AN INTRODUCTION TO SOCIAL CREDIT

BRYAN W. MONAHAN

WHAT IS SOCIAL CREDIT?

This specification was drawn up by C. H. Douglas as one of his last public activities to counteract the tendency of the Social Credit Movement, as all movements which have a philosophical basis, to develop perspective disproportionately:

Social Credit assumes that Society is primarily metaphysical, and must have regard to the organic relationships of its prototype.

PHILOSOPHY

POLICY

ECONOMICS | **ADMINISTRATION**

Consumer Control of Production | **Integral Accounting** | **Hierarchy** | **Contracting-out Mechanisms**

OBJECTIVE: Social Stability by the integration of means and ends.

INCOMPATIBLES: Collectivism, Dialectic Materialism, Totalitarianism, Judaeo-Masonic Philosophy and Policy.

Ballot-box democracy embodies all of these.

C.H.Douglas

February, 1951.

AN
INTRODUCTION
TO
SOCIAL CREDIT

SECOND REVISED AND ENLARGED EDITION

By
BRYAN W. MONAHAN

The present increasing and dangerous plight of the whole world despite the advances continuously being made in science and the technique of power-production is forcing more and more people to an examination of the foundations of civilization and the origin of our trouble. This little book was written originally to relate the later to the earlier phases of the doctrine first enunciated by the late Major C. H. Douglas fifty years ago, and developed by him over thirty years. The first edition has continued to serve its original purpose, but in this edition the opportunity has been taken to revise the text in the light of the rapid developments of the past twenty years in which events have brought out the significance of policies; and to incorporate some information which has become available in that period. A glance through the index will be sufficient to reveal how much more than a matter of monetary systems is involved. Social Credit is a *policy,* and the only policy extant which offers citizens freedom in security, and the practical means to keep government in its proper place. It is the exact antithesis of totalitarianism.

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PREFACE TO SECOND EDITION

In the ordinary way, it is difficult to perceive history in the making. But if history is understood as crystallised policy rather than as a compilation of largely unrelated events, it can be seen in the making by those who understand the policies concerned. This has been especially the case in the twenty years since the first edition of this book. The world of international politics is changing before our eyes, with the elimination of the British Empire and the rise of the Communist, and the United States of America becoming "the greatest Power the world has ever known".

Clifford Hugh Douglas, the author of the ideas subsequently known as Social Credit, perceived the making of history at least as early as 1917, and he recognised the predominant importance, at that time, of the economic system in the shape of things to come. His early major books, while never losing sight of the context, and containing the germ of ideas which he elaborated in his later books, concentrated on the importance of a defective financial system. He foresaw the Great Depression (which concentrated public attention on the economic system as nothing else would) and the Second World War. As these events approached and passed, Douglas turned his attention more and more to the political component of political economy.

Most of Douglas's early books are out of print, and the high cost of publication, and the probably small market available for a subject of interest only to the relatively few, militated against re-publication of several early works. Douglas selected *The Monopoly of Credit* as the most suitable, and this was brought out in a new edition.

There existed, therefore, no readily available link between the earlier and the later phases of the presentation of the whole doctrine of Social Credit. *An Introduction to Social Credit* was written to bridge this gap, and was published originally in serial form in *The Social Crediter* and *The Australian Social Crediter.* The original intention however was that it should be published in book form, and after some delay in the difficult post-war period, this intention was carried out. That the book fulfilled its purpose has been shown by the fact that it has sold continuously for twenty years until stocks have become exhausted.

Douglas's last major book, *The Brief for the Prosecution,* was written and published towards the end of the war. He continued for some time to write penetrating notes for *The Social Crediter,* and some longer essays, but in all these the emphasis continued to be on the philosophical and political aspects of affairs.

One of Douglas's early predictions was that the financial system, as it was then, could not survive unmodified another war. In fact, it did not survive even that long. A breakdown was averted by the adoption of Keynesian economics—open government deficit finance. But the fundamental defect in the financing of an industrial economy remained, and its effects are now manifest in the balance of payments crises which are afflicting one country after another.

Since the end of the war it has become ever more apparent that the defeat of the Communist Conspiracy, in whose favour a defective financial system operates, is the first and major requirement if a free society is to survive; but if and when that defeat is achieved, the defective financial system will have to be rectified, and a rectification to be finally satisfactory must proceed from fundamental principles. It is with these principles that Social Credit deals.

It has therefore seemed worthwhile to bring out a new edition of the *Introduction,* with revisions and additions in accord with the development of the international scene in the past twenty years, but still with the prime intention of presenting the doctrine of Social Credit as Douglas elaborated it over the years.

BRYAN W. MONAHAN.

Canberra,
December, 1966.

PREFACE TO FIRST EDITION

The essay which follows was written primarily to meet the needs of those readers of *The Australian Social Crediter* to whom the articles in its pages were their first introduction to the ideas expressing or derived from the doctrine of Social Credit.

Those ideas were first expressed by Major C. H. Douglas in a comparatively short article which appeared in *The English Review* in December, 1918, and took the form of a "frankly material, 'practical' " examination of the central proposition of political economy being put forward at that time. The fundamental doctrine, from which this examination proceeded, was stated first in *The New Age,* and in 1920 was published as a book, *Economic Democracy.* This was a "severely concentrated," but nevertheless comprehensive, statement. Major Douglas has since then contributed an enormous amount to the expansion of the doctrine; but every part and aspect of this expansion derives from his original conception.

This development of the original idea is probably the ultimate criterion of its essential reality. In his *Development of Christian Doctrine,* Cardinal J. H. Newman wrote: "When an idea, whether real or not, is of a nature to arrest and possess the mind, it may be said to have life, that is, to live in the mind which is its recipient. Thus, mathematical ideas, real as they are, can hardly properly be called living, at least ordinarily. But, when some great enunciation, whether true or false, about human nature, or present good, or government, or duty, or religion, is carried forward into the public throng of men and draws attention, then it is not merely received passively in this or that form into many minds, but it becomes an active principle within them, leading them to an ever-new contemplation of itself, to an application of it in various directions, and a propagation of it on every side . . ." And Newman proposed seven tests of the essential unity of a doctrine, and summarised these in the statement that "to guarantee its own substantial unity, it must be seen to be one in type, one in its system of principles, one in its unitive power towards externals, one in its logical consecutiveness, one in the witness of its early phases to its later, one in the protection which its later extend to its earlier, and one in its union of vigour with continuance, that is, in its tenacity."

It is a temptation to apply these tests to Social Credit, but space does not allow the demonstration. But perhaps the difficulty experienced by the majority of those coming first to the comparatively later phases of the doctrine lies in their misconception of the earlier. It is the hope that this *Introduction* will overcome this difficulty to some extent which forms its second justification. Newman also pointed out that "the idea which represents an object or supposed object is commensurate with the sum total of its possible aspects . . .; and in proportion to the variety of aspects under which it presents itself to various minds is its force and depth, and the argument for its reality." In the historic development of Social Credit doctrine, different aspects, all of them implicit in Douglas's original conception, have required the contemporary emphasis. "There is no one aspect deep enough to exhaust the contents of a real idea, no one term or proposition which will serve to define it; though, of course, one representation of it is more just and exact than another, and when an idea is very complex, it is allowable, for the sake of convenience, to consider its distinct aspects as if separate ideas."

This presentation, then, deals with some of the aspects of Social Credit as these have been brought out by the moving tide of events. If it will bring its readers to read and understand Douglas in his original writings, it will be insofar justified.

The essay, written in the latter part of 1946, appeared serially in the pages of *The Australian Social Crediter* and (except Part II) in *The Social Crediter* in the first half of 1947. The difficulties of the times are responsible for the delay in its appearance in its present form; but it is hoped that it contains sufficient that is not contingent on passing events to render it acceptable as an introduction to the deep study which the subject deserves.

BRYAN W. MONAHAN.

Canberra,
August, 1947.

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Part I.—*Physics*

PART I — PHYSICS

(1)

Most Social Crediters must have been asked the question from time to time: "What *is* Social Credit?" There is no short answer. Social Credit is a way of looking at things, a point of view that seems to bring every branch of knowledge into a new and more clear perspective. Equally, all knowledge is relevant to Social Credit.

In his *Introduction to Mathematics,* A. N. Whitehead writes: "We have thus arrived at a position where we can effect a complete interchange in ideas and results between the two sciences. Each science throws light on the other, and itself gains immeasurably in power. It is impossible not to feel stirred at the thought of the emotions of men at certain historic moments of adventure and discovery. . . . Such moments are also granted to students in the abstract regions of thought, and high among them must be placed the morning when Descartes lay in bed and invented the method of co-ordinate geometry."

Whitehead refers here to Descartes' revelation of the relation between the hitherto separate sciences of algebra and geometry. Such a revelation commonly comes in a flash; its recipient knows instantaneously that contained in that revelation is the solution, beyond any doubt, of previously insoluble problems. It is not the specific solution of a specific problem that is known; it is the certainty that a solution will be found in the new method of approach made possible. Actual solutions of given problems will be the work of many men in many years. Social Credit is just such a revelation. It is a method which comprehends the relation between physical and industrial science, economics, and politics. A knowledge of Social Credit pre-supposes an awareness of the problems of those subjects, and a knowledge of the problems lying between them. Thus, in co-ordinate geometry, the immediate question which starts to the mind is, "What sort of loci corresponds to the well-known algebraic forms?" This is a question that can be put only from the point of view of co-ordinate geometry, while at the same time it is put with the certain knowledge that a useful answer can be found. So, with Social Credit, we can ask certain sociological questions with the knowledge that to posit the problem implies the answer.

It is a matter of great importance to understand to what an extent progress in any subject depends on a correct positing of the problem. A classic example is the problem of Achilles and the tortoise. In its classical form, with the classical pre-suppositions, the problem is insoluble. As stated by William James, the problem, or paradox as it is usually known, runs: "Give that reptile ever so small an advance and the swift runner Achilles can never overtake him, much less get ahead of him; for if space and time are infinitely divisible (as our intellects tell us they must be), by the time Achilles reaches the tortoise's starting-point, the tortoise has already got ahead of *that* starting-point, and so on *ad infinitum,* the interval between the pursuer and the pursued growing endlessly minuter, but never becoming wholly obliterated." The modern mind can "see through" this problem at once—because we are the possessors of new points of view to encompass such paradoxes; the problem has in fact vanished, and we concern ourselves with the more practical problem: "Given that the tortoise and Achilles have such and such speeds, and start with such and such a distance between them, *how long* will it take Achilles to overtake the tortoise?" The technique of algebra brings the solution within the competence of a child.

Yet behind the simplest algebraic technique lies a vast domain of abstract knowledge, whose nature makes a short answer to the question "What is algebra" as impossible as in the case of Social Credit. One might say "Algebra is the technique of a mathematical conception," and that would be a correct and penetrating answer. Similarly, Social Credit has been described by Major C. H. Douglas, its originator, as "The policy of a philosophy." And just as algebra enables us to give a short answer to a particular mathematical problem, so Social Credit enables us to give a short answer to a particular problem of political economy. But neither the answer, nor the technique by which it is found, is algebra or Social Credit as such. Social Credit possesses its appropriate techniques, but stands to them exactly as does mathematical philosophy to its prosaic calculations, transcending them, and reaching back to what we call Reality. Social Credit does indeed enable us to grasp an aspect of Reality, and it surely belongs among the great historic insights.

By the accidents and necessities of its development as a social dynamic, Social Credit was originally widely but superficially identified with mere monetary reform. But the difficulties, indeed obstructions, encountered in endeavouring to achieve monetary reform led to a deeper examination of the fundamental ideas of Social Credit. It became apparent that no solution of the economic problem which diminished the power of government was acceptable to any government, so that the problem was to find and focus a power superior to that of government— a task that still confronts us. There is such a power: public opinion, based on knowledge and understanding, and leading to a re-birth of those spiritual realities which underlay the great achievements of civilization in other epochs. Douglas believed there were forces actively opposed to such a re-birth, and that those forces might set back the course of civilisation by centuries. And indeed they have. But Douglas also believed that those forces had no hope of permanent success. After a period of destruction, both physical and moral, such as we have witnessed in this century and witness still, he looked to a spiritual re-birth and a fresh expansion of the achievements of the Spirit incarnated in Man. Social Credit is the mechanism of that expansion, and just as mathematical philosophy has entered into the being of civilisation, so does Social Credit. What forms and developments this living force will take are essentially unpredictable, but we may be sure that as the tide of our disasters is turned, the great conceptions embodied in Social Credit will come to fruition.

(2)

Bearing in mind that the solution of a particular problem, or apparent problem, is only an application of Social Credit like the application of algebra to Zeno's problem, we may approach the greater subject through the well- known "paradox of poverty amidst plenty."

The phrase "poverty amidst plenty" had its origin in the horrors of the Great Depression, which many now living did not experience. It was a time when material abundance was accompanied by financial stringency. Seven years of war and post-war disturbance abolished both the financial poverty because of payments made for war-production, but also, in Europe and Great Britain, the abundance because of the demands of war. Nevertheless, the abundance and the poverty, in a relative sense, have both returned, and there have been "recessions" as warnings of another Great Depression.

The nature of "plenty" is the first subject we have to examine; this is the field of physical and industrial science referred to earlier.

From the purely physical, material point of view, man is a machine performing work by conversion of energy. He is a form of internal combustion engine, obtaining energy by the burning of fuel. Now the primary condition of individual life must obviously be that the amount of energy obtained from the ''fuel"—food—shall be sufficient to allow for the expenditure of energy in the searching for and consumption of food. It is possible to conceive of a state of life where the consumption of food just balanced the expenditure of energy in obtaining it, and in these circumstances no other activity would be possible. Life must have started at least slightly above this level, for otherwise no progress beyond it would have been possible. Now the difference between the energy-expenditure necessary merely to sustain life, and the energy available altogether, represents "profit" in its most fundamental sense. It forms the basis of the ability of the animal to pursue other ends than the mere obtaining of food.

A thorough understanding of this basic physical reality is essential to our subject, for it lies at the very heart of Social Credit. An individual which has to devote the whole of its time to obtaining the mere necessities of its existence has the nature of its activities wholly determined by this necessity. But as soon as it has a surplus energy above this fundamental requirement, it has a choice as to how it will expend it.

Now quite clearly, on the merely animal level, there is a very considerable surplus. The beast that grazes yet has time to chew the cud and rest. The carnivores kill only occasionally. Monkeys chatter and play, birds fly and sing, fish swim. Only animals harnessed by man—and man himself—work; and man, if not physically "working" is for the most part imprisoned in an office, making marks on pieces of paper.

There are, of course, innumerable ways in which surplus energy may be expended. One of them, however, is of peculiar importance. This is the use of this energy to improve the efficiency of the individual as a machine— to further increase the useful effect produced by a given expenditure of energy. Of the many ways in which this may be done, the important one for our enquiry is the construction of tools; for the use of tools introduces a new factor, not only enabling a much greater economy in the expenditure of energy, but rendering possible processes hitherto impossible.

We might imagine an individual man, equipped with neither knowledge, training, nor tools, and suppose that he could support himself by grubbing for food with his bare hands. Let us suppose that, after allowing for necessary sleep, he has an hour or two a day to spare, when he need not search for and consume food. That hour he might spend in "amusement." But if he devotes it say to making a net with which to catch fish or birds; or to making an instrument with which to dig; or a spear; or even if he devotes it to devising better methods by which to obtain his basic requirements; then he makes it possible to obtain those basic requirements in a still shorter time, and thus to have at his disposal increased time which again may be devoted either to "amusement" or to improving efficiency.

We need not explore the natural limits of this process, for it is only the principle which is of importance. An exact grasp of the principle, however, is of the first importance. It is the basic physical reality underlying the conception of *investment.* This is the elementary form of investment, on which the modern complicated superstructure is founded. Investment is the application of energy to the increasing of the efficiency resulting from the expenditure of energy. It begins in the individual, and its original benefits accrue to the individual.

The tools and knowledge of processes which result from this basic form of investment make use of the individual's own energy, and the total amount of such energy available in the individual limits the usefulness of tools. Yet even within this limit, the cumulative effect of the use of tools and of the knowledge of process, results in a marvellous expansion of the possible results of effort. One has only to think of the change wrought by the use of the spade in the practice of horticulture.

But it is most important to realise that it is not the spade alone, but also the knowledge of the use of the spade, and of the habits of plants, which results in the realisation of the possibilities. Now many tools have a life exceeding the life of their maker, and commonly they are passed to a succeeding individual. This we call inheritance. It is only less obvious that all we may call knowledge is also the subject of inheritance. The sort of knowledge we are considering is, in fact, a cumulative inheritance; it is a growth from generation to generation, a growth and a condensation; for a knowledge of the origin of knowledge is commonly lost. But—in this context—the knowledge inherited is a *working* knowledge; the individual inherits with the spade a knowledge of "spade- practice," without which the spade has only a fraction of its possible usefulness.

This working knowledge, this knowledge of process and practice, in all its wide ramifications, inherited parallel with physical inheritance, we call the *cultural inheritance.* This again is a fundamental conception of immense importance, as real as, and more effective than, the longevity of tools and structures. For it enables not only the adequate use of the tool, but the tool's replacement.

Thus we have found basic physical meanings for the terms *profit* and *investment.* Profit we may define as improved efficiency accruing to the individual; and investment as the application of profit to the enhancement of efficiency. Profit, investment, and *inheritance,* especially *cultural* inheritance, are basic elements of economics, and a correct understanding of them apart from any economic, and particularly financial, theories, is essential.

"Plenty" has its origin in these elements; it begins in the little surplus energy at the disposal of the individual, is increased by the application of this surplus to the improvement of process, and enhanced through the accumulations of the cultural inheritance.

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So far we have considered the subject of "plenty" from its origin in the individual—we have considered what is available to the individual as such, allowing him the cultural inheritance, but otherwise using only his own animal energy and the tools he has made or inherited. Tools and knowledge place him at a great advantage over the primitive condition, and this advantage is enormously, incalculably, extended and enriched by four further factors.

The first is the association of individuals to achieve a common objective. The first obvious result of association is that a given job may be accomplished more quickly and more easily; and this is the least important result. For association makes possible results impossible for the individual as such. Not only may two men lift a heavy object more easily than one—two men may lift a weight that neither alone could lift. Within reasonable limits, new results become possible with every addition to the number. Thus there is a benefit in association far beyond the benefit of simple addition of numbers. What emerges over and above the simple addition is called the *unearned increment of association.*

It is difficult to think of much that modern man does which does not rest somewhere on this increment, the various forms of which are of great complexity. The "division of labour" and consequent mass-production on which we all increasingly depend is a simple extension of the idea of primary association; more complex are the relations between various associations. The telephone, itself the result of complex associations, depends on there being at least two users, and the addition of each new user increases the potential usefulness of the system to all the existing users. But the existence of the telephone system as a whole enhances the efficiency of all industry, and some processes are dependent on the telephone, or some equivalent system of instantaneous communication. Thus the "association of associations" produces a further increment. It is, of course, impossible to follow and analyse the ultimate complexity of association; but the principle can be grasped so that its immense multiplying power may be appreciated. It must be remembered that this multiplication operates on the individual achievements we considered first.

The second factor is the introduction of solar energy in place of animal energy as the basis of work done. Solar energy means energy derived in one way or another from the energy of the sun; it therefore includes energy stored in the form of wood, coal, and oil, and water-power derived from the changes in the distribution of water due to the sun's heat.

It must be emphasised that it is *energy,* and not machines as such, which is under consideration here. Machines are simply a form of tools, and the relation of these to output, in principle, has already been considered.

From a theoretical point of view, it is a matter of indifference what is the source of energy which powers the tools; what is important is the total available energy, and the efficiency with which it is utilised. On this basis, human *labour* is only a proportion of the total energy, and although exact figures are not available, it is certain that human labour contributes less than a fiftieth of the total; and since solar energy is harnessed more rapidly than the human population increases, the human contribution of energy is a decreasing fraction.

