

# THE SOCIAL CREDITER

## FOR POLITICAL AND ECONOMIC REALISM

Vol. 60 No. 3

MAY--JUNE, 1981

### Finance in Australia

In a ballot-box "democracy" such as Australia, actual government is by means of financial control, increasingly buttressed by Orders-in-Council, emerging as a continuous flow of Regulations restricting the freedom of the individual. What we, in this day and age, see is the actualisation, in C.H. Douglas's words, of "a carefully thought-out plan to deprive every individual in every country of the world of any individual share in those powers which reside in credit. Credit is 'the substance of things hoped for, the evidence of things not seen'. It is proposed that no man, woman or child shall have access to any things hoped for, except by licence" – which can and will be withdrawn to enforce government policy as formulated by anonymous bureaucrats.

From the point of view of the majority of individuals, the results of the operation of the financial system are increasingly unsatisfactory. Its outstanding features are the continuous filching of an already inadequate purchasing-power through inflation, and increasingly penalised unemployment despite amazing technological progress enabling a few men to do the work of hundreds. These are the consequences of *persistence* in a financial system of which they are the mathematically demonstrable outcome.

Over two years ago the Australian Federal Treasurer initiated an Inquiry into the Australian Financial System. This, of course, was to put a gloss of respectability over an iniquitous system. To try to get evidence of this, Dr. B.W. Monahan forwarded a submission, not in the expectation that it would carry any weight, but to ascertain how undeniable facts would be disposed of, or ignored, in the Report of the Committee. For the record, we publish herewith the submission.

To fully appreciate the extreme gravity of the situation, it is necessary to recognise that World War I, the Great Depression, World War II, Arnold Toynbee's "trend of international affairs" (including the spread of Communism financed from the U.S.A.), and the imminent threat of further war, are all manifestations of the "carefully thought-out plan".

#### PRÉCIS

This submission is confined to the structure and methods of operation of the Australian Financial System considered as a mechanism rather than as a legal and administrative system. It is

contended that from this point of view the results of the operation of the mechanism are increasingly unsatisfactory to the Australian community considered as a set of individuals rather than as a collectivity to be governed. This is evidenced by a significant degree of actual or near poverty in a country with a surplus of primary production and an abundant supply of important raw materials which are exchangeable for others in which the country is deficient; by increasing problems arising out of unemployment compounded by progressive automation; increasing crime, violence and drug addiction; rising death-rates medically believed to be stress-induced; and mounting bankruptcies and associated suicides.

The present Australian (Federal) Government has proclaimed that the admittedly unsatisfactory performance of the economy is in the main due to inflation, aggravated by mismanagement by the previous Government. On the basis of what is called political democracy, but which is better described as ballot-box democracy, the Government claims a mandate to put the economy right, chiefly by better financial management, with priority given to controlling inflation even at the cost of rising unemployment and the consequences thereof.

Financial management is largely a matter of economic theory. But the subject called "Economics" is a taught doctrine, not a science. If anything, it resembles a set of sectarian theologies – the Monetarists, the Keynesians, the Fiscalists, the Friedmanites, the Hayekists . . . These sects, however share a common axiom: that money is a commodity, and as such has an inherent or intrinsic value, and that a charge should be made for its use.

It is a further fairly general assumption that the purpose of an industrial system is to provide human employment, and that unlimited expansion or growth is thereby justified. This also involves a moral assumption; that if a man does not work, neither shall he eat. Thus industrial organisation is seen as a means of government, a means of constraining the individual to fit into a pattern of collective organisation.

In contrast the so-called natural or physical sciences, founded on exact observation of phenomena, and supported and verified by controlled experiments, are of a different kind to the mis-called social sciences; they do make assumptions, or hypotheses, but these are discarded when experiments prove contrary to expectations.

A genuine science of economics would deal with relevant physical realities and their inter-relationships. The more important of these are: the primary production capacity of a given area, such as Australia; the availability of raw materials for immediate use or suitable for conversion to a more useful form; the quantity of energy available or accessible; the ratio of fuel or solar derived energy to human energy (as muscular power); efficiency and economy of process; determination of exchange-value of units of

production in absolute terms — for example, how many motor-cycles of a given type are equivalent to one motor-car of a given type; that is to say, to establish a ratio which can be expressed as a number. Thus circles may be of various areas, but the ratio of the diameter to the circumference is a constant.

The objective of the economic system (and, therefore, of the financial system) should be defined as the fulfilment of the whole community's demands from the bottom up — ie, *first*, the provision of adequate food, clothing and shelter for all (eg, houses before offices, instead of building offices, etc, to 'create' employment to enable people to purchase houses); *second*, to meet more complex demands in accordance with industrial and technological development and guided by demonstrated consumer choice.

The aim of this submission is to appeal, so far as objectivity is possible, to Reality, not to theory. Once it is realised that money has next to no intrinsic value, but is invaluable as an accountancy-exchange-medium mechanism; that a continuing export surplus is a dead loss, not a "favourable balance of trade"; that the determination of industrial activity is a practical, not a moral question — ie, that though moral issues are real, they belong to a discipline other than economic theory, and include the depletion through waste of scarce resources, pollution (also contributed to by waste of many kinds), and crime and violence arising from destitution: then it may be seen that the existing financial system is the underlying mechanism of our progress towards disaster, which may end, as some have predicted, in final catastrophe.

## INTRODUCTION

There are fundamentally only two great philosophies, and hence policies, in the world — Freedom and Servitude. These are inevitably in conflict. The basis of Freedom is *economic* rather than political independence, the latter being conditional on the former; the basis of Servitude is coercion and organisation.

On the Party-political level, this dichotomy becomes obscured, or lost. To "win" an election increasingly implies organisation, and the concept of organisation is self-perpetuating. On the other hand, a government which aims at the increasing emancipation of its supporters is destroying the basis of its power to retain power. It surrenders the means of coercion (though not necessarily the means of support) to the extent that it secures to its supporters their economic independence.

These considerations raise the question of the validity of a mandate. Freedom has been defined as the ability to choose or reject one thing at a time. The individual in isolation is continuously confronted with this choice — and the responsibility which his choice entails. But where his choice is between one "platform" or another, he is confronted with a multiplicity of choices at the same time. Something that, with a majority of others, he may greatly desire (for example, an end of petrol rationing) may be associated with a number of choices in different fields on which opinion is widely divided. To claim that a choice mainly concentrated on one item, constitutes approval of *all* items and thus constitutes a mandate to implement a total programme is to degrade democracy to gangsterism.

There does not appear to be any solution of this general dilemma, except increasing economic independence, carrying with it the ability to contract-out of unacceptable situations or conditions, whereas subjection to a total programme implies some form of coercion. The continuous enactment of Statutes and issuing of Regulations represents a continuous narrowing of the field of individual independence, overlaying the Rule of Law which was the foundation of British freedom.

A policy aimed at securing economic independence for individuals, if successful, leaves open the way for the organic development of society; and it is as impossible to foresee the ultimate structure of society as a result of such evolution as it would be for the uni-cellular organism to foresee the evolution of the organic world — the so-called biosphere.

Yet curiously enough, if there is any hope left to us, it is in the fact that the biosphere has evolved with all its marvellously integrated complexity (the "in-word" is ecology) without a coercive organisation. That there is a Being who is directing evolution is specifically denied by those who are themselves endeavouring to plan total social development. It may well be that the unknown mainspring of evolution will bring to nought the ambitions of the planners, which involve the continued destruction of past achievements of an organic-type social evolution — evolution versus revolution. But anyone who truly believes in freedom must make the alternative plain, and sacrifice personal power derived from organisation to the emancipation of the individual towards his unknowable destiny.

## 1. THE PROBLEM OF INFLATION

1.1 Inflation is now generally regarded as a world-wide problem. Curiously, this regard seems to be taken as an explanation of the apparent intractability of the problem. Measures which are taken to 'control' or 'curb' or 'halt' inflation do not work as promised, and the reason adduced for the failure is the universality of the problem. That is to say, 'domestic' inflation is said to be induced and/or aggravated by 'imported' inflation.

1.2 Yet in fully socialist — Communist — countries, inflation does not appear to be a problem. This is because with fully 'managed' economies (which include, where necessary, physical restraint of the population) the provision of incomes and the management of prices become simply a generalised rationing system. Differential incomes are a means of rewards and punishments, and manipulated prices a means of differential rationing of consumable goods.

1.3 *Definition of Inflation:* An increase in the money supply accompanied by an equivalent rise in prices. This is equivalent to depreciation of the purchasing power of the *unit* of money.

