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A FOREWORD TO WILLIAM F. HIXSON'S A MATTER OF INTEREST: RE-EXAMINING MONEY, DEBT, AND REAL ECONOMIC GROWTH

Professor John Hotson

It is central to the Social Credit analysis that the existing monetary system is at the root of most of the major problems which continue to plague the World's peoples, and that it must be radically reformed before satisfactory and sustainable solutions are possible. Yet, in spite of some ninety years of powerful campaigning on this issue, by Social Crediters and many other individuals and groups, most orthodox economists (and politicians) continue stubbornly to avoid any debate which attempts to focus on the destructive role of bank-created credit or, "money".

Despite their concern that their discipline should be recognised as having the status of a science, they simply refuse to follow where the evidence leads when dealing with the role of money and its effect on our real socio-economic experience.

In orthodox textbooks for example, almost all economists now accept that some 95% of a nation's money supply is created as credit "out of nothing" by private commercial bankers, although they may disagree about the detail of the process. The fact that this bank-created money enters the economy only as interest-bearing debt, is also taken as "given". Yet they evade any consideration of the evidence that this ***monopoly in the creation of credit by commercial banks*** *leads inevitably to a concentration of great wealth alongside widespread poverty; the constantly increasing indebtedness of every broad sector of the community, and the drive for unremitting "economic" growth with related environmental degradation.*

By contrast William Hixson, in his two fine books, ***A Matter of Interest, Re-examining Money, Debt and Real Economic Growth*** *and* ***Triumph of the Bankers****, demonstrates beyond doubt that our debt-money system has been developed only after a long and continuing struggle between private financiers seeking to operate a private monopoly in the creation of money and those who, recognising the dangers inherent in such an outcome, were too determined to maintain or restore democratic control over the money creation process.*

That it is important we recognise that the system is in fact ***not*** *a "given", and so strive for its radical reform, is the message which follows in John Hotson's Foreword to* ***A Matter of Interest, Re-examining Money, Debt and Real Economic Growth****, William F. Hixson Copyright © 1991 by William F. Hixson. (Reproduced with permission of Greenwood Publishing Group, INC., Westport, CT., USA.)*

FOREWORD

Where do errors come from, and why do they persist in disciplines, like economics, that aspire to scientific objectivity? Why is it so difficult to purge an error once it is "embalmed" in textbooks and has become a society's view of an issue? What is necessary to win a professional debate and to get the textbooks, and public policies changed?

Many errors that afflict current economic analysis and policy cluster around the question of the "national debt". More nonsense is spoken and written about the national debt than almost any other subject. One might even paraphrase the familiar statement about lies and statistics to, "There is nonsense, damned nonsense, and discussions about the national debt."

Why do otherwise rational people persist in mouthing nonsense concerning subjects where sense is available, or with a small application of the "scientific method", it could be obtained? One possibility is that "appearances are deceiving," that our observations of "the plain facts" mislead us. Another is that the subject is shrouded in mythology, taboos, and ideology. Often both barriers to truth are present at once. Thus " as any fool can plainly see " the earth is flat and the sun goes around it every day. Obtaining knowledge of our actual situation involved overcoming both appearances and religious prohibitions against heretical thoughts.

Something similar is involved in gaining an understanding of the true perils and possibilities of the national debt. The trauma called "the national debt" is contained within a more all-embracing trauma called "debt". Webster's New World Dictionary defines "debt" as follows:

> **Debt. 1.** *Something owed by one person to another or others.* **2.** *An obligation or liability to pay or return something.* **3.** *The condition of owing [to be in debt]* **4.** *theol. A sin. As in "Forgive us our debts as we forgive our debtors."*

We all know at a "gut" level that debt is sin, debt is bad, debt is to be avoided, or got out of ASAP, something that causes trouble and insecurity. We also know that money is good, something to get as much of as you can something to hold on to, something that gives security. Yet we have created an economy, "where all money is debt, but not all debt is money"; an economy, as William F. Hixson brilliantly shows, that runs on debt and will not grow unless aggregate demand grows, that will not grow unless money grows, debt grows faster, and interest on debt grows still faster. In our economy, a given set of debts can only be paid by being replaced by still larger debts. Thus private debts eventually become too great to be serviced leading to a debt repudiation depression unless government steps in and increases the national debt, that is, the national sin. Unfortunately this merely postpones, rather than prevents, a debt repudiation depression.