In fact, from the point of view of energy, human labour is negligible, and could for the most part, be dispensed with entirely; its importance lies in quite another direction. It has become, as Major Douglas describes it, a *catalyst.* This is an illuminating analogy. The term "catalyst" is used in chemistry to denote a substance the presence of which either enables a chemical reaction to take place, or to take place very much more rapidly, but which does not itself enter into the reactions; thus the catalyst is not consumed in the reaction, though it may be dissipated to some extent. Manufacturing chemistry is to a large extent dependent on the use of catalysts. In the same way, modern industry is dependent on human labour; production is effected predominantly by solar energy and tools, but it requires the presence of human "labour" to "catalyse" the processes. The quantity of production is proportional to the total energy, not to the number of men employed—for example, a machine tended by one man may go faster or slower, according to the power supplied to it, without making much difference to the man supervising it.

The amount of solar energy already harnessed is immense—many times the man-power of the entire world— and the efficiency of its utilisation, from a mechanical point of view, is constantly increasing. And now there is being added at an accelerating rate power from a non-solar source—atomic energy. Every individual at present has at his *potential* disposal the solar energy equivalent of perhaps one hundred or more man-power.

The third factor is the introduction of automaticity into the operations of machines. There is a vast difference between say a power-driven grinding-wheel against which a man may sharpen a blade, and a machine which automatically grinds the edge; but of course the application of automaticity, even in such a simple machine, goes much further. A machine which is fed from strip steel and cuts, shapes, grinds, sharpens, and finishes a tool, and mounts it into a handle, or wraps and packs it (as with razor blades, for example), is a simple machine as machines go these days. Extraordinarily complicated procedures are carried out entirely automatically, and with extreme precision. This development is equivalent in its effect to the use of solar energy; it represents a *multiplying* factor.

Modern electronics is a fourth multiplying factor. The photo-electric cell gives machinery eyes and hence a new dimension of control, while electronic feed-back, computing and storage of data have brought entire factories under almost total automatic control, it is of utmost importance to realise that all these factors are *multipliers,* and that as factors, they are all increasing in magnitude.

So immense, so far removed from mere animal existence, are the processes and developments we have been considering, that it is all too easy to misapprehend them; and the very division of labour confuses the total picture and conceals the totality. To gain some perspective and clarity, it is legitimate to adopt a special point of view.

So we may consider Mankind and its history as if it were one man who has lived part of his span of life. In the beginning, that man is a helpless infant, whose almost sole external activity is suckling at his mother's breast.

Later, he is a child, taking more concentrated foods, and possessing a surplus of energy which he spends in play; but that play teaches him the techniques embodied in his cultural environment, and he learns more and more how to do things for himself. By degrees his play becomes more purposive; it is consciously directed to the acquisition of knowledge and skill.

At some point the child begins the accumulation of possessions. To begin with, they are toys, but soon they become tools in the more general sense. By virtue of the knowledge gained and the tools accumulated, the child become adult is able constantly to add to his possessions; and some of these outlast his lifetime and pass to his successors.

This man displays two essential types of activity: there are those that merely subserve his simple existence, and those which are a sort of efflorescence. The former are those which relate to the production of the materials for his necessary consumption of food, clothes and shelter, and the latter those which relate to his production of permanent assets in the most general sense. The former activity is the production of consumer's goods, and these, of course, may go far beyond the bare necessities; the latter is the production of capital goods.

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Now just as one man can pursue both types of activity, so Mankind does. The division of labour means that one man grows wheat, while another lays bricks to build houses.

But if it is possible for one man to do more than provide for his own sustenance, and he devotes his surplus energy to capital activity, in the broad sense, then the same is true of Mankind; and there is an exceedingly important special consequence. Mankind in the aggregate has been engaged during its history in the construction of an industrial machine, just as the individual in his spare time may engage in the construction of his own workshop. The result of this aggregate activity has been to shift the burden of the maintenance of life from the backs of men on to the backs of machines. The consequence is, in Major Douglas's unsurpassed description, that "the industrial machine is a lever, continuously being lengthened by progress, which enables the burden of Atlas to be lifted with ever-increasing ease. As the number of men required to work the lever decreases, so the number of men set free to lengthen it increases." (*Credit-Power and Democracy.*) This is the conception known in mathematics as acceleration; in production, if the principle of "capitalisation" can be introduced at all, it results in an acceleration of capitalisation.

But there is a limit to the amount of capital which can be usefully utilised; there is no sense whatever in adding to the number of boot-producing factories when the existing factories can produce all the boots that people want; there is a limit to the miles of railroad which will be put to use; and the limit to capitalisation is approached at an accelerating rate.

The difficulty at this point is to obtain a comprehensible estimate of the magnitude of this process. Probably the clearest picture is given by the war-time activities of the United States of America. During the war, the general standard of living in America rose by 40 per cent; at the same time, twenty-one million people were engaged in the armed forces and in munition production, and were therefore a pure drain on the resources of the country; the munition production reached an almost incredible volume, and consisted of a considerable proportion of highly elaborated production, including complex new inventions; and on top of this, tremendous industrial resources were devoted to research into and production of "atomic energy." The meaning of all this is that it was a complete demonstration of the fact that a small proportion of the population could provide the requirements for a high standard of living of the *whole* population, and that at the same time another proportion could increase the capitalisation of the country.

The ultimate meaning of industrialisation in a developed country is that the *necessary* amount of work to maintain a high standard of living is something of the order of an hour per day per man. "The primary fact on which to be clear is that we can produce at this moment, goods and services at a rate very considerably greater than the possible rate of consumption of the world, and this production and delivery of goods and services can, under favourable circumstances, be achieved by the employment of not more than 25 per cent of the available labour, working, let us say, seven hours per day. It is also a fact that the introduction of a horse-power-hour of energy into the productive process could, under favourable circumstances, displace at least ten man-hours. It is a fact that the amount of mechanical energy available for productive purposes is only a small fraction of what it could be. It seems, therefore, an unassailable deduction from these facts that for a given programme of production, the amount of man-hours required could be rapidly decreased, or conversely, the programme could be increased with the same man-hours of work, or any desired combination of these two could be arranged." (C. H. Douglas: *Social Credit*.)

This, then, is the physical and realistic basis of "plenty." It should be carefully noted that all considerations other than the physical have been excluded. But it is particularly important that the student should have a thorough appreciation of the physical situation, which is rooted in the history of thousands of years, and underlies economic vagaries as the ocean underlies the waves on its surface. It is particularly to be understood and remembered in the case of America, for America is virtually a self-contained economy, with industrialisation further advanced than anywhere else and still accelerating. It must be obvious, therefore, that in no physical sense (apart from military invasion or cosmic cataclysm) can America suffer a "crisis." The crises that have occurred, and which threaten, must be due to something superimposed.

At this point it is convenient to observe that the theoretical limit to industrialisation is a condition where all production derives from solar energy, operating through machinery which is fully automatic and self-renewing; man would be completely superfluous and displaced. Now while it is improbable that such a limit will ever be reached, it is quite certainly the direction in which production is moving *at an accelerating* rate—a rate which has been calculated to be proportional to the fourth power of the increment of time. Clearly, only either leisure, or "employment" *outside production* can dispose of the "unemployment problem."

The problems of economics and politics are absolutely conditioned by the physical realities described; short of sabotage or cataclysm, the progress of the situation is inexorable; and anyone who really grasps what is involved can "see through" the confusions which result from a wrong positing of the problems. Now if "employment" is regarded as the problem, the result will be increasingly artificial employment—employment outside production, as for public works whose only benefit will be to yet unborn generations, or for a surplus of exports over imports. That is the real physical situation, and it will gradually dawn on everyone involved in it that he is engaged in unnecessary work; and he will have to be constrained by force to continue in it; or else the objective will have to be altered. That is the aspect of high politics; but before we consider it, we must examine the financial economics of the situation.

Part II.—*Economics*

PART II — ECONOMICS

(1)

It is undoubtedly significant that most of the controversies about Social Credit have raged round the subject of Major Douglas's analysis of the costing of industry. There appears to be a large proportion of people who are quite unable to grasp the solution to the old twister "Brothers and sisters have I none, yet this man's father is my father's son." The answer for many is in the category of "now I see it, now I don't."

Major Douglas's analysis shows why it is impossible for the purchasing-power (income) distributed in connection with production over any given period of time to buy the whole of that production. In order to see exactly what it is which is asserted in this proposition, let us put it in simplified particular form; let us say that for one year Mankind produces nothing but bread, and that the cost- price of that bread works out at one million pounds: the assertion is that Mankind's income is something less than one million pounds—let us say, quite arbitrarily, half a million pounds. Then we say that there is a *gap* between Mankind's purchasing power, and the cost of the production which he has to buy; in technical terms we say that the income cannot liquidate the cost; and, since the income, or purchasing-power, and the bread derive from the same process—the making of bread —we say that the process is not "self-liquidating."

Note: We are not concerned at this point with whether the assertion is true or false, or with whether the example is sufficient or insufficient; we merely seek to make plain the sense in which our terms are used. Now, the bread stands for *all* production—shoes and ships and sealing wax, and cabbages and Kings, and much more besides— bureaucrats and beauty creams, and factories and things; —and purchasing-power in respect of this production is the money paid out as wages and salaries in the course of it. The proposition is that the total money paid out and constituting purchasing-power—i.e., ability to buy the production—is always less than the cost price of the whole of production as assessed by standard methods of accounting.

As Major Douglas has observed, there are endless inductive proofs of this proposition. That is to say, without concerning ourselves with the logical proof of the proposition, we can accept it as provisionally true, and see how it applies in practice. This is exactly the method, known as "the scientific method," employed in the natural sciences. The scientist forms what he calls an "hypothesis" —a provisional explanation of a certain course of events; he says that if the hypothesis is true, it should be possible to predict certain events, and if the prediction proves in practice correct, the hypothesis is confirmed—not proved, but strengthened. Every such confirmation strengthens the hypothesis; on the other hand, a single instance where the hypothesis proves incorrect rules it out. Short of this, the inductive proof approaches certainty the greater the number of instances where it is confirmed. A favourite example is the inductive proof that the sun will rise tomorrow; the certainty most people feel about this is derived inductively from the number of instances where it has been confirmed, without its ever having failed.

The other type of proof is the deductive proof—the sort of proof which is employed in geometry. It is a logical argument built up from given facts or premises—the data. Its weakness is that the premises may be false, in which case strict logic will lead to a false conclusion—but a conclusion which is logically "true" in relation to the premises.

Where the inductive and the deductive proofs agree, we have the strongest reason for believing a proposition to be objectively true. Granted certain premises, we can prove deductively that the sun will rise tomorrow. (Granted other premises, we can equally prove that the sun will *not* rise tomorrow!) Undoubtedly, most people attach the greater weight to inductive proofs; they do this unconsciously, for the most part, in exactly the same way as they expect the sunrise; and they distrust "logic," or the deductive method, just because they are aware that someone may "prove" that there will be no sunrise tomorrow.

In response to the Social Credit analysis, orthodox economists have spent a good deal of ingenuity in "proving" that the industrial process is self-liquidating, and Social Crediters in "proving" that it is not; and for many people this is too abstract and altogether confusing. In the controversy, the fact that we are dealing with real processes in the real world is commonly lost to sight.

The first consequence of the proposition that costs exceed purchasing-power should be that there accumulates a surplus of goods unsaleable within the area which produced them, and the obvious thing to do then is to sell them outside that area. And at once we observe in confirmation that a ruling axiom of economics is that there should be a "favourable balance of trade." A "favourable" trade-balance is one where exports exceed imports, and money is obtained for the difference. If there is a deficiency of purchasing within the producing area, then this "balance" is indeed favourable; for some of the previously unsaleable surplus is exchanged for extra money —purchasing-power—and this can be used to buy what is left of the "surplus". What is really happening in this case is that a community suffers a real physical loss. Physically, the balance of trade is unfavourable, because the community parts with more goods than it receives in return. It is not until money is included in the transaction that there can be the slightest doubt about that. Now, millions of people accept it as axiomatic that an excess of exports over imports is favourable; and they have inductive support for their belief. That is, actual prosperity is experienced in association with a booming export trade, and "depression" accompanies a decline in that trade. This, of course, is exactly what should happen if it is the case that costs of production exceed purchasing-power.

On the other hand, it is easy to see that not all producing areas can have this favourable balance; and hence we have the expressions "competing in the world's markets," "trade wars," "most favoured nations" and so on. We have the drive for "self-sufficiency" to reduce the necessity for imports, combined with national organisation in order to achieve "prosperity" by developing an expanding export trade.

Economically, military war is only an extension of trade war. Shells and ships and tanks and bombs delivered to the enemy are a specialised form of export. True, they are delivered "on credit"; but the credit operates in the producing country as immediate purchasing-power; there is a rising "national income," which is reflected in the early stages of the war by the buying of stored products, and a consequent general prosperity. So great is the productive capacity of America that the prosperity lasted throughout the war, special shortages of some commodities being offset by expanded production of others.

Theoretically, at the conclusion of the war, the loser pays the winner monetary "reparations" which repay the "credit" extended to him throughout the conflict. Then the old problem of finding markets returns; so that it is quite in accordance with the necessities of the case that we find the belligerents preparing for post-war exports before the war's conclusion. Thus Mr. Harry Hopkins said in effect that after the war, if America was to maintain her prosperity, she would have to export on an unprecedented scale; and before the American entry into the war, President Roosevelt stated that one of the reasons why America could not stand aside from the conflict was that a German victory could destroy American markets. Since America is so very nearly entirely self- sufficient physically, the relation of deficient internal purchasing-power to the "dumping" of surplus production abroad is seen in a particularly clear light.

(2)

At this point it is worth analysing in greater detail the American economy. The primary economic fact about America is that it is in nearly every respect physically self-sufficient. Practically every raw material required for modern industry is available within its boundaries, and it possesses a range of soils and climates which enables it to grow produce of nearly every description.*

* *The Times,* March 29, 1947, reported Mr. William Clayton, Under-Secretary of State for Economic Affairs, as disclosing to the House of Representatives Ways and Means Committee that last year the United States exported over 3,000,000,000 dollars worth of farm products, which represented an average income of 500 dollars for every farm family in the country. "Wheat production in 1947 was expected to be more than 1,200,000,000 bushels—'and we can eat only half of it.' "

Some of the few deficiencies can be made good by synthetic substitutes, but in any case the amount of necessary raw materials required to complete the full range is less than 3% of the economy, and can easily be obtained in exchange for a few American goods and materials such as oil. To simplify the discussion, let us suppose that the real deficiencies have been made good by barter, and consider the economy from that point on.

The second point is that America is technically self-sufficient; overall industrial technique has been brought to a higher stage of development there than anywhere else.

Now the spokesmen for America are protagonists of the policy that America must "trade" on an increasing scale; and more specifically, they say that if the people previously engaged in munition production and the armed forces are to be absorbed in peace-time industry, expanding export markets are essential.†

†The following extract from the well-informed, but financially orthodox weekly newspaper, *The Tablet,* of June 4, 1947, is specially revealing:

> "The fact is that the agricultural and industrial capacity of the United States increased so greatly during the war period that full employment for the Americans, the avoidance of a new depression, depends upon making dollars, to purchase its products and to build up economies that will redress the transatlantic balance of trade, available to the world in far greater amounts than have even been contemplated in the past; even though there is room for disagreement about how that can be done. American foreign policy is hardly less conditioned by economic necessities than is British, although in an opposite sense. Each nation has an extremely anxious eye to the balance sheet of its foreign trade. Where the circumscribing factor in foreign policy in this country is diminished wealth, in the United States it is increased wealth, in the form of an immensely increased production for which markets must be found. . .
>
> ". . . American exports of goods and services are today four times what they were before the war. The volume of commodities being exported from the Atlantic ports is twice the war-time maximum, which included not only the immense supplies of the United States forces in the Western theatres, but also all the lend-lease shipments taking the Atlantic routes. This vast outpouring, largely towards Europe, cannot now be halted, and cannot even be substantially decreased, simply because those receiving it are only in a position to pay in goods and services for about half of it. The wheels cannot stop going round; the crops cannot stop ripening. The fruits of the vast productive power with which the end of the war left the United States would still have to be disposed of somehow even if needs in other parts of the world were not so desperately acute as in fact they are. . . ."

How is America to be paid for her exports? If the payment is by an import of goods, then those goods replace an equivalent quantity of American-made goods, and thereby unemploy the men who might have made them.

The payment might be made by gold or other form of "hard" currency. In this case, the currency could only be spent, by hypothesis, on existing *American* production; but it is realistically unnecessary to import money to buy your own production.

Thirdly, the exports may be financed by credit: America lends dollars to the importing country which uses them to buy the American goods; or, what actually happens, the dollars never leave America, but are paid to the producer of the exported goods. And just as in the case of gold, these dollars can only be spent on existing American goods.

During the war, an article in an American magazine prophesied great difficulties in the post-war period for America. The argument was that the requirements of war production had resulted in a very great expansion of industry on the west coast of America, and the difficulty that was foreseen was that the West would not need to import so much from the industrial East. This is just the same argument as the one we have been considering. America, in fact, poses within itself the economic problems of the whole world's economy.

Yet it is quite plain that if through some strange disaster, every continent but the North American vanished beneath the oceans, it would make no difference to America's ability to produce.

If it is the case, however, that industry is not self-liquidating, that incomes distributed in the course of production are not sufficient to buy that production, then the problematical features of the export policy disappear. Then it *is* necessary to import money to buy American production; then exporting on credit *does* solve the difficulty (although, of course, it solves it only for the time being), by exporting the problem with the goods.

But what is true of America is true of the world as a whole, just as it is true of a part of America. Great Britain certainly has to *import* considerable quantities of goods, particularly of foods, and these have to be paid for by exports (for which further imports are required, so constituting a vicious circle); but when this essential barter has been effected, there is a surplus for export: a "favourable trade balance" is a fundamental

British policy. Again, this is a perfectly natural consequence of a deficiency of purchasing-power.

As has already been observed, it is the inevitable aim of every industrial country to diminish its dependence on imports—hence protective tariffs, etc.—and to develop its exports; and inevitably "backward" peoples are looked on as a means to prosperity. "If we can raise the standard of living of the natives in New Guinea," the argument runs, "we shall enter on an era of increasing prosperity." There is little of importance the New Guinea natives can supply to us; and that is just their virtue. Similarly, America sees prosperity in the coolies of China. And world economists generalise the proposition: Let us raise the standard of living of all the backward peoples, and we shall all be prosperous.*

* The following news item, which appeared in the Sydney *Daily Telegraph* of Dec. 19, 1946, illustrates this outlook admirably :

NEW YORK, Wed. (A.A.P.).

> Mr. S. M. Bruce said today that the United States must finance a larger share of expanding world trade or face a worse depression than that of 1929.
>
> Mr. Bruce, former Australian Prime Minister, is chairman of the United Nations Food and Agricultural Organisation's Preparatory Commission.
>
> He said that only by expanding world trade and raising living standards everywhere could world prices be established.
>
> The bulk of this work must be done in backward countries, like India and China, where there was never enough to eat.
>
> Mr. Bruce said F.A.O. could not build up a healthy agriculture in a backward nation unless there was correspondingly increased industrial production.

The standard of living of the backward peoples can only be raised at the physical expense of the developed peoples, since the proposition is not that the backward peoples should raise themselves. But prosperity actually does result, because purchasing-power becomes equated with the cost of the goods remaining to be sold in the producing countries.