1.31 On the basis of this definition, inflation would merely be an irrational and inconvenient expansion of the figures of accountancy. The volume of 'cash' (as opposed to cheques) required to settle transactions becomes physically ridiculous. But only a small proportion of transactions is settled in cash — though the inconvenience even for small transactions remains.

1.32 The definition of inflation, however, is qualified by three factors. (a) Individuals and institutions on fixed incomes are penalised to the point of extinction. (b) Where taxation is progressive, the effect of inflation, cannot be fully compensated. (c) Long-term contracts, such as Insurance, are vitiated.

1.4 The standard current techniques applied to 'control' inflation are (a) increased interest-rates; (b) isolation of money in special deposits with the Central Bank (resulting in fewer bank loans and/or calling in of overdrafts); (c) increased taxation; (d) statutory control of incomes and prices. These techniques slow down economic activity, and if pressed, or continued for any considerable period, result in unemployment, failure of small businesses, and bankruptcies. Their removal is generally followed by renewed higher-rate inflation. It is, therefore, ironic or deceptive to imply that the Australian National Government, as the only Government of a major nation without power over prices and incomes, would do better with them than Governments of the U.K. and the U.S.A.

1.5 These monetary and fiscal measures do not directly affect productive capacity, as do natural catastrophies involving physical destruction or the unavailability of raw materials. But the failure of demand on available capacity progressively reduces output, and increases the burden of fixed charges (interest and debenture charges, rent, certain forms of maintenance) thus increasing unit costs. These increased costs are carried forward, and contribute to a subsequent increase in prices in a period of 'recovery'.

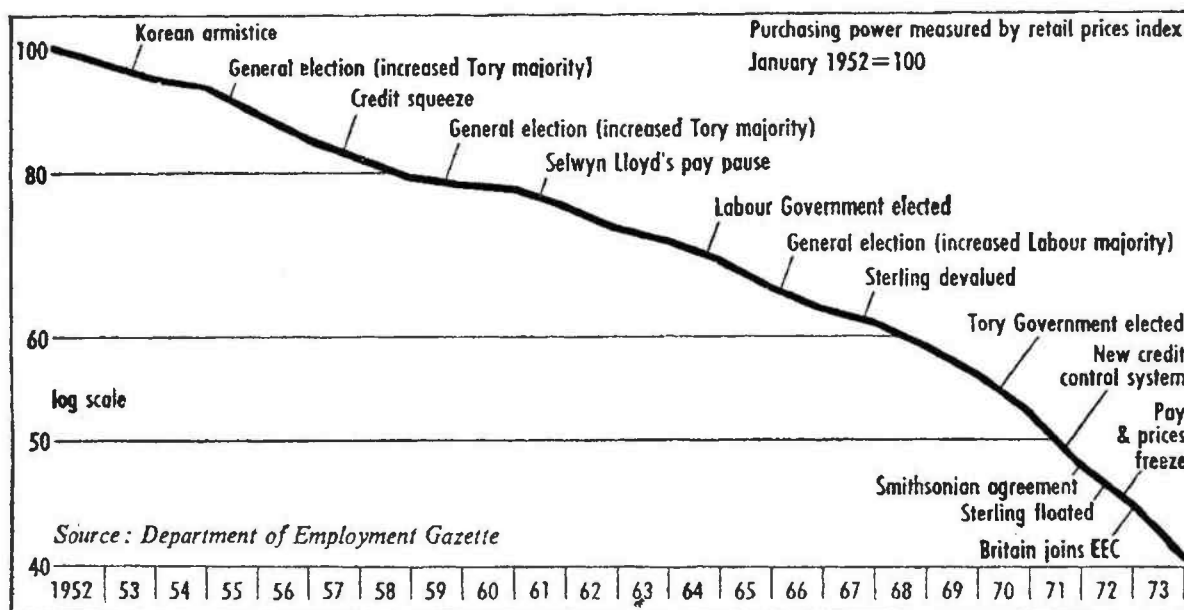
1.6 This analysis goes some way to explain the failure of similar measures taken in various countries, and that over a sufficient period of time, graphs of the purchasing power of various currencies show a continuous fall. But the failure in itself indicates the operation of a more fundamental factor. A graph, published in *The Times*, London, February, 28, 1974 is typical of the monetary system in any of the industrialised countries. It

within say a year shall be recovered, plus profit, within that year. Some undertakings, however, budget for a loss over a period in the process of establishment or expansion. Such losses are accumulated against future recovery through prices, thus raising initial prices to achieve a quick return of capital.

2.2 Since productive undertakings require a profit, and this profit must be realistic to maintain incentive, taxation on company income raises prices, since provision for taxation must be accounted into the costing process.

2.31 A factory or other productive organisation (as opposed to primary production) has a primary function of producing goods or services, and a secondary financial aspect - the distribution of incomes (wages, salaries and dividends), and the creation of financial values (prices) through the allocation of costs.

THE INFLATION CURVE



shows that although the slope of the curve varies slightly from time to time, there is a continuous decline in the purchasing-power of the the unit of currency, and that the so-called means of 'fighting' inflation are without overall effect despite their disrupting effect on the economic life of the nation - bankruptcies and penal unemployment. But the sustained downward slope is a clear indication of an underlying causal factor, just as the acceleration (or deceleration) of a physical body is evidence of the existence of a physical force. The basic cause of inflation is the inclusion of an increasing proportion of allocated depreciation charges in costs at all stages of production. This is due to an accountancy convention. Bookkeeping adjustments could eliminate this factor. (Paras. 2.34, 12.9, 12.10).

2. MECHANISM OF INFLATION

2.1 It is a fundamental of industrial and business accountancy that all costs must be recovered in prices; that a profit is required as an incentive to production (and as a measure of efficiency); and (usually) that funds employed in an undertaking shall be "turned over" within a given period - ie, that costs incurred

2.32 Costs are allocated in respect of payments to individuals, and also payments to other organisations (raw materials, semi-manufactures, transport costs, fuel and power, bank charges, rent); and charges allocated (ie, not paid out as money) on account of depreciation and/or obsolescence. Thus payments made to other organisations are not paid to individuals (though they may subsequently be paid to individuals for further work done, in which case they generate a new series of costs) and depreciation charges are not currently distributed at all; but both are included in the price to the consumer. The effect of this is that the rate of flow of income to individuals is less than the rate of generation of prices.

2.33 Primary production (unless it employs labour at wages) does not distribute income. It effects a redistribution of income generated by industry. Primary production sold in the external market of course increases the money supply.

2.34 The industrial base of an economy may be considered as a single entity, consisting of productive units, transportation and communication systems, and service industries. As a whole it distributes incomes to the individuals of the community, either directly or by the redistribution of primary income. But the cost

of what it produces includes charges allocated on account of capital depreciation, etc, which charges are recovered in the prices of ultimate (consumer) goods. Since monetary savings by individuals in a given period are only a small fraction of incomes to individuals – ie, since the cost of consumption absorbs practically the whole of payments distributed in respect of both consumers' production and capital production, it is evident that only a continual expansion of the money supply enables continuity of production; and since much of this production must take the form of capital expansion – ie, of production which does not enter the consumer market – the situation is a compounding one. It is the inclusion of an increasing proportion of allocated depreciation charges in prices at all stages of production which is the *underlying* cause of inflation. In a developed country these charges increasingly exceed direct labour charges.

2.4 Given this underlying cause, it follows that there will be a continuing pressure (indeed necessity) for increased incomes, merely to maintain an existing standard of living. These increased incomes, however, become costs which enter into and increase future prices, while the increased income is spent at once. To some extent these increased wage-costs can be offset by improved efficiency of production (providing the whole of it is sold). Depreciation and other charges are spread over a greater volume of production, and thus may lower *unit* prices (but not overall cost).

2.5 "Normal risk" undertakings, particularly if on a large scale (iron and steel, motor manufacture, etc) appear to make very large profits. But these profits appear large only in relation to subscribed capital. Profit on *sales* – ie, income less all costs – is of the order of 6 per cent per annum, and yield to shareholders is normally 2.4 per cent on *market* value of shares held. This is why any attempt to control prices by statutory means is doomed to failure. Profits are much less than wages and salaries, and even if dividends are included, distribution of incomes to individuals is a decreasing proportion of total cost.

2.6 Thus both aspects of an "incomes and prices" policy contain fallacies. Incomes *must* rise to maintain a standard of consumption already demonstrated to be possible, and a reduction of profits would only insignificantly restrain price rises, although very likely to restrain productivity, thus being indirectly inflationary.