When there is gap between peoples belief systems and their actions – between what they say and what they do – the gap is often plugged by defence mechanisms: evasions and irrationalities to lessen the psychological discomfort. Perhaps we can find the source of much of the nonsense about the national debt in these mechanisms.

One mechanism is denial: people refuse to talk about subjects that cause them great discomfort. It becomes a breach of good manners to talk too candidly about bodily functions and copulation. We are now less inhibited than the Victorians, yet even today anatomy books tend to become vague and reticent in "those chapters".

Similarly, one can read through almost every principles of economics text, or even money and banking texts, without learning that *private* debts are several times larger than public debts, and growing in a wholly unsustainable manner. If one has U.S. data one can learn the above "facts of life" for him/her self. However Statistics Canada still refuses to assemble and publish the facts concerning the level and rate of growth of all debts; household, business, and government, in this country. Why? This is a vital aspect of an economy. Is their something "dirty" going on?

This leads us to a second defence mechanism, *projection*. People whose behaviour or even worse behaviour causes them anxiety may seek to lessen their discomfort by projecting such behaviour, or even worse behaviour, unto others. A priest who molests choirboys may be particularly vehement in denouncing the sexual evils he sees all around him. Bankers are merchants of debt, thus, merchants of sin. Not only is society always in debt to them, they are always in debt to society. At best only some 5 percent of the assets of a bank are matched by the banks equity. The rest is debt financed - money owed to depositors. A few bad loans and the bank's small cushion of equity disappear. If the bank is a small one it may be forced into bankruptcy like any ordinary business. But, if it is large then the government will allow it to continue, though insolvent, even for decades at a time. A banker who forecloses on a farmer who can't pay his debts while the banker is himself insolvent is in as dubious a moral position as a priest who prescribes severe penance on the sexually sinful while himself breaking his vows of chastity.

How to lessen this sense of sin? Why denounce the national debt and he'll feel better. Never mind that the government has a far better asset to liability ratio than the private economy. Never mind that the national debt grows slower than other forms of debt except in depression or war emergencies. Never mind that, except in such emergencies, the government budget is always less than capital expenditures.

Never mind that under current arrangements the only way to prevent, postpone really, depression when the interest rates bankers insist on dry up private borrowing is for the government to borrow. Never mind that a banker warning the rest of us against debt is about like a hooker warning her "Johns" against paid sex.

Make a speech insisting that government spending be cut, or taxes be raised to reduce, or better yet, eliminate the deficit. Or best of all, demand a budget surplus be created so sin can be lessened.

Closely related to our anxiety over sinfulness of debt is our anxiety over the sinfulness of interest. We have good reason to be anxious, for compound interest is compound sin: it lets loose in a finite economic world exponential growth causing great injustice and making debts unpayable. It was not abstract theology, but thousands of years of sad experience of concentration of wealth in a few hands and of debt slavery, that caused all the ancient books of wisdom: the Bible, the Koran, the Greek philosophers to condemn interest, and for the Catholic Church until recently to consign money lenders to hell. In a world where neither per capita nor total real output is growing, and money is metallic and cannot be increased readily, the charging of any positive rate of interest very quickly leads to over concentration of wealth and in the hands of a few rentiers and economic breakdown

But we moderns have created a world where per capita and total real output are growing, and money is a piece of paper or a byte on a computer and can readily be increased. Money and metal have been divorced and now we increase the money supply by borrowing it into existence from a bank. In our world a low rate of interest can be charged without causing inflation and over concentration of wealth in lenders' hands, provided that debts do not grow too fast. Yet, as Hixson shows, we have never succeeded in making our "debt money" financial system work very long without breakdown and much distress. Further he shows that much of the "heavy thinking" done about money, interests, and debt is quite in error.

For example, the "conventional wisdom" of monetary and fiscal policy is as follows: rising prices ("inflation") are caused by too rapid increase in the money supply and can be cured by raising interest rates and taxes sufficiently to curb this excessive growth. This flies in the face of common sense. Prices are determined by costs; interest and taxes are costs so raising them will raise prices, not lower them. Also, the governments and renters receiving the higher taxes and interest payments will increase their expenditures. Thus the reduction in demand is smaller than the reduction in supply causing "stagflation" instead of "inflation". In this "stagflation" the real incomes of workers will stagnate, that of profit recipients will fall, and that of interest recipients will rise. Government receipts may rise or fall, depending upon the "income and tax elasticities of the tax function." But since the price and income elasticities of the demand for money are quite low (because so many debts must be refinanced no matter what the cost) the incomes of "rentiers" are bound to rise - at least until massive defaults and bankruptcies occur.