The real relationships underlying international trade would be much more apparent if national currencies circulated internationally, and national goods could be bought only with their national currency. Thus if America sold goods to Australia, America would be paid in Australian pounds; and those pounds could be employed only to purchase Australian goods; and if the pounds were imported by America, and *could not be used to buy American goods in America,* it would become clear that the export of American goods was a real loss, which could only be compensated by the import of Australian goods to exchange for the pounds.

The position is concealed by the use of gold, and by the more modern equivalent of international currency exchange transactions, and by the still more modern proposal to use an international "monetary fund"—which is simply a device to create a substitute for gold, since the natural output of gold is insufficient to meet the needs of expanding national currencies. But so long as the American exporter is paid in a medium—dollars—which has an immediate purchasing-power for American goods in America, the real nature of the transaction is not apparent.

It is true that less is heard these days of the necessity for a "favourable" trade balance, and more is made of the argument that large markets mean mass-production, with a cheapening of process. But it has to be remembered that the *whole* of the output has to be disposed of; the *total* cost has to be liquidated, and although the price of individual units of production may be less, the total price may be very great, and the liquidation of part of it by exporting a proportion of the production, and using imported currency to meet part of the bill, simply results in a loss of that much of the production. To revert to our earlier example, if we call all production bread, then although mass production results in a lower price for a loaf of bread, we find that this is achieved by making say fifteen loaves for every ten that were made previously, but only consuming twelve of them; the three wasted (exported) loaves represent the real loss; they are exchanged for money which is used to meet part of the price of the remaining twelve loaves.

(3)

The second consequence of the proposition that costs exceed purchasing-power is the existence of an expanding debt. Our proposition is quite general; it applies to any given economic area. We have seen that a surplus of exports over imports solves the problem for a particular area, but only at the expense of compounding the problem in another area; some nations become creditor nations, but others become debtors; and we should expect to find that the total of general indebtedness exceeds credits, and exceeds them more and more as time goes on.

This is, in fact, exactly what we do find. But not only do we find this increasing international indebtedness, but we find that every industrial nation has an internal debt which exceeds the total amount of its currency. This constant rise in debt has been stated by the Technocracy Group to be at the rate of the fourth power of time, one hundred years being taken as the unit. It is, and can only be, the reflection in time of the cumulative gap between purchasing-power and prices.

If the "surplus" goods are not to be destroyed, and their cost "written off,' nor disposed of in any equivalent manner, then a source of purchasing-power other than that distributed in the course of their production must come from somewhere. This source is the banks, which, by creating new and additional money, known as bank-credit, make good the gap, and record it as debt.

Before we examine the mechanism of this device, it is necessary to emphasise that the continuous growth of debt is an objective fact which any one can confirm for himself; that such a growth of debt is an expected consequence of the proposition that costs exceed purchasing power; and that the finding of the fact is an inductive proof of the proposition.

A third inductive proof may be given in Major Douglas's words: It is found "in examining the assessments for Death Duties in Great Britain and elsewhere, in which it will invariably be found that an estate alleged to be worth, let us say, £100,000 and taxed in money on that sum, consists only to the extent of two or three per cent in purchasing-power, the remainder of the estate being in assets of one kind or another which have price values attached to them, and require purchasing power to buy them." This is an indication of "the immense excess of price values over purchasing-power," and similar information can be obtained by examining the assets of businesses generally. The total price value of all assets could not be met at any given instant by the amount of purchasing-power in existence at that instant—a fact which again can be confirmed by anyone who cares to examine the figures of valuation of assets and of existing purchasing-power.

Again, we can take the growing of foodstuffs and the production of raw materials. It is commonplace to "value" say a wheat or wool crop at so many million pounds. The production of a crop undoubtedly creates an asset; but it does not create purchasing-power. Now realistically, so long as there is a real demand in the world for the whole of that crop, the whole of that crop is a real asset; but because it does not bring its purchase price in the form of money into existence, increased production results in a lower price per unit, and "over-production" in the monetary sense; and despite a real physical demand for the crops, the situation does result in the ruin of the producer, or the arbitrary destruction of the crop "to keep prices up". This is simply another indication that there is no automatic relation between the "value" of assets and the purchasing-power available to liquidate those values.

Now, disregarding "cost" and "value", the price of an article is "what it will fetch", and this depends on the number of articles, their relative desirability, and the amount of money available. In the absence of special "stabilisation" schemes, this system actually does determine the price of primary products, which in consequence show great variations from year to year in their price. The real physical demand for food stuffs in particular is, however, an extremely stable quantity, since the capacity of the individual to consume is limited, and the number of individuals in a given area is subject only to slow fluctuations. But the *monetary* demand for foodstuffs, etc., is a very variable quantity, and a low purchasing-power may coincide with a bountiful production, resulting in a ruinous fall in prices; that is to say, there is no ascertainable relation between the growing of foodstuffs and the availability of money.

Instability in an essentially stable process of primary production is another consequence to be expected from a general deficiency of purchasing-power. It is true that at times primary production meets a high purchasing-power; the reasons for this are most conveniently dealt with in a subsequent stage of the argument.

In general, however, we can see that the theory of a cumulative deficiency of purchasing-power in relation to costs fits the objective facts of the world's economy. It explains the search for expanding export-markets, accompanied by tariff barriers to imports—trade war, culminating in military war. Intra-nationally it explains social friction, since there is bound to be a scramble for an adequate share of the available money, because this is the only effective claim to goods which may be in sufficient abundance to satisfy the real demand. It explains the paradox of poverty amidst plenty, since poverty is a monetary condition. It explains the continuous and increasingly rapid growth of debt, as will be seen more clearly subsequently; for the moment, it is sufficient to regard debt as the mounting record of the cumulative deficiency of purchasing-power.

The student is asked at this stage simply to hold hard to the facts; to ask himself whether, irrespective of theoretical considerations, the theory that income in the aggregate is less than the cost-price of production in the aggregate, does or does not fit the facts. It may occur to him that the theory does not explain inflation, when money available exceeds the supply of goods; how this occurs, when it does occur, also falls to be considered later in detail. But at this point it may be observed that inflation occurs in respect of the end-products of industry —ultimate consumer goods; but behind these stand intermediate goods, with costs waiting to come forward. The "surplus" purchasing-power is purchasing-power held in respect of these intermediate goods, waiting for them to become end-products. This matter is intimately related to the theory of the proposition we are considering, and it is to the theoretical side that we must now turn.

(4)

It is quite characteristic of theorems generally that a number of deductive proofs of them may be elaborated. This is the case with the Social Credit theorem, now commonly known as the A plus B theorem, a name which is derived from one of the various available proofs. This Social Credit theorem is the proposition that in any given period, in any given area, the rate of generation of prices is greater than the rate of generation of incomes.

The point to be noted in this statement is the use of the words "rate of generation". They refer to the fact that production is continuous. We don't know at what point in the past production began, but from whatever point we choose as the beginning of production, we can say that it has proceeded continuously ever since. We are using the word "production" in the general sense: the conversion of materials from one form into another suitable for the purposes of man. Production varies, becomes more or less elaborate, and changes; but it is *continuous,* it is a *flow,* like the flow of a river.

The production of goods is accompanied by the production of *costs,* which reach the public as *prices;* and at the same time, the production of goods is accompanied by the distribution of *incomes,* in the form of wages, salaries, and dividends. This is the meaning of the expressions "generation of prices" and "generation of incomes". It is absolutely essential to grasp the fact that prices and incomes are, like production itself, *flows.* There is a stream of purchasing-power, and a stream of prices. Both are measured in units of money; say in pounds. Our proposition is that the size of the flow of income, in pounds, is smaller than the flow of prices, in pounds.

To avoid any confusion, the relation of prices and costs must be stated. The *cost* of an article is the sum of the disbursements of money, direct or indirect, in the course of the production of that article. It includes the cost of the raw material, the payments of wages and salaries, *and a charge for the use of plant.* This charge, usually called depreciation, or plant charges, *is not distributed* as income, but is allocated as a cost and, together with the monetary payments, which *are* distributed, makes up the basic cost of manufacture. The *price* of an article is *at least* the cost, but is usually the cost plus profit. The argument which follows is unaffected by the question of profit, so that the terms cost and price are used as convenient to the context.

Now let us see what actually happens to costs and incomes in the course of production. Let us consider any factory, and assume that it is engaged on the production of an article which takes, from start to finish, six weeks to complete. Let us assume that the raw material is obtained free, and that no charge is made for "overheads", so that the only costs are the wages and salaries paid to the workers. Now the greater part of these wages and salaries is spent week by week as received on meeting the cost of living, and at the end of six weeks very little of the money will have been saved. At the end of the six weeks, however, the cost of what has been produced (both finished and unfinished) will be the total of the six weeks' wages and salaries of all the workers concerned. To meet this total cost, there is only available the money which has been saved, which is only a small proportion of the total cost. It is quite true, of course, that only a part of the total production is at that point available for sale—i.e., the finished production—; but the *cost* has been created, and clearly exceeds the amount of purchasing-power *left* to meet it. The firm is "out of pocket" to the extent of six weeks' wages and salaries. That "out-of-pocketness" represents the generation of prices. The costs, and hence prices, go forward all the time, whereas income is spent as received on meeting the cost of living.

Thus the position can be stated more generally: the cost of production includes the cost of living of those concerned in the production; but this has been spent within the period of production. This is true of any given unit of production, and consequently of every unit of production, and thus of production as a whole, and over any period of time. That is to say, costs going forward are progressively greater than income going forward—just as Achilles goes forward faster than the tortoise. These costs are increasingly represented by "overhead charges"; that is to say, an increasing part of prices consists of the cost of capital equipment and "intermediate" production. Such costs are continuously coming forward into the price of final production, and represent incomes distributed, but spent, at some time in the past.

The real economic process, therefore, is as follows: The physical fact is the continuous production, through agriculture and mining and manufacture, of goods which *in the end* are held to be of use to man. Accompanying this physical flow is a flow of monetary incomes; but also a flow of costs, which ultimately appear as the flow of prices. The flow of costs consists of flow A, being monetary disbursements to individuals—wages and salaries—; and flow B, which is *not* a disbursement, but represents an ever-increasing charge allocated for depreciation of the ever-expanding industrial base. Costs are flow A + flow B, but income, however re-distributed by service charges, taxation, etc., is flow A. Purchasing-power, on the other hand is flow A - flow B. The steady expansion of flow B is the cause of the erosion of purchasing-power, called inflation.

The continuous growth of flow B, like a river swollen by tributaries, with its steady inflation of costs, and hence of prices, necessarily leads to demands for wage and salary increases; but these swell flow A, again increasing costs and prices.

Thus the product of manufacturing industry is involved in the same difficulty as primary production: it does not automatically find a purchasing-power awaiting it sufficient to discharge its cost, or "value" in the monetary sense.

At this point the inductive and deductive proofs converge. Neither primary production nor industry themselves provide the whole of the purchasing-power necessary to buy their products—or, as Major Douglas puts it, neither the farmer nor the industrialist "make" money; they scramble for money in the possession of others. But it *is* true that money is "made", in the literal sense. Manufacturing money is, in fact, the actual basic business of banking in exactly the same sense that making things is the business of industry.

Probably most people think of money as a commodity, that is to say as something having a real value. This impression is gained by handling money, having it in one's possession, or seeing it accumulate in tills or being paid into banks. Gold has this real inherent value, due to the cost of mining and refining it. But gold is no longer currency. Other coins, particularly these days, have an inherent value less than their nominal or monetary value. Notes have a smaller inherent value than most coins, and the inherent value of a one dollar or a twenty dollar note is the same.

Yet notes and coins are only a small fraction of the 'money' supposed to exist. The rest is book-keeping.

When a customer obtains an overdraft from a bank, he does not receive money. He receives, on certain conditions, the right to have cheques for amounts up to an agreed total honoured by the bank. The bank, however, does not show any reduction in its total deposits, as it would have to do if it paid out money. All it does is record as a debt to the bank the amount of each cheque honoured. The cheque, on the other hand, *functions* as money since it can be exchanged for commodities. After this exchange, if the cheque is paid into a credit account with the bank, the bank *does* record an increase in deposits. If the cheque is paid into an overdrawn account, the bank merely records a reduction in the amount 'owing' to the bank, and as 'money' the cheque disappears.

Overdrafts are granted for limited periods of time, and consequently are constantly being 're-paid'. But on the whole the rate of new advances exceeds the rate of 'repayments', so that the net amount of deposits increases. In a period of rapid expansion, as in the development of a new country, this increase in new money is also great: and it is this new 'money' which is available to meet the B flow in costs, itself steadily swollen by the new development. On the other hand development sooner or later slows down, as the needs of the country are met, and as this occurs the overall deficiency in purchasing-power becomes revealed and economic crises occur.

If, then, as is the case, the vastly greater part of what functions as money—coins, notes, but mostly cheques which represent only book-keeping entries—has almost no intrinsic value, what value has it? The answer is *purchasing-power*—i.e., the quantity of real commodities which can be obtained in exchange for a unit of 'money'; and thus international monetary exchange rates are ultimately governed by the *ratio* of their purchasing-powers. This of course is the reality behind periodic 'de-valuations' of units of money, which become necessary because the system of costing production (flow A + flow B) does not flow at a uniform rate in each country. If an article can be bought for one hundred pounds or two hundred dollars, then the 'value' of the pound is two dollars.

Loss of purchasing-power thus leads to international problems, particularly when, as in the case of Britain, a country "lives on its exports". But it also means loss of 'savings' if these are in the form of 'money'. And where there is (and where is there not?) a graduated income tax, it means a loss in the purchasing-power of total income, since increases made in wages and salaries to off-set inflation lead to higher *rates* of tax, so that if an income is increased by 10%, the purchasing-power of that income is not increased by 10%.

The provision of overdrafts by banks is called the creation of credit, and it is this which becomes available to bridge the gap between costs and incomes. Credit created is recorded by the banks as debt. That is why we noted earlier that mounting debt is the record in time of the deficiency of purchasing-power.

But still there is no automatic or necessary relation between the provision of this new purchasing-power, and the amount required to make good the deficiency. The amount of new money provided by banks is governed not by arithmetical considerations, but by a number of factors which can be included under the heading of *policy.* For reasons of policy the provision of credits may be restricted, in which case the effect of the deficiency of purchasing-power becomes manifest and the so-called "depression" is experienced. At other times credits are advanced freely, leading to the "boom" or inflation.

Credits, however, are advanced in connection with production of some sort or other, and consequently become a cost, since they have to be repaid to the banking system. What actually happens is that credits are advanced for such a purpose as the building of a new factory, the installation of machinery, and so on. The credits are distributed as wages and salaries, and spent on goods *already produced;* but, as we have already seen, those wages and salaries become costs to be recovered in the future, when the factory or machinery is in production. Now when goods already produced are in short supply, for one reason or another—as, for example, following the conclusion of war, when industry is adjusted for the production of munitions—and at the same time payments are being made out of credit for the "re-conversion" of industry or some similar reason, purchasing-power may be in excess of the collective prices of goods available for immediate sale; this is the condition called "inflation". It results in a rise of prices, which drains off the excess purchasing-power. But it must be remembered that this purchasing-power is distributed in respect of anticipated future production, of which it forms one of the items of cost; and if this money is drawn off, either by a rise in prices, or by high taxation, this fact aggravates the deficiency which will in any case accompany the ultimate appearance of the goods. The money cannot be both spent on *existing* goods, and available to meet *future* prices.

Public works, financed by "loan" money, are a special case of this general principle. Instead of private enterprise building factories, governments build dams and hydro-electric schemes and so on. But these are paid for with fresh money created by the banking system, and this money is recorded as "public debt". The money is— and can only be—spent on existing goods; and the process is only possible because there is a deficiency in the purchasing-power distributed through the production of those goods. Public works, however, still have to be paid for, because the credit advanced for their construction has to be repaid, and interest has to be paid on it. This repayment, and the payment of interest, takes the form of taxation; public indebtedness, in fact, is another form of "cost" exactly equivalent to the plant cost in industry; and since the payments made in the course of building public works are spent on current production, they are not available in the future for the repayment of the original bank loan.

Now, so long as the present system of accounting is followed the continuous operation of industry is absolutely dependent on the continuous expansion of the amount of money—an expansion of minted money, printed notes, but chiefly bank credits. And simple inspection of yearly statistics shows that the expansion is, in fact, continuous. It also shows that the expansion of credits—recorded as debt to the banks—is far and away the most important, the largest part of that expansion. It is in this fact that the convergence of the inductive and the deductive proofs of the proposition we have been examining is found.

When the relationship of expanding credit to industrial production is grasped, it can also be seen that a continuous rise in taxation is a further inductive proof.

Apart from the redistribution of income through taxation, an increasing sum must be taken to meet debt charges; and to the extent that this money is used to repay the debt, it disappears; there is nothing received in exchange for it. Now this is exactly the same thing as obtains in the prices of goods: an increasing proportion of the *total* price goes to repay old "costs"—either the repayment of bank loans, or the replacement of capital. This means, of course, that wages and salaries can liquidate only a diminishing proportion of the production which gave rise to them.

The general consequence of the whole process is that to distribute even a *constant* quantity of production to ultimate consumers, an *increasing* quantity of "intermediate" or capital production must be undertaken. As saturation point in the number of factories which can reasonably be constructed is reached, the emphasis passes to public works and to production for export.

This then is the financial explanation of the paradox of poverty amidst plenty. As noted previously, there are a number of methods of demonstrating the central proposition. Students are referred to the technical writing of Major Douglas, where various proofs are to be found, including a proof in mathematical terms.* *See Appendix A.

The subject is very exhaustively discussed in *The Monopoly of Credit.*

The emphasis in Social Credit has, however, passed from the technical economic considerations. Several years ago, it was necessary to prove that banks created credit, since this was denied by the officially-recognised economists. Today, the creation of money by the banks is an everyday topic of newspaper discussion.

It is equally true, though less obvious to the uninitiated, that the fact of a deficiency in purchasing-power is also admitted in official circles. The very emphasis on the necessity of embarking on public works to "avoid another depression" is a tacit admission. Now the real bone of contention has always been in connection with the policy governing the availability of credit, but that fact for many years was concealed behind the controversies centred in economic theory. The present phase, however, is concerned directly with the question of, in the broadest sense, credit-policy.

Major Douglas's original book, *Economic Democracy,* was concerned primarily with that question of policy, and treated of the financial issue because the financial system was the chief mechanism of a policy. The controversy which subsequently developed on the technical side had the effect of concealing the major issue of policy; that is the significance of the emphasis on the subtle aspect where most confusion could be caused.

But although the emphasis has shifted, a knowledge and understanding of the mechanism of finance in relation to production is still vital to a proper grasp of politics. Export drives, public works, and high taxation are still the outstanding features of our economy, and they all amount to literal and large-scale robbery of the community, besides leading to a form of organisation which is within a short distance of rendering any protest against the robbery futile because ineffective, if not impossible.

(5)

The officially sanctioned "science" of economics is inextricably intertwined with the operation of the financial system. This is as if a unit of measurement in the science of physics were wrongly defined. Theoretically sound, the "laws" of economic "science" are in practice worthless for the most part, and predictions based on them are less reliable than the notoriously unreliable forecasts of weather. Before the war, economists were for this reason becoming the laughing-stock of the public; and if their prestige has recovered to some extent, this is because governments have taken powers to make theories work as nearly as possible despite the facts. It is easy enough correctly to predict a shortage of wheat if for reasons of financial policy you take powers to restrict its production.

Major Douglas has, however, enunciated a real and fundamental natural law of economics: *The real cost of production is measured by the consumption incurred in that production.* For example, the real cost of a crop of wheat is measured by the wheat used as seed, and consumed; if we supposed that nothing but wheat were consumed, the cost would be measured directly in wheat. This specific example can be generalised: the real cost of total production over a period is the total consumption in the same period. Since production, even in war, exceeds consumption, the ratio in question is a fraction which is less than one. The difference between that fraction and one represents, in the most fundamental sense, *profit*—real as opposed to financial profit.

