

Thanks to the development of industrial technologies, for Heydorn then, in combination with the bounty of the natural world, physical abundance has replaced physical scarcity, and hence *we need a "New Economics", that is one based on the facts of abundance, to replace "Old Economics", one based on conditions of scarcity* which no longer exist, or need not exist. Such is the promise, as we shall see, of Social Credit economics. What then gets in the way of such promise?

Finance Artificially Limits Economic Social Credit

The Nature of the Standard Financial System

If all conventional economic systems fail to facilitate adequately the true purpose of economic association, why do they fail? How well a thing fulfils its purpose is contingent on the nature and extent of the *power* which is available for the realization of that purpose. In the case of associations, Douglas referred to this power as "the social credit'. In fact the social credit (see below) of contemporary economic associations is limited to a large extent by the nature of the standard financial system :

*Unrestrained by the financial system, the resources of modern production would be sufficient to provide for the material desires of the whole population of the world at the expense of a small, and decreasing amount of labour (*Douglas C.H., 1979, *The Monopoly of Credit.* Sudbury, England. Bloomfield Books)

The financial system fails to successfully unite, in the best possible manner, the real demands of consumers for goods and services and of workers for leisure with the real capacity to satisfy these demands. This results in the paradoxes of "poverty in the midst of plenty" and of "servility in the place of freedom". As a matter of fact the restraining effect that the financial system exerts on the actualization of our physical economic potential is so intense and pervasive, according to Heydorn, that its dysfunctional nature constitutes the *chief cause* underlying economic problems worldwide, together with the accompanying personal, social, political, cultural and environmental catastrophes. *The problem of production then, is a problem of physical scarcity, has long been solved by the industrial development of our raw productive capacity*; *the current "problem of production" is a problem of catalysing or distributing production*. Both of these difficulties owe their existence to the dysfunctional financial system.

The Limits to Growth

It is quite clear therefore that the economic difficulties of developed nations cannot be adequately dealt with by ever-increasing and indiscriminate economic "growth", that is more production, larger exports, and harder work, as advocated by neo-liberal capitalists. It follows that the solution to economic problems cannot be found in state or communal ownership of the means of production, in a planned economy, or in progressive taxation. None of these remedies addresses the core of the problem, which has to do with the structural nature of the financial system.

Why Does Finance Artificiality Limit the Economic Social Credit?

What is the Financial System?

It is not finance *per se* then, but the *misdirection* of finance that artificially limits its economic social credit. The financial system is in effect the soul of the economic body. Finance mobilizes and coordinates economic energies and distributes their physical output. It supplies an incentive for economic cooperation by giving individuals a reason to believe that by the means of the financial system the things they need can be more easily produced, distributed and consumed; it maintains an accounting system to keep track of the materials, machinery and labour that are expended in the course of production and the costs that are built up; and finally it distributes the money. What then is the nature of money?

The Nature of Money

According to mainstream economic theory, money can be understood as, *first, a medium of exchange, second a unit of account, third a store of value, and fourth a standard of deferred payments*. In serving as a medium of exchange money ensures people have something to sell, for money. As a unit of account money enables the prices of goods to be calculated and expressed in a commonly accepted manner. As a store of value money makes it possible for people to save their incomes in view of future exchanges. Finally, as a standard of deferred payments money allows for contracts to be written in the present with respect to future payments for present exchanges.

In a modern, industrialized economy, money is increasingly a means of distribution rather than a means of exchange. A unit of money is nothing more than a ticket, the purpose of which is to relate a real demand to a real capacity to satisfy that demand.

Real Credit versus Financial Credit

Before we proceed to a consideration of the true purpose of the financial system, it is necessary, Heydorn maintains, to make a distinction between real credit and financial credit. *Real credit is defined by Douglas as "the rate at which goods and services can be delivered, as, when, and where required", whereas financial credit is defined as "the rate at which money can be delivered as, when and where required".* The two are related because the real credit serves as the basis for the financial credit. It is the faith of a society in its real credit which is the ultimate source of "value" of its financial credit.

The True Purpose, or Otherwise, of the Financial System

The financial system came into being (and is maintained) because it serves as a *tool* or device by means of which the delivery of goods and services, as, when, and where required can be carried out in an optimal manner. In keeping with this conception of the financial system, the true purpose of financial credit must be to enable real credit to be fully actualized by, *firstly,* adequately *catalysing production processes,* and *secondly,* adequately *distributing to individual consumers th*e real wealth that results from these processes. *Yet in actual fact* the financial system, for Heydorn, is designed in such a way that the benefits which can be derived from the use of both communal and also individual *economic resources within the context of an association accrue, in a grossly disproportionate manner, to an elite few.*

The current "anti-functional" financial "monopoly credit" then works as if its purpose were to bequeath, to the greatest possible extent, a bouquet of undue economic benefits in the form of wealth and power to the owners of the financial system. *The actual economy then functions as a system of government in the service of an oligarchy.* Beyond working for an employer (in exchange for salaries and wages) and for government, *via* taxes, we work as such, according to Heydorn, above all to secure and increase the wealth, prestige and power of the financiers.

How Does Finance Artificially Limit the Economic Social Credit?

Subordination of Real Credit to Financial Credit

More specifically then real credit is subordinated to financial credit as numbers become more important than real things. Indeed, money is often so highly prized as an end in itself by our contemporary civilization that it is even regarded by some as a kind of super-commodity, the acquisition of which constitutes the be all and end all of all economic activity and even of life itself. The Biblical claim that "the love of money is the root of all evil" does not appear to be an exaggeration. We are enslaved, according to Douglas, by a numerical abstraction.

The real credit is the substance; the financial credit is only its shadow. The tool, acquiring the function of a control mechanism, becomes more important than the thing which, by nature, it was introduced to serve.

The Annexation of Financial Credit

Not only does the financial system maintain financial credit in a state of artificial scarcity, therefore, the banks also claim *ownership* of all the financial credit which they create. It is critical then for us to realize that in claiming ownership of the financial credit they originate, the banks are in fact usurping the legitimate property rights of the individuals who compose society. In reality, the value of financial credit is ultimately derived from real credit. If there were no capacity to produce goods and services, as when and where required, financial credit would be valueless and there would be no reason to create it. Where then is that real credit located?

Apart from those aspects of the real credit which are a function of *the labour and enterprise of individual human beings*, the real credit also depends on *natural resources* (which are free gifts of God of which each individual may claim their share), on the *unearned increment of economic association, on the cultural heritage, and on the individual desire to consume goods and services*. In virtue of all these factors, every individual in the community can make a legitimate claim to a personal share in the beneficial ownership of real credit. Thus, if financial credit derives its value from real credit, then the creation and use of financial credit should always be determined by the course of action that will most benefit the true owners of real credit, that is the individuals who compose society.

Monopoly Control of Credit

Both the subordination of the real credit to financial credit and the annexation of financial credit by an elite few are maintained as constituent elements of what Heydorn terms a 'financial harness", the monopoly that an elite holds over the creation of financial credit.

In contrast, in days gone by, when many people lived on the land and were able to provide from themselves by administering the land, a large proportion of them could deliver the goods and services that were needed, as, when and where they required them without relying to any great extent on the institution of money. Today finance is so pervasively established that its willingness to co-operate by issuing money is, in many cases, a necessary condition for the actualization of real credit. For Douglas then :

*You have an enormous vested interest possessing the most powerful monopoly that the whole history of the world has ever known, the monopoly, as we call it, of credit, the monopoly of the creation of and dealing in money, a monopoly against which any other monopoly pales into insignificance (*Douglas C.H., 1978, *Money and the Price System,* Vancouver. The Institute of Economic Democracy).