These considerations lead us to a third cause of the origin and perpetuation of error: *someone is profiting from it.* Adam Smith gave such an explanation of the origin and persistence of the errors of mercantilist protectionism. He wrote: "That it was the spirit of monopoly which originally both invented and propagated this (protectionist) doctrine, cannot be doubted and they who first taught it were by no means such fools as they who believed it." (1)

The world's bankers and other moneylenders have gained much from the nonsense idea that giving workers or profit recipients a big raise is inflationary but giving moneylenders a big raise is deflationary. This error has contributed mightily to the rise of the "rentier" share of personal income in the United States and Canada in recent decades.

To give the U.S. figures: personal interest income rose from 3.6 percent of personal income in 1946 to 14.7 percent in 1990. The failure of the anti-inflationary policies based on these strange ideas can be seen in the following figures: From 1946 through 1990 real U.S. gross national product (GNP), increased from an index of 1 to 3.8, and money GNP increased from 1 to 25.7, so that the GNP deflator increased from 1 to 6.8. Many economists write about "wage push", and wages did rise from 1 to 27.1.

But government receipts rose from 1 to 33.9 and net interest from 1 to 259.55 yet tax and interest "push" cannot make it into the textbooks. Why? Why do economists who delight in exploding mercantile fallacies accept and propagate this fallacious banker's argument? Truly, and to our shame, "those who first taught it were by no means such fools as those who believed it".

Furthermore, the net debt of domestic non-financial sectors increased from an index of 1 in 1946 to 32.3 in 1990, so that debt grew faster than money GNP. Money GNP increased by more than the cube of the growth of real GNP, debt grew somewhat faster, and interest increased by more than the fifth power of the rate of growth of real GNP. Growth at such divergent rates is unsustainable in the long run, as interest would swallow up all other forms of income.

> *"I know that most men, including those most at ease with problems of the greatest complexity, can seldom accept even the simplest and most obvious truth if it be such as would oblige them to admit the falsity of the conclusions which they have delighted in explaining to colleagues, which they have proudly taught to others, and which they have woven, thread by thread, into the fabric of their lives. "*
>
> Count Leo Tolstoy

Net interest was only $1.8 billion in 1946.If it increased only as rapidly as did real GNP it would be only $6.8 billion in 1990. If it increased no more than did money GNP it would be only $46.3 billion in 1990. Instead it was $467.1 billion in 1990. Deflationary? There is another reason why errors, perhaps innocently made, persist. The great Count Tolstoy put it as follows:

"*I know that most men, including those most at ease with problems of the greatest complexity, can seldom accept even the simplest and most obvious truth if it be such as would oblige them to admit the falsity of the conclusions which they have delighted in explaining to colleagues, which they have proudly taught to others, and which they have woven, thread by thread, into the fabric of their lives.*" (2)

In short, "It isn't so much what you don't know that hurts you, but what you know that isn't so". This, I believe, goes to the heart of the matter. It explains why, once medical students had learned to treat most ills

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by bleeding the patient, it was so difficult for them to see that their lances and leeches were doing many harms and little good. Or why, when Dr. Semmelweis tried to convince his fellow obstetricians that their patients would stop dying of childbed fever if only the doctors would wash their hands in weak carbolic acid before delivering babies, they instead wrecked his career. The world had to wait for the chemist Louis Pasteur and Dr. Joseph Lister before women could stop being killed by the germs on their doctor's hands.

This flaw in human nature explains why professors of money and banking have such trouble with the idea that the government should take back from private bankers the power to create money, and by doing so prevent the destruction of money and the economy in debt repudiation depressions. "Tax push" is now barely acceptable to economists. But "interest push" is still anathema, not because it is a complex idea - it is simple and obvious - but because it is embarrassing to our profession to have to admit that we've made a boner of such magnitude – that our theory of monetary policy violates basic principles of scientific logic, systems analysis, and control theory by ignoring major feedback loops.

Unfortunately the banking and economics professions have more blood on their hands than even old time doctors. The United Nations International Children' Emergency Fund (UNICEF) estimates that 500,000 children die in the Third World each year because of the debt crisis and the cruel and counter-productive policies the economists-bankers of the International Monetary Fund have imposed on the wretched of the earth.

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Given the disarray of economists' theories of money, debt and interest, it is an advantage to William F. Hixson that he is a retired businessman rather than a professional economist. Like Pasteur in coming to the germ theory of disease he had less error to unlearn than a "well-trained" professional did. As his book makes clear, he has delved deeply into the writings of the economic greats and made his own separation of wheat from chaff to reach his own highly important and useful conclusions.