This fundamental law is modified by a most important factor. Production *capacity,* as opposed to simple production, must be taken into account. Production may include the building of a number of factories; the point is that these factories enhance the potential production of the ensuing period. The fundamental costs and profit, therefore, must be measured in terms of production *capacity*—that capacity which we examined in Part I.

This production capacity is called by Major Douglas the *real credit* of a community, and defined by him as *the ability to deliver goods and services as, when and where required.* Financial credit is similarly defined as the ability to deliver money as, when, and where required. Financial credit is based on real credit. Banks can create financial credit because that credit can be exchanged for goods and services. The connection is perfectly obvious in the case of war; the output of industry is enormously expanded, and it is financed by an expansion of credit.

Now the essential respect in which financial credit created by the banks differs from minted money is that it is subject to recall and cancellation within a period determined by the banks. It is issued as if it were a loan by the banks. Even when this money is "earned" by a man's labour, it is still subject to recall by the banks—a reality reflected by the enormous burden of taxation.

But it operates effectively as real money because fundamentally it is based on the capacity of industry to expand its production. The matter may be put another way: potential production capacity can only be drawn on *provided* new money is made available; and this new money is bank-created credit. Thus financial credit is in the nature of a licence to draw on the real credit.

In the sense in which we are using the term "real profit", a factory as such is not profit. The profit lies in the "factory delivering the goods, as, when, and where required"—again, a dynamic conception. Here, the factory symbolises all those factors, tangible, and intangible, which make up the realistic basis of "plenty". The extent to which this profit is available depends on the degree to which financial credit is made available.

Production capacity may be defined as the capacity of industry, in the inclusive sense—even farming is now called "the farming industry"—, to fulfil orders; and orders are based on the provision of purchasing-power. There are very few industrial concerns which could not increase output in response to orders.

There are two important observations to be made in relation to this situation. The first is that there is at present no connection between real cost, and financial price. Cost is properly measured as a ratio, in which production-potential, the denominator, is increasing much more rapidly than actual consumption, the numerator; therefore real costs are falling. Prices, however, are based on rules of accounting and are constantly increasing. The implications of this we shall examine later.

The second observation, which amounts to a revelation, is that *the poor are not poor because the rich are rich;* they are poor because of the operation of the financial system. But class-war is founded on the delusion that "profiteering" is the cause of poverty, and class-war is the foundation of Socialism. Our present circumstances are dominated by the conscious conception of class-war; and the policy which leads to it requires careful examination.

Part III.—*Politics*

PART III — POLITICS

(1)

The very great importance of the automatic deficiency of purchasing-power resulting from the method of accounting the cost of production lies not in itself, but in the consequential importance of financial credit, and hence of the system which provides this credit. It is very probable that many of the honest critics of Social Credit theory miss this point. Because industrial production is continuous, although subject to fluctuations, booms and depressions, they argue against the existence of the automatic deficiency. But the fact of the matter is that production is continuous, because there is a continuous, though fluctuating, supply of fresh money in the form of bank-created credit. Now, so long as the accounting rules are followed, industry is dependent on that supply of fresh money. It is, in this way, governed by banking policy.

Again, so long as the rules are adhered to, banking policy must be limited in certain important ways. In the first place, the bank must be concerned with the probability of recovering the money advanced, and in this respect credit policy must be governed by purely financial considerations. In the second, credit money put into circulation can only be effective in making good the gap between prices and purchasing-power if that credit is paid out in respect of production which does not appear on the market immediately, or at all. Thus new industries, production for export, the production of munitions, and the financing of public works, distribute incomes which are effective in shifting existing goods into the hands of consumers, and thus stimulating industry generally.

But as we have already seen, this use of credit, which occurs automatically during the original period of capital development, and artificially under the comparatively modern theory of "pump-priming", is only a temporary expedient, since the deficiency in purchasing-power is cumulative, and reflected in an ever-mounting indebtedness, an indebtedness which can never be repaid, but which forms a continuously growing burden in the form of debt-charges, both industrial and governmental.

The practical effect of this process is to mortgage both industry and, through its Government, the nation, to the banking system; and since the indebtedness cannot be repaid, because the money does not exist—is in fact, the 'debt', which can only be *replaced* by further 'debt'— the banking system becomes the virtual owner of industry and nation; and both the nominal owners of industry, and the Government, become managers for the owners;* and it is the business of the managers to carry out the policy of the owners. That is to say, *the banking system controls the policy of industry and Government.*

* ". . .The Civil Service has a managerial function. Whitehall is a great head office of business enterprise with a whole host of branch offices, directly or indirectly dependent on it. The Civil Service must adapt itself to this role.

"Departments which used to be self-contained units now have to remember that they are no more than 'departments' of the larger whole. A narrowly departmental attitude can only bring frustration and delay. . . ."

—Mr. Herbert Morrison, reported in *The Daily Telegraph,* June 7, 1947.

The first point to note about this situation is that the individual bank is not autonomous. The ordinary operating banks, or trading banks, work on almost mechanical principles. They do create and advance credit to their customers; but the extent to which they can do this depends on their cash position, and this in turn depends on the current policy of the central bank. The central bank is far more autonomous; it is, in fact, the specific function of the central bank to govern the credit policy of the whole nation. The credit created by the central bank is treated as *cash* by the trading banks.

But even central banks are not completely autonomous. In the days of the Gold Standard, the central bank's credit policy was related to its holdings of gold. The Gold Standard is gone, and gone forever, since the rate at which gold can be mined is progressively less than the minimal rate at which total money must be expanded in order to keep industry functioning under the existing system.

Now since the rate at which new money is required is greater than the rate at which gold is mined; and since money is advanced at interest as a loan to industry, it is obvious that the gold must come into the possession of the lending institutions, the banks. Lending at interest means that more money must be repaid than is lent. This is, in fact, the first stage of the process by which the system becomes virtual owner of industry. So we have the position that the theoretical basis of the credit system, gold, which has become the property of the banking system, is insufficient; some substitute must be found, having the *international* properties of gold.

This is the situation which culminated in the formation of the Bank of International Settlements before the war, and the International Fund and World Bank after it. These three, which are different aspects of one thing, constitute a Central Bank for central banks, and allow a world credit policy to be imposed on national central banks. That is to say, the loans—credit—advanced by the World Bank will be cash for central banks. Once securely instituted, this system will render the banking system independent of gold. Individual banks, however, will be, as they are at present, integrated into a system control of which resides at the apex, and is extra-national. Since industry, and Governments, are dependent on credit policy, it is clear that this extra-national apex controls the fundamental policy of both.

The actual and practical meaning of the situation is, of course, that the *individuals* in control of the apex of the world banking system are in control of the overall policy of the world; and this fact must form the proper starting point for any analysis of politics.

It is the matter of this policy and its background which forms, and always has formed, the essential subject-matter of Social Credit. Only to the extent that the financial system has provided the mechanism of this policy has the financial system come under consideration. When Major Douglas published his first book *Economic Democracy,* the financial system was, as he has since expressed it, the headquarters of that policy; and an attack on the system was, in consequence, an attack on the policy.

Now partly because of the nature of the system, and partly because of the publicity resulting from the attack on it, it was impossible for it to remain as it was; that is to say, politics ceased to be imbedded and concealed in the system as such, and emerged as concrete policies. Or to put it another way, the central policy of the financial system has had to be buttressed with other sanctions. In consequence, the natural emphasis has shifted from economics to politics. What has happened is just what happened with the outbreak of war: the enormous expansion of credit required to finance the expansion of output for war necessitated extra-financial "controls". But war is only an acceleration of the normal processes of finance. As we have already seen, the operation of industry under the existing rules requires this expansion of credit, and the extra-financial controls were in fact appearing in embryo form before the war, and would have developed, only more slowly, without the war. That is to say, at one time finance and control were synonymous; they are so no longer. Consequently, the *policy of control* has emerged as the subject of examination.

Particularly at the present time, the essential theory of Social Credit could be re-written without reference to finance, and in fact numerous groups act on the essential basis of Social Credit policy without reference to finance. Nevertheless, money forms one of the most beautiful administrative devices which can be imagined, and an understanding of the use to which it has been put, and of the use to which it could be put in the service of another policy, is still the shortest road to an understanding of the political problem. On the other hand, no financial adjustments by themselves could rectify the present situation; and if a financial system is retained, it will certainly be a modified one.

(2)

Before we proceed further it is very necessary to have a clear understanding of the meanings of two important words in common use, which are confused to varying degrees in many discussions and analyses. They are *policy* and *administration.*

Policy is concerned with the choice of objectives, and includes the sense of action taken to achieve that objective. Thus it is more than the "ends" of the common expression "ends and means". To have a policy is to take action to achieve some chosen objective.

Administration, on the other hand, is much more nearly synonymous with "means". It concerns the technical arrangements necessary to carry a policy into effect. It is not the action taken to achieve an objective, but the methods which that action makes use of.

For example, a bank may have a policy of contracting credit, the immediate objective being to reduce the advances made by the bank. The policy will be initiated by some sort of directive, and carried through by supervision and further directives. This policy is *administered,* however, by the technical staff of the bank. Administration involves specialised knowledge of book-keeping methods, law, and expediency, as well as of specific banking procedure.

With this distinction in mind, we must examine the nature of the policy administered by and through the banking system. As we have already seen, the banking system is, through the central banks, integrated into a world banking system; the system is a world organisation, and clearly that organisation must have some general over-riding policy.

One way to describe that policy is to say that it is to maintain and secure the predominance of the banking system; and this means, of course, the power of those ultimately in control of the system to impose policy on— to issue directives to—the industry and Governments of the world.

The banking system is, in fact, a system of world government, and when this fact is realised it is easy to see that it constitutes a form of world dictatorship. And what might be called the derived policies arising from this situation comprise the practical policies of the banking system. These are policies designed to secure the predominance of an international medium of monetary exchange; to maintain the "value" of money in the commodity sense; and to facilitate the administration of banking policy.

This latter policy is expressed in the promotion of centralisation in every sphere: the amalgamation of businesses into combines or cartels, the union of autonomous political areas into federations, the strengthening of the federal government at the expense of its constituent parts; and the organisation of populations into trades and professional unions, and the "federalisation" of these.

In short, the policy promoted by those in control of the banking system is centralisation of everything: the promotion of a pyramidal form of world organisation with the banking system at the apex. The policy is, in fact, the centralisation of the control of policy: *totalitarianism.*

Money-power was used in the first place to secure a monopoly of money-power; and the monopoly of money-power—the monopoly of credit—was used to bring about a monopoly of political power.

We are witnessing today the consolidation of political monopoly. The number of *effective* autonomous governments in the world is being reduced; we are at the stage of the Big Five, Big Four, Big Three, or Big Two-and-a- half, according to the context. And at the same time, the administrative agencies of a single world government are being brought into being, *via* the U.N.

Another aspect of the construction of a world monopoly of control is the "nationalisation" of banking. What this means is, of course, the amalgamation of banking and government. It would be too much to ask public opinion to swallow anything which might be called the "bankisation" of government, so that it is essential, if the process is to be got away with, that it should be called by a name which would at the least not antagonise public opinion. But it is a matter of observation that the control of banking policy remains in the same hands; and the combination of banking and political power is rendered independent of the public as regards obtaining money for government purposes.

And in just the same way, "socialism" is a political technique to reconcile public opinion to the final stages of the construction of monopoly. Socialism *is* centralisation, the policy of the bankers. The objective—and we can see the steps to its consummation day by day and week by week—is world government dominated by those at the head of the international banking system, and supported by a world police force and control of food supplies and essential raw materials by the agencies of that government.

This is a bare outline of the politics of banking control; it is unnecessary to fill it out, since it is the subject matter of contemporary Social Credit literature. Apart from the theoretical approach we have adopted, there is abundant evidence.

But one further point of extreme importance must be mentioned. For some years it was an open question whether the policy pursued by the banking system was merely a natural consequence of its structure; that is to say, whether the accident of the development of the system had thrown certain men to the top, who more or less unconsciously protected their position and its privileges. On the other hand was the possibility that the whole situation was the result of conscious intention.

In 1955 a Government was elected in Alberta, Canada, with a mandate to put into effect certain Social Credit technical proposals. *Every attempt to carry out this mandate was "disallowed" by the Federal authorities,* and a tremendous campaign of publicity was put into operation to discredit the Government. In this campaign quite obviously deliberate and conscious lies and misrepresentation were made use of, and the conscious intention behind the disallowances and publicity were perfectly evident. In any case, if Social Credit theories were fallacious, the quickest way of disposing of them would be to allow them a trial under circumscribed conditions; and nobody can miss the significance of the fact that that trial has up to the present been prevented by agencies outside Alberta, although the people of Alberta have three times voted for that trial.

For the wider evidence of conscious intention behind the policy of the banking system—evidence which establishes the deliberate intention to make use of world war and other catastrophes in the pursuit of the ultimate objective—readers are referred to *The Brief for the Prosecution* by C. H. Douglas.

(3)

One of the most misused and abused words in the political vocabulary, is the word "democracy". The *reductio ad absurdam* of its use is the claim by the masters of Soviet Russia that the system in operation in that country is "democracy", for nowhere outside Russia and her satellites is it seriously contended that the Soviet system is not totalitarianism differing in no essential respect from the German totalitarianism. Similarly, it is an implicit assumption in the rejection of the term "democracy" as suitable to connote the Soviet system, that "democracy" connotes in fact a system the antithesis of the totalitarian system. At all events, it is practicable to analyse the totalitarian system and to see in what respects an antithetical system is possible and desirable.

In this matter we are dealing with a collection of individuals, a collection which can be delimited in some way—as, for example, that they constitute a club, or a nation, or a race. From the political point of view, they are an *association;* and the questions we are examining are the *objectives* of the association, and its *organisation.* That is to say, we are concerned with *policy* and *administration.*

The antithetical possibilities in regard to each of these are that control may be centralised, or decentralised; and consequently, the combinations offer four possibilities:

1. Centralised control of policy and centralised control of administration.
2. Centralised control of policy, and decentralised control of administration.
3. Decentralised control of policy, and centralised control of administration.
4. Decentralised control of both policy and administration.

Let us examine these possibilities in relation to a cricket club. In the first example, we have the club organised so that there is an authority at the top, which exercises control through various administrative grades of authority. That is to say, authority is hierarchical. This is, of course, the familiar form of administrative organisation; it is found, in fact, wherever there is efficient administration. But in the case we are examining, a centralised hierarchy also controls policy; it decides what objectives the club shall follow. Thus an authority, say a board, or the President, may say that the club shall play twenty cricket matches, fifteen of them against one team, and five in Timbuktu. The wishes of the members have no part in this decision. It is taken “for their good” in the opinion of the authority.

It will be noted that in order that this decision should be effective, the authority controlling policy must also control the administration. The whole organisation is completely centralised in respect of policy and administration. But one further point must be noted: the individual members of the club must not be able to contract-out if they do not like the policy dictated by the authority, since otherwise there would be the danger that the policy could not be carried through for want of personnel. Now this is the system in operation in Russia, the system called “totalitarian”. Decisions of policy are made either by Stalin, or that very small group known as the Politbureau; and the whole of the administrative apparatus is centralised under the control of the same group, and the sanctions which enforce the decisions are controlled from the same centre. There is no contracting-out; orders must be obeyed, and no one is free to leave the country.

It will be obvious that our second possibility, centralised control of policy, and decentralised control of administration, is merely a theoretical possibility. Decentralised control of administration means that anyone who likes does anything he likes, so that there is no assurance that a given decision on policy will be carried into effect. In the cricket club, the decision to play a match against another club requires a programme of action which in the very nature of things must be arranged by a hierarchical authority—the committee, coordinated under the authority of the President. Similarly, it is perfectly evident that the Russian Politbureau’s decisions could not possibly be effective unless a centralised administrative system, acting under orders, existed under the control of the Politbureau to carry the directives into effect.

This same requirement rules out the fourth theoretical possibility in the same way. In this case, indeed, the whole idea of organisation is missing.

The only practicable possibility besides the totalitarian system is, therefore, the third of the above possibilities: *decentralised control of policy, and centralised control of administration.* Thus we can arrive at a valid basic definition of democracy from first principles.

It does not follow from this that in a democratic system administration is fully centralised. Administration must be hierarchical, and subject to direction from its apex, in respect of a given undertaking. But a democratic organisation may have several separate administrative hierarchies in respect of several undertakings. On the other hand, all administration is ultimately centralised in one system in the totalitarian organisation, because it is all subject to one over-riding direction on policy.

Policy is manifested in the issuance of “directives” to the administrative organisation or organisations competent to carry them into effect. It is in relation to the origin of these directives that the words “totalitarian” and “democratic” are relevant. The real meaning of totalitarianism is that one man, or a small group of men are in an exclusive position to have their directives carried into effect; and the real meaning of democracy is that individuals as such shall all be in a position to have their own directives carried into effect. The general problem of political democracy is to find a mechanism to give practical effect to this principle.

Parliaments, Soviets, and voting systems generally are merely mechanisms which might or might not give such practical effect to political democracy. It may be said at once that the British system does not. If we overlook the many, and not unimportant, side-issues such as personalities, electoral tricks, misrepresentation, etc., etc., we find that in theory the electorate is asked to vote for a “platform” comprising several policies. It is self-evident that no genuine decision can be given by a single act of voting on more than one policy at a time. But even if an election were held on the basis of a single alternative, the result would be to issue a single directive to which all individuals, including those who had voted against it, would be subject until a further opportunity arose to vote against it. This is simply a form of totalitarianism limited in time. It is an improvement on outright totalitarianism in that there is a periodic opportunity to review the policy; but it is not democracy. It could quite suitably be named “ballot-box” totalitarianism.

It would be merely tedious to explore all the numerous factors which modify ballot-box totalitarianism; but some are important. In the first place, as we have already seen, ultimate policy is controlled through the highly centralised financial system by a small group in control of that system. Political possibilities are narrowly limited by financial possibilities. As a result of this, large areas of the platforms of different political parties overlap. For example, taxation in its present form and extent is purely and simply the *policy* of those in control of the financial system; it is not a necessity; it is robbery. Now different parties merely propose variations in the forms and rates of taxation, and all proceed from the basic assumption that heavy taxation is axiomatic. Again, financial considerations determine most other policies that come up for consideration—for example, various methods to "keep up prices" or to re-distribute income, when that income in the aggregate is already insufficient to liquidate costs.

A genuine alternative to existing policies, therefore, would have to traverse the "axioms" of sound finance; and to the extent that the proposals of any party do not, the ballot-box system comes closer to outright totalitarianism.

On analysis, it is easy to see that in a great many cases the choice offered to the electorate is simply the choice of different *methods* (associated with particular parties) embodying the same *policy.* Now methods are a matter of administration, and a vote on them is simply the expression of opinions as to whether one team or another is more capable of forming an efficient administrative hierarchy to carry out a policy which is not open to decision.

The second important factor modifying ballot-box totalitarianism is propaganda. Only "broad" propaganda affects broad issues. This is a somewhat subtle matter. But it is "broad" propaganda which maintains general beliefs in the "axioms" of sound finance, and such absurdities as that already examined—that in any real sense a nation benefits from a constant excess of exports over imports. Similarly, the "trend to the left" is not a natural phenomenon, but the result of carefully controlled propaganda. This aspect of the matter has been very adequately described by F. A. Hayek in his book *The Road to Serfdom.* But in general it is obvious that broad propaganda—i.e., extensive, pervasive and long-term propaganda—requires enormous financial resources which could not be obtained against the interests of the Money Power.

It ought, in fact, be conclusive that anti-"Capitalism" —i.e., Socialism—is supported by such "Capitalist" papers as *The Times, The Economist, et. al.,* and it is a demonstration of the effectiveness of the mass hypnotism exercised through such propaganda channels that the delusion of Socialism as a "workers' " movement is so prevalent.