2.7 These theoretical considerations are confirmed by the fact that inflation has been a continuing phenomenon in this century. Slight reversals have been only temporary, and usually followed by an increased rate for a period; and as they have been accompanied by, or have resulted from 'monetary restraints' and fiscal actions, they have been responsible for the ruin of many (particularly smaller) businesses and a disproportionate amount of human suffering and bankruptcies and suicides. In 1975-76 the net loss of assets in bankruptcies, etc, was \$49.8 million.

### 3. THE MONEY SUPPLY

3.1 To the "man in the street" money is something he carries in his pocket, or has deposited in a bank for safekeeping. Possibly he may also believe that banks may lend his money temporarily to others, while retaining a reserve in cash in case he needs to withdraw his savings. In fact, in 1977 the value of coins in Australia was \$42.6 million, and of notes \$3,290.8 million – a total of \$3,333.4 million. On the other hand, the 'volume' of money was \$36,381 million, or 10.9 times the amount of 'cash'.

3.2 The explanation of this discrepancy, well understood in monetary circles but not widely understood by the public, is that every bank loan, or purchase of a security by a bank, creates a deposit – not of cash, but as a credit entry, in an account with the

bank. These deposits are drawn on almost entirely by cheque, which transfers a credit entry from one account to another, and thus obviates the necessity of using cash. Equally, the repayment of a bank loan, or the sale of a security by a bank, destroys an equivalent deposit. This whole process is described in detail in an article published in the *Bank of New South Wales Review* of October, 1978.

3.3 If the rate at which banks make loans exceeds the rate at which loans are repaid (which is normally the case) the total of deposits rises, and conversely. It is this fact which makes it possible to vary the "money supply".

3.4 As shown in para. 2.4, rising prices require increased incomes merely to maintain an actually existing standard of consumption; and an overall increase in incomes requires an expansion of the money supply. Thus an increase in the money supply is not necessarily a cause of inflation – in this case it is an inevitable accompaniment if the standard of consumption is not to fall. For example, an award of higher wages in an industry will usually be financed by bank credit, since companies will not be likely to hold in cash the sum required to meet the increase. Wage increases implemented in a "credit squeeze" or period of "tight liquidity" tend towards bankruptcies.

3.5 An increase in the money supply in excess of that required to maintain an existing standard of consumption is inflationary in that excess incomes will bid up the price of existing goods. This is particularly the case when money is provided by an expansion of the money supply to stimulate employment by means of large-scale public works or long-term industrial expansion, since the extra incomes are not at the time they become available offset by an immediate increase in the supply of consumer goods. This in turn increases the inflationary demand for further increases in incomes . . . which increases, if obtained, go into costs and raise the prices of later generations of goods . . . .

3.6 It is sometimes contended that the processes herein described are offset by what is called "the velocity of the circulation of money", by which is meant that, for example, a \$10 note passing from hand to hand can affect a number of retail transactions. This completely overlooks the facts of accountancy. A retailer may sell say \$100 worth of goods. Of the \$100 received, say \$60 will be required to settle the wholesaler's price, or to recoup capital outlay in purchasing stock. Of the \$40 remaining, a proportion must be allocated for rent, rates, wages, electricity, maintenance, advertising, etc. Perhaps \$10 will remain for the retailer's personal income (out of which he has to pay taxes, etc); and generally speaking, when he spends on personal consumption, the same argument applies – the recipient of his \$10 will retain only \$1 for personal expenditure.

3.7 The time-element is all-important, but frequently overlooked, in the economic process, which is dynamic, not static. Money spent on the purchase of an article is on its way *back* through the various stages in the production of finished articles to extinction, either in the repayment of a bank loan which initiated production, or to create a reserve for the replacement of plant, etc, and thus maintain the value of capital assets; and to replenish the wages-fund which will be utilised in a new cycle of production generating a new set of costs.

3.8 The processes described in Sections 2 and 3 are masked by the continuous operation of the industrial process so long as expansion is occurring. But as an economy reaches maturity (indefinite expansion is physically impossible, as is now becoming apparent), and the *rate* of expansion decreases, the defects in the financing of production become manifest – usually in the form of a rise in unemployment and the consequences thereof. It is at this point of approaching maturity that demands are made for government expenditure on public works "to keep up employ-

ment" – which really means to keep up the distribution of income. But such public works are financed by bank loans and increase the national debt and the interest burden.

#### 4. INTEREST

4.1 A community can be regarded as divided into those who have money to lend, and those who wish to borrow. If the money in such a community were a fixed quantity, and the lenders charge interest on the money loaned, it is evident that all the money in the community would come into the possession of the lenders at a rate proportional to the interest rate. Thus to keep money in circulation where interest is charged, the money supply must be increased.

4.2 By far the major part of the increase in the money supply arises from the overall expansion of bank lending. When a bank lends say \$1000 for a year at 7 per cent per annum, it must be repaid \$1,070 of which \$70 becomes 'permanent' money, while \$1000 is cancelled. As the cost of operating banks is not proportional to the amount of money loaned and hence of interest claimed, it is evident that an increase in interest rates to 'curb' inflation in fact contributes to inflation, since interest charges go into costs.

#### 5. INTERNATIONAL TRADE

5.1 The fundamental object of trade is the exchange of goods in the interest of diversity or convenience or, in the case of essential raw materials or advance technology, to obtain necessary supplies. The term "favourable balance of trade", now being superseded by the term "export surplus", means in fact the exchange of a greater 'value' of goods for a lesser, the transaction being equalised by the acquisition of "foreign exchange" – ie, a form of money exchangeable into national currency, when it contributes to that expansion of the money supply which has been shown to be necessary under present conditions (it is not actually necessary to import foreign money to finance internal activities; only the import of goods serves national interests). Also the "international exchange" money goes to reserves as a provision against possible future requirements of foreign supplies, or is held as a backing for the international exchange value of the national currency. (See also Para. 10.1)

5.2 It is evident that it is physically impossible for every country to have an export surplus, and that any country having a continuous export surplus is in fact undergoing a continuous physical loss. The mathematical concept of a limit demonstrates this: a country which exported the whole of its production and imported nothing but money could not continue to exist. Thus as this limit is approached, the real standard of living is decreased. The limit is indeed approached in war-time, when armaments expended are a form of unrequited export, greatly exceeding normal exports, and with a corresponding necessity to ration consumer goods, while total personal incomes exceed peacetime levels.

5.3 The necessity to expand the money-supply – a necessity which arises out of accountancy procedures rather than from the physical facts of production – afforded an apparent justification for aiming at a 'favourable' balance of trade.

5.4 With increasing complexity of industrial activity, international trade is essential to obtain a sufficient supply of necessary items. But the exchange of certain finished products, such as textiles, motor-vehicles, and even some semi-manufactures, while it provides diversity and competition, also increases costs because of transport costs, insurance charges, excessive handling and packing of goods, and accounting charges.

5.5 Adjusted to the purchasing-power of the gold sovereign and the wage standards of 1890, Britain probably exported at a total loss not less than ten thousand million Pounds worth of production in the next sixty years. This situation has been concealed by the statement that "Britain lives on its exports", and expanding economic activity, which meant the continuous industrial revolution, with the result that there was continuous and expanding economic activity, which meant the continuous distribution of incomes. But apart from coal – the chief energy source for a considerable period – Britain had to import the bulk of raw materials for manufacture, so that the description of Britain as "the work-shop of the world" was apt enough.

5.6 In the Indian subcontinent, for example, Britain developed over 43,000 miles of railways with stations, bridge and auxiliary works; provided irrigation for 27 million acres of otherwise nearly useless land; developed first-class harbours at Karachi, Bombay, Madras and Calcutta; built some of the world's greatest bridges and trunk roads; developed modern power systems, hydro-electric and otherwise; and much more – the transformation of a sub-continent in 150 years. Nevertheless, in 1948 Britain appeared to "owe" India £1,500,000,000 – the equivalent of having to work for nothing on three year's total exports of the U.K. at 1938 levels, for the benefit of India alone, without paying for a single pound of imports from anywhere, before the balance of the cost of 150 years of Indian development to the U.K. is liquidated. This process of development was called "exploitation" of a colony; but since India has obtained its "freedom" continuing "aid" to an underdeveloped country has become a moral obligation to be paid for by taxation of the British public.