As Hixson sees it, two famous twentieth century economists have played an interesting and ambiguous role in bringing us to our present impasse: John Maynard Keynes and Milton Friedman. Keynes' General Theory freed the minds of economists willing to be so freed from "Says Law" and the "Quantity Theory of Money" to understand the true relationship between aggregate supply and demand, the role of money, and the causes of the Great Depression. However, his policy advice on ending depression was second rate and has contributed greatly to present difficulties. Milton Friedman, when younger, offered first-rate policy advice on how to end the depression and prevent its recurrence. Yet Friedman is best known today for having led the retreat from Keynes' theoretical break-through to re-establish the classical errors.

Say's Law, that "supply creates its own demand", is the proposition that the only "equilibrium position" for the economy is one of "full employment" or "all markets clearing." So a depression is a "disequilibrium" caused by an external shock, rather than by the innate workings of the economic system, and the government should let it alone to cure itself.

The Quantity Theory of Money, is the notion that "money determines money things (the price level, the nominal wage, interest rates, GNP, and so forth) while real things (such as the willingness to work, the productivity of that work and so forth) determine real things (such as the real level of wages, interest rates, GNP and so forth)." A conclusion following from Say's Law and the Quantity Theory is that the economy will grow at the same "natural rate" determined by inventions, population growth, decisions to save and invest, whether the price level is rising, falling, or remaining constant.

Indeed, full two-way flexibility of all prices was not only assumed, it was part of the definition of a "free" market economy. Paradoxically economists who subscribe to these ideas are at the forefront of those urging that society undergo great losses of real output to purge inflation from the system.

Keynes' theory held "full employment" to be the limiting condition rather than the central tendency of the economy (which is toward secular stagnation and heavy unemployment). He maintained that because the future is unknowable, decisions about long-term investment are subject to waves of over-optimism leading to unsustainable booms followed by depressions and pessimism – which causes the depression "equilibrium" to persist. Say's Law is incorrect because an increase of income leads to an increase of consumption less than itself and savings are not automatically reinvested - indeed, savings are often a drag on investment since they limit demand for consumption goods.

Keynes also saw the money supply and the rate of interest on money, as greatly influencing real economic outcomes. Although Keynes never put the point as clearly as does Hixson, he did show that the economy grows, not by the investment of prior savings, but by the investment of new money

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created by the banking system. Keynes saw the price level as determined not by the "ratio of money to goods", but by costs of production, the "homely but intelligible" concepts of what we now call "microeconomics".

He maintained that it was fortunate that the price level was "sticky downward" in a depression because workers resist the wage cuts that "classical" economists saw as needed to restore full employment. Uncertainty is central to the human condition of life lived in calendar time. Falling prices would lead to still greater pessimism and decreases in income and employment. Keynes also maintained that the rate of interest was not "self - adjusting" to a level that is optimum for society. Instead it is usually to high for full employment and optimum growth because of the "liquidity preference" of savers and the timidity of investors. Keynes' contribution to policy matters were less bold and less helpful. The Great Depression of the 1930s, in full horror while Keynes was writing his book, was triggered by the prior irresponsible loans by banks for stock market speculation in the United States, rather than for real investment. The crash made these loans unpayable, the money supply shrank, and panic replaced over-optimism, and real output and employment, as well as the price level fell greatly. This destroyed the credibility of both Say's Law and the idea that "money doesn't matter" for real economic outcomes.

But Keynes had nothing to do with attempts at reforms of the banking system then under way, and merely advocated that the government restore "aggregate demand" by spending the economy out of the depression with borrowed money. On December 31, 1933, when the depression was at its worst, a letter of his appeared in the *New York Times* containing the following: "I lay overwhelming emphasis on the increase of national purchasing power resulting from government expenditure which is financed by loans."

Nowhere in this letter or in anything else that he wrote did Keynes deal with the question that many economists then, and certainly Hixson now, consider to be central, namely: "Why should the government borrow from banks, and pay interest on, money that it is perfectly capable of producing for itself, interest and debt free?"

Indeed, in the little Keynes had to say about monetary reform, as distinct from reform of monetary policy, in the *General Theory* and elsewhere, he declined to debate with his peers; Irving Fisher, Henry C. Simons, Paul Douglas, or even the Nobel Prize winner in Chemistry, Frederick Soddy (like fellow chemist Pasteur in medicine, an inspired amateur in economics). Instead he contented himself with a few patronising remarks to the effect that Major Douglas of social credit fame and Silvio Gesell with his stamped money, were not wholly wrong.