(4)

The General Election in Great Britain in 1945 undoubtedly included Socialism as one of the policies offered, so that the Labour Party could claim an unusually definite mandate to administer an unusually clear-cut policy. This is not to say that the electorate was conscious of this fact, or that it understood exactly what the mandate implied. And an examination of the opposition policies discloses that they offered the same policy less clearly expressed. In fact, the Labour Party simply made explicit the policy that had been followed by preceding Governments.

A leading article in the London *Daily Telegraph* (Oct. 18, 1946) makes the situation reasonably plain: "To go no further back than its war-time predecessor, the famous Coalition, the present Government found much of the planning for education, other social services, finance, and defence already done. Even attempts to 'iron out' the peaks of economic fluctuations—the point with which Mr. Morrison made such play—are very far from being a Socialist invention. Such devices as Exchange Equalisation Funds, the accumulation of projects for public works, quantitative regulation of imports, censuses of production, adjustments of taxation to economic or social purposes, have been used by a long succession of Governments, not excepting the Socialist Government of 1929-31 . . ."

This line of policy can be seen to be derived almost entirely from financial considerations. And it is all consistent, and all represents the concentration of control over both policy and administration. Financial policy promoted monopoly developments, and did so quite explicitly; the Bank of England, the local agency of International Finance, called the policy "rationalisation." Such monopoly development is an almost necessary preliminary to "nationalisation." Nationalisation is merely the penultimate stage in a process. Rationalisation, or monopoly control of specific industries, is a step to nationalisation, where distinct industries are brought under the one control. Internationalisation is the next step, where nationalised industries are linked under one world control. And this is the objective of the group of men in control of the world financial system.

The "common man" has no power whatever to issue effective directives to an organisation on this scale. Even elected representatives would be powerless in relation to the permanent officials. The ballot-box would merely introduce an element of inefficiency into the organisation, and consequently its elimination is to be expected.

It is, in fact, necessary for the stability of the organisation to control the individual; that is the significance of so-called Social Security schemes. It really is astounding that these have not been seen through long ago. Their monetary benefits are mere pittances; but the underlying assumption is that the recipients of them will be completely dependent on them, and the actuarial calculations show that it is anticipated that the recipients, as old-age pensioners, will be the majority of those contributing to them. Thus it is anticipated that ten, twenty, thirty years ahead nothing better than a pittance will be available to the majority of those over 65—and this calculation does not allow for the steady depreciation which in the past thirty years has reduced the *official* value of the pound sterling to a half, and the actual value to a quarter or less.

But the real cost of this pittance to the worker is conformity to a network of regulations which is reaching ever finer details of the individual's existence. Again, this is the use of the financial mechanism to achieve a definite objective. The essence of it is to make money essential to existence, arrange through inflation and taxation that whatever the standard of living, it absorbs the whole of the worker's income so that he cannot save, and so threaten him with insecurity—i.e., starvation—at retiring age unless he submits to controls throughout his working life. He thus becomes defenceless material for planning.

"The plan" will require individual workers to work in accordance with the plan. What possible effect can voting for Mr. A. or Mr. B. have on the individual worker's destiny?

Since the Socialist Government took office in Great Britain, appallingly rapid progress has been made towards complete and explicit totalitarianism. The shape of things to come is perfectly evident from the emphasis on compulsory trades-unionism, in association with the admonitions of trades-union leaders that the time for strikes is past, and that the worker has now achieved his goal, his future part being to work for increased production. For the rest, everything will be decided "in the public interest" between Labour Leaders and Political Leaders.*

* Mr. Arthur Deakin, General Secretary of the British Transport and General Workers' Union, was reported by A.A.P. on July .15, 1947, as saying "I am even prepared to say we must accept a limited measure of direction [of labour]."

The initiative in this policy has rested with Finance which clearly anticipates being able to retain the initiative and the control—which, indeed, probably sees no other way of securing in perpetuity the enormous power which results from international control of finance. Administrative controls are simply buttresses for financial control which itself is a most wonderfully flexible and sensitive mechanism.

(5)

The group in control of the banking system is using the financial and industrial systems in the pursuit of a long-range objective—the objective of world-dominion for that group. Such a policy is in conflict with the desires of those to whom it is applied. Where we have an opposition of policies in this way, we have a state of war in the most general sense: "War is the pursuit of policy by other means" (Clausewitz). In this sense, the translation of policy into practice involves the concept of *strategy*. "Strategy is the employment of the battle to gain the end of the War [i.e., the objective of policy] . . . Strategy forms the plan of the War" (Clausewitz).

The objective of strategy is subordinate to the objective of policy, in the same way that the objective of a campaign is subordinate to the strategy of the nation waging a war—in the same way that policy transcends war itself as defined by Clausewitz. In this sense, the use of the industrial system by the financiers is a strategical use.

In an address given in 1924 Douglas pointed out that there are only three possible objectives of a world economic system:

"The first is that it is an end in itself for which man exists.

"The second is that while not an end in itself, it is the most powerful means of constraining the individual to do things he does not want to do; *e.g.,* it is a system of Government. This implies a fixed ideal of what the world ought to be.

"And the third is that economic activity is simply a functional activity of the men and women in the world . . ."

Since that address, it has been explicitly stated that the objective of the industrial system is "Full Employment."

"Considered as a means of making people work (an aim which is common both to the Capitalist and Socialist Party Politics) the existing financial system, as a system, is probably nearly perfect.

"Its banking system, methods of taxation and accountancy counter every development of applied science, organisation, and machinery, so that the individual, instead of obtaining the benefit of these advances in the form of a higher civilisation and greater leisure, is merely enabled to do more work. Every other factor in the situation is ultimately sacrificed to this end of providing him with work. . ."
(C. H.Douglas, 1924).

Recalling our examination of the physical situation, let us imagine a man to be employed in tending an area of lawn. Under primitive conditions, he would cut the grass by plucking the blades with his hands. The first "scientific" advance would consist in the use of a single-bladed cutting instrument, and even with this he could at once cut the grass much more rapidly. Therefore, he could either tend the former area in less time, or he could tend a larger area in the same time. The next advance would consist in the use of a two-bladed tool, on the principle of scissors, and this again would result in more rapid work, with the same result as previously. Then successively we see the introduction of the mower and the power-driven mower; and we can imagine the eventual introduction of the radar-controlled automatic mower.

The strategy of "Full Employment" means that with every improvement in the technique of grass-cutting, the spare time gained is devoted to extending the area of lawn to be cut, and exporting the grass—"building export trade," or "Saving Europe." This extension of lawn is the equivalent of all those devices by which politicians create "employment." The most obvious is public works, but emphasis on further industrialisation and on the importance of export markets is exactly the same thing in principle. "Full Employment" does, in fact, counter the developments of applied science, organisation, and machinery; it steals the leisure which is the potential result of power-utilising industry.

That is to say, "Full Employment" is a *strategy* which has the result of subjecting individuals to a system of government. It does, as it is designed to do, make the individual a cog in a system of world organisation.

This strategy has developed out of the earlier phase in which adherence to the canons of "sound" finance was the prime concern of the official economists and politicians. The development is of extreme importance, for it indicates that shifting of the headquarters of policy to which we have already referred. But if what is involved is grasped, it is easy to see that the unfolding strategy in itself reveals the continuity of policy behind it. And it is easy to see that, as Major Douglas has pointed out, the apparent failures of policy are in reality its greatest successes. The policy is centralisation of control; and trade rivalry leading to military war, and the depression leading to the elimination of small businesses and the psychological conditioning of the masses to the idea that the greatest service their leaders could provide would be the avoidance of "unemployment" on almost any terms of loss of freedom, are all of a piece. Both wars—or the two phases of the one war—led to the instalment of a bureaucracy ruling through Regulations and Orders in place of the highly developed system of Common Law at the service of the individual. "Full Employment" for unspecified ends quite smoothly replaces full employment to defeat Hitler.

Now obviously it is just as impossible to pick a man off the street through the mechanism of elections and place him in control of the policy of a society organised for “Full Employment” as it is to place such a man in the same way to control a steamship company. He simply has not got the knowledge. He is in the hands of his advisers, the higher officials of the permanent bureaucracy, of which more later, who understand very well that only certain possibilities are open: a decision in one sphere quite inevitably repercusses throughout the system, and closes a number of possibilities in other spheres. This is particularly so in the case where “Full Employment” is an overriding policy, for if a certain proportion of manpower is hypothecated to certain long-term undertakings, other undertakings are ruled out until the former are completed, unless the waste involved in their abandonment can be countenanced.

At this point it is much easier to realise the significance of the “nationalisation” of banking. Banking—i.e., credit-control—becomes part of the governing bureaucracy; and because of its administrative characteristics, its properties of “generalness,” it occupies a central position. *Finance enters into bureaucracy to control and direct the bureaucracy;* and it has ready to its hand all the ancillary means of control, which are lacking to it while Government is a competitor. That is to say, the “canons” of sound finance are replaced by Governmental orders backed by the sanctions of the Law. High taxation becomes a matter of Government “policy” instead of a merely economic necessity of “balancing the budget.” Wages and prices can be “controlled,” the redistribution of workers being effected by Orders instead of by economic incentives; the Orders are backed up by control of rations, and by the necessity of compliance so as not to forfeit the “benefits” of compulsory Social Security.

One of the advantages of sovereign nations lies in the possibility of diversity in the way of social organisation, the opportunity to try out different possibilities. But we see that as the world becomes richer in its ability to produce goods and services, so we are told that it is becoming increasingly difficult for a nation to live to itself. This is made the excuse for imposing similar systems and objectives on every nation, and the similarity of the proposals everywhere—“Full Employment,” State Socialism, and the abrogation of national sovereignty—is a clear indication of the operation of a world policy proceeding from a world centre and having an ulterior motive.

The absurdities in the situation are so gross that it is difficult to write patiently of the petty details. “Full Employment” in a power-production economy is the most absurd of all; and in the U.S.A. the situation is so precarious that clearly only a repudiation of the policy can avert frightful disaster. Only war or the pouring out of American production free to the world can possibly keep American noses to the grind-stone.

In the twenty years since this essay was written we have seen the emergence of the new so-called nations; and their economic non-viability has provided the outlet required to maintain employment and dispose of the product. And it used to be a joke among Social Crediters that eventually it would be necessary to export to the planets. But now we have space exploration, which involves an immense distribution of incomes for production which disappears.

It is very necessary to bear constantly in mind the real physical situation—the real inherent ability of a modern power-production economy, in which human labour is becoming more and more nothing but a catalyst, to deliver the goods. The standard of living ought in reality to be related to that ability. Obviously, there must be some neutral measure linking the standard of living with that real ability. That measure is the *ratio of production of consumers’ goods to total production.* It is the measure immortalised in Goering’s phrase: “Guns instead of butter.”

The financial-bureaucratic combination is able, through a “planned economy,” to postulate a certain standard of living, and to put that proportion of the population not engaged in providing the goods and services that make up that standard to work on whatever it likes—public works, international public works, raising the standard of living of Hottentots, and so on. All these things are equivalent to Goering’s “guns.” The quantity of “butter” delivered to the population depends purely in the policy of those in control of the administrative apparatus. With a perfected bureaucratic control, the “axioms” of finance can be dismissed for a period long enough, it is hoped, to consolidate extra-financial controls. Production is financed from financial credit to any extent required, and the credits are recovered through direct and concealed taxation.

Consequently, a discussion such as is often proposed, on "wages and hours in industry," overlooks the vital factor—the ratio of consumers' production to total production. Vast sums spent on public works are exactly the same thing as the "profits" against which the Socialist invective is so largely directed. The "profiteer" (an almost extinct animal now) invests the greater part of his profits in further capital expansion; it is this, and not his personal consumption (which is strictly limited), which depresses the standard of living of the "worker." But capital expansion (public works) initiated by the Government out of credits has precisely the same physical effect.

A planned economy, "Full Employment," and an allocated standard of living, comprise the official programme of Socialism. It represents nothing but an intensification, backed in the last resort by a secret police, of the very policy against which "the worker" believes he is protesting.

In fact, it could hardly be otherwise. The idea is ludicrous that the "Capitalist" who, according to the orthodox Socialist, controls the Press and the Government, is going to see himself dispossessed. What "the worker" calls "the Capitalist" is in reality the *independent* producer; and the Financier has organised the Proletariat into a mob to use it to remove the threat to monopoly the independent producer constitutes.

(6)

Totalitarianism is, in essence, the conversion of Society into a fixed pattern—a machine which can be operated as a whole by a small group. This conception is most easily grasped in connection with war. Society can only be organised as a whole in relation to some *function;* war is a function of organised Society, and in war the individual is, and must be, subordinated to that function. Apart from war, however, it is difficult to conceive of any but one other function to which the individual can be subordinated in this way. That other function is *work*—work as an end in itself—"Full Employment" for unspecified ends.

But once society is organised in relation to a function, central control reaches out in ever more detail over the life of the citizen, and government as such becomes more and more of a pre-occupation. Thus the pervasiveness of modern government is a direct consequence of totalitarianism. The real problem of genuine political democracy is, therefore, much simpler than it appears at first, because it involves much less "government."

The essential point to grasp in connection with genuine democracy is that it has nothing whatever to do with devices for imposing one policy on the whole of Society. Democracy means making the policy of each individual effective in relation to himself; as we put it earlier, it means that each individual is in a position to issue his own directives, and have them carried out.

Now, under primitive conditions, the expanding desires of the individual will rapidly require the subordination of other individuals to his policy if his directives are to be fulfilled. But the great significance of the progress of the industrial arts is that the individual's desires can be met to an ever-increasing extent by the resources of power-driven machinery; and consequently, what is required of government is simply that it should see that these resources are at the service of the individual as such.

From this point of view, the individual has two aspects: in one he is a producer, in the other a consumer. We have already seen that it is an immense advantage to the individual *as a producer* to submit to organisation, since this results in an unearned increment of association—i.e., the required output is obtained from a lesser effort when this effort is coordinated with the efforts of others. Coordination implies centralised direction: it is in its nature totalitarian. Production is thus hierarchical.

As a consumer, on the other hand, each individual has his own requirements. There is no sense in the idea of "centralised consumption." That is to say, consumption is in its nature democratic in the sense we have defined it.

Now, the more production becomes a function of power-driven machinery, the less importance attaches to the producer aspect of the individual, and consequently the less importance attaches to organisation. Correspondingly, the consumer aspect increases in importance, and this aspect implies democracy. In other words, the individual needs to submit to organisation for a continually decreasing proportion of his time, and outside that time he should be free within the natural limits imposed by the freedom of others; and in that free time, he should be able to have his "directives" fulfilled up to the capacity of industry to fulfil them.

Under totalitarianism, the individual is a subject of the State. The antithetical possibility is that he should be a shareholder in his country. That conception defines the democratic relationship perfectly.

Let us consider an industry, making, say, footwear. The people concerned in the situation are: (1) the owners; (2) the executive; (3) the management; and (4) the consumers of its product.

(1) The owners, as shareholders, are concerned with dividends—a claim in money which can be exchanged for the products of that or another industry. Their directive to the executive is to return the greatest possible dividend, and they are entitled to appoint and dismiss officers of the executive in accordance with their success in fulfilling that directive.

(2) The executive officers are concerned with carrying the policy of the owners into effect. They form a bridge between the owners and the management. They *represent* the owners in relation to the management.

(3) The management consists of experts in the different techniques of every aspect of the production. It is the business of the expert to know how to carry general directions into practical effect; to *take* orders in regard to objectives—i.e., on policy—and to *give* orders in regard to the methods of carrying those directives into effect. Executive and management together form an administrative hierarchy. At the bottom of the hierarchy is the ordinary worker.

(4) The consumer is concerned solely with the *product* of industry and its price. He requires that the product should satisfy his specific and individual want— that the boot or shoe should be of the style, quality, and price that suits him. He is *not* concerned with the method of manufacture, or with the way the factory is run.

Now if the owner wants dividends, and the consumer has the money, there is a perfect sequence of cause and effect. The concern of the executive and management is to find the appropriate methods of reconciling the requirements of owners on the one hand, and consumers on the other. As long as the organisation must compete for customers, the customers in the aggregate will direct the programme of production—so many shoes of one size, so many of another, so many in each of several styles. The pattern of aggregate production is thus controlled in detail by the democracy of consumers. We can say, therefore, that money is a blank directive; the details are filled in at the time of purchase. The spending of a sum of money on a particular article is in effect an *order* to the producing concern to produce another article of the same specification to replace it.

It is impossible to conceive of a more sensitive and perfect device for ensuring the truly democratic control of the programme of production. For the reasons which we have already examined, there are barriers to its proper operation. But "There was a period, say between 1850 and 1914, in which the economic aspect of this problem was in a fair way to solution. The gold sovereign was a complete order system. Mr. Brown had only to tender his yellow warrant of sovereignty and he got what he wanted. He set in motion the most marvellous train of self-acting psychological sanctions. Factories sprang to life, trains ran, and ships sailed, all concerned not merely to do his will, but to do it better than anyone else. It is quite irrelevant to this particular argument that a large and increasing number of Mr. Browns had no sovereigns; it is a fact of history that the man who had one always wanted two, and in consequence, if every Mr. Brown had possessed a sovereign, it would still have been effective. It is perhaps unnecessary to observe that the virtue of the gold sovereign lay not in its material, but in its sanctions." (C. H. Douglas, 1946.)

Now if we consider a given Society as an industrial concern—as, in one aspect, it is—we can consider each member of Society to be an equal shareholder. At the same time he is a consumer of the product of the concern —boots, shoes, bread, cars, etc. In his shareholding aspect, he is interested only in the *dividend* which the concern returns him. In his consumer aspect, he is concerned with the *product.* His third concern is with his position as a member of the production hierarchy. In this aspect, he is an expert (to a great or small degree) in some particular aspect of production; but at the same time he is subordinated to the policy governing production. He is a member of a hierarchy; he takes orders from above, and gives orders, or carries orders into effect, below. He has, or may have, three concerns: interest in his work, improving his position in the hierarchy, and discharging his obligation in the shortest possible time.

With regard to this, "The foundation of successful administration, in my opinion, is that it shall be subject to the principle of free association, which will, in itself, produce in time the best possible form of technical administration. If the conditions of work in any undertaking, and the exercise of authority are ordinarily efficient, and there is in the world any reasonable amount of opportunity of free association, such an undertaking will automatically disembarrass itself of the malcontent, while being obliged to compete for those whose help is necessary to it.

"On the other hand, if there is no free association, the natural inertia of the human being and the improper manipulation of methods and aims will make an undertaking inefficient, since there is no incentive to reform. The idea that administration can be democratic, however, is not one which will bear the test of five minutes' experience. It may be consultative, but in the last resort some single person must decide." (C. H. Douglas, 1936.)

As we have already observed, the producer-aspect of the individual is of diminishing importance, since production is overwhelmingly a matter of power and machinery.

The other two aspects—the dividend-receiving and the consuming—are complementary. As a shareholder, the individual is interested in the greatest possible dividend; as a consumer, he is concerned with the greatest possible value for his money. His orders as a shareholder to the executive are solely concerned that the administration should be efficient; but he is not interested in nor concerned with the methods by which those orders are put into operation. Consequently, the only sanction he requires in this regard is the power to remunerate the executive, and to appoint and dismiss it.

As a consumer, he requires control over the programme of production in the way we have discussed. He requires to be able to prevent production for an export surplus; to prevent the diversion of economic activity to unwanted public works, or to a disproportionate production of capital equipment. There is no reason why the efforts of one generation should be expended on work that will only benefit a succeeding generation. There is an obvious obligation to leave to the succeeding generation a productive capacity at least as great as that we have inherited; and we may choose to leave it somewhat greater. But it is very necessary to remember that we do not penalise our successors by refraining from such improvement; we place them in the same situation as we found ourselves in; and they may choose for themselves whether they will or will not extend the productivity of their industry, either for themselves or for their successors. Barring accidents, there are aeons of time ahead, and the sacrifice of present generations to near or remote successors is a ridiculous policy.