5.7 The British balance of payments deficit, chronic since the war, for the month of October 1973 was at the rate of £4,476 million per annum – about 9 per cent of the gross national product. The idea that this sort of situation can be reversed (to pay the accumulated deficits) is not really tenable. It would mean that something of the order of 15 per cent of the GNP would have to be exported for say 30 years, as well as requiring the import of and payment for and transporting of the materials which would be the basis of exports. Only a military dictatorship could enforce this lowering of the standard of living on the British public. In short, Britain is certain to collapse.

5.8 Australia is in a favourable position, being possessed of abundant raw materials and could therefore adopt a realistic trading position. The basis of such a position should be a reliable estimate of *essential* import requirements balanced against disposable materials for export. The amassing of "foreign reserves" could easily represent a dead loss in the worsening international situation.

5.81 In the 11 years from 1966 to 1977, Australia's export surplus amounted to \$7,215 million – an average of \$656 million per year.

5.9 A "Common Market" of the English-speaking peoples would make a nearly self-sufficient economic entity, but this now appears as a lost opportunity.

#### 6. THE VALUE OF MONEY

6.1 The idea of money as a commodity is deeply ingrained, and in modern times while the gold standard of currencies was more or less operative, it had a certain validity. Gold – and other metals – are in fact commodities having an inherent value roughly proportional to the effort of recovering them from the earth. This inherent value means that it cannot be counterfeited. The theory of the gold standard was that other forms of currency could be converted into gold on demand.

6.2 Since the rate of the expansion of the money-supply

(paras. 2.33, 4.1 and 4.2) progressively exceeds the rate of production of gold (the former is an exponential growth, the latter virtually linear), it is impossible to maintain convertibility of notes into gold on demand. The total value of gold in the world (excluding Russia) at \$35 per oz. in 1966 was \$1.46 billion (U.S.), whereas the money supply in the U.S. in 1969 was \$192.3 billion, and the GNP \$932 billion. There is thus no possible *fixed* relationship between the 'value' of a unit of currency and a unit of gold.

6.21 With the official abandonment of the convertibility of other forms of currency into gold on demand, most of the world's monetary gold went into the possession of Central Banks, and was used as a sanction for the international manipulation of national currencies. But with the accelerating discrepancy between the quantity of gold and the expansion of national "money supplies" the gold standard became ineffective, and an attempt is current to substitute "Special Drawing Rights" ("SDRs") as an international sanction. But SDRs do not have the same psychological sanctions as the physical reality of gold. Hence the need for a World Police Force to ensure national compliance with international dictates, formerly ensured by manipulation of monetary exchange rates. A non-compliant government could be endangered by devaluing its currency.

6.3 The actual value of money is determined by its purchasing-power, which is a function of prices. Normal cost-accountancy procedures determine the 'value' of goods, and at any given time the ratio of the cost of one article to that of another gives a measure of the *relative* value of the articles which is independent of the unit of money involved (providing it is the same unit at the same time), and independent of the value (if any) of money as a physical entity except in the case where the money consists of valuable metal or jewels – when the transaction reverts, in principle, to a simple act of barter, the exchange of one inherently valuable article for another.

6.4 Since costs of production vary from country to country, and from time to time, fixed international exchange rates, or even changes within a small margin, are fundamentally unsound.

## 7. THE CONCEPT OF WEALTH

7.1 Wealth may be defined as the ability to deliver goods and services as, when and where required. Wealth is based on available raw materials, the supply of energy, and the development of technology and provision of the instruments of technology – theoretical knowledge and machines. These physical factors are modified by social and psychological factors – incentive, skill, morale, and social friction.

7.2 "Ability to deliver" is not quantifiable, because it is only revealed to the extent that demands are made on it and met. Demand is mediated in industrial societies by monetary demand, and the availability of money (as effective purchasing-power) is variable. In general, however, it is the case that *physical* ability to deliver increases with time, and that an ability to deliver in any one month would not, in the absence of natural catastrophes or a sudden change in morale or increase in social friction, be less in the succeeding month, successively.

7.3 An attempt to quantify wealth takes the form of an estimate of the Gross National Product over a period of time. GNP is defined as: "The total value of goods and services produced in a country in a given period, usually a year, after the deduction of all goods and services (except depreciation of capital equipment) used up in the course of production" (*Report of the Committee of Economic Enquiry*: Vol II, 1965: Commonwealth of Australia). In the context of these notes, this definition can hardly be considered realistic; but it yields a figure for one

period which can be compared with that for another, and this yields the information that in general the GNP increases from year to year.

7.4 "Ability to deliver", or to use a more suitable term in the present context, *productive capacity*, is most dramatically demonstrated in a large-scale war, when a high rate of destruction (consumption) is sustained by a high rate of production. The 'consumption' of warfare is the equivalent of *potential* peacetime consumption – a measure of the potential GNP in peacetime. It is important to note that wartime production is achieved with only a portion of the work force, the other portion being engaged in military and associated duties.

7.5 Since the beginning of the industrial revolution, productive capacity has increased enormously. The underlying reason for this is the application of fuel-derived and hydro-electric energy utilised through machines to the processes of production. This, under favourable conditions, multiplies the effectiveness of human energy (labour) by a factor of several hundred times. In Australia in 1977-78, electricity generation was 82,532 million kWh, which is equivalent to 110,592 million horse-power. More than fifty years ago one HP was considered to be equivalent to ten man-power. It is probable that with increasing automation and the development of computer control of process the HP equivalent of MP is very considerably greater today. But using the 10 times ratio, the electricity generated (which is measured by consumption) is the equivalent of 1,105,928 million MP, which for a population of 14 million is equivalent to 78,994 per head – 216 per day, or 757 for a family of 3.5 persons. At an average daily wage rate of \$3.60 this is the equivalent of over 996,000 dollars a year individual household income. In the period under consideration actual total household income is given as 69,334 million dollars, or for the same population 17,333 dollars per household. These figures are derived from values given in the *Pocket Compendium of Australian Statistics, 1978*, and are intended only to indicate the order of magnitude of changes consequent on the progressive introduction of solar-derived energy into the process of production of articles for human consumption.

7.51 The consumption of coal and oil is difficult to estimate in the same way, as a proportion of these goes into the generation of electricity. But the consumption of fuel energy in transport, both public and private, and in high-rise building, earth-moving, mining, etc. must be very large. In 1976 there were over six million motor vehicles on register, and assuming, say, 25 horse-power per vehicle, this would be equivalent to about 9 HP per head, equivalent to 90 man-power, or 300 MP per household.

7.6 The "labour theory of value", attributed to Karl Marx but probably inspired by someone with a more complete grasp of financial dynamics than Marx is likely to have possessed, is true in the long term if viewed from the beginning of the industrial era. It is true in the sense that human labour built the first machines, before machines were used to build other machines. But the labourer had his wages taken away from him in his cost of living, while the *cost* of those wages was capitalised over the period of construction, and became a *charge* included in the *price* of articles produced by the machine, additional to the current *cost* of labour incurred in operating the machines. As the previous wage equivalent had already been spent on the cost of living, only an expansion of the money supply could provide the purchasing power to meet the machine charges. This expansion of the money supply is predominantly provided by the creation of money by the banking system; but the distribution of this new money remains contingent on "full employment". *This continuing process is the actual underlying cause of inflation*, and is what is meant by the expression "financial dynamics". The distribution of goods already existing can only be effected by financing the

production of future goods; and in the very nature of the system, these future goods must increasingly be of a capital nature – ie, of a nature of no use to the individual as a consumer, or be goods for export in return for money. Non-recognition of this situation is the explanation of the evident intractability of the inflation “problem”.

7.61 In the sense that, as a whole (ie, spread over several generations) the productive capacity of the community has been created by labour, it properly belongs to the community, being in the nature of an inheritance. But it is not the industrial “capitalist” who is denying members of the community adequate access to the potential production capacity; it is the operation of the financial system as it exists, a system which capitalises wages already spent and in consequence not available to meet the costs attributable to that capitalisation – depreciation, obsolescence, and wastage.

7.7 Economists often refer to the necessity of increasing productivity, presumably meaning output per man-hour. Taking this as a basis and an eight-hour day as a base for calculation and 200 years as the period since the beginning of industrialisation and a compound growth-rate of 1 per cent per annum, the work-day would by now be about 68 minutes; at 2 per cent, 9 minutes. At the present time, a 6 per cent growth-rate is often suggested as desirable. This would double output in about twelve years. It is only necessary to contemplate the virtual transformation of Australia since the end of World War II to visualise what this doubling would mean. We already have surplus production in many areas of the economy, and surplus productive capacity in many more.