There is nothing either in the inherent nature of the universe or in the requirements of a functioning economic system that might require economic agents to be at the mercy of financial institutions in this manner. Money under the Monopoly of Credit is artificially scarce, firstly, and so there is never enough to actualize the Real Credit in its entirety. In the second place, the financial system typically earmarks this inadequate volume of money to those governments, businesses and individuals who are likely to engage in economic activities which, from the point of view of the banks, deliver a maximum return. This results in patterns of production, distribution, and consumption that are quite often at odds with what those patterns would be if the actualization of real credit alone was regarded as the whole point of economic activity, thereby serving the purpose of true economic association.

The Artificial Scarcity of Financial Credit

The current financial system then, by not automatically providing sufficient credit to mirror the real credit, fails to fully catalyse useful production. As Douglas observed :

A phrase such as "there is no money in the country with which to do such and so" means nothing unless we are also saying "the goods and services to do this thing do not exist and cannot be produced, therefore it is useless to create the money equivalent of them". For instance, it is simply childish to say that a country has no money for social betterment, or any other purpose, when it has the skill, the people and the material and plant to create that betterment. The banks and the Treasury could create the money in 5 minutes, and have been doing that for centuries (Douglas C.H., 1922, *The Control and Distribution of Production,* London. Cecil Palmer).

As long as there is real demand, and, on the other side, a real capacity to satisfy that demand, there can be no legitimate economic reason, for Heyborn as for Douglas, for refusing to issue money that is necessary to link the two by catalysing useful production. What is physically possible is financially possible. For Douglas again :

The immediate cause of poverty in the developing world lies in a lack of producer purchasing power with which productive processes might be catalysed and the real credit actualized (Douglas C.H., 1974, *Economic Democracy.* Sudbury, England, Bloomfield Books).

And he goes on to say :

.. the core of the crisis the world is going through .. what the population of the world wants, and is determined to get, is a sufficiency of goods and services; there is no lack of these goods and services, either actual or potential, but they cannot be obtained except through the agency of money of which there is a lack. This lack of money is, in no sense, natural, in the sense of being unavoidable, but is wholly artificial, and is the result of deliberate policy in the operation of the money system, although that policy may not perhaps be wholly conscious (Douglas C.H., 1979, *The Breakdown of the Employment System.* Vancouver. The Institute of Democracy).

In fact some of the unsatisfied real demand is actually *caused* by surplus productive capacity in the form of unemployment. It is an extraordinary thing then that it is possible to have poverty as the result of surplus productive capacity. What is needed, according to Heydorn, is additional purchasing power, not more work. We now turn specifically to fractional reserve banking.

The Financial Mechanism of Artificial Scarcity : Fractional Reserve Banking

The fractional reserve system largely determines the nature of money which can serve as the life-blood of a nation's economy, the rate at which it can flow, and the conditions under which it can be issued. The first aspect of such a system is that, *under its rubrics, the banks have the power to create money out of nothing.* The new money that the banks create exists in the form of bank credit (intangible numbers formerly represented as numerals on paper and nowadays by electronic blips on computer screens).

For Douglas then :

The great thing to notice about this situation is that the creation of wealth – the real creation of goods and services which go to make a standard of living, the thing which goes to make a difference between starvation and comfort, and makes all those things that we call civilisation – the actual making of these things is carried on by one organization, but the making of money, by which alone these things can be transferred from the producers of wealth to those who wish to consume it, is carried on by an entirely separate organization, having no real connection with the production of wealth at all.

It is as if you had a railway in which one set of people were providing trains, rolling stock, signals and railway stations – everything including the people needed to operate the railway – and you had a totally separate organization which had control of the ticket office, saying, "we will do anything we like with issuing or restricting tickets just to suit our own purposes (Douglas C.H., 1943, *Reconstruction.* Liverpool. K.R.P. Publications)

Not only then do banks create money *ex nihilo* in the form of bank credit, the money is almost always created in the form of interest-bearing debt. In fact the creation and sale of debt-money is the *sine qua non* of the present banking business. The banks implicitly claim the ownership of the credit they create and lend it to "make money" for themselves. It is commonly the case, moreover, that *well over 95% of the money supply of an industrialised country exists as bank-credit. And since bank-credit is typically created as interest-bearing debt, the present system is correctly described as a debt-based system.* Moreover, whenever debt-money is issued, it is issued on terms that maximize the financial advantages to those running the banking system.

The banking system, therefore, does not conceive of its due recompense as coming from its service to the community but as coming from the use of the money it creates in order to forward its own interests – even at the expense of the community. As such the banks, for Heydorn, are anti-social rather than social institutions. In fact, for Douglas : "the claim of the banking system to the ownership of money which it creates is a claim to the ownership of the country" (Douglas C.H, 1938, *Warning Democracy.* London. Stanley Nott). Specifically then, the dominating position which the banks exercise over effective demand translates into the financial domination over the formal economy as a whole.

Preventing the Artificial Scarcity of Consumer Credit

Douglas was indeed completely in favour of retaining the practice of production for profit, provided that consumers were in full control of the policy of production, leading to the optimal satisfaction of consumer needs with the least amount of trouble to everyone. This is what he meant by *functionalist* as opposed to anti-functionalist profit making.

Moreover, the rate at which purchasing power is being made available can be made equal to the rate at which prices are being built up if and only if additional purchasing power is provided. In fact Douglas observed time and time again that prices tended to race ahead of consumer purchasing power because : (1) production is of a multi-stage nature over a period of time; (2) the firm is recovering its costs; (3) production is financed through the debt-money system.

One very important implication of the Social Credit approach (see below) is that the necessary disparity in the rates of flow, between real and financial credit, must be further exacerbated by the progressive displacement of labour by machinery. As technology improves fewer people are required to work the industrial machine. The banks meanwhile have another agenda.

The Nature and Mechanism of Financial Benefits

Today Heydorn affirms, consider the speculative use of various financial instruments, which people purchase in the hopes of obtaining a monetary reward, that have no direct connection with the real economy at all. These include stocks and derivatives, the latter including futures, forwards, swaps, and options. Financial credit, ultimately created on the basis of real credit, is employed with no other intention than to multiply financial credits as ends in themselves.

It is estimated moreover that the vast majority of foreign currency exchange (98%), for example, is conducted for speculative purposes and that even the bulk of international trade is purely financial, that is money exchanged for money or financial products. In many ways, economic globalization is not primarily about trading real goods on the basis of different comparative advantages, but about trading money for money. How exactly growth of this nature is supposed to overcome poverty in a trickle-down process is anybody's guess. Though the proceeds derived from these activities are separated from the real economy in their point of origin, they nevertheless deliver control over real resources to their recipients. When we further consider that the financial credit that may be used in these transactions is not really the property of the banks to begin with, but the property of individual members of the community, such practices, for Heydorn, must constitute the worst forms of gambling conceivable.

In summary for him, the specific benefits that can be derived from a financial system which is operated as a private monopoly would appear to be threefold and intimately related : (1) financial wealth (and the access to real resources this implies); (2) social prestige; and (3) political power over social and economic policy. Within the parameters of an economic system plagued with an artificial scarcity of financial credit, moreover, businesses have no choice but to try to make as great a monetary profit as possible, as a means of increasing their credit ratings with banks. For Douglas then :

In the case of nation, as at present situated, all the alleged services it renders to the public composing it are supposed to be paid eventually by taxes. That is to say to make its receipts in taxation equal or exceed its expenditure, and in addition to have as large as *possible a surplus to pay the interest on loans created by the financial hierarchy* (Douglas D.H., 1933, *Credit, Power and Democracy.* Melbourne. Social Credit Press.