(7)

Society as an industrial concern—an organisation for producing goods and services—is only one aspect of Society. In another aspect it can be likened to a Club; for example, a Sports Club, which exists to afford to its members facilities for participating in various types of sports and games.

The organisation of such a club derives from its purpose. The most general purpose in the case under consideration is to afford a choice of various games to sportsmen. This general purpose is represented by a general committee, and it is the business of that committee to see that resources are available to those who wish to play football as well as to those who wish to play cricket or contract bridge. The rules this committee is entitled to make, therefore, are concerned purely with such general relationships, and are largely concerned to see that the football section does not secure a monopoly of resources.

The rules of particular groups—football, cricket, tennis, etc.—are the concern of those groups, and are the function of special committees. Now as most people, and all sportsmen, are aware, the rules of a game are only very exceptionally either altered or added to; and when they are, it is with the object of making the conditions of the game more congenial to the player. An improvement in the materials with which the game is played may form a justification for altering the rules; and so may the test of a long experience of a particular rule. But such alterations are the particular concern of those participating in the game in question.

There are two vitally important considerations governing the conduct of a sports club. The first is *freedom of association.* Freedom of association means that individuals are free to join or leave the club as they wish, and equally that they are free to participate in one or other or several of its different activities.

It is not fully true that an individual is free to join, in most cases. In general, he must possess some qualification. In the first place, he must be acceptable to the existing members; in the second, he must (usually) be a *bona fide* player, either wishing to learn the game, or able to play it.

As regards leaving a club, this is technically called *contracting-out.* The ability to contract-out of a club, or a section of a club, is of extreme importance, for it is this that safeguards the rights of an individual; it ensures that the conditions governing a particular activity are acceptable to those participating, for if they are not, those concerned will cease to participate, and the activity in question will come to an end. This is the absolutely essential complement to rule-making. The election of a committee to make rules is merely a convenience; what does matter is the sanctions which can be applied to that committee; and the ultimate sanction is the right to withdraw from its jurisdiction.

"Genuine democracy can very nearly be defined as the right to atrophy a function by contracting-out. It is essentially negative, although, contrary to the curious nonsense that is prevalent about "negativeness," is none the less essential for that reason.

"This genuine democracy requires to be carefully distinguished from the idea that a game is necessarily a bad game simply because you can't or won't play it, and therefore the fact that you can't play it is the first recommendation for a chief part in changing the rules. On the contrary, that is an *a priori* disqualification. For this reason, if for no other, a period of discipline in the prevailing social and economic disciplines in, say, the early twenties, seems highly and pragmatically desirable. No play, no vote. Bad play, Grade 3 vote. But you needn't do either.

"The power of contracting-out is the first and most deadly blow to the Supreme State." (C. H. Douglas: *The Big Idea.*)

The other aspect of this matter is the playing in specific games. Teams for games are not elected; they are selected. And the team itself is under a captain. In matches, we have passed out of the sphere of policy, into the sphere of administration or technique. Consequently, we have the hierarchical form of organisation, and an individual's position in the hierarchy is dependent on his qualifications. And the test is in results, in matches won in competition. As everyone knows, those who fail in the test are replaced, until in time the best possible form of technical administration—the best team—is produced.

The second vitally important general consideration is the idea of *sportsmanship.* Sportsmanship is an unwritten code which is *above all particular games,* and is above even the *general* rules of a multi-sport club. In one aspect it constitutes the ethical system of the club; but it also transcends any particular club....

Sportsmanship is an invisible criterion governing admission to a club; and it is a supra-personal standard restraining the capricious use of the power of contracting-out. Again, it circumscribes all the rule-making within the club. No rule incompatible with the code of sportsmanship is conceivable in practice.

A further important principle of a club is its financing. Normally, the revenue of the club is derived from the subscriptions of its members (we are excluding the "club" which really exists to make a business of sport; which employs professionals, and derives its revenue by exhibiting to the public the performances of its employees. But in passing, it may be noted that the existence of genuine clubs exerts a powerful influence on the behaviour of the professional associations.). The income of the members is derived from sources *outside* the club, and *contributed to* the club. The committee has the spending of the funds; but it has to justify to the members generally the rate of subscription proposed in relation to the programme of general activities contemplated. Thus members will not approve of unlimited subscriptions to acquire unlimited playing grounds, nor to pay the wages and salaries of redundant employees; nor to accumulate disproportionate reserves. It is incumbent on the committee to show the advantages expected to accrue to the members generally from any contemplated expenditure; and the power to withhold the necessary funds resides in the members. When a general programme is approved, it falls to the committee to carry it into effect; and a failure is properly rewarded by the dismissal of the committee.

The various activities carried on within the club—the games, the social life, the administration of its affairs— are the *functional* activities of the club. The general pattern of these is derived from the individual desires of the members expressed in their proportional support of these activities. The relative emphasis on one game rather than another comes directly from the number of those who prefer one game to another. On the other hand, one member may participate in several functional activities; he may play two or three games, as well as become a member of the committee. His precise position in the club depends on his choice and on his ability; he may captain the cricket team, but be the first reserve of the football team; he may be the Treasurer, and at the same time "help out" by serving at times behind the bar. The time he spends in various functional activities is determined by his freewill, but conditioned by his "sportsmanship." His submission to his captain is voluntary, but—in the ideal member at least—his discipline—self-discipline—is perfect.

It is easy to see that elections play but a small part in the conduct of such a club. For the most part majority decisions are expressed in the actions of the members, as in the playing of various types of games. Provided the cricketer finds the facilities he desires, it is a matter of no consequence to him that perhaps the majority prefer to play tennis. He is concerned only when the majority is so overwhelming that the minority is insufficient to constitute a team. Then he is free to consider the reasons why the majority prefers tennis, and either to give it a trial or to leave the club, since it no longer serves his specific purposes.

But no member would submit to having the game he would play throughout the season determined by a majority vote in the election sense. Or, what is a variant of the same thing, that he should vote for a committee which would have the power of telling him how much of his time he should spend in the club, and what games he should play in that time.

"Supposing I were to say to you, 'I am organising a cricket club. You are all cricket enthusiasts, so I feel sure that you will join my club, and will deposit all your title deeds, stocks and shares, and other valuables with the secretary as a guarantee that you will obey my orders'— you would probably remark that, under the circumstances, you think you'll play golf.

"But supposing you had been brought up to believe that you *must* play cricket, and you must join the club, and that, of course, placing all your eggs in my basket was only a formality. And supposing that, when you were all neatly registered, I were to say: 'This organisation, which we humourously call a cricket club, is really planned for plainer living, higher thinking, and more painful dying, and you can't resign'—you would complain, wouldn't you? To which the answer is, 'No, you wouldn't, because you, in fact, don't. Most of you merely say that more people must join the club—"full employment".'" (C. H. Douglas: *Programme For the Third World War.)*

(8)

Society is fundamentally an association of individuals. Within that association all sorts of functional activities are conducted, and nothing is more important than to grasp the fact that labour, or employment, is simply one of those functions. Now, in a genuinely democratic Society, the pattern of functional activity will be the resultant of the functional activities of individuals exercising free choice, in exactly the same way as the pattern of activity of a sports club results from the various preferences of its members for different games.

On the other hand, "Full Employment" as a policy means the subordination of Society to a single function. The other functions may be there; but the *pattern of functional activity is determined by the elevation of a particular function to pre-eminence.* It makes for a fixed pattern; and that is totalitarianism.

That this pattern is achieved by voting in elections is quite irrelevant. And when, as is our case, all the major parties stand for "Full Employment" as a policy, totalitarianism is inescapable. Genuine democracy has nothing to do with elections: elections are simply a convenient mechanism to achieve a very limited purpose *within* a democratic organisation.

If individuals want "Full Employment," they can have it. Any man can dig holes in his own backyard, and fill them up again. A majority decision in favour of "Full Employment" should be expressed in the majority digging holes, and leaving the minority free to paint pictures if they prefer to do so.

Of course, the work of the world must be done. But it must always be remembered that the immensely greater proportion of the necessary work can be done by power-driven machinery: "Considerably less than the total available number of individuals, working with modern tools and processes, can produce everything that the total population of the world, as individuals, can use and consume, and this situation is progressive, that is to say, that year by year a smaller number of individuals can usefully be employed in economic production." (C. H. Douglas, 1924.)

It is important to notice the words "as individuals" in the above statement. "Full Employment" involves the increasing production of goods which the individuals producing them cannot use or consume. They are goods which fulfil the ambitions of power-maniacs: no individual in his senses would freely produce atom-bombs and hand them over to the individuals in control of an organisation which might use them against him; nor does the individual really desire that they should be used against other individuals. Again, many public works are of benefit only to succeeding generations; and as we have already observed, there is no special or reasonable urgency to press forward the development of the world at the expense of a few generations, and for the benefit of others who will be left with nothing to do.

It is essential, therefore, that the programme of production shall be predominantly one that subserves the requirements of *individuals,* not of organisations; and once this is the case, it must be found that there is room only for a proportion of those available for employment in it. This at once reduces "employment" or labour, to its proper level as a function among others; and there is no reason at all why it should not be considered in exactly the same light as a game, participation in which is subject to proper qualifications. In other words, participation in the programme of production involves membership of a team, and should be confined to those with a genuine desire to participate, and possessing the necessary technical qualifications.

The effect of such a change would be to emancipate other functions both of the individual and of Society. There are, of course, very good reasons why this should not be done suddenly; but it forms an objective which can be approached at whatever rate is found in practice expedient, and a mechanism by which this might be done will be considered later. But obviously such an objective results in a completely different conception of the nature and functioning of Society. It is, in fact, an absolute prerequisite of genuine democracy.

As soon as government ceases to personify the elevation of a particular function as dominating the pattern of Society, it falls into its proper perspective. Government itself is merely one function among all the others, and by no means the most important. Its true nature is that of the Board of Directors of a company on the one hand, and of the general committee of a club on the other.

As a Board of Directors it is the business of the Government to see that the industrial component of Society produces the greatest possible dividend to the shareholders, the citizens. This does not mean that the Government should "run" industry. An industry is always (unless interfered with by the Government) "run" by the technicians. It does not mean that the Government should have any control over the internal policy of the particular industry. The Board simply represents the shareholders whose interest is confined to the receipt of dividends and the business of the Board is simply to impress the will of the shareholders on the technicians. Most emphatically it does not mean that the Government should dictate the programme of production. That is the concern of the consumers, and is properly controlled by the money-vote.

The main function of government in this aspect is really the authorisation of new enterprises which may enhance the collective dividend. This is a point to which we shall return subsequently.

The more important aspect of government is that of a general committee. It is concerned with the general framework within which the multitudinous functional activities of Society are conducted.

The first consequence of this position is that the emphasis immediately passes from law-making. No club-committee is forever adding to the number of rules. Now Society in the course of some thousands of years has evolved a quite sufficient number of laws to provide for the general conduct of Society. It is only when some new development, such as the introduction of some major new invention, disturbs the general equilibrium, that new laws may be necessary. The appearance of the motorcar and the aircraft, for example, clearly need integrating into the existing possessions of mankind in such a way as to enhance rather than diminish the real credit. Apart from this, it is a proper concern of the Government to revise the laws with a view to removing unnecessary restraints on the freedom of the individual. As the physical conditions which limit the individual are overcome, so artificial restrictions should be eased and, so far as possible, abolished.

And here the social equivalent of "sportsmanship" comes in. That is an ethical system having its roots in religion, and accepted by, and as binding on, the Government just as much as individuals.

The second consequence of the proper position of government is that it should derive its finance by *agreed* contributions from individuals. Just as with the club committee, it should suggest a programme, and this programme should be sanctioned by the public.

What is undertaken by the Government is at the immediate physical expense of the individuals composing the community, and what is required is that this physical necessity should be correctly reflected in the relations between Government and people. Government itself is an expense; a certain amount of it, which should be reduced to the practical minimum, is an unavoidable expense. But government undertakings are a different sort of expense. Providing "Full Employment" is such an expense, and is simply a blank cheque drawn in the Government's favour, and honoured by the community at the individual's expense. Nothing should be done for the sake of providing employment. It may be that roads need to be built, and aerodromes constructed, and so on. If so, the Government should suggest a programme of roads, etc., showing the immediate advantages to be derived from them *by individuals.* Some such works will have an immediate and obvious advantage; with some the advantage will be more remote; and with others, the advantages will accrue entirely to succeeding generations.

The amalgamation of credit-monopoly with government means exactly that the Government is rendered independent of public control in these matters. It can embark on programmes which are at the expense of the individual, but are disguised as being to his advantage, since they issue to him the money, which ought to be his unconditionally, only in exchange for his work. The citizens ought to license the Government to undertake the works of which they approve, by voting the necessary funds. But as things are, the citizens have only the most slender control over the Government; and although a correct use of the vote could rectify the immediate situation, it must be realised that the vote is an exceedingly crude mechanism, with a very limited use, and that it is essential to reinforce it with more adequate sanctions.

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The essential mechanism of totalitarianism is centralised control of the real credit of the community. What we call the real credit we defined as "the ability to deliver goods and services as, when, and where required." Centralised control of this real credit means that goods and services can only be delivered to the orders of those in control of a centralised organisation. These orders may be delivered through the control of financial credit; or they may be delivered through bureaucratic Regulations and Orders; or, as at present, through a combination of both.

The essential mechanism of genuine democracy is decentralised control of the real credit of the community.

Easily the most convenient and flexible mechanism for such decentralised control is money, because money is the most marvellous order system if properly used.

We have already seen that financial credit—bank-created money—is based on the capacity of industry to produce. If financial credit were suddenly cut-off, industry would stop except to the extent that people "saw through" the monetary situation. *Restriction* of credit is, in fact, the direct cause of the so-called depression, the slowing-down of industry. That is to say, credit policy governs industry; credit *initiates* production.

If this fundamental fact is grasped, it will be clear that there is no reason whatever why credit should be issued only through centralised institutions, other than the policy of those in control of the credit-system.

Financial credit reflects real credit. Does the real credit of the community—its ability to produce goods and services—belong to the community, or to a small group within the community?

In Part I we examined the nature of "the ability to produce," and saw that it derives from the labour and inventions of countless generations. It is a community inheritance. It must be clearly understood here that what is in question is not the right to the technical operation of industry; it is a question of to whom belong the results of its operation; consequently, who have the right to control the programme of production? The answer, in a genuine democracy, can only be the democracy of consumers in the sense in which we have discussed that conception. They must, therefore, be given the means to control the programme and obtain the production; and this involves the distribution direct to the consumer, as an individual, of the money, in the form of credit, with which to issue his specific orders.

The general conceptions involved in this are really quite simple. At any given time, a community possesses a capacity to produce a quantity of goods and services in some ensuing period—say a year. This capacity is the real credit of the community. Against this real credit, financial credit is issued. At present it is issued in such a way as to result in the community devoting its resources to projects from which as consumers its individuals derive no immediate benefits or no benefits at all—the production of redundant factories, production for an export surplus, grandiose public works, etc. *Payment for this type of production, which does not reach the public as consumers, is exactly as "inflationary" as if the money were given direct to the public.* But this credit belongs to the community, and to force individuals to "work" for it is absolutely unjustified on any grounds whatever. Therefore it should be issued to them as a right—*as a dividend.*

The payment of a dividend out of credit thus establishes in practice the status of the citizen as a shareholder in his country in the sense we have already discussed.

There are sound technical reasons why the whole of the potentially available credit should not be issued as dividends.

In the first place, inflation would, *exactly as it does at present, ensue.* There is a very simple way to overcome this. A proportion of the credit may be set aside for the purpose of paying subsidies to reduce prices. This merely means that the consumer receives his credit through a different channel; it is paid to the seller of goods as part of the price, but it is only paid to the order of the consumer. Happily, a system of subsidies to reduce prices to the consumer is already in operation, so that it is unnecessary here to go into the theoretical considerations which prove its practicability. But there remains the question of the extent to which such subsidies should be applied.

In Part II, Section 5, we have referred to the fundamental law of real, as apart from financial, cost. Nevertheless, the financial cost, as arrived at in respect of particular goods by the standard methods of accounting, is a perfectly valid and real measure of financial transactions, which measure the *relative* 'value' of articles, and therefore can be related to the real cost. Cost-accountancy prices measure ratios, as one motor-car = four motor-cycles = forty bicycles. If the financial cost of an article is multiplied by the ratio which expresses real cost, and this figure is taken as the selling-price of the article, we have a figure which is less than cost, and is mathematically and impartially related to the actual processes of production and consumption.

This reduced price was originally termed by Major Douglas the Just Price, but it is now known as the Compensated Price. It is the price at which goods should be sold so as correctly to relate that price to the physical facts of production and consumption. Its theoretical justification can be demonstrated mathematically, and students are referred to *Social Credit,* Part II Chapter 3 for particulars; here it is worth examining some of the general considerations.

The ratio $\frac{\text{consumption}}{\text{production}}$ is measured in terms of monetary units over a selected period. It is therefore determined absolutely by the actual facts of production and consumption, and reflects the activities of the community. It is of exactly the same character as, for example, a bank statement which records the totals of deposits and withdrawals over a selected period—figures which could, of course, be recorded as a ratio.

Since production normally exceeds consumption, the ratio is normally less than one. Now the more production exceeds consumption—as in the building of permanent assets, etc.—the greater becomes the capacity of industry to produce goods and services. If we assume, for the sake of demonstration, that the community holds the same total of money at the end of the selected period as at the beginning, but that the prices of all consumer goods available for sale are reduced to the figure cost price (including profit) $\times \frac{\text{consumption}}{\text{production}}$, we have the *purchasing power* of the money available increased to correspond to the increase in the real credit. This is exactly the opposite of what obtains at present, when the money paid out for a relative increase in the production of capital goods is accompanied by a rise in prices, and consequently a decrease in the purchasing power of the unit of money.

On the other hand, when the rate of consumption relative to the rate of production rises—as it does, for example, in war, since shells fired and bombs dropped count as consumption—the application of the "price factor" results in a rise in prices as compared with normal times, which again is a correct reflection of the physical facts.

Again, as we have already seen, the physical facts of production are dominated by the rapidly increasing capacity of industry to produce goods with (say) a constant amount of human effort. A falling price-level is a correct reflection of this situation. Now if we assume a constant wage and salary structure, which, we may also assume, reflects the differing importance of different operatives in technical and other processes, a rising purchasing-power of the units of money with which these wages and salaries are paid renders the differences of less importance as a cause of social friction. A falling purchasing-power (rise in prices), on the other hand, leads to friction and demands for higher rates of pay which again raise the prices still further.

The use of credit to reduce prices by the payment of subsidies—the "compensation" of prices in accordance with the physical realities—therefore overcomes inflation, benefits the *whole* community, and minimises the risk of social friction.

(10)

The second reservation to be applied to the issue of financial credit as a dividend relates to the payment of those engaged in production—the payment of wages and salaries. The consumption incurred in production is a cost; it is a diminution of the real credit, and should be so accounted.

The relationship of dividends, subsidies, and payments for production is essentially a matter of statistical calculation. Such calculation is a function of a statistical organisation, not of a political organisation. It is equivalent to the accounting branch of an industry.

It is now possible to see the practical basis of the proper limitation of Government to its legitimate functions.