7.71 The Gross Domestic Product is given as 70,825 million dollars in 1975-76, and 81,531 million in 76-77 – an increase of 15 per cent. But these figures include changes in prices, and if say 10 per cent is subtracted for inflation, the growth rate would be 5 per cent, and the combined rate 10 per cent if inflation can be brought down to an “acceptable” single digit rate of 5 per cent per annum. With the passage of a generation – say 30 years – the recorded 76-77 GDP would grow to 1.4 million million dollars per annum. If population growth was at 1 per cent per annum, and household income remained at 85 per cent, this would mean an average weekly rate of about 4,550 dollars per household. (For comparison, GDP was 16,226 million in 1962-63, the increase to the 1977 figure being at the compound rate of 11.6 per cent. Personal income in the earlier period represents 77.5 per cent of GDP).

7.72 “Productive capacity” of course includes capital goods production, offices, and other forms of non-consumer production (C) as well as goods and services available to individuals (I). Clearly, the individual standard of consumption will be determined by the ratio I:C, whereas the GNP is I + C. For the reasons adduced in para. 2.33, even if I is constant, C must continuously increase to distribute I – a process which is automatic in a developing economy, but is difficult to maintain in a mature economy. Hence the drive for export markets and large-scale public works to maintain employment – ie, the distribution of incomes.

7.8 Excessive capital production and production for export surplus are both inflationary, because the ‘cake’ of consumer-production has to be shared with an increasing number of non-cake producers. A rise in consumer prices is only one aspect of this inflation; high taxation, which is supposed to ‘restrain’ inflation, is just as much a loss of purchasing-power to the consumer as a direct rise in prices, and a sales-tax of say 25 per cent is probably considerably greater than the net profit of the retailer. A remission of sales-tax would of course immediately lower prices, affording at least temporary relief.

## 8. EMPLOYMENT AND LEISURE

8.1 If an individual ‘invests’ in items of labour-saving equipment, his object is in large part to save himself labour. Investment in a dividend-paying company is really the same thing – he is buying a share of the labour-saving which power production makes possible. Personal labour-saving devices, of course, wear out over various periods of time, and are often subject to maintenance (or service) costs. The wearing-out process is represented by the variously lower price of second-hand goods, such as motor-vehicles. Ultimately the buyer loses the money he paid for the article – the wearing-out is a form of consumption.

8.2 The investor in shares, however, expects that they will at least maintain their value – that they can be sold at any time without loss. He thus appears to escape the loss of capital which the depreciation of personal equipment entails. But in fact, as depreciation charges of industry are included in the price of articles for personal consumption, he is losing his capital in the form of a rising cost of living. This depreciation-based inflation continuously offsets the potentially beneficial effects of improvement of process and the continuous harnessing of energy.

8.3 Now just as the personal possession of power-driven tools, from electric-drills to motorised caravans, increases a man’s ‘purchase’ over his environment, so the existence of the industrial system does – in a generalised form. The industrial system has been likened to a lever, which enables man to shift the burden of Atlas with increasing ease, setting men free either to lengthen the lever, or to have more leisure. Thus the real, as opposed to the financial, dividend of the industrial system is the increasing possibility of increased leisure. But the constant filching of financial purchasing-power by continuous inflation of prices operates in opposition to this possibility. The dividend of leisure is quite unduly small. Allowing eight hours daily for sleep, a week has 112 hours available for activity. Forty hours “work” per week represents 35.7 per cent of this time. Thus the ratio of work to leisure is 0.56:1, whereas the ratio of electricity generated to total population is 13.5:1 in terms of man-power hours with a forty-hour, forty-nine week year with half the population working.

8.4 The effect of this is most readily grasped by considering the situation if *prices of consumer goods were stable*, and incomes were increased (or decreased) in proportion to an index of productivity. If it be assumed that the existing wage – and salary-structure reflects approximately the hierarchy of work-value, the increasing purchasing-power of the lower paid would reduce a main cause of social discontent, while the proportionality of increases would retain the incentive to strive for advancement.

## 9. EMPLOYMENT AND FREEDOM

9.1 Taking again the mathematical concept of a limit (eg, a convergent series), the direction of social evolution is from a nomadic existence, through early civilisation and industrial civilisation (an extremely recent development) towards a system of production which ‘in the limit’ would be fully-automatic, self repairing, and solar-energy powered. It would be entirely fanciful to suppose that this limit would ever be reached, but there is no doubt that we have been approximating towards it. There is good reason to believe that this movement may be halted, which is what constitutes the urgency of the present situation. To quote Professor Hayek: “. . . my opinion (is) that until the protection of the individual is much more firmly secured than it is now, the creation of a world state would probably be a greater danger to the future of civilisation than even war”. The signs now strongly point to an imminent attempt to create (and sustain by force) a world state.

9.2 Hayek defines freedom as "independence of the arbitrary will of another", and coercion as "such control of environment or circumstances of a person by another that, in order to avoid greater evil, he is forced to act not according to a coherent plan of his own but to serve the ends of another". These definitions are too narrow. The arbitrary will of "another" does not extend very far, if only for the reason that the more individuals are subjected to that will, the greater the likelihood that they will gang up on him. And when it becomes a matter of control of environment or circumstances, it is in general control exercised through an organisation – from the gangster with his body-guard to the dictator with his army and police.

9.3 But an organisation is very little subject to the arbitrary will of an individual. Organisations develop policies, and whoever heads the organisation is to a large extent the servant of the policy – which is usually aggrandisement in one form or another. Making war is a notable example; but the overall planning of society is another – which is presumably what Hayek had in mind in referring to the great danger inherent in creating a world state. The creation of such a state has always been the proclaimed objective of Communism. The great danger now, however, is the fusion of the so-called Super-Powers to create such a state, which would inevitably move in the direction of Communist police-state methods rather than the U.S. conception (now being rapidly eroded) of constitutional republicanism and the Rule of Law.

9.4 Short of police-state methods, coercion of individuals is indeed through "control of the environment or circumstances", and that control is most generally and effectively exercised through control of access to the necessities of life. On a low level, the necessities of life are confined to food, clothes and shelter; but above that level, and according to what is evidently available, a good deal higher standard now appears to the majority to be a necessity.

9.5 For the great majority of individuals in an industrialised country access to "necessities" is through remuneration for employment. When "full employment" is made an over-riding objective adopted by all Governments and Oppositions, there is essentially an organisation pursuing a fixed policy, and a change of government makes no essential difference. Alternative Oppositions merely accuse the existing Government of "incompetence" or "mismanagement". Governments and Oppositions alike want to "control" inflation or "manage" the economy; but it is the people who are managed, because laws and regulations operate on people and not on the economy as such. In fact, industry left to itself moves towards automation, and tends to dis-employ. Controls are largely financial, affecting personal incomes. If these controls fail, resort may be had to rationing, which now appears to be within sight.

9.6 The socialist objection to profits, dividends and inherited incomes is of course that such incomes confer economic independence. Provided he does not break the Common Law or general Regulations such as apply to driving vehicles the individual with an independent income cannot readily be coerced in a free society; and a large number of independent individuals are the greatest barrier to "strong" government. In short, the basis of genuine freedom is economic independence, rather than the political right to substitute one government for another. In fact, it has been well said that political democracy without economic democracy is dynamite.

9.7 The basis for extended economic freedom unquestionably exists in developed countries, and but for an artificially maintained inflation, and coercive legislation deriving from it, would have become increasingly wide-spread, even if only by the acquisition of dividend-paying shares and their transmission by inheritance.

There are now, however, abundant signs that the economic basis of freedom is being destroyed. The *orchestrated* outcry against "pollution" and "destruction of the environment" and "the need for conservation" – real enough evils, but fuelled and aggravated by the intensive pursuit of full employment – are warning signals. But the new cry is of "critical shortages", and the need for redistributing the wealth of the developed nations to feed the starving masses elsewhere. This too is a warning of what to expect; and since the peoples of the 'wealth' nations will not willingly forgo the standard of living they have attained, police-state methods are clearly in prospect.

## 10. STRATEGY OF CONQUEST

10.1 If it should prove possible for one country to demonstrate that inflation can not only be halted, but reversed, there would be wide-spread public pressure for similar reforms elsewhere. But inflation (at least at present) is a mechanism of political intent and as such an integral component of the strategy to achieve a World Government; and a reversal of inflation would therefore attract the hostility of those working on the highest international levels to bring such a Government into being in an overt form (it already exists in a covert form, but is not yet securely established). The chief technique of international government is through the *international* financial system, into which national Central Banks are integrated.