One need only compare which types of jobs, moreover, are highly valued by the "free market" under the influence of credit monopoly, in terms of wages and salaries, with those that are not, and we will find that people are paid not in terms of the real contribution they make to social welfare, but in terms of how useful their activity is deemed from the point of view of credit monopolists. *Money and the money system then, as far as our contemporary civilization is concerned, for Douglas, now occupies the place of religion.*

Every individual and group is then in a position of lack or potential lack as far as financial credit is concerned. Some individuals and groups will end up with more than enough financial credit to meet their needs, others with just enough, and the majority of the world's population with an insufficient amount. The mechanism of cultural conditioning, moreover, is such that the favoured few at the top must be seen to engage in conspicuous consumption on "prestigious" pursuits, luxury items, and other forms of waste. This ostentatious display of their wealth both establishes and confirms their "high" status. *While the common individual may never attain the levels of success of the "rich and famous", he is nevertheless encouraged by the mass media to identify with the elite the practice of emulative consumption.* The only alternative which is juxtaposed to staying on the treadmill and running ever more quickly on it is, correctly or incorrectly, a state of chronic dissatisfaction.

Transfer of Purchasing Power

The charging of compound interest, moreover, on debt-money acts as a siphon that constantly redistributes purchasing power from the lower 90% of households to the top 10%, thus increasing the gap between rich and poor and reinforcing the hierarchy of wealth, power and privilege. Insofar as both producer and consumer credits are only advanced on the basis of some collateral, the present money system also ensures that large quantities of real property are actually under lien to the banks. By means of public debts, additionally, it is likewise possible for a whole city, region or country to be under lien to financial powers.

The larger the productive organization, moreover, the greater is its capacity to take advantage of economies of scale in order to lower costs in financial terms, and the greater its capacity to simultaneously extend the market for its products. In an economy in which, due to the artificial scarcity of consumer incomes, the production of cheap, mass-produced goods is doubly favoured, such organizations are much better placed to make the largest profits. This tendency towards centralisation, for Douglas, meant :

.. *Capitalism died an unhallowed death 75 years ago* (writing almost a century ago)*, and that driving force of the system which, more than any other cause, has produced the tangle of misery and unrest in which the world now welters is Creditism* (Douglas C.H, 1922, *The Control of Distribution of Production.* London, Cecil Palmer).

The ultimate frontier in economic centralization is, of course, globalization, or the centralization of power over the world economy in fewer and fewer hands. One of the main mechanisms for achieving this is "free trade". By eliminating or at least lowering barriers to trade between nations, the smaller and medium sized firms grounded in particular localities lose some of the protections which offset the financial advantages that accrue to large multinationals under the Monopoly of Credit. *Unlike such multinationals nationally based industries cannot play off countries against one another by producing in the cheapest markets and selling in the most expensive ones*. The result is a loss of jobs in developed nations, while labour and the environment are exploited in the third world for the benefit of first world financiers and corporate interests.

The Opportunity Cost of Monopoly Credit

The service for which banks should be able to make a financial profit, according to Heydorn, is the full actualization of the real credit of the community, that is their financial profit should be dependent on facilitating the maximization of the real profit of the community, on the production and distribution of the desired goods and services with the least amount of trouble to everyone. They should not be paid and should not be making a profit for cornering the market in money and using it as a lever for the sake of the proliferation of monetary profits and power – as if these were sufficient ends in themselves.

Let us consider one concrete example. An unemployed individual may be forced to accept employment in a project that has no realistic connection with his own economic needs and desires. Let's suppose he is recruited into the armaments industry. While employed he will be busy producing weapons, bombs and so on which he could never make profitable use of himself as a consumer. His activity contributes nothing to useful production (unless the security of his country is under *real* threat). However, by advancing production loans to the armament industry, the banks misdirect economic activity to a purpose that would not be independently desired by customers. At the same time, the armaments industry is extremely profitable to the banks in financial terms.

Overall, moreover, making an economy as a whole work involves the contracting of ever increasing, and in the aggregate, unrepayable debts by governments, businesses and individuals, such that the richer an economy is in real terms (the greater its capital and consumable assets) the poorer it is in terms of the general level of indebtedness. Such a state of affairs, while financially endorsed, undermines and perverts the real economy. One prime example is *the orientation of economies in the third world toward production for export in an attempt to obtain fresh money from an already glutted world market in order to meet the demands of international financiers* for the repayment of debts and interest. This occurs in lieu of domestic improvements in terms of infrastructure, agriculture, educational and health systems.

Such an economy is greatly at odds with what it could and should be if the financial system sought only to reflect reality and therefore functioned as nothing more than a faithful servant of the desire of people to actualize the real credit of their economic associations.

We now turn to macroeconomic management.

Part 11 Conventional Methods of Macroeconomic Management

Analysis of the Conventional Methods of Macroeconomic Management

Conventional Techniques for Overcoming Deficiencies of Consumer Incomes

In Part 1 on “The Origin of Economic Dysfunction in the Economic World”, Heydorn acquainted us with the fact that, as a result of the various sources of income deficiency, the rate at which final price-values are generated by the industrial system is always greater than the rate at which the corresponding consumer income, directly derived from the same processes, can be made available to liquidate those prices. There is an underlying macroeconomic deficiency of consumer income. For Douglas then, by way of compensation for such :

*The main forms in which assistance is given to the defective purchasing power of the population are the redistribution of money through the social services such as the so-called dole, and the distribution of bank loans (*Douglas D.H, *The Monopoly of Credit.* Sudbury. England. Bloomfield Books)

Moreover, one of the most important methods presently employed by the financial system to bridge the macroeconomic deficiency of consumer purchasing power, a method that was not widely used in Douglas’ lifetime, is the direct extension of debt-money to consumers for the purpose of facilitating consumption. Mortgages, car loans, educational, personal lines of credit, credit cards, instalment purchasing, are all necessary, not because people are inexorably inclined to live beyond their means, but because the production of the economy cannot be bought in its entirety without the increasing level of consumer purchasing power. *Increased quantities of debt-money for consumption are becoming more and more an essential adjunct of the economy without which it would collapse.*

The quantity of debt owed by consumers has steadily increased as a percentage of their incomes in various Western countries over the last few decades. *The drawback to the use of consumer debt as a means of bridging the gap (the same applies to government debt) is that future incomes will be depleted to the extent that they have been mortgaged in order to pay back the sums borrowed, plus interest*; this means that the gap will be intensified in subsequent periods. For Douglas :

If we take 1800 as the origin, and then take 100 years from there, world debt has increased by the power of four (Douglas C.H., *1978, Money and the Price System,* Vancouver. The Institute of Economic Democracy).

What then are the overall implications?

An Evaluation of the Conventional Methods of Macroeconomic Management

Economic Efficiency

Our economic resources are not fully or clearly directed to the procurement of what we really want out of our economic associations and so *the insane spectacle*, for Heydorn, *of* *the paradox of poverty in the midst of plenty in conjunction with the production of incalculable waste continues.* All of this exists, he says, because the policy of production is largely determined by a self-serving financial system and not by an independent body of consumers, properly financed in exchange for the work that is done in the production of autonomously desirable consumables.

The conventional methods of compensating for the gap compel individuals to work longer and harder, often under considerable psychological stress. *Instead of being able to lift the economic burden off their shoulders in the easiest possible manner, with the least amount of time and energy expended, individuals are forced to waste their precious resources in the "make-work" of servile labour.* The vast majority of individuals are obliged to work for the formal economy, to receive sufficient purchasing power to live, whether their work is required to fulfil the true purpose of economic association or not. Indeed, how many jobs make no real contribution to essential production, and are simply cancerous outgrowths of a dysfunctional system?

The general inefficiency of the present economic system is most sharply thrown into relief when one considers the physical processes of production, thanks to the employment of power-driven machinery having become a thousand times more efficient than it was in the Middle Ages. And yet, in many cases, the standard of living in the industrial period is merely marginally better. For Douglas :

At the present time, when every man, woman and child has on the average at least ten times the mechanical energy of the strongest man, and the knowledge available for his or her use is incomparably greater, the struggle for existence is probably more intense than it ever was, a large portion of the working population living in abominable conditions (Douglas D.H., 1922, *These Present Discontents.* London. Cecil Palmer).