In Hixson's view, a sovereign government is never justified in borrowing money from private banks. Rather it should create the money itself through its treasury or central bank. In Jan Kregel's telling phrase, what governments have instead done is makes as much sense as for Coke to turn over its secret formula to Pepsi, tell all its customers that Pepsi is just as good as Coke, and buy nearly all its cola from Pepsi paying its rival not only the cost of production but also royalties on the formula!

"Why should the government borrow from banks, and pay interest on, money that it is perfectly capable of producing for itself, interest and debt free?"

The kindest interpretation that can be given to Keynes' behaviour is that, recognising how hard it would be to get governments to make sensible expansionary expenditures, he decide not to make it harder by proposing that the government create the needed money "out of the air".

"The depression only ended when Hitler's attack on Poland forced governments to spend megabillions tearing down each other's cities instead of earlier spending billions on building up their own."

Since the matter was of the greatest urgency, and the public was, and still is, largely ignorant of the fact that private bankers do exactly this when they approve loans, his evasion of the issue was probably wise salesmanship. Indeed, no democratic government actually carried out the peaceful public works projects Keynes advocated on a sufficient scale to end the depression. The depression only ended when Hitler's attack on Poland forced governments to spend megabillions tearing down each other's cities instead of earlier spending billions on building up their own.

When pressed concerning the long-term consequences of increasing government debts, Keynes was wont to reply, somewhat testily, "In the long run we are all dead!" Again, given the clear and present danger to civilisation posed by totalitarian fascism and communism in the 1930s, who can fault him for taking this view? Yet the long run is upon us and the results of following Keynes (and Hitler) rather than Fisher and Simons out of the Great Depression have been tragic. The world is now faced with national and international over-indebtedness crises that have slowed progress in the developed world and plunged the poor nations of Africa and Latin America into a depression more cruel and longer lived than the Great Depression of the 1930s. Who can say whether the worst is over or not yet begun?

We turn to the second famous economist with an ambiguous legacy, Milton Friedmen. Nobel Prize winner Milton Friedman is the only well-known economist currently extant who advocates the Fisher-Simons monetary reforms that Keynes did not deign to discuss. Friedman studied under Simons at the University of Chicago and, beginning in 1948, published articles advocating that government take away from private banks all power to increase or decrease the money supply. He advised that the govern-ment target an "optimal budget deficit" each year and finance this deficit wholly by newly created money.

Should the economy instead of achieving full employment tend towards depression tax receipts would fall off and it would be necessary to create still more money to pay the government's bills. The extra money would cushion and reverse the depression. Should another year tend towards excess demand and rising prices the deficit would automatically shrink so less money would be created, or become a surplus so money could be retired. Private banks would be split into two successor organisations - a check - clearing bank that made no loans and kept 100 percent cash reserves and a savings bank that made loans of time deposits entrusted to it. Friedman argued that if capitalism were given something it has never had, a rational and secure monetary system, the rest of classical theory would become true, including few short deviations from full employment and with stable prices.

Although Friedman tells his correspondents that he still favours these reforms above all others, he does not speak about them much anymore. He got tired of "tilting at windmills" is the way he expressed it in a letter to me. To most people within and without the economics profession Friedman is not known as a disciple of Fisher and Simons but as the father of "monetarism". In essence Friedman maintains that although in the short run money "matters" considerably for real economic outcomes, in the long run, the classical theories of Say's Law and the Quantity of Money theory of Prices are true. Thus Friedman affirms the central doctrines that Keynes denied.

Central banks such as the U.S. Federal Reserve, the Bank of England, and the Bank of Canada claim at times to be following monetarist prescriptions. However Friedman is highly critical of them for frequently changing the rate of growth of the money supply. He holds that the money supply should be kept growing at a constant rate about equal to the growth of real output at full employment so prices can remain stable - or that money should grow at the population growth rate so prices can gently fall.

Friedman is also highly critical of the Federal Reserve for "churning" the U.S. Treasurer's accounts by wholly unnecessary, and apparently dishonest, excessive buying and selling of the same securities to the profit of the bond dealers. He is not, however, critical of central banks for running interest rates up to the 20 percent range, other than because this is done by slowing, stopping, or even reversing money supply growth. Like most of the rest of the profession, Friedman appears blind to the cost-push effect of high interest rates. He sums up his low opinion of the Federal Reserve with the following stinging comment: "no major institution in the United States has so poor a record of performance over so long a period yet so high a public reputation as the Federal Reserve." (3)

Friedman is known for his powers of persuasion, which have played a leading role in the retreat from "Keynsianism" in North America and elsewhere.