10.2 The major strategy to secure overt World Government is at the present time to maintain the threat of a world war utilising atomic weapons, in which, we are told, the greater part of the world's population would be destroyed. It is most unlikely that such a war would ever materialise, since the destruction envisaged would ruin the world as a World Government property; and it is the internationalists who have their fingers on the atomic buttons. This threat is sufficient, however, to appear to justify drastic steps to "preserve peace". The threat is maintained by proxy-wars, as in Korea and Vietnam, and bushfire wars, such as "national liberation" guerilla wars and anti-colonial disorders. These wars are sustained by the supply of sophisticated weapons to both sides by the Super-Powers, while the supply by the U.S.S.R. is sustained by U.S. economic support of the U.S.S.R. – a covert support until fairly recently, but now an overt support signalled by a massive wheat deal, technological support, and the provision of an enormous truck-manufacturing facility at Kama – all on credit and at the U.S. taxpayers' expense, and a massive contribution to inflation.

10.3 It is this situation which affords Australia a chance of averting disaster. Punitive action against Australia might detonate the critical world military situation, with disastrous results for the would-be World Government, whose existence depends on the complex international resources and the communication systems on which control would depend. Even the threat of sanctions against Australia would reveal to some extent the intent of the Internationalists, whose present operations are largely at present shrouded in secrecy and deception (paras. 13.7 and 13.8).

10.4 From the point of view of World Government, the Middle East has long been recognised as of prime strategic importance. It has been referred to as the Heartland of the world, situated as it is at the centre of three main continents, and possessing the world's chief oil resources. Now any direct and outright attempt to seize this area by military means by any one Power would certainly have been resisted by others – and in a sense (but only a limited sense) this was the genesis of World War I. In that war it became apparent that the outcome would depend on U.S. intervention. In retrospect, it is clear that this situation was



utilised in effect to obtain a mortgage on the British Empire. But it was also utilised to secure the Balfour Declaration, which took the form of a statement that "the British Government views with favour the establishment of a National Home for the Jewish people in Palestine".

10.5 As a number of historians have noted, the provisions of the Versailles Treaty ensured the resumption of hostilities at a later date, and in fact World War II was the resumption of World War I. In the meantime, however, the U.S.S.R. had been brought into being as a potentially major world Power - its development being aided and financed by the Western Powers, notably the U.S. With the entry of the U.S.S.R. into the war, U.S. aid on a truly massive scale was afforded to the U.S.S.R., and has continued ever since.

10.6 Following the end of the war, a massive exodus of Jews to Palestine, with large-scale assistance by the U.S.S.R. and U.N.R.R.A. (General Morgan, of U.N.R.R.A., who disclosed the facts, was sacked for his indiscretion). Guerilla war between Jews and Arabs, which had escalated from 1935 onwards, reached large dimensions, with the U.S.S.R. supplying the Israelis with arms through Czechoslovakia. The war culminated in the Proclamation of the State of Israel on May 14, 1948; and eleven minutes after the Proclamation it was recognised by the White House in Washington. U.S.S.R. RECOGNITION FOLLOWED THREE DAYS LATER.

10.7 It is elementary that the state of warfare between the Israelis and the Arabs could not be sustained except by the outside supply of munitions. The U.S.S.R. has virtually armed the Arabs, although in addition the U.S. has given them billions of dollar-aid. The U.S. has supplied the bulk of the Israeli munitions. On October 18, 1973, President Nixon sent to Congress a Bill which would legislatively give *the President* authority to give Israel another 2.2 billion dollars in aid at his own discretion; and also to release Israel from its contractual liability to pay for defence articles and defence services.

10.8 The Middle East, therefore has become a condominium of the U.S.A. and the U.S.S.R. under cover of a conflict maintained by these Powers. As has now been demonstrated, this situation makes it possible to throttle-back oil supplies to Europe and elsewhere, and to bring about an economic collapse at any time. This could result in anarchy, the proclamation of People's Socialist Republics, and the invocation of the Brezhnev Doctrine in their support.

## 11. STRATEGY FOR FREEDOM

11.1 This strategy of conquest, skilfully pursued over a very long period, would appear to have reached a point of invulnerability. Nevertheless, it is against the nature of man and his aspirations, which have driven him to strive for freedom, in the first place from the limitations imposed by his environment - the struggle for existence - and then from the will-to-power of others. This long struggle culminated in the so-called mastery of nature on the one hand, and in the Graeco-Roman-British culture and tradition with the system of Common Law and sanctity of the home and the individual. As the leading exponent of this culture Great Britain was the natural target of the organised will-to-power, the modern exponent of which was Bismarckian Prussia. But, as Disraeli knew, there was a more subtle power behind Prussia, operating by the perversion and manipulation of the financial system. It was to the financiers that the Nations had to turn to finance their will-to-power or their own defence, and it was the power of finance, operating from the U.S., which determined the outcome and consequences of the First World War, and the outbreak and outcome of the Second.

11.2 The perversion of the monetary system rests essentially on inflation, and the mechanism lies in the issuing of the finance necessary to initiate production in the form of more or less arbitrarily recallable "loans", and the recording as debt of the growing excess of loans over cash. The rectification of this situation requires that the funds necessary to initiate production should be withdrawn only at the rate at which what is produced is consumed - consumption including both the running cost-of-living, and the actual depreciation and obsolescence of capital equipment. The consumer must have restored to him what inflation has deprived him of. There are a number of mechanisms by which this could be achieved, but a suitable mechanism must have regard to the present state to which society has been brought both by inflation and propaganda masquerading as education; and by subversion on a multitude of levels. The order of society which derived largely from British legal and cultural achievements and traditions has been seriously eroded, and the result is visible in the permissive society with its loss of moral values, mounting crime and violence, and the spreading use of drugs. The over-riding economic policy which has nurtured these developments, and paved the way towards universal slavery, is Full Employment.

11.3 In Australia in 1972, about 42 per cent of the *total* population were "employed". Of these, about 55 per cent were engaged in productive activities (23 per cent of the total population). Of these latter, about 7 per cent were engaged in agriculture, including forestry; about 23 per cent of the workforce were engaged in manufacturing - 8 per cent in construction, 2 per cent in gas and electricity, 5 per cent in transport and storage, and 10 per cent in community services. Relative to these, other occupations, although of varying importance (from desirable to undesirable) are non-productive. They share in and have varying claims on, the "cake", but do not produce it. Quite a significant proportion, particularly those engaged in finance (including insurance) and legal and administrative work, were engaged only in making and filing records, which largely derive from the unnecessary complexities of the financial system, and particularly the taxation system. Thus all employment is by no means of equal utility, and "making work" reduces the efficiency of increasingly automated industry.

11.4 In present circumstances, the most practicable and appropriate means of dealing with the situation would be to institute a progressive lowering of the retiring age, *without financial penalty*. A person who is born into and inherits the advantages of a developed industrial country has an obligation to society, which is discharged by what he can contribute to it as a going and growing concern. But thanks to the now enormous productivity of human effort (roughly of the order of the ratio of man-power to machine-power) his necessary contribution is only a diminishing fraction of his available time. This, of course, has been recognised by a progressive shortening of the working week, but to nothing like the extent which would be physically possible if the distribution of leisure rather than the distribution of employment were the social objective. On the other hand, efficiency is enhanced by an optimum of continuous employment, or operation, of the industrial system.

11.41 The ethic of "if a man work not, neither shall he eat" is now so deeply ingrained in the social system (except for the diminishing few with independent incomes) that only the experience of the results of a modification of its application now appears appropriate. Very young children, of course, are not expected to "work"; but education, more properly called "schooling" or indoctrination (education means "to lead out", not to drill in) is approximating more and more to "work" - it is commonly regarded as a compulsory preparation for earning a living and the

acquisition of an ideological attitude to life – hence the endeavour to obtain centralised control of the school curriculum.

11.42 Work of one form or another is a natural human (or animal) attribute; but it can be classified either as “employment” where, according to Prof. Hayek’s definition, the individual “is forced to act not according to a coherent plan of his own, but to serve the ends of another”; or as “occupation”, having the meaning of a *freely* chosen activity. From this latter point of view, it includes the right to participate in a chosen, but organised, occupation – ie, to be a member of a team, whether sporting or industrial – on the basis of merit or suitability, rather than by compulsion, direct or indirect. A position in a team may be regarded as a privilege. As team-work is hierarchical rather than egalitarian, there is engendered a spirit of competition which under proper conditions enhances efficiency.