Moreover, according to Boyle and Simms in their recent book *The New Economics* :

Victorian economists calculated that the average English peasant in 1495 needed to work annually for 15 weeks to earn the money he needed to survive for the year, supported as people were by access to the common land. Now GDP tells us we are considerably richer, yet it is difficult to buy a house in southern England and live a reasonable life without both partners working flat out all year (Boyle D and Simms A*. New Economics.* London. Earthscan)

Ultimately then, for Heydorn, the misdirection of effort and consequent inefficiency is due to the dysfunctional nature of the current financial system in combination with certain antiquated economic rules such as the necessity for full employment. Where does this then lead?

A Just Distribution of Harms and Benefits

<u>Failure to Distribute Communal Profit</u> : Present economic organization, for Heydorn therefore, is intrinsically unjust for the same reason that it is ineffective and inefficient : the population never derives enough income from the production of the desired goods and services so as to able to purchase that production in its entirety. The return for effort is much less than it should be because the capacity to produce is not *automatically*

balanced by the financial capacity to consume. There is, instead, a failure to freely distribute the communal profit, that is the proportion of production that cannot be purchased by the insufficient volume of consumer incomes.

The population, for him then, is being continually defrauded; more specifically, *each individual is denied free access to the communal profit upon which each has a natural claim.* Under the existing economic system, individuals can only share in the collective profit (made possible by the unearned increment of association and the application of the cultural heritage in the use of power driven machinery) by going further into debt, and/or working harder on the production of more goods and services.

Unjust Taxation Systems : The prevailing structure of economic organization moreover, according to Heydorn, involves a tax system that is fundamentally unjust, in that it completely inverts the idea that the population should have free access to the communal profit. In fact *a large proportion of the monies paid in taxes are actually employed in meeting the interest payments on government debts.* Yet the reality is that no government is obligated to borrow money to fund its operations, as it could simply create the necessary credit itself. Taxation to cover loans is therefore unnecessary. Ultimately then, the key cause behind poverty is a lack of aggregate consumer purchasing power, he says, rather than its maldistribution.

Wage and Debt Slavery : Meanwhile the vast majority of economic agents are not in such a financially favourable position that they can opt out and "refuse to play the game". The contracting of debt-money is all too often needed. But once an economic association has collectively acquired debts, the necessity of having to work in perpetuity to pay off debt forcefully imposes itself. *The weaker individuals and nations in the economic pyramid,* according to Heydorn*, are in a condition of debt and wage-slavery.*

Third World Debt : The international financial system moreover, consisting of the key Institutions of the World Bank, the Bank of International Settlements, the International Monetary Fund and the World Trade Organization, most of the world's central banks and multinational commercial banks, reproduces on an international scale the same type of social structure that characterizes national economies. Some countries are high up in the international economic pyramid and others low down. Worst off are those third world countries seeking access to international credit.

Many *third world countries* have paid back their original debts several times over. Nevertheless, these debts remain and often continue to grow due to the charging of compound interest. *Instead of being able to use tax revenues for health, education and the development of infrastructure, these nations must direct a large proportion of their national income to servicing international debts*. At the same time often access to such is circumscribed by so called structural adjustment programs.

A Due Economic Order : Heavily pressured then to put the maximization of "financial goodness" ahead of any and all other forms of goodness, *the choices which individuals and institutions make are very often at odds with the choices that would enable them to live well*, that is in harmony with their own best interests, with those of society, and with those of the natural world.

For those who don't have enough money to meet their needs, moreover, the artificial scarcity of money is generally experienced as a burden, whereas those who occupy the upper echelons of the economic pyramid experience the artificial scarcity of money as something positive, since it is the source of their wealth, status and power. *The problem is, moreover, that while one is free to serve Mammon, so to speak, one is not free to alter the laws which are embedded in the economic system.*

Intense Competition for Money : The underlying deficiency in consumer incomes, overall then for Heydorn, means that the economic system is inherently insolvent. *The spectacle of the ordinary individual trying to make ends meet* is not therefore a natural or unavoidable component of economic life nor is necessarily due to the greed or incompetence of the individual; rather it *is a necessary implication of an economy operating from a position of gross insolvency.*

At the same time, the work of psychological manipulation through image creation and branding is greatly facilitated by the fact that the bulk of consumers, stuck as they are on producer-consumer treadmill while loaded with debt, are most eager to find some comfort, some solace in the product that can temporarily alleviate their economic and psychological insecurities. For English economist Michael Rowbottom then :

Because they too are reliant upon work for a salary, masses of creative, intelligent people are employed in research which might indicate some gap in the market; some crack or tiny opening into people's desires which can be opened up with a penetrating advert and turned into a money-spinner. This is not consumer demand but blatant aggression against the consumer, who is becoming part of the industrial process, subservient to the need for turnover, employment and constant growth (Rowbottom M, 1998, *The Grip of Death*, Charlbury, Oxfordshire, Jon Carpenter Publishing).

The dizzying dynamism of the commercial world is then a tragic manifestation, for Heydorn, of economic entropy.

Intrusive Government Bureaucracy : On the side of the worker, meanwhile as such, *the lack of money that comes as a result of unemployment necessitates government bureaucracies to reduce the potential conflict by managing unemployment insurance, welfare, job creation and so on*. This growth of government bureaucracy is deemed "good", but if a country had a proper financial system, for Heydorn, none of this would be needed, and in fact, for him, it is a tremendous misdirection of collective effort.

Governments need to reduce expenditures meanwhile, is especially urgent whenever, as a result of increasing debt levels, they find it increasingly difficult to balance their budgets. Being a 'good" government, in financial terms, might therefore mean certain goods and services will not be delivered. From a Social Credit viewpoint though, a government which fails in its duties to provide the goods and services the public legitimately desires is actually a bad government.

Forced Economic Growth : In truth then, *much economic growth is undertaken not because the resultant goods and services are needed or wanted but because the lack of consumer purchasing power needs to be addressed if financial homeostasis is to be achieved.* People cooperate with this misdirection of time and energy because of their wage/salary dependency. Under the structures of the prevailing economic system almost everyone must either work in order to obtain an income to purchase the things they need for survival or be supported by those who do. Since the available consumer income distributed in the production of needed goods and services is not sufficient to finance the necessary consumption, there is no shortage of labour willing to work in the programmes mandated by the necessity of forced growth.

As a direct and further consequence, *every technological advance that, by increasing the efficiency of economic activity, throws people out of work and thereby represents, in real terms, a decrease in the need to work, is re-interpreted through the lens of the financial system that there is a need to create more jobs*. From the point of view of the economy's true purpose, however, economic growth which is undertaken primarily for the sake of distributing incomes involves a waste of resources, and should be avoided.

In an economy suffering from an insufficient flow of consumer incomes, moreover, much economic growth is fostered in the direction of cheap goods of low durability and poor quality and the firms (usually large multinationals) that provide them. Such cheap products favour companies that are international in scale and have access to cheap labour markets and materials and can mass produce. As their market share increases these large companies tend to take over the smaller ones. The "efficiency" of such large undertakings is the result of easy access to credit, bulk buying and price making, and has no physical reality as such.

Highly centralised production also bears a real cost in the dissatisfaction which it can engender in the individuals who labour in such operations. For Douglas :

The very efficiency with which factory operations have been established has resulted in complete divorce between the worker and the finished product, to the extent that he feels he has become part of a machine. His foreman and departmental heads are almost inevitably out of human touch with him, while bureaucratic methods contribute to constant irritation (Douglas C.H, 1974, *Economic Democracy,* Sudbury. Bloomfield).