We have already seen that the power to contract-out is an essential aspect of genuine democracy. But, apart from suicide, it is impossible, or nearly impossible, to contract-out of Society. Consequently it is absolutely essential to protect the individual with "*the equivalent of a Bill of Rights* ultra vires of Parliament, *together with a permanent professional body, trained to attack not only an existing law, but armed with permanent power to bring out into the open for cross-examination at any time the originators of any law which encroaches on those rights. . . .*

"One of the first results of such an arrangement would be an arrest in the flow of law-making. If the world is regarded as a factory run by officials on would-be mass- production lines, continuous works-orders camouflaged as laws are inevitable, though quite rapidly fatal. But, in a world in which it is realised that the more action is spontaneous within the limits of personal sovereignty the less the friction and the higher the general satisfaction, they are both redundant and objectionable." (C. H. Douglas: *The Brief for the Prosecution*.)

Such a Bill of Rights provides an area of personal sovereignty into which the individual can withdraw, and out of which he can emerge into functional activities of his choice, in which he subordinates himself to the necessities of functional organisation. This is like the club member who elects to play in some particular game.

Next, the individual must derive his income "from outside", so to speak, and contribute money to such organisations, including Government, as he desires to support.

That is to say, *the Government should have no access to the general credit of the community except through independent citizens.* It should have no powers of taxation except the power to collect "subscriptions" as agreed to by citizens acting through their Representatives in Parliament.

Again we see that the nationalisation of banking is exactly the wrong thing, since it gives the Government direct access to the general credit.

Once the idea of the Government as the "Big Boss" is cleared away, it is much easier to discern its legitimate functions.

Perhaps the first of these functions is that of maintaining the rights of the individual by providing for the proper mechanisms for the administration of Justice—again, a reversal of the present usurpation of the functions of the Courts of Law by the "administrative lawlessness" of the bureaucracy.

Secondly, the Government has a function as a General Committee of Society.

And thirdly, it has a function as a Board of Directors.

It is legitimate for the Government (Cabinet) to propose to Parliament (the Representatives of the Shareholders) general expenditure to enhance the general real credit. It is the function of Parliament to authorise or to refuse such expenditure.

It is legitimate for the Government to recommend the rate of dividend distribution, on the basis of properly kept accounts relating to the affairs of Society. (For example, the plant and resources of the community can be "valued" as capital assets, and this gives an approximation to the real credit of the community if the various factors are properly taken into account. This figure can be given a "capital" value in monetary terms, and a "rate of dividend", for example, 5% or 10%, declared. This provides a general income, to be allocated as between general individual dividends to citizens, wages and salaries, and subsidies to adjust prices to the physical facts. The money required for government purposes must be contributed out of the *distributed* money in the same way as the funds of a club are derived from the subscriptions of its members.)

To give effect to these general relationships, there needs to be a credit-issuing organisation with a constitutional status equivalent to that of, say, the Auditor-General. To this organisation would fall the keeping of the national accounts, and the computation of the price factor; and it might quite suitably be the organisation through which the national dividend was distributed, the price-subsidy adjusted, and the financing of production initiated.

In principle, and potentially, most of the organisations necessary to implement genuine democracy exist, and there is no difficulty in adapting these organisations to their proper functions.

Production is a function of selected teams, organised on the hierarchical principle, and subject to the principles of free association and contracting-out. It is a matter for experts, taking orders in regard to objectives, and giving orders in regard to methods. Orders in connection with the programme of production are given through "money votes" by the democracy of consumers; orders in regard to efficiency are given by the "Board of Directors"—Cabinet, or the Executive, on behalf of the shareholders—the general community.

Parliament should be considered as an assembly of shareholders' representatives on the one hand, and as a general committee of the community, considered as a society, on the other. In both aspects, the conception of party strife, or class-warfare, is absurd. It is the business of Parliament to see that the Executive impresses the general requirements of the community on the technicians. "We do not want Parliament to pass laws resembling treatises on economics. What we want is for Parliament to pass a minimum of laws designed to penalise the heads of any great industry, and banking and finance in particular, if they do not produce the results desired." (C. H. Douglas: *The Tragedy of Human Effort*.)

The main qualification for Parliament is that it should be properly *representative.* It is highly desirable that it should represent the greatest possible diversity of functional interests, not as competitive, but as integral functions, just as the general committee of a Sports Club should properly represent the interests of those favouring cricket, football, chess, and so on. Its object is not to turn the Club into an organisation for playing the maximum amount of cricket, but for seeing that the maximum practicable facilities are available for all those wishing to play any form of game. The actual proportions of games should be determined by the actions of those freely participating in them.

Similarly, the Executive is merely an administrative device for conveying the requirements of Parliament to the appropriate quarters; and it should be devoid of any powers but *executive* powers. In particular, it has no rights with respect to *policy;* but it has an obligation to present political possibilities for the decision of Parliament. For example, the Executive may put forward proposals for say the development of water conservation schemes, afforestation, and road-building. All these things are an immediate charge on the general credit, while they augment the potential credit. That is to say, the general public will be "out of pocket" in the immediate future, but will derive an increased dividend subsequently. The rate at which such development shall be undertaken is therefore properly a subject for decision by the representatives of the public.

The important qualification of a candidate for Parliament is *integrity,* not a "platform." The electors require to know that their Representative will genuinely represent their general interests, and not, as at present, endeavour to subordinate them to any function whatever.

(11)

We contend that insofar as we are discussing *principles* in contradistinction to anything in the nature of a specific scheme, the relationships put forward as underlying genuine democracy, and the facts of the economic situation, have their basis in Reality. "The general principles which govern association for the common good are as capable of exact statement as the principles of bridge building, and departure from them is just as disastrous." (C. H. Douglas). Democracy is not a theory; it is a form of association, the alternative to totalitarianism. It is the form of association in which the individual obtains the benefits of the increment of association.

In relation to those principles, we can say that all modern Governments, without exception, are corrupt. Lord Acton's statement, "All power tends to corrupt, and absolute power corrupts absolutely," is of the nature of a general law enunciated on the basis of expert observation, just as the "law" of gravitation is a statement of observed phenomena.

Governments are, in fact, at the present time analogous to fraudulent Directors; they are engaged in swindling their shareholders, and perverting the purposes of the Company. And they are accomplishing this by means of crooked Company Law—by writing or rewriting the Articles of Association in their own favour. They are all at it; they are all trying to increase their own powers by amalgamation, by the political equivalent of economic cartelisation. Every amalgamation is a step nearer to one Board in control of the whole world.

But the group which sees farthest in this game is the group in control of the most flexible instrument of policy—money. Because under existing conditions money is essential and insufficient, those ultimately in control of its supply are able to manipulate the ambitions of less powerful groups. Selective financing, both in the domestic and the international fields, controls the development of powerful nations, and manoeuvres them into conflict. Hitler, for example, was internationally financed into the position where aggression appeared worthwhile. In an address given in London in 1926 in which he discussed British financial policy and its consequences, C. H. Douglas said: "You will quite properly feel inclined to ask at this stage of the argument: Are you stating that the condition of affairs in Great Britain is the result of conscious policy aiming at producing the results we see around us, or are you merely suggesting that British financiers are incompetent?' If the former, what is the ultimate object of that policy?

"Taking all these matters into consideration, and having made it my business to observe the course of events in the United States of America, together with what information it is possible to glean in regard to Italy and Russia, I have come to the conclusion that we are witnessing a gigantic attempt, directed from sources which have no geographical nationality, to dispossess a defective democracy, and to substitute a dictatorship of Finance for it. I do not think public men agree with this, but I do not think they struggle very hard against it. They would not become public men if they did. The tactics which are being employed to further this policy must necessarily involve an attack on all forms of purchasing-power which are not gained by what is called work. It is a matter of no consequence to such a policy that an individual should receive high wages or a large salary. These can be taken from him at any time should he develop an inconvenient faculty of criticism. It is not even a matter of serious importance that he should acquire securities which are a basis of dividends, if by means of heavy inheritance taxes it can be ensured that he only acquires them by work of a specified kind. Given a sufficiently passive acquiescence in the policy which is imposed on him, there is no reason why he should not be well fed and materially prosperous. But it is necessary that he should not have power until he has been through such a training as will ensure his docility to the hierarchy of Finance, and I may, perhaps, say that I think that the elimination of an independent middle class is an intermediate objective of that policy."

It will be noted that this conclusion—that there is conscious intention behind the unsatisfactory operation of the economic system—is deductive. But as the years passed, and particularly with the coming of the Great Depression, Douglas became convinced by the mounting evidence that events were in fact the outcome of conspiracy, and since the end of the Second World War a mass of hard evidence, in the form of books and reports by investigative bodies, has accumulated and is now readily available for independent study. But a brief and general outline of the fairly recent history of this conspiracy may be useful.

In the eighteenth century, when society was mainly monarchial, there emerged a number of secret societies whose aim was to overthrow the established order in the name of "the people". Their methods were the undermining of authority and religion, the systematic inculcation of immorality and the loosening of family ties, the promotion of disorder, and political assassinations. The French revolutions of the eighteenth century were the direct outcome of these activities, and indeed dissolved the old order and paved the way for what Douglas called defective democracy.

But at the same time the mechanism of bureaucratic socialism was being devised, and made its first appearance in Bismarck's Germany. These ideas were adopted in Great Britain by the Fabian Society, which set about making them respectable, with a view to making them eventually the ruling orthodoxy. At the same time another development of the secret society doctrines appeared in the form of Marxian socialism, leading to the formation of the Communist Party, which consisted, as it does to this day, of two parts—the openly acknowledged Party, preaching Marxian socialism as an economic and political theory to be achieved by violence; and the underground, secret component, carrying on the traditions of the earlier secret societies and including some of the highest figures engaged in international finance. Members of this element have been penetrating educational institutions, departments of government, the Churches, and various influential organisations for a very long time.

The Fabian Society founded the London School of Economics, which was endowed by the financier Sir Ernest Cassel. Here were elaborated the techniques of centralised state socialism, given forth as economic theory and disseminated throughout the world. And as time went by and generations were replaced, the new theories did indeed become the new orthodoxy, with ideas once held in revulsion dressed up in a scientific-sounding vocabulary.*

*Reviewing in *The Spectator,* Nov. 4, 1966, a book by Thomas Balogh, Professor P. T. Bauer of the London School of Economics writes: "Dr. Balogh often seems more concerned with evoking responses than with presenting an argument. But the major themes stand out clearly enough, and they reflect the most influential ideology of current official and development literature, and of the U.N. agencies at whose invitation many of these essays were written. . . .

"Advocacy of mobilisation, universal labour service, austerity, compulsory saving, forced marches and so on constantly recurs in current development literature. . . . They convey the drastic policies and large-scale compulsion envisaged. For what purpose? The sacrifices are not to be borne by those who so warmly advocate their imposition. What right have they to destroy the institutions and values of whole societies and to impose their will on those who do not wish to give up their modes of living, attitudes and beliefs?"

The part played in all this by Finance was to maintain a defective economic system and consequently unrest, to be exploited as a desire for change and a provocation to disorder, to help break down traditional society. But an even more important role was the promotion of world war, which arose out of trade war. War on the world scale had three very important objectives. It virtually eliminated a generation, thus establishing a physical break in tradition; it immensely enlarged the scope of government and the power of bureaucrats to govern by regulation; and it enormously enlarged national debt, giving the financiers direct power over national policy.

In the early part of the twentieth century the financier Jacob Schiff financed terrorism in Russia on an enormous scale. In 1917 Lenin and a small band of highly trained Communist revolutionaries, who had been in America, were passed through Germany into Russia in a sealed train, and seized power. They set out to liquidate the bourgeoisie as a class, as being likely to develop effective opposition to Communism, and enslaved the workers, who were controlled both by terror and ration-cards.

The Versailles Treaty which concluded the war was drawn up by politicians advised by financiers, and the terms were such as to ensure a renewal of the war in due course, as well as interim control via the debt arrangements over British internal policy by international financiers.

The next great visible act of policy was the bringing about of the Great Depression of 1929, which was simply the result of calling in overdrafts on a scale sufficient to cause forced selling of securities and hence a catastrophic fall of prices, which spread through the economy with unemployment, bankruptcy and suicide in its train.

The Depression paved the way for the revolutionary take-over of the U.S.A. government. Institutions in the U.S. similar to the London School of Economics had been training the revolutionaries of state socialism for years, and on Roosevelt's inauguration, and using Roosevelt as a front, they seized power through one hundred days with the implementation of a series of carefully prepared measures (including the confiscation of all gold, the only 'money' with any 'value') under cover of a national 'crisis' brought about by closing all the banks.

The way was now clear to bring the depression to an end, which was done by massive government spending out of credit, the 'money' being recovered by enormously increased taxation and a steady increase in the price of goods.

The next required step was the resumption of war. Aided by the Communist Party (allegedly to eliminate the Social Democrats and open the way to Communism, but undoubtedly the top levels of the conspiracy, which includes both Finance and Communism, wanted world war, and knew their man) Hitler was brought to power. German re-armament was financed by the Bank of England (to cure unemployment, of course) while pacifism was financed and encouraged in Great Britain and France. The German-Russian Pact set the blaze going.

Roosevelt early gave diplomatic recognition to the Soviet Union, thus allowing large numbers of highly trained Communists to come into the U.S.A. and collaborate with the conspirators in key positions in the American government. This process was extended to an incredible extent during the war.

The resumed war, besides eliminating another generation, and causing immense physical destruction to pave the way for Full Employment and the 'welfare' state of slavery under bureaucrats, began the final destruction of the British Empire, which had been the greatest barrier to World Government, the ultimate objective of the Conspiracy.

As a result of the collaboration between the Conspiracy in the U.S.A. and the Kremlin, the post-war period saw an immense territorial expansion of Communist control. But it also saw national independence progressively diminished under cover of the Cold War. And it saw the preparation for overt world government in the setting up of the United Nations as an organisation. The culmination, which we are rapidly approaching, and which depends on the U.S. Government getting sufficient power over its own citizens to prevent rebellion, is to arm the United Nations Organisation, and prohibit national armies. Douglas characterised the contemplation of the tyranny which would follow this culmination as a glimpse of Hell.

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In the sociological sense, a generation is defined as the average time in which children are ready to replace their parents. In a slightly narrower sense, a school generation would be the average time, looking forward, in which one could expect to see all the pupils replaced—a period of about twelve years. In the wider sense, a generation is considered to be about a third of a century.

The Fabian Society has been in existence for something over two and a half generations, and the London School of Economics for two.

The objective of the Fabian Society and its shadowy backers was not the overthrow of government, but its capture by a patient and persistent gradualism. Five years after the founding of the London School of Economics, it was incorporated in London University; and since then, its graduates have become more and more the preferred applicants for positions in government departments and elsewhere. Thus, just as children replace their parents, the influence of socialism has replaced the old ideas of the limitation of government, and this has happened not only in government departments, but in schools and universities and the mass media of communication. Natural death and birth accompanied by two generations of indoctrination have largely eliminated the bourgeoisie as an influence if not as a class. But Leninism was socialism in a hurry, and resorted to physical extermination.

But Leninism has now nearly two generations behind it since it seized power in Russia—two generations of far more rigid and controlled indoctrination than the Fabians have achieved—and it is this, and not any alteration of objective, which explains the alleged mellowing of Communism.

An off-shoot of the London School of Economics and the Fabian Society, Political and Economic Planning (P.E.P.), in a document entitled *Planning* and originally circulated secretly, not long before the resumed war, took as a basic premise that "only in war, or under threat of war, will any British government embark on large-scale planning". It was clear at that time that war with Germany was certain.

But in the perspective of time, it seems probable that the methods of Leninism in Russia were necessary to provide in a hurry a country in reserve to maintain a "threat of war" in a period when world war would become so destructive as to be a threat to its promoters. 'Safe' wars, like those in Korea and Vietnam—yes; they require "large-scale planning" and 'strong' government. But war on a scale which might through uncontrollable destruction destroy the basis of financial power, and even the conspirators—no. From the very start, the atomic bomb has been used as a weapon to terrorise the nations into acceptance of internationalism.

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What has become quite clear in the post-war years is that the world is indeed in the grip of a conspiracy of which the Financial Power, of "no geographical nationality", is the nerve-centre, operating through Fabian Socialism and Marx-Leninist Communism. "The Money Power does not, and never did, wish to improve the money system—its consequences in war, sabotage, and social friction are exactly what is desired. This, I think, exactly defines the task which society must face and solve, or perish. *First,* to attack and defeat the Money *Power; then* consider the reorganisation of the money *system."* (C. H. Douglas: *Programme For the Third World War*.)

The Third World war has turned out to be the Cold War, and defeating the Money Power now visibly means defeating it in both its Fabian (Great Society-Welfare State) and Communist (Peaceful Co-existence) guises.

How is a conspiracy which has been pursuing its aims for at least a quarter of a millennium, and which is now so obviously approaching its climax and culmination, to be defeated? Probably the shortest answer to that question lies in another: Why has the Conspiracy, with all its immense power of finance, patronage and propaganda, not already achieved its aim?

The aim of the Conspiracy is regimentation—the reconstruction of society in the pattern of the ant-hill and the bee-hive. But the true progress of the industrial arts is in the opposite direction, affording, *potentially,* to an ever-increasing degree, the basis for social and individual diversification, which is the direction of human evolution. The Conspiracy has to proceed, therefore, against the stream of human aspirations, by creating a false picture of economic reality and making this the basis of the 'inevitability' of planning and regimentation. In attacking the Money Power, a sound grasp of economic reality was, for a long time, our only weapon, and is still an indispensable tool in any long-range programme of re-construction, and defence against any renewed attempts by the few to dominate the rest which might be made if the present one is defeated.

But that there *is* a Conspiracy is now sufficiently documented to make exposure the first line of attack. No conspiracy can withstand exposure. The International Conspiracy is of such a magnitude as to appear to most people incredible—until they study the available evidence, which today, thanks to those who have appreciated the immediacy of the danger, is now freely available. So the basic strategy of survival is exposure of the conspiracy against society as we have known it.

The tactics of this strategy are to disseminate the evidence, and spread understanding. What has already been achieved in this direction undoubtedly has slowed down the Conspiracy's advance, and otherwise the fate of Cuba might already have befallen us.

It is true that the main battle-front is in the U.S.A., the present headquarters of the Money Power. But American public opinion is being alerted by a massive and coordinated campaign of exposure.

Yet the struggle embraces the whole world, and exposure should be effected wherever it remains possible. Douglas once pointed out that modern wars are prizefights between A and B for the benefit of C, the promoter; and that what was required was the combination of A with B for the elimination of C. Wide-spread exposure is the means to this end.

(14)

The immediate strategic necessity of overthrowing the Money Power in its strongholds of Socialism and Communism obscures the genuine objective of Social Credit as a policy. Major Douglas defined that objective in the first chapter of his first book, *Economic Democracy:* "It is suggested that the primary requisite is to obtain in the re-adjustment of the economic and political structure such control of initiative that by its exercise every individual can avail himself of the benefits of science and mechanism; that by their aid he is placed in such a position of advantage, that in common with his fellows he can choose, with increasing freedom and complete independence, whether he will or will not assist in any project which may be placed before him."

A careful consideration of that objective will make it clear that Social Credit *cannot* be any scheme or system. The real objective is to allow a free evolution of forms of association, allowing them to arise and develop from the freed initiative of individuals.

There can be no question, therefore, of introducing a set of fixed relationships by Act of Parliament. The first necessity, as Douglas has recently emphasised, is a retreat from government—less government. That is the essential first step to a freeing of individual initiative.

It is a step which in the nature of things does not commend itself to any Government. And here, perhaps, is one of the most striking aspects of Social Credit. The exponents of nearly every system of reform see themselves as rewarded by the fruits of office, as possessing a mandate to implement a policy. Social Credit, on the other hand, proposes to free individual policies, to make the individual increasingly the master of his own fate. Appropriate Social Credit action, therefore, consists in forcing the Government to disgorge its powers. The power of government, and the independence of individuals, are reciprocals; consequently, the lessening of the power of the Government is the increase of the power of the individual.