11.5 For some time to come, society is going to be faced with the so-called unemployment problem, for the reasons discussed in Section 3. Under existing conditions, inflation and full employment are inter-locked. The best first step to breaking this association would certainly appear to be earlier retirement without financial penalty. (a) Individuals who have had a normal working life are usually glad to retire provided their standard of living is not reduced. (b) Retirement of seniors opens the way for advancement of *all* junior ranks. If advancement is related to suitability there is a corresponding incentive to efficiency – and hence to a further reduction of the retiring age. (c) The natural energy of youth (at present manifested in student disorders and misdirected – or subversively directed – “protests”) would be absorbed in competitive activity of ability; while the more elderly, who had experienced the discipline of competitive advancement and acquired the wisdom of experience and progressive responsibility – lacking in the young – would have a stabilising influence on society as a whole.

11.6 This re-orientation of economic activity and social objectives would most desirably be associated with a re-orientation of school curricula, probably best achieved by securing the increasing independence of individual schools, catering to an increasing degree to the varying aptitudes and inclinations of individuals. Schools should exist, not to “fit people for employment” (Beveridge) but to fit them “for the life more abundant” which is the whole promise of industrialisation.

11.7 The erosion of the policy of full employment would progressively reduce the requirements for certain forms of essentially non-productive employment (para. 11.3). This would tend to the acceleration of the rate of retirement.

11.8 It is important to grasp that what is proposed involves no violent dislocation of the established order of society. The effects of progressive retirement could be observed, and adjustments made as and when necessary. *It is the direction of social change which is important.* It is a matter of observation that the present direction is towards increasing authoritarianism – Common Law is being submerged by Statutes and Regulations.

11.81 There were in Australia in 1977 nearly 700,000 persons between the ages of 55-64. It should be simple to determine what number of these up to the age of 64 remaining in employment corresponded to the number below the age of 55 requiring employment, and to retire that number of the former on a retirement allowance adequate to sustain them on their current standard of living, or that standard which they might have attained through further promotion. Exceptions might be made in the case of persons of exceptional ability, not readily replaceable.

11.9 This matter should be considered in the first place on a purely physical basis. That the physical (or potential production) capacity exists is proved by the fact that it existed before the

current “unemployment problem” reached its present dimensions. It can be further inferred from the fact that we maintain defence forces presumably to engage in war should circumstances require it. A further inference follows from this: that financial policy would be adapted to meet the war situation, as it was in previous wars – by an expansion of the money supply to mobilise productive capacity.

11.91 The second consideration is psychological. It is suggested that incentive and efficiency would be increased, and social friction decreased, and that these results would tend to be cumulative. If, as seems probable, the experiment proved successful, the way would be opened to further reforms based on the same principle – the *gradual* substitution of leisure for full employment as the guiding philosophy of society. Acceptance of this philosophy would of itself re-orientate “education” towards cultural interest and crafts. Some of the most notable civilisations were distinguished by their crafts.

## 12. IMPLEMENTATION

12.1 It is quite common for a growing public company or other organisation to “revalue” its assets and to distribute the proceeds, or part of them, in the form of bonus or premium shares to its shareholders. This is a book-keeping operation not requiring the acquisition of money – though of course the new shares may be sold on the market in exchange for money, without affecting the money-supply. The shares, however, are the basis for the payment of dividends in money, derived from the increased income (profits) from the company’s operations.

12.2 On the other hand, when a government issues securities which are taken up, directly or indirectly, by banks, there results an increase in the money supply (para. 3.2). Also the payment of interest permanently increases the money supply except insofar as taxation may re-claim part of the interest and apply it to the retirement of securities, which reduces the money-supply. There is, however, a continuous net increase in government indebtedness and it is this, rather than the printing of notes, which increases the money supply by government action.

12.3 An industrialised country such as Australia can be regarded as, in a sense, a single large industrial concern, divided into Departments. This is the approach implied in estimates of the GNP. Unfortunately, National Accounts do not reflect this reality – there is no figure for the estimated capital value of total Australian assets – including natural resources both under development and estimated reserves, and also including available energy, man-power and skill, and communications, etc. But an order of magnitude may be estimated as a foundation.

12.4 Gross Domestic Product is given as 81,531 million dollars for 1976-77, an increase of 15 per cent on the previous period. But this figure includes changes in prices, so if it is discounted for an inflation rate of 10 per cent, we get the figure of 73,379 million. If we regard this as a dividend of 5 per cent on productive capacity, we get a “capital value” of that capacity of 1.4 million million dollars. Let say 2.5 per cent of that figure – about 36,000 million dollars – be credited to a special account, to be designated “National Drawing Account”\* in the Reserve Bank of Australia. This would be a purely accounting procedure, equivalent to the limit placed on a bank overdraft facility, but advances made against the NDA would be non-repayable, the Account being replenished annually on the basis of figures relating to estimated or ascertained productive capacity, to be obtained by the Australian Bureau of Statistics.

12.41 The NDA would be drawn on (1) to the degree required to enable early retirement; (2) to subsidise a 25 per cent reduction in retail prices (para. 12.9).

\* or National Resources Drawing Account (NRDA)

12.42 Since the industrial system is dynamic, monetary figures, as given above, can only be taken in an indicative sense. Money is a common means of exchange for articles of production and *ultimate* consumption, and, via accountancy, a measure of *comparative* value of articles. When, as undoubtedly is the case in an adequately industrialised community, the capacity for production exceeds the capacity for consumption *within that community*, the potential supply of money should reflect that fact. This can be done by subsidising a reduction in the price of consumable goods in the proportion (to be determined by accountancy) that consumption of goods plus depreciation bears to appreciation or accumulation of capital and consumable goods. The ratio of general consumption to general production is less than one (otherwise economic growth would be impossible) and is completely independent of any assumed "value" of the monetary unit in which it is expressed.

12.43 A reduction of prices by 25 per cent is equivalent to an increase of 33 per cent in purchasing-power of the unit of money. It is important to note that the subsidy only comes into operation on the actual purchase of goods - ie, the goods are already existent.

12.5 These proposals would of course be stigmatised as inflationary. But it must be borne in mind that rising unemployment is frequently countered by increasing the money-supply by deficit financing of public works, etc, which distributes incomes without increasing the supply of consumable goods and therefore is exactly as inflationary. And as has been demonstrated in the U.K. and the U.S., price and income controls, though tending to interfere with the smooth and efficient operation of the economy operating under free market forces, are not and in the long run cannot be effective in 'controlling' inflation. The problem of expanding the money as is required without raising prices must be dealt with at the level of fundamental causes.

12.6 The operation of this discount system would be basically similar to the sales-tax mechanism. Retailers wishing to utilise the discount would be registered and supplied with a registration number. They would be required to issue dockets with retail purchases, showing the wholesale price of the goods and the retail price, and the discounted price. The retailer would be paid the full retail price, but the docket could be banked to the value of the discount, or cashed by authorised agencies. Thus an article with a wholesale price of say \$50 would retail at  $\$50 + 50\% = \$75$ . Discounted price would be \$56.25. The receipted docket would then retain a "cash" value of \$18.75, and would be similar to a Post Office Money Order or Postal Note. Ultimately they would be converted to legal tender from the NRDA when presented by Banks or Agencies, and records compiled of total transactions. The ultimate transaction is merely a book-keeping transaction, of the same general nature as the operations of Clearing Banks, which settle inter-Trading Bank balances, or the G.P.O., which settles individual P.O. accounts.

12.61 The introduction of the Bankcard system (widely established overseas) in Australia suggests a most convenient mechanism for operating the price-discount adjustment. A Bank-card holder is issued with a bank-authorised plastic card which establishes his credit to make purchases from retail outlets subscribing to the system. The retailer banks the dockets recording sales, and the dockets are returned to a central processing point. Each month a card-holder receives from his bank a single statement setting out all his purchases for the month; and if he pays the full amount within 25 days of the statement date (or if his bank account covers the amount) the service costs him nothing. Or an extended credit facility may be arranged, attracting a monthly service charge. The collating, etc, of dockets is computerised. It would clearly be a very simple matter (programming the computer accordingly) to discount the

customers' statements by the price factor, while crediting the retailers' statements in full (less any bank service-fees charged). The bank, on the other hand, would be credited from the National Resources Account for the total discounts credited to its customers. Thus the whole procedure becomes a simple accountancy adjustment programmed into central computers in a system already being implemented. Even where purchasers do not have bank-accounts, cash sales could be discounted by the retailer, and duplicate receipted dockets could be processed in the central system, the retailers' bank accounts being credited with the aggregate cash discounts over the monthly period. This whole adaptation would appear to be less complex than the present sales-tax mechanism which it would replace.