Our consumerist society, moreover, which is often bewailed by social critics, is actually necessary then as an economic adjunct, and exists not because the average person is inherently greedy because forced economic growth depends on ravenous consumption to maintain its momentum. For Douglas again :

It is one of the most curious phenomena of the existing economic system that a large portion of the world's energy, both intellectual and physical, is directed to the artificial stimulation of the desire for luxuries by advertisement and otherwise, in order that the reminder may be absorbed in what is frequently brutalizing work; to the end that "employment' as a device for distributing purchasing power may be maintained (Douglas C.H, 1974, *Economic Democracy,* Sudbury. Bloomfield).

<u>The Value of Economic Growth is Measured in Financial Not Real Terms</u> : Because it is forced economic growth, for Heydorn then, that is growth undertaken mainly for financial reasons and independently of any real need, *much of the resultant growth is actually productive of "illth",* to use the term coined by John Ruskin, that is goods and services which actually constitute evils, destroying wellbeing. For Douglas :

The whole argument which represents a manufactured article as an access to wealth to the country and to everyone concerned, no matter what its description and utility, so long as by any method it can be sold and wages distributed in respect of it, will, therefore, be seen to be a dangerous fallacy based on an entirely wrong conception, which is epitomised in the word "production", and fostered by ignorance of financial processes (Douglas C.H, 1974, *Economic Democracy,* Sudbury. Bloomfield).

Real wealth, by contrast, involves goods and services which contribute to individual wellbeing. Typical examples of "illth", by way of contrast, include armaments for export, cigarettes, processes foods and pornography.

<u>International Economic Conflict</u> : To further exacerbate matters, exporting in exchange for money can lead to international conflict. *It is mathematically impossible for all countries of the world to have a favourable balance of trade. International trade in goods and services then is a mad scramble.* So the time, energy and economic resources expended in unnecessary competition is, for Heydorn, a senseless waste.

<u>Individual, Societal and Environmental Wellbeing</u> : Just as the formal economy involves the production, distribution and consumption of goods, *the social life of an association may also be thought of as involving economic activities, except that these are undertaken more on the basis of caring than with a desire to maximize profits*. The raising and education of children in the family, and voluntary work in the community are examples. In the same way the natural environment also produces goods and services, distributes them through natural processes, and consumes others. The value of the work then done by "Mother Nature" is inestimable.

Though the "social economy" and the "environmental economy" do not typically register in the narrow terms of a formal economy, the so-called "real economy" is nothing but a superstructure erected on the basis of social and environmental production-distribution-consumption cycles. *Without the caring done in society, the formal economy would not function.* In our modern world though, the fact that both the social and environmental economies are labouring under considerable stresses is inevitable, for Heydorn, given the present financial system.

The world, moreover as such, is obsessed, or possessed, by a scarcity complex. This inclines individuals and whole nations to believe that the economic fight for survival is inescapable, whereby manipulative advertising and cut-throat competition are means toward that end. Closely connected with worries induced by scarcity is the psychological stress associated with unemployment. For Douglas :

A system which will not allow the population of the world to obtain goods already in existence, without first obtaining money through the making of further goods which are not, and may never be, required, is the direct explanation of the senseless strain and hurry of the modern business world (Douglas C.H., 1979, *The Monopoly of Credit,* Sudbury, Bloomfield Books).

<u>Spiritual Health</u> : The corrosive effects of the domination of money, moreover, destroy genuine culture, Heydorn reckons, and prevent the individual from consolidating and

enriching his own indemnity as a spiritual person. *The primary form of expression which is available to an individual who spends most of his days labouring as a corporate wage-slave is the unabashed consumption of ephemeral things*. Present economic arrangements also demoralize individuals by making it more difficult if not impossible for them to have the purchasing power and leisure necessary for the fulfilment of their creative desires. For English journalist and author Storm Jameson :

Beauty grows from the earth upwards, it does not descend to the people from angelic beings far removed from common life. When the mass of people have no leisure, when the vital seed in them is killed by making them machine serfs. If they are cheated by the social circumstances of their lives, in time the society which contains them goes bad, and smells as foul as the slums. (Storm Jameson, 1935, *The Soul of Man in the Age of Leisure,* London. Stanley Nott).

The Misdirection of Educational Institutions : As far as the conditions of employment are concerned then, the rapid pace of forced economic growth often requires people to change jobs, retrain, or even go back to school just so they can retain and income. Under these circumstances *education has become increasingly denatured, as it can no longer be regarded as something valuable in itself, but must be seen as a means to employment. T*he chief and only objective of life, for Douglas, becomes "business".

Immigration, Emigration and the Displacement of Persons : The disruptive economic forces, therefore, generated by the "Monopoly of Credit" are also largely responsible for the mass migrations of large numbers of people. For *it is impossible for all countries to be economic winners under the current financial system*. The exportation of human beings from countries with stagnant economies helps them to reduce the number of individuals for whom a livelihood must be provided, while the importation of human beings into countries with expanding economies helps those countries increase their internal labour and consumer markets so that the necessary rates of economic growth can be supported.

Countries that "export" human beings are sometimes losing talented, highly trained individuals who are much needed in their countries of origin. Importing countries, on the other hand, are often faced with racial, linguistic, cultural and religious tensions that result from forcing different people to live together chiefly for the sake of economic advantage, and a concomitant loss of communal identity.

Harm to Environmental Wellbeing : The programme of forced economic activity and economic growth to which the economy is beholden is responsible for a significant proportion of the pollution of the earth's land, air and seas. *To the extent that excessive production is necessitated by the demand for increased consumer purchasing power to fill the price-income gap, to that same extent all pollution is artificially induced.*

The very same factors ensure that industrial activity will lead to the generation of large amounts of pollution, that is forced economic activity and economic growth, vested interests, and the proliferation of cheaper goods, largely responsible for the depletion of no-renewable resources. Goods that are characterized by built-in obsolescence, moreover, are often preferred by consumers, because they can afford them. They are also often preferred by producers and employees because they guarantee new production and hence jobs and profits in the near future.

We now turn to ways and means of what Heydorn terms economic rehabilitation.

Part 111 The Principles of Economic Rehabilitation

Current Financial Policy Must be Replaced

Financial Laws are Created by the Agreements of People

The laws of the financial system are in fact purely conventional rather than natural in origin, that is financial laws are created by the agreements of people. For Douglas :

The money system is a wholly artificial system, having in itself nothing corresponding to natural law in its composition. It is a man-made system and can be altered to any extent by its makers (Douglas C.H., 1933*. Douglas Speaks.* Sydney. Douglas Social Credit Association).

The Distribution of Credit - DoC - Mechanism

Under the alternative policy of Douglas', referred to as "The Distribution of Credit", or DoC, the financial system would only concern itself with catalysing the desired productive process and distributing the resultant production to consumers. Financial credit would then be subordinated to real credit.

Now, for Heydorn, of all the systems of symbolic representation which we have developed to better understand and manipulate our environment, *the system of financial symbols we presently employ stands out in systematically failing to correspond with the realities with which it is supposed to deal.*

The Administration of a Truthful Financial System

Just as a nation moreover may have a bureau for weights and measures, a National Credit Office (NCO) or a National Credit Authority (NCA) will need to be introduced to assess, monitor and administer the foundations of that nation's life in line with such a DoC. In fact financial credit, for Douglas as for him, rightfully belongs neither to the banking system, nor to government, but rather to the consuming public considered as individuals. Responsible to these individual citizens through their political representatives, the officials operating the NCO would be subject to censure or removal should they fail to provide satisfactory results in the fulfilment of their duties.