This general concept applies right through. Taxation and dividends are reciprocals. The first step to the distribution of the dividend is the reduction of taxation; or to put the matter slightly differently, taxation is a negative dividend.

Again, prices are a form of taxation; sales tax is a negative subsidy.

What we require, therefore, is that the negative dividend should pass through zero to the positive dividend; and that the power of government over individuals should pass through zero to power of individuals over government.

Zero in this concept has no contemporary significance whatever. The step —8 to —7 is exactly equivalent to the step —1 to 0, 0 to plus 1, and plus 7 to plus 8. What *is* significant is the *direction* of the progression.

The mechanisms necessary to enhance the freedom of the individual will emerge just as surely as do those of totalitarianism, once a course is set towards the Social Credit objective. The idea of the compensated price would occur to any person competent in the technique of finance, if he wanted to secure the results it is designed to achieve, just as ingenious forms of taxation occur to those who are concerned to concentrate economic power.

From the beginning of the industrial era, until the outbreak of the 1914 war, Mankind was moving towards a Social Credit Society. Savings, investment, and inheritance were mechanisms which were providing numbers of individuals with independence; given time, and the free play of natural social forces, and those benefits would have diffused. A man, starting from nothing, might by his industry save, and leave to his children a house and a small income. Those things represented a start for his children, who might by their own industry add to the inheritance. The physical basis of such an inheritance was growing all the time.

Social Credit simply generalises the idea of private inheritance. It substitutes a conscious objective and ordered progress towards it for a blind one and haphazard progress. It recognises that the popular demand for the socialisation of industry is genuine, just, and sincere, but mistaken; what is truly wanted is the socialisation of the *product* of industry. Not "public control" of the *administration* of industry, but consumer control of the *programme of production.* The cry for "social security" springs from a desire for the dividend, not from a desire for a network of "controls." They ask for bread, but are given stones.

In 1914, there emerged into the open a conscious policy, the antithesis of Social Credit. Its weapons are perversion and inversion, lies, corruption, and destruction: *"Daemon est deus inversus."* Instead of inheritance, confiscation; instead of a dividend, confiscatory taxation; instead of falling prices, inflation and sales tax; instead of the diffusion of property, dispossession; instead of the flowering of individuality, the age of the Common Man —the depersonalised statistical unit, the faceless numbered pawn manipulated on the chessboard of Power Politics . . .

We are going backwards, losing the achievements of civilisation, smudging out all differentiation, reverting to the barbarism of group psychology.

Class hatred, tribal war-cries, tin houses, rationed food, mass-produced 'culture', perverted language, utterly corrupt politicians, austerity, utility, shoddy; gadgets, utility gadgets, substitute gadgets; "we must produce more . . . full employment . . . famine . . . controls . . . riots in India ... a train was blown up in Palestine today" . . . Progress . . .

"The core of the pre-war system was 'the private income'—the possession of adequate purchasing-power not subject either to governmental interference, nor terminable by loss of employment. 'Private incomes' were decreasing rapidly in number, but were still considerable. The fundamental object of the so-called New Orders is the abolition of all purchasing-power which is not granted 'upon terms', and revocable at any time, thus making 'employment' controlled by international cartels, a world government." (C. H. Douglas.)

Social Credit as a policy is the only hope left to us. Now, that does not mean that there is no hope unless Parliament passes an Act to institute a "funny money scheme." It means simply that we must recognise that we are being subjected to an absolutely fatal policy, and that we must oppose, halt, and reverse it. Every victory of the people against the Government is a step towards rectification. But steps taken in this sense, but with a conscious objective, are more effective steps. There is a Social Credit *strategy*—a properly designed *series* of steps.

Social Credit does not envisage any "idea" of what the world should look like, or even of what it might look like. It dreams of no Utopia. It looks to the unfolding of events resulting from the play of *free* social forces, like the unfolding of a game from the free-will of individual players—free-will operating within the frame-work of legitimate rules, free-will restrained by voluntary discipline and self-discipline, and supported by the voluntary acceptance of an ethic.

Nothing like that can come from legislation. It can come only from the incarnation of the necessary spirit in "amateur" organisations, and what C. S. Lewis calls the "good infection" of other bodies.

Governments today are almost infinitely evil; at all events, they contact infinite evil; they are robbers, liars, and hypocrites. They are corrupted by power; and the solution is, to withdraw that power back to the individual, to de-concentrate it. The only safe exercise of power is by the individual over himself, not over others. We call that power, at home in the individual, individual initiative. Essential Social Credit *action* is individual initiative. And where that initiative is exercised with that of others, in pursuance of a strategy, there is an increment of association. That is why there is a Social Credit Movement, concerned with a single strategy to gain a common objective for the genuine benefit of all men.

There is no hope in a change of government. A new government inherits the excessive power of its predecessor, and in accordance with Lord Acton's law, is corrupted by that power. What is essential is a change in the distribution of power as between Government and citizens. Such a change will not be initiated by the Government; it must, therefore, be initiated by the citizens. We have not got democracy; we can only get it by *being* democratic—by *limiting* government.

The necessary reform must begin in individuals as such. Every individual who makes the effort necessary to understand Social Credit brings Social Credit nearer. The spread of the correct conception of genuine democracy will make it progressively more impossible for the present totalitarianism to continue—a situation which will bring its own mechanisms for reform into being.

But against this must be set the time factor. Unquestionably the would-be world dominators contemplate making their position impregnable, whatever the condition of public opinion, just as in Russia. For the present, they rely on the careful confusion of public opinion, and on diverting into relatively harmless channels such public opinion as shows signs of awakening to the real situation.

Therefore to understanding must be allied action.

Part IV.—M*etaphysics*

PART IV — METAPHYSICS

(1)

Zeno brought to his problem two concepts, those of time and distance, and by cutting those concepts into unimaginably small pieces, 'proved' that motion was impossible. He might, in the same way, have applied to the measurement of length a wooden yard-stick, and then, by shaving the stick with a knife into splinters, so 'proved' that length is impossible.

There is no essential difference in the way by which the official economist 'refutes' the analysis demonstrating how the gap between purchasing-power and prices arises. Zeno in his argument omitted the one significant feature —motion—from his premises, and consequently it was absent from his conclusion. The economist subdivides a flow into static stages; he omits the *rate.* He assumes that a payment made to a worker remains in the worker's hands until the item part of whose cost it represents is ready for sale.

But there is a deeper resemblance, which is merely exemplified in the official economist. It lies in the notion that because you can, within the limits of your imagination, do anything you like with concepts, you can, *thereby,* do anything you like with Reality. You can, and it has been done, imagine all kinds of "possible worlds"; but so far as we are concerned, only one of those worlds has found expression, and forms one aspect of what we know as Reality. Zeno with his eyes open and for the sake of argument took a 'possible' world as real—a world in which time and distance were significantly infinitely divisible. In that sort of world Achilles never would overtake the tortoise. And similarly, in the economists' conceptual world, Utopia would be actualised.

The scientific method is properly the technique of "restoring or cultivating a just and legitimate familiarity between the mind [concepts] and things," in Bacon's words. It is the setting of Achilles to race against the tortoise. It is the genuine proof of the concepts employed. Now, probably the greatest fallacy of our times is the notion that Reason in itself provides a proof; that because an argument is logical, its conclusion has any concrete embodiment. It is not necessarily, or even probably, so; "The Reason, like a slide-rule, is incapable of furnishing anything more than the logical sum of the data provided. It is pure instrument, and can prove nothing." (Douglas.)

Reason is specially active in the construction of Utopias; and the most devastating demonstration of its nature lies in the fact that every Utopia we hear of differs from each of the others in significant particulars. Ely Culbertson adapts the game of Contract Bridge to produce a statistically invincible Police Force; H. G. Wells solves all by Science; and the 'British' Socialists find now that a Super-Planner is required to reconcile the ambitions of varied segments of the governing bureaucracy each to further its own plan.

As Zeno left motion out of the data, so the Planners ignore the organic: Life, the Living, and in particular, Human Nature—the thing-in-itself that produces the diversity in plans. The proof that this is so is not verbal; it is the experience we suffer of Planning. Planning assumes—it must assume—that the number of factors involved is sufficiently small to allow the Intellect to cope with them, or else that it can select sufficient factors for its purpose. The only possible proof of this hypothesis has failed by the pragmatic test; and the cost of the failure has been the sacrifice of literally millions of human lives, through famine and concentration camp, without reckoning with the culmination in war.

Major Douglas has specifically described Social Credit as "the policy of a philosophy." Since then he has emphasised time and time again that any and every policy is the outcome of some particular philosophy. In particular, Socialism—Socialism as we know it from the practice of Soviet Russia, the Corporate State of Italy under Mussolini, the National Socialism of Germany particularly under Hitler, and the developing Socialism in Great Britain particularly under the Attlee Administration—is a policy, the outcome of a philosophy. The philosophy in question has innumerable particular expressions, but in principle they all derive from the idea that the Intellect, or Reason, is not only the supreme Power in the universe, but that it is supreme as manifested in Man.

This view of things received a great strengthening from the successes of modern science—for a time.

But the scientific method is only a tool; it is only a method of dealing with concepts; it is only, in fact, a refinement of Zeno's argument. In the last few years this disconcerting truth has emerged very plainly. The pursuit of Zeno's problem leads to the most beautiful development of mathematical theory; but it is found in the end that the elaboration is an elaboration of the relations between concepts—"pure" mathematics. And so it is with science. The enormous discoveries tail out into entirely abstract concepts. Matter quite literally disappears, and God reappears as a super-mathematician with the world as his equations. What science has really discovered is the necessary consequences of the concepts employed.

It is necessary here to guard against misunderstanding. The scientific method leads to an enormous increase in knowledge about Reality. The point is this: the knowledge comes *from Reality,* and not from science as such. Science discovers, it does not create. So long as we seek information about the properties and behaviour of matter, it supplies the answers—if the right questions are asked. But exclude matter from the enquiry, and it returns the answer "nothing there," just as, by excluding motion, Zeno proved that motion was impossible. And since science excludes the concept of creative activity, creative activity is absent from the logical sum of its conclusions.

It is, of course, impossible to explore the vast field referred to here; the object is merely to identify it, to name it as the philosophy behind Socialism. Its name, indeed, is legion, and it has many aspects. But what we refer to is that common body of belief underlying what we variously call Materialism, Collectivism, Pantheism, according to the manifestation.

And so we return to the original question, What is Social Credit?

(2)

The philosophy of which Social Credit is the policy is indicated in the statement "Social Credit is practical Christianity."

We can usefully distinguish in this context two aspects of Christianity. There is the aspect which gives rise to Christian theology; and the aspect which embodies certain ethical and metaphysical values. It is with the latter that Social Credit is especially concerned.

Civilisation might be defined as the incarnation of ethical and metaphysical values in the institutions of society. Now, C. S. Lewis, in his *Abolition of Man,* has pointed out that the values embodied in the great religions are not several, but one coherent system. He uses the Chinese word 'Tao' to denote this system. Aldous Huxley *(The Perennial Philosophy*) and Lin Yutang *(The Wisdom of China and India*) have compiled anthologies from the scriptures of different religious systems which demonstrate this truth very clearly.

Social Credit is the practical endeavour to transform the institutions of society in such a way that the transcendental values of the Tao may find incarnation in them.

A further generalisation of the lessons of the scriptures of the great religions is that such an incarnation is dependent on the individual, and is manifested through individual initiative. The very purpose of Social Credit as a system is to free individual initiative by placing the benefits of association directly at the service of individual initiative. The objective of Social Credit is to enable the individual to achieve the maximum differentiation possible.

In earlier times this objective to some extent implied the renunciation of certain material values, at least for the majority, because it implied a renunciation of the whole-time business of getting a living on anything but a relatively low standard. With the rise of modern power-production the necessity for this renunciation has diminished progressively until now, as we have seen, there is a material basis for an absolutely unprecedented freedom of individual initiative for an increasing majority of men.

On the other hand, it cannot be denied that such a freedom, coming suddenly, would in all probability prove disastrous. The possibility of such a freedom is conditioned not only by material facts, but by the adequate incarnation of metaphysical values. For Europe—for Western Civilisation—those values are embodied in Christianity. In Europe, Christianity is a prerequisite for Social Credit. And equally Social Credit is a necessity for Christianity. Social Credit is the policy necessary in the circumstances resulting from modern industrial productivity. To put the matter in a more general way, the specific character of Social Credit is the result of the specific character of the modern world; but the metaphysical pre-suppositions of Social Credit are those of the Tao. Just as Christianity is a specific differentiation of the Tao on the theological plane, so Social Credit technique is a specific differentiation on the material plane.

The Tao is the transcendental Good. But there is also the transcendental Evil, with the same possibilities of incarnation. Evil is the system of false values—false, because their incarnation leads to practical evil. Or, Evil is the denial of spiritual values; but such a denial is, of course, a judgment on the metaphysical plane. The practical outcome of that judgment—its incarnation—is the deliberate emphasis on Materialism.

The specific character of the contemporary world, more particularly on the material plane, is to a large extent determined by this Materialism. The particular transformation of the world of the recent past into the world of the present is chiefly the outcome of practical Materialism, more particularly of Technology which has its origin in modern Science. That science, as we have seen, excluded all considerations except those of a material order—a perfectly legitimate procedure so long as the exclusion was not of a metaphysical character, so long as it did not involve a metaphysical judgment. But such a judgment was increasingly made, and the *making* of the judgment, being of a metaphysical order—the *denial* of spiritual values—resulted in metaphysical consequences. To the extent that the modern world incarnates metaphysical Materialism, it incarnates Evil. It is not surprising that hitherto agnostic observers have been increasingly impressed with the reality of Evil, with a consequent deduction of the existence of transcendental Good (cf. C. E. M. Joad: *God and Evil*).

This character of the contemporary world inevitably involves a change in the application of Social Credit policy. The world is retreating from Christianity, and correspondingly Social Credit strategy is retreating from the most highly differentiated form of that policy. It is retreating from specific technique, back to considerations of a more purely political character based on the dichotomy of Good and Evil.

The retreat of the world from Christian civilisation is going back to an incident in the life of Christ. Metaphysical values must have personal exponents to be effective in this world: the conflict of values finds its expression in the conflict of men. Christ found it necessary to drive the money-changers from the Temple, and that is precisely the contemporary necessity; it is also the immediate aspect of Social Credit policy.

Those who are interested can derive an immense insight into the immediate and metaphysical character of the present situation from the modern fairy-tale, *That Hideous Strength,* by C. S. Lewis. Mr. Lewis symbolises the contemporary conflict in its metaphysical and its concrete-personal phases. It is significant that he links his exponents of modern scientific materialism with that earlier group which encompassed the crucifixion of Christ.

The ultimate meaning of Social Credit, then, is inseparably connected with the ultimate meaning of the conflict of Good and Evil. It derives from metaphysical Reality, and issues in the effective policies of this world. Social Credit is a special case of that more general Credit, that Faith which is “the substance of things hoped for, the evidence of things not seen.”

The following analysis of the financing of a long term production cycle presents a simple and convenient formal proof of the Social Credit theorem (the A + B theorem). Neither the premises nor the reasoning have ever been refuted, although critics of the theory have repeatedly been challenged to attempt to do so.

APPENDIX A.

The following analysis of the financing of a long-term production cycle presents a simple and convenient formal proof of the Social Credit theorem (the A + B theorem). Neither the premises nor the reasoning have ever been refuted, although critics of the theory have repeatedly been challenged to attempt to do so.

FINANCING OF A LONG-TERM PRODUCTION CYCLE

Let N_1 = average length of the credit cycle in years

$$= \frac{\text{bank deposits} \times 2}{\text{bank clearings per annum} + L - K.}$$

where K is the value of "Second hand Transactions." ("Second hand transactions" are those which do not *cancel* a cost.)

Then N_1 = average period of circulation of A payments + L

L = Internal (non-clearing bank) transactions

Let N_2 = average length in years of the production cycle at any selected period

$$= (\text{process time} \times \text{number of processes}) + \frac{100}{\text{depreciation\%} + \text{obsolescence\%} + \text{consumption\%}}$$

N_2 = average period of time cost production and destruction.

Costs are generated in production and cancelled in consumption.

Therefore N_2 = average period of cost cycle.

N_1 is the order of 2 months;

N_2 is the order of 20 years.

Let $n_1 = \frac{1}{N_1}$ = number of circulations per year, say 6.

Let $n_2 = \frac{1}{N_2}$ = number of circulations per year, say 1/20.

Let A = all disbursements by a manufacturer which create costs = wages and salaries.

Let B = all disbursements by a manufacturer which transfer costs = payments to other organisations.

The manufacturer pays £A per annum into the N_1 system, and £B per annum into the N_2 system.

Disregarding profit, the price of production is £(A + B) per annum.

But to purchase (*i.e.*, to cancel the allocated cost of) £(A + B) there is present in the hands of the consumer—

$$\frac{£(An_1 + Bn_2)}{n_1} = \frac{£(A + Bn_2}{n_1}$$

Consequently, the rate of production of price values exceeds the rate at which they can be cancelled by the purchasing-power in the hands of the consumer

by an amount proportional to $B\left(1 - \frac{n_2}{n_1}\right)$

= approx. B.

This deficit may be made up by the export of goods on credit, by writing down of goods below cost, by bankruptcies, and by money distributed for public works and charged to debt. But in the main, it is represented by mounting debt.

(*The Social Crediter*)

The Social Credit Movement

Following the original enunciation of Social Credit by Major C. H. Douglas, groups of people were rapidly formed all over the world to propagate the ideas. In the early phases almost the entire emphasis was placed on the Social Credit proposals for monetary reform. There were, however, other proposals for monetary reform current, and inevitably there was considerable confusion in the public mind with regard to them. The result of this whole activity was to bring the subject: of monetary reform to the forefront, and to dissipate the secrecy and mystery with which the subject of money and credit had previously been surrounded; in the long run "reform" of some description became unavoidable, and recognised as unavoidable by the Money Power.

At that point the danger arose that the "reform" introduced would be such as merely to make the position of the Money Power finally impregnable; and since the objective of the Social Credit monetary proposals was entirely subordinate to the *political* objective of freeing the individual from tyranny of any description, a change in emphasis became necessary. Consequently it became necessary to alter the approach of the Social Credit Movement to the whole problem.

This change of approach was not achieved without casualties. There were many followers who considered that pure propaganda in favour of monetary reform was all that was required; but at the same time they wanted the name of Social Credit.

To clarify the situation The Social Credit Secretariat was instituted in 1933, with Major C. H. Douglas as Advisory Chairman and Dr. Tudor Jones as Deputy Chairman and other officers carrying out decentralised functions. Its primary purpose was to communicate Douglas's advice, and to relieve him as far as possible of secretarial and other matters which were suitable for decentralisation. It arranged the publication of *The Social Crediter,* at that time a weekly journal expressing and supporting the policy of the Secretariat. At a time when it seemed that monetary reform was within the range of possibility, the Secretariat conducted examinations for the Diploma and the Fellowship of the Secretariat.

The coming of war necessarily contracted the activities of Social Crediters and of the Secretariat, but the latter preserved its continuity and *The Social Crediter* continued publication, and indeed published some of Douglas's most profound observations.

With the death of Major Douglas in 1953 Dr. Tudor Jones became Chairman. He some years later appointed Dr. B. W. Monahan Chairman, and became himself Advisory Chairman, until his death in 1964.

The continuing function and responsibility of the Secretariat are, so far as possible, to maintain the integrity of presentations of C. H. Douglas's works, and to advise on strategy from the Social Credit point of view as the political and economic situations develop and change.

The present (1966) personnel of the Secretariat are: Chairman: Dr. B. W. Monahan; Deputy Chairman, British Isles: Dr. Basil L. Steele; Liaison Officer for Canada: M. Louis Even; Secretary: H. A. Scoular (Box 3266, G.P.O., Sydney, Australia).