12.7 Because of the general confusion concerning the "circulation" of money, it is worth tracing the accounting effect of the discount. (a) *It increases the purchasing-power of the unit of currency in the hands of the consumer*, and this benefits every member of the community considered purely as a consumer. As the real objective of production is consumption, *not* employment, this is a realistic objective. (b) The retailer's mark-up remains unchanged. Of this mark-up, only a fraction (para. 3.6) is personal income. After discharging his "overheads", he remits (or accounts for) his financial obligations to his wholesaler. But the value of his personal fraction (disposable income) is increased (in the example given) by 33.3 per cent. Otherwise all the normal accounting procedures of industrial production are followed as usual, and the "circulating" property of the money involved in the retail transaction is cancelled as at present either by repayment of bank advances, or by immobilisation in depreciation reserve accounts. Thus, having effected a 33.3 per cent increase in the distribution of goods for consumer use, the NRDA money would be cancelled in the normal process of industrial accounting. Its effect might be likened to a lubricant - it reduces friction and enhances the true efficiency of the industrial process. *It does not increase profits except as a function of turn-over*, and increased turn-over is only possible on the basis of productive capacity and efficiency of operation. (c) Normal "free-market" forces of competition operate. The inclusion of the wholesale price on the retail docket would indicate an attempt to raise prices "along the line", but as long as there is competition attempts to raise prices put the trader at a disadvantage as against those who maintain the normal mark-ups. However, the removal of inflation would conduce to the smooth operation of industry as a whole, as there would be no need to hedge against inflation. (d) Insofar as industry is financed by bank advances, these should be recalled only at the rate at which depreciation actually occurs.

12.8 What is proposed is intended to meet an extremely urgent immediate situation, but would of course have long-term consequences. These would be a proper subject of long-term analysis, and proper control. What is required is an immediate change of direction, to counter the mounting social discontent which is all too likely to degenerate into anarchy. We are, so to speak, headed for the rocks, and finer navigational problems are absolutely dependent on a change of direction. The current inflation is carrying us to disaster, and the first requirement is to get out of that current. Then it should be relatively easy to chart a course towards the land of Freedom. To carry the metaphor further, we are on a near-automated ship, with the crew fully employed in teams pulling the rudder in opposite directions, and with growing acrimony accusing each other of incompetence.

12.9 Apart from all detail, it is vital to grasp that the price-discount mechanism would compensate and neutralise the effect of the accountancy anomaly which is the fundamental basis of inflation; and progressive reduction of the retiring-age without penalty would resolve the unemployment 'problem' - fruitful leisure would become the recognition of a completed working-

life. Thus the plague of inflation would be eliminated and its previous effects reversed; and the spectre of unemployment (ie, *unemployment*) excluded from the economic process. All that really stands in the way of these essential rectifications is the Will-to-Power of those who govern us— from selected bureaucrats with their empire-building to the Lords of International Finance who conspire towards World Government.

### 13. OPPOSITION TO REFORM

13.1 During the period, which lasted up to the First World War, when it was almost universally believed that banks did no more than lend their depositors' money to the needy, and kindly arranged the exchange of foreign into national currencies, payable in gold on demand, banks were able to operate under a virtual cloud of secrecy. Probably not one person in millions outside the walls of banks— and not all those within— realised that the money supply depended on the action of banks in making loans.

13.2 The provision of a money supply is of course a necessary function in an industrial community— simple barter would be impossible, because of the division of process in manufacture. It is one thing to exchange a lettuce for a cauliflower, or three carrots for either, another to exchanging the computator of an electric motor for a set of ball-bearings for a Model A Ford. But again it is one thing to fulfil a function— the provision of a facility for the exchange of complex goods and services— and another to treat the facility as a commodity and claim sole ownership over it. This amounts to a claim to ownership of all goods and services where money is required.

13.3 In England in 1913 the National Debt was £706,000,000 and in 1935 more than ten times as much— £7,945,000,000. That debt represents the creation of money and a claim to its absolute ownership. The debt of course is a basis for taxation, and is held by banks mostly, but also by other financial institutions— only a small fraction is held by individuals. In Australia in 1972 Securities on issue were \$14,035 million. The existence of such a debt makes governments agents of the banking system as a whole— ie, the system as such seeks to perpetuate itself, and in effect dictates economic policies with that end in view.

13.4 A much more wide-spread recognition of this situation made "nationalisation" of banking (at least of Central Banks) an objective of banking policy— not with the idea of democratising the monetary system, but of obtaining the sanctions of government to enforce its policy. Consequently any attempt to provide an alternative money supply would meet powerful opposition, and in normal circumstance would attract severe sanctions against the attempt, and even military sanctions.

13.5 It must be emphasised that the bank-loan method of financing industrial activity has immense advantages, and in principle should be preserved. The fault in the system is the premature recall of the finance through the mechanisms previously described (para. 3.22 and Sect. 4). Therefore, there need be no interference with normal banking techniques, though a charge for services rendered on a proper accounting system should replace interest charges, which are inflationary, but also lead to the withdrawal of money and its disappearance into concealed reserves (writing down of assets).

13.6 There can be little doubt that there would be immense public support for the *results* of the implementation of the proposals of Section 12, and this would have world-wide significance. The present system is sustained by deception and propaganda— much of the latter unconscious, emanating from the teachings of economics through institutions strongly influenced by the London School of Economics— a Socialist 'school'

established for the purpose. A degree in *orthodox* economics has become a virtual prerequisite for advancement in many corridors of power. On the other hand, it would be a fatal mistake to argue a case on technical suggestions. A firm undertaking to significantly (but not by a specified amount) raise pension rates without penalty to the community; to make better provision for the elderly whose contribution to the wealth and development of the nation has been completed; to adjust employment more equitably, providing better opportunities and prospects for advancement for the young entering the work-force, and particularly for those interested in efficiency by providing incentives for promotion; and a better reward for work done in terms of a better standard of living for all. Even this general conspectus would doubtless be countered by protests and demonstrations, turned on by those who might perceive or suspect the purport of what was being offered. Behind our troubles are those whose purposes are served by troubles, and a chief purpose, at least for the present, is the maintenance of control of the community through centralised control of the financial system until such time— obviously now rapidly approaching in several overseas centres— when more severe controls can be imposed and maintained. Control by purely financial means is being eroded by technological developments in industry.

13.7 In these circumstances, a study 'cabinet' should be set up, and obtain expert assistance in obtaining required statistics relating to resources, legal and Constitutional problems, and public relations— without fanfare. A platform should be drawn up along the lines of para. 13.6 and any opposition to that platform exposed as opposition to the *results* rather than details of implementation. The hand should not be shown *until* it can be played. The results could certainly be obtained unless *conscious opposition* were effective. The best hope is that public opinion would support action to gain them, and oppose opposition.

13.8 Success along the lines indicated herein would call for high political skill and statesmanship. But to carry on as at present now shows every possible indication of ending in disaster. This is unlikely to occur first in Australia, but there are ominous signs in the U.K. and Europe, so that it seems in every way better to make the very most of an almost chance opportunity to display a solution which could be adopted everywhere if what is developing can be checked. We must perish at the bottom of a well or, under highly informed leadership, fight our way to the top. And the main fight would be to *expose* the reasons for opposition to reform, enlisting public opinion to turn opposition against itself.

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## THE SOCIAL CREDITER FOR POLITICAL AND ECONOMIC REALISM

This journal expresses and supports the policy of the Social Credit Secretariat, which was founded in 1933 by Clifford Hugh Douglas.

The Social Credit Secretariat is a non-party, non-class organisation neither connected with nor supporting any political party, Social Credit or otherwise.

SUBSCRIPTION RATES: Home and abroad, post free. One year £3.00.

OFFICES:—Business: K.R.P. Publications Ltd., 26 Meadow Lane, Sudbury, Suffolk CO10 6TD. Tel. Sudbury 76374 (STD Code 0787).

Editorial: Penrhyn Lodge, 2 Park Village East, London NW1 7PX. Tel. 01-387 3893.

In Australia (Editorial Head Office): 11 Robertson Road, North Curl Curl, N.S.W. 2099.

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