The first task of the NCO would be to establish and maintain a proper set of *National Accounts consisting of a National Balance Sheet* and Credit Account. In the case of the former, an inventory of all items within the boundaries of a country would constitute its assets : *natural resources that are privately, communally or governmentally owned, capital equipment and infrastructure, intermediate goods and services, and human resources*. At any given time, the call made by productive agencies on these assets (and on behalf of the consumer) would be recorded as drafts on the national credit (the nation's productive potential) and they would constitute the nation's liabilities. The real basis of credit then is the consuming capacity of the community.

On the credit side of the account, the officials at the NCO would tabulate the nation's production of both capital and consumer goods/services plus imports; this would be opposed by the figures representing the consumption of both capital and consumer good/services as well as exports on the debit side. Overall then, the rate of flow of consumer purchasing power must be increased until it equates to the rate of flow of final prices of desired goods and services; the power to produce must be balanced by the power to consume.

In a Social Credit Economy, moreover, there would be no favourable balances of trade, no excessive government debt, no redistribution of incomes, no bank created debt-money in the form of loans, mortgages or lines of credit for purposes of facilitating consumption and, perhaps most importantly, *no excessive production* (especially capital production). Indeed since real capital is a function, above all, of the cultural heritage of a civilization, a factor of production that belongs to the whole community and cannot be privatized, *a share of the real profit on the sale of goods and services belongs to each individual member of society, and should be distributed freely to them.*

At present, we are less rich financially than we are in real terms, and, to make matters worse, the extent of the real wealth which is produced is accompanied by a great deal of "illth". The introduction of a National Balance Sheet and National Credit Account would allow us to be rich in financial terms as we are in real terms and would even allow us to increase our real wealth to any extent desirable, while simultaneously eliminating the production of waste.

Under Social Credit then, private banks would continue to lend credit to local firms for production. However, in contrast with prevailing practice, the ultimate purpose of lending money would be to ensure that the desires of consumers would be properly satisfied. Accordingly, the money which is to be lent to producers would not be created out of nothing via the fractional reserve system of banking. Instead private banks would request the NCO to monetize the appropriate items in the national credit inventory and would proceed to borrow that money from the NCO interest-free. Their power to create money *ex nihilo* would completely disappear. For Douglas :

*The most important and fundamental function of a bank should be to envisage the capacity of the community it serves, taken in conjunction with its plant and culture, to meet the demands made upon it, and, under democratic control, to issue purchasing power, on behalf of that community (*Douglas. C.H., 1922. *These Present Discontents and the Labour Party and Social Credit.* London. Cecil Palmer).

The DoC Mechanism versus the MoC Mechanism

The introduction of the National Balance Sheet and the National Credit Account firstly ensures that the volume of money cycling in an economy at any given point in time is solely determined by whatever is necessary to produce and then distribute the consumable goods and services that are independently desired by the population.

Secondly, the fact that private banks must borrow the community's or the nation's credit *via* the NCO in order to finance production and can no longer create this credit themselves, together with the fact that sufficient consumer credit to bridge the gap between final prices and incomes is to be freely distributed by the NCO, both imply that the banks will no longer be able to claim ownership of the credit with which they deal. *The annexation of credit by private banks has been replaced by the recognition that the credit belongs to individual members of the community and must be utilized in accordance with their best interests*. The loans which the banks make to productive agencies moreover are never to be repaid with additional debt-money but with the incomes that the original loan generated together with a debt-free monetization of the community's credit in the form of additional consumer credits.

The DoC mechanism, ultimately, is designed to establish an "Economic Democracy" through the implementation of a democratic monetary system. This involves the embodiment of the principle of equity in economic affairs; such an application clearly recognizes that "the increment of association derived from the operation of individuals should be distributed amongst them, if the object of their cooperation is to be achieved successfully. The DoC mechanism achieves this by reducing financial credit to the status of a public utility like water or electricity.

The National Dividend

Society as a Gigantic Cooperative

Just as companies that make a profit, according to Heydorn, in the form of dividends to their shareholders, a nation could maximize a certain portion of its profit as determined in the National Credit Account and distribute the money to its shareholders, to its citizens. The National Dividend would thus transform the whole of society into a gigantic cooperative in which each citizen would have an individual inherited, and equal claim to the real surplus of economic association, that is the unearned increment of production.

The dividend would be distributed at a flat rate and tax-free to all individual citizens who are permanent residents of their country as an inalienable right, whether they be richer or poorer, in recognition of the fact that, *in a modern, industrialized society, it is not necessary for all able-bodied adults to work in order for that society to produce the goods and services the individuals require*. In fact even if all such persons are not needed as workers, the economy needs them as consumers, and that every person has a right to consume just because he exists. These facts then must be accommodated for a reformed financial system because a system by which purchasing power is distributed mainly through the agency of wages conflicts sharply with the physical reality involved. In other words a decreasing number of persons tend to be involved in the production of the necessary amount of goods and services. *Universal employment then is neither desirable nor possible.*

As there is a tendency for more and more workers to suffer displacement without being usefully re-absorbed by industry, the purchasing power of the dividend payments in relation to wages and salaries would increase as time goes on.

The Differences between National Dividend and Basic Income

Heydorn emphasizes, moreover, that the Social Credit proposal of a National Dividend is quite distinct from the contemporary suggestions that are being advanced today from many quarters for the implementation of a basic income. *Unlike the basic income, which represents a guaranteed amount, the dividend depends on the nature and volume of real production.* If more and more production is being generated with less and less labour thanks to the increasing capitalization of industry, then the dividend received by consumers will increase in terms of its relative purchasing power.

Ethical and Pragmatic Objections to the National Dividend

One of the chief obstacles to the introduction of the National Dividend, in fact, is the ethical objection that it is somehow intrinsically wrong, that it is immoral for individuals to "get something for nothing" and that goods and services should only be distributed as a reward for working in the formal economy. If this objection were valid, for Heydorn, then the ultimate solution would be to ensure that all of the labour-saving technologies which have been proliferated since the dawn of civilization were summarily destroyed! Moreover, for another advocate of *Social Credit*, John Hargrave :

When the Sun shines upon the Earth there is no charge for the stream of Solar Energy that we receive. It is something for nothing. Yet without such there would be no life on this planet. Solar Energy is God's gift to man .. the whole of Creation is, in fact, a something-for-nothing scheme (Hargrave J., 1945. *Social Credit Theory Explained.* London. SCP Publishing House).

If it is intrinsically immoral to receive something for nothing, then we are in a terrible situation indeed. Since we cannot help but receive something for nothing, as illustrated above, it would follow that we cannot escape immorality!

Consider also the development of an individual from the stage of infancy to adulthood that requires a tremendous investment on the part of parents and society as a whole, thus necessitating that individuals receive something for nothing. Providing then everyone with an unearned income would allow those individuals who are no longer required in the formal economy to meet their economic needs while continuing to contribute to the consumer demand so desperately sought by productive organizations.

The alternative is to insist on a policy of full employment with no guarantee that all able-bodied individuals can find a job. Since real capital, moreover, made possible by the application of cultural heritage in conjunction with natural resources and the unearned increment of association, is the main contribution behind our immense productive capacity in the modern economy (superior to both labour and financial capital) and since each individual is rightly regarded as a beneficiary of these three communal factors of production, each citizen can and should be regarded as a shareholder in the economy's real capital. For Douglas then :

The property that is common to the individuals who make up a nation is that which has its origins in the association of individuals to a common end. It is partly tangible, but to a *great degree intangible, in the forms of scientific knowledge, character and habits* (Douglas C.H., 1935. *The Use of Social Credit.* Sydney. The Australian Social Crediter).

