Social Credit in Summary

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No solution of the economic problem is possible without a radical change in the credit-policy of the great banks. Until that change takes place, there is nothing that employers or employed can do—even with the best will in the world—to establish peace and prosperity. Their present attempt to agree on a principle for distributing dividends and wages in equitable proportions must fail, because, in whatever proportions they are distributed as between the two parties, the total sum is insufficient to meet the costs of production now accounted into prices. A living wage will kill industry; and a living profit will kill the workers. The only possible solution is to put new money into the pool from which they both draw their incomes. Is this feasible? Is it reasonable? The following summary is an attempt to justify an affirmative answer to both these questions.

1. Money, in the modern world, is made of paper, and is intrinsically valueless. (The amount of coined money is negligible).

2. The bulk of this paper money is in the form of bank credit, circulating by cheque; the small balance being State credit circulating as currency notes (the "small change" of society).

3. These two forms of credit together are financial credit.

4. Financial credit derives its utility entirely from the activities of

the people who use it—namely, the whole community.

5. The prime ownership of financial credit is therefore communal. It is the public's, not the banker's, credit.

6. When a bank lends financial credit it increases the total amount in circulation. (Rt. Hon. Reginald McKenna, Chairman of the Midland Bank, in Annual Speeches, 1925, 1926, 1927).

7. When a bank receives repayment of financial credit it decreases the total circulation. (The same Authority).

8. Financial credit repaid to banks is cancelled: it no longer exists, even in the records of the banks. Repaid bank loans "destroy deposits." (The same Authority).

9. The amount of financial credit in circulation in any country depends entirely upon the actions of its bankers in creating and issuing it, and in retiring and destroying it. (The same Authority).

10. These actions are performed by the bankers for and on behalf of the community. (5).

11. Industry and agriculture are carried on by means of financial credit. Financial credit invariably enters circulation as bank loans. (6, 9). Economic activities are carried on by means of such loans. (2).

12. Investments of "savings" are no exception, for all savings have been derived from previous bank loans.

13. Banks lend financial credit to initiate acts of production.

14. Bank loans represent a communal mortgage on contemplated production. (5, 10).

15. The mortgagors (borrowers) are the producers; the mortgagees (lenders) are the whole community. The banks are the "solicitor" in the transaction—the community's agent—and their

interest charges correspond to a "lawyer's fee."

16. Bank-loans to producers virtually give the community a lien (15) on the total production referable to those loans. Industry owes the credits to the community (5, 10)

17. On the subsequent repayment of the loans to the bank, the bank cancels the community's mortgage.

18. The financial credit applied to the repayment has meanwhile to be collected in full by industry from the community. There is no other source from which industry can acquire **non-borrowed** money. (9).

19. The community must therefore pay industry all the credit necessary to discharge the mortgage on **total** production.

20. In return industry delivers **consumable goods** to the community.

21. Consumable goods, however, are only a small proportion of total production. Industry retains the rest in the form of factories, plant, tools, materials, &c., "fixed" and "working" physical "capital".

22. This physical capital now becomes the property of industry. Industry attaches a cost value to it—this cost being calculated as a proportional part of the original credit borrowed for the **total** production.

23. Industry then accounts for this cost in its future prices to the community for deliveries of goods to be made out of, and by means of this acquired physical capital.

24. Industry, having collected **all** the original credit from the community **to release its physical capital** from the communal mortgage, now expects to collect **a large proportion of the same sum** again as a **charge for the wear and tear**, or "use," of **that**

same capital. But no part of the original credit has come back to the community. The banks have destroyed it all. (7, 8, 9).

25. **This is the prime cause of the economic impasse.**

26. The most familiar symptoms of this impasse— namely, strikes and lock- outs—arise from a **general** shortage of credit in the community measured against industry's collective prices. Neither Capital nor Labour causes the shortage.

27. The equitable principle of an effective remedy must be: that in respect of all bankers' loan-credits the community, as the ultimate lenders (10), **must retain their lien** (14) on industry's physical capital, only **gradually** relinquishing the lien as and when that capital is physically used up in the process of making **and delivering** consumable goods to them.

28. The equivalent financial principle must be one which recognises the community's **right** at any time to receive financial credit equal in amount to the cost (22) of the physical capital, &c., which exists as "industrial property" at that time. This right would not be completely extinguished until the "property" had been completely transformed and distributed as consumable goods. The community would initially be credited as mortgagees (15) with the total amount of **their** (5, 10) original loan, and this credit would be diminished **at no greater rate** than that at **which** the mortgaged property itself was converted and delivered to them. For this purpose the Government, as representing the community, should open and keep a "national ledger," in which the cost of general production and consumption would be recorded.

29. The method of applying the principle should be that which causes the least disturbance to current commercial practices. **As between banks and industries** (a) the prompt repayments of credits in full, and (b) the total cancellation of these credits on repayment, are probably the most convenient. That is to say, the community initially consents to the cancellation of all its credits

to industry, while receiving only **part** of industry's total production. But, as and when the other (the retained) part becomes ready to pass over from industry to the community in the form of consumable goods, an equivalent proportion of the **prematurely cancelled** (24) credit should be **recreated** by the banking system at the instance of the Government, and issued to the community in the form of a free (non-loaned) National Dividend, thus enabling consumers in general to defray the costs which industry is entitled to attach to such deferred deliveries of past production.

30. To ensure that the Dividend is used for consumption it should be paid to retailers on the condition of their allowing their customers a discount collectively equal to the sum so paid. The payments would be made periodically.

31. Some specific consequences would be (a) to raise continuously and progressively, the **purchasing power** of all existing wages, salaries, and dividends as applied to the purchase of the things which individuals require—the "means of life"; (b) to remove all restrictions on producers' **natural** incentive to work their plant at full capacity (their collective rate of profit would now be proportional to their rate of actual deliveries to consumers); (c) to ensure to industry the recovery of **all** its costs from its **home market**; so relieving it from the necessity of exporting products **merely for** the **sake of financial revenue**; (d) to enable industry to make instant use of every new invention which increases national productivity, without sustaining financial losses by reason of the supersession of obsolete methods; (e) to evoke willing co-operation between master and man in a national economy, and between nations themselves in a world economy.

32. The general effect would be **instantly** to raise the destitute above the poverty line, and proportionally improve the condition of every class above them; thereafter progressively to increase the **relative** prospect of the poor—with the willing assent of the rich. The nominally increased purchasing power of the rich will cease to be effective directly they reach their maximum limit of personal consumption.

Many of them are at that limit already; so that their incapacity to absorb more goods in an era of quickening production will automatically cause an overspill, which, in finding its level (as it must) will progressively dispose of the problem of the "inequitable distribution of wealth."

33. Herein is presented a scientific method for achieving humanitarian ideals, one which confers economic emancipation on all who need it without requiring economic sacrifices from those who do not.

34. The original extended analysis on which these shortened arguments and conclusions are based was first made by Major C. H. Douglas, whose works should be consulted by critical readers.

35. His recommendations are known as the **Douglas Credit Proposals** or **Social Credit Proposals**, and should be referred to by one of those names (preferably the first) to avoid confusion with other schemes of "credit reform" all of which demand merely increased issues of bankers' loan-credit, and ignore the equal necessity for an accompanying retail-price policy.

36. Every citizen may support the Douglas Credit Proposals without weakening his allegiance to his economic "class," political party, or religious denomination. In fact, it is his **duty** to disseminate them **within his own accustomed field**, wherever it is. □