A "Consumer Motivated" Economic Democracy

Yet instead of living under such an authentic economic democracy, Heydorn laments, *we live under what is, to a greater or lesser extent, a financially induced economic dictatorship that masquerades as an economic democracy.* The lack of consumer income, that is the artificial scarcity of consumer purchasing imposed on the market by the financial system, means that the choices that are made by consumers are very often reflective not of what they would really like, but merely what they are able to afford, or else are pressured into buying. *One cannot then speak in any reasonable sense of "economic democracy" when the vast majority of consumers cannot consistently obtain from the economic system, as a matter of course, those specific goods and services they have a right to expect from it.*

In contradistinction then to many of its ideological competitors, Social Credit does not sanction worker control of industry, or government control, or least of all banker control of industry, but rather consumer control. Social Credit envisions therefore a functionally aristocratic hierarchy of producers accredited by, and serving, a democracy of consumers. Only by combining the free market system of distribution through the mechanism of consumer choice with the allocation of sufficient purchasing power can the consumer be restored to his rightful place as the sole occupier of the commanding heights of the economy.

There is moreover, for Heydorn, yet a second meaning that might be attached to the concept of economic democracy. *Just as political democracy is deemed to imply universal suffrage, a nation cannot be considered as embodying a perfect economic democracy, if it does not distribute, by right, a sufficient volume of monetary votes to all of its citizens to ensure a basic level of participation in economic life.* By means of the National Dividend, such universal economic suffrage would be incorporated. What sorts of specific economic improvements can then be expected?

What Sorts of Economic Improvements Can Be Expected?

Solving the Paradox of Poverty Amidst Plenty

In developed countries, for Heydorn, the paradox of poverty amidst plenty (the fact that real wealth cannot connect with real demand) is mainly caused by the deficiency of consumer purchasing power, not by a shortage of actually existing real wealth or the physical capacity to produce such. This is where the National Dividend comes in.

In the case of developing countries, he goes on to say, the real wealth of a country lies not in what it actually produces, but in the rate at which it could produce the goods and services that individuals desire. *Once the artificial limitations on the capacity to produce are eliminated* through the establishment of a National Balance Sheet and production credit can be freely advanced to catalyse the production of useful goods, *the inherent potential of developing countries to provide a decent standard of living for their peoples can be released.*

Resolving the Paradox of Servility in the Place of Freedom

By allowing technological improvements to advance at their own pace, secondly, without any fear of the labour displacement this may cause, Social Credit, according to Heydorn, *will also facilitate a continual reduction in the necessity of "natural" labour*, that is labour that is inherently necessary to operate society's productive machine.
Indeed, for Douglas, the perfect industrial system would require no labour at all! Employers moreover would have to regard their workers more as co-operators, rather than as mere underlings. This means that the scope for the exploitation of labour alongside wage-slavery would be a thing of the past.

The Curse of Unemployment is Turned into the Blessing of Leisure

Indeed, thirdly, the single greatest benefit which would follow from the introduction of the National Dividend is that it would *put an end*, according to Douglas and to Heydorn, *to the phenomenon of unemployment, and replace it with leisure*. No longer would those who, through no fault of their own, cannot find a decent job, be threatened with poverty, economic insecurity, and social exclusion. For Douglas :

It is my own personal opinion that the undue acquisitiveness of a small section of society very largely arises out of fear, and that by far the best way to reduce it to its normal proportion would be to remove the fear and insecurity in the existing state of affairs by making plain what is undoubtedly the truth, that the modern production system can meet every possible need of society without any stress or strain, if only it is freed from the fetters imposed upon it by the financial system (Douglas C.H., 1978, *The Tragedy of Human Effort.* Vancouver. The Institute of Economic Democracy).

It is the artificial pressure which conditions the nature and circumstances of work which tends to turn into an all-encompassing end in itself. By restoring a certain measure of security, independence and freedom, the National Dividend would make it far easier to view work as a mere means to an end, only engaged in to the extent that it serves the real purpose of the economic association. *Individuals would thereby be able to choose what field of work or leisure to pursue, allowing plenty scope for the pursuit of noble and constructive motives* through meaningful activities replacing mere pecuniary reward.

Increased Efficiency in Production

The elimination, fourthly then, of a servile labour force together with the removal of economic fear and insecurity is likely to greatly increase the efficiency of human effort. For Douglas as such :

The fear of poverty is the worst possible incentive to successful industry. I have no hesitation whatsoever in saying that the most important work, the hardest work, is done by men who have no fear whatever of poverty. Conversely, those sections of society which are constantly faced with the fear of poverty tend to become incapable of anything but the lowest grade of work (Douglas C.H., 1935, *Warning Democracy.* London. Stanley Nott).

The “psychological efficiency of voluntary work” is vastly superior to effort made under the threat of coercion. Indeed it is likely that in a Leisure State many people will, by being able to do freely those things that most interest them, work more effectively.

The Release of Authentically More Progressive Forces

Fifthly by making leisure a practicable possibility for everyone, the dividend would also tend to release the tremendous potential contained in human associations for a faster rate of authentic progress. According to Douglas again :

It is hardly an exaggeration to say that 75% of the ideas and inventions to which mankind is indebted for its progress can be directly or indirectly traced to persons who were by some means freed from the necessity of regular employment. Douglas C.H., 1936, *The Approach to Reality.* London. K.R.P. Publications).

The Transformation of Civilization

Finally perhaps the most startling effect, for Heydorn, that the National Dividend is likely to exercise on society is *the transformation of our civilization from one which is centred on economic good and evil, rewards and punishments, to one which optimally facilitates the free expression of individuality*. It will become possible for new and higher forms of living in society to emerge, for culture to yield the finest flower and for civilization to reach its highest peak. For Douglas as such :

Production, and still more the activities which commonly referred to as “business”, would of necessity cease to be the major interest of life (Douglas C.H., 1979, *The Monopoly of Credit.* Sudbury. Bloomfield Books).

We now turn to more specific elements of the economy under social credit, starting with the motion of the commons.

The Economy Under Social Credit

The Commons Under Social Credit

Many of the earth’s *natural resources*, firstly in fact, its *cultural heritage*, the *increment of association* and the *real capital of a society* are economic assets to which each individual must have sufficient unfettered access if he is to procure in reasonable quantities the goods and services he needs to survive and flourish. Neither the collectivization nor the privatization of these types of resources through various forms of enclosure can be tolerated as both are attempts to monopolize elemental economic factors.

Intellectual Property Becomes Part of the Social Commons

At the same time, and secondly, *it is important for inventors and developers to be able to recover the costs of investment* in the creative process and it is also appropriate for them to receive due recompense for their labours. Once a certain period of time has passed, however, and certainly *after these intellectual entrepreneurs have died, their products, tools and processes should become part of the intellectual commons*.

Banking on Service Fees

Thirdly, as far as the banks are concerned, *the use of service fees as opposed to the imposition of interest charges* would seem to be more in line with Social Credit because service fees are charges that are levied in exchange for the assistance that the bank provides to a customer, whereas interest is levied on the credit that is lent. Since credit is not to be regarded as a commodity to be bought and sold under Social Credit, but merely as a neutral accounting tool, it would make little sense to charge producers for the money itself, as it has no inherent value.

Superseding the Stock Market

In accordance with the establishment of the National Balance Sheet, fourthly in fact, there will be "new credits for new production" provided by the NCO through the banking system, such that *any productive agency which is warranted by the community will automatically have access to producer credit*. It is reasonable then to expect that long-term debt-financing of production, especially capital production, will tend to squeeze out equity-financing. From the producer's point of view then*, the original rationale behind stock markets, as a useful device for raising capital, will be superseded.*

Eliminating Social Welfare

With the abolition of chronic public debts at all government levels, fifthly in fact, there would be no necessity to levy taxes in order to service these debts (interest and principal). As a large proportion of the current tax claims made on citizens and their private associations represent nothing more than the sums necessary for the government to service public debts, the overall tax burden would be correspondingly reduced. Moreover, *many social welfare measures could be abolished because intense poverty, extreme income inequalities, and perennial income insecurity would be significantly alleviated under Social Credit reforms.* We now turn to the positive effects on what Heydorn terms social and environmental economies.

The Positive Effects on Social and Environmental Economies

Impose the Least Amount of Trouble

Firstly then, the true purpose of economic association understood as the production of desired production of desired goods and services with the last amount of trouble to everyone can be naturally extended to include the idea that *the economy should impose the least amount of trouble on the "social and environmental economies"* as well.

Women's Freedom and Independence

An unearned income, secondly, *would bestow a hitherto unheard-of degree of both economic independence and freedom on all women regardless of their societal roles*. Women who wish to work in the industrial system could continue to do so, to the extent that their labour is needed, while being in a much stronger position to ensure that their conditions of work are equitable. At the same time, those women who would prefer to dedicate themselves full-time to raising their children would find this a more feasible option under Social Credit.

Education for Self-Chosen Activity

Social Credit thirdly moreover would, by decreasing economic pressures and by providing a more supportive financial environment, enable educational institutions to restructure themselves in line with their own fundamental purposes. *If the school system is to retain any practical purpose it will be to prepare young people for a life of leisure, that is a life of self-chosen activity.*

The National Dividend then, in conjunction with compensated prices, together with whatever public investment might be deemed advisable, should be sufficient to cover the costs of higher education for qualified students. Being financially care-free would allow them to focus their time and energy on their studies to their own advantage and to the benefit of the wider community.

Liberating the Work of Scientists and Engineers

Closely connected with the liberation of the academy, fourthly then, is the liberation of the work of scientists, engineers and technicians. Adequate financial support for competent and socially responsible inquirers in the fields of science and technology would be more easily forthcoming inside and outside the formal educational system. *New scientific and technological applications that serve the true purposes of economic, political and cultural associations may be expected.*

The Organic Development of Richer and Nobler Cultural Forms

Fifthly culture may be defined as the spiritual expression of the soul of a people. When a people are under artificial pressures induced by a dysfunctional financial and economic system it should come as no surprise that many of their cultural forms express the angst, ennui, malaise and frustration which such a system induces. *Social Credit rather would allow for the organic development of richer and nobler cultural forms in which the unique identities of different peoples find their due expression.* Thereby artists would finally possess the leisure that is a necessary condition of excellence.

Economics and the Environment: Eliminating Forced Economic Activity

The environmental benefits, finally, that Social Credit economics promises to deliver are of a threefold nature. To begin with *the elimination of forced economic activity and growth would significantly reduce much of the excess production and consumption* which does not service genuine human needs but is only required to keep the current system financially afloat. With this reduction, the volume of pollution and the rate of resource depletion would likewise be reduced.

Secondly communities operating under Social Credit could easily adopt those forms of economic activity which are more in harmony with the environment because finance would no longer be a hindrance. Finally, Social Credit would also provide the means necessary to repair much of the social and environmental damage caused by past economic activity.

Economic Systems Revisited

Distributivist Economic Functionalism

Heydorn now begins to bring his argument to a conclusion, thereby comparing and contrasting different economic systems. Beside the system of limited private ownership endorsed by *Laissez-Faire* capitalism and the system of collective ownership championed by Marxist Socialism, *it is possible to conceive of a system in which the ownership of productive capital is widely distributed such that all individuals have at least some minimum claim on productive capital qua individuals.* Such a system of ownership may be referred to as "distributivist".

The Social Credit proposal for a National Dividend would afford to each individual citizen a *beneficial* ownership in a society's productive capital, and the recognition of that ownership would be the basis for his periodic reception of an unearned income grounded in the operation of that capital in the production of "surplus" goods and services. This may alternately be termed "Economic Functionalism", constituting what Heydorn terms "the radical centre" as opposed to the conventional "Mixed Economy". How then does a Social Credit Economy differ from a Socialist or Capitalist one?

Economic Functionalism is not a Species of Socialism

From the Social Credit point of view, the fundamental antagonism in economic life as it is presently organized is not between the "haves" and "have-nots", nor between management and labour, nor indeed between capitalists and the proletariat, but between the whole community of individuals and high finance. While conflict between classes, for Heydorn, undoubtedly exist, it is not the classes themselves that are responsible for the tensions. *The conflicts are primarily due to the fact that all classes are forced, under the present system, to operate under artificially restrictive financial conditions;* it is the "Monopoly of Credit" which is to blame.

On the one hand management attempts to keep prices low by cutting costs in order to remain profitable and in business in an economy that is anaemic due to an artificial scarcity of purchasing power; on the other hand workers strive to gain increased purchasing power and better labour conditions in order to deal with the same problem. Both objectives cannot be realised optimally at one and the same time, hence the conflict. For Douglas therefore (anticipating today's Brexit) :

By keeping the less fortunate short of money, a discontented body of the population could be, and has been, kept available for agitation against every type of property except the credit or money-creating mechanism (C.H. Douglas, 1935, *The Brief for the Prosecution,* Liverpool, K.R.P. Publications)

In other words, attempts at redistribution, for Douglas, do not de-proletarianize the proletariat; they merely add more individuals to their ranks. *Whereas socialism thrives by blaming the ostensibly richer classes for the conditions of the "poor", Social Credit, links* *the destinies of various classes in a cooperative framework*. Ironic then as it may sound, the tendency of a Social Credit economy operating under the influence of rapid technological improvements would actually be to promote an economically classless society. *In a civilization where almost all of the labour required by production is performed by machines*, and where machines are largely responsible for repairing and replacing themselves, *most of the income available for the distribution of the resultant goods and services would have to come from the National Dividend.*

The establishment of an economically classless society in a civilization which has completed the seventh stage (see above) of raw economic development, harnessing artificial intelligence, would then allow for more real distinctions between groups of people to emerge. We now turn from socialism to capitalism from a Social Credit perspective.

Economic Functionalism is Not a Species of Capitalism

While approving of free enterprise, individual initiative, and the profit motive (as long as profit bears a functionalist character) Social Credit is also highly critical of certain aspects of what is normally referred to as capitalism. *Any activity to begin with which, under the present system, allows people to use money to make money without contributing thereby anything to the production and distribution of the desired consumer goods and services, stands condemned.* Therefore currency speculation of all types, creating money out of nothing and lending it as if it were a commodity, and many of the speculative uses of the stock exchanges and derivative markets are all forms of business, make a mockery, for Heydorn, of the economy's true purpose. Creditism, or monopolistic finance capitalism, harnesses the unearned increment of economic association for the benefit of the owners of the world financial system at the expense of individuals.

Under capitalism moreover, a class division is erected through various processes of enclosure between those who own and operate productive property and those who have no share whatsoever in it. *Those without a share have only one thing to sell, their labour. Social Credit opposes such a system because it does not work;* it does not engender an economic system which delivers the goods and services that individuals desire with the least amount of trouble to everyone. To put it another way, the conventional paradigm revolves around whether government (left wing) or business (right wing) should occupy the commanding heights of the economy, when, in fact, the commanding heights have always been occupied by the banks.

So Why Have Social Credit Reforms Not Been Implemented

The major ethical and philosophical obstacle to Social Credit lies in the fact that many individuals, whether they number among the common people or the elite echelons of society, cannot accept the end to which the Distribution of Credit is directed. They cannot, in effect, because our minds have been so programmed by the current status quo, accept the idea of a society where goods and services are produced and delivered with the least amount of trouble to everyone. For Douglas in conclusion :

I would commend to you a most serious consideration, whether you wish the economic system to be made a vehicle for an unseen government, over which you have no control; or *whether, on the other hand, you are determined to free the forces of modern science, so that your needs for goods and services may be met with increasing facility and decreasing effort, thus, in turn, permitting humanity to expend its energy on altogether higher planes of effort than those involved in the mere provision of the means of subsistence* (Douglas C.H., 1979, *The Breakdown of the Employment System.* Vancouver. The Institute of Economic Democracy).

Bibliography

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