Hixson indicates, however, that Friedman's greatest persuasive feat was to persuade himself that the historical data he and Anna Schwartz assembled support the Quantity of Money Theory of Prices. Hixson demonstrates that the data actually support a contraclassical Quantity of Money Theory of Real Output.

There is more to William F.Hixson's book than I have touched on here, all of it well informed and argued, all of it excellent reading, much of it very important. For Hixson's heroes of monetary theory and policy are not Keynes or Friedman, still less Adam Smith, John Stuart Mill, or Paul Samuelson, but Fisher and Simons, as well as such great Americans as Benjamin Franklin, John Adams, Thomas Jefferson, and Abraham Lincoln.

The third most important question with which this foreword began, "What is necessary to win a professional debate and to get the textbooks, and the public policies changed?" remains unanswered.

I do not have a definitive answer. Clearly, however, the first essentials are clear thinking concerning why the old ideas are unsatisfactory, free discussion, and education of us within and without the profession. Another essential is the opportunity to apply the new ideas in a situation where they can make a difference. The Great Depression provided the crisis and opportunity in which Keynes' theories gained a hearing. As Hixson, and I, see it the success of the "Keynesian revolution," some 50 years ago aborted the chances of a still more beneficial "Fisher-Simons" revolution. Must the world suffer a still more tragic debt repudiation depression before reform of the debt money system becomes a reality?

John Hotson
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June 1991

NOTES

1. Smith, 1776, pp. 460-61.
2. James Gleick, *Chaos: Making a New Science*, New York: Penguin, 1987, p.38.
3. Milton Friedman, *The Case for Overhauling the Fed*, Challenge, July-Aug. 1985, p.5.

The late John Hotson was Professor of Economics at Waterloo University, Ontario.

KOSOVO IN PERSPECTIVE

The following is an extract from an article, written by Michel Chossudovsky in the wake of the 1995 Dayton Agreement on Bosnia and is reproduced with permission from the May 1999 issue of Economic Reform. *It makes clear the role of the international institutions in that conflict and may help us to understand that there is perhaps much more to the Kosovo adventure than intervention by NATO in a sovereign country's affairs " on humanitarian grounds".*

THE RECOLONISATION OF YUGOSLAVIA

INTRODUCTION

Macro-economic reforms imposed by Belgrade's external creditors since the late 1980s had been carefully synchronised with NATO's military and intelligence operations. By the IMF's deadly economic medicine, the entire Yugoslav economy had been nudged to bankruptcy. **The Rambouillet document on Kosovo largely replicates the model of colonial administration and military occupation on Bosnia under the Dayton agreement.**

Resting on the Dayton accords, which created a Bosnian "constitution", the US and the European Union installed a fully-fledged colonial administration in Bosnia.

At its head is their appointed High Representative, Carl Bildt, a former Swedish Prime Minister and European Union representative in Bosnian peace negotiations. Bildt has full executive powers on all civilian matters, with the right to overrule the government of both the Bosnian Federation and Republika Srpska. The UN Security Council has also appointed a "commissioner" under the High Representative to run an international civilian police force.

The new constitution hands the reins of economic policy over to the Bretton Woods institutions and the London-based European Bank for Reconstruction and Development (EBRD). The IMF is empowered to appoint the first governor of the Bosnian Central Bank, who, like the High Representative, "shall not be a citizen of Bosnia and Herzegovina or a neighbouring state".

The Central Bank will not be allowed to function as a central bank: **"For the first six years... it may not extend credit by creating money, operating in this respect as a currency board." Neither will Bosnia be allowed to have its own currency (issuing paper money only when there is full foreign exchange backing), nor permitted to mobilise its internal resources. Its ability to self-finance its reconstruction through an independent monetary policy is blunted. While the Central Bank is in IMF custody, the European Bank for Reconstruction and Development heads the Commission on Public Corporations, which supervises operations of all public sector corporations, including energy, water, postal services, telecommunications, and transportation. The EBRD president appoints the commission's chair and will direct public sector restructuring, meaning primarily the sell-off of state and socially-owned assets and the procurement of long term investment funds."**

As the West trumpets its support for democracy, actual political power rests in the hands of a parallel Bosnian "state" whose executive positions are held by non-citizens. Western creditors have embedded their interests in a constitution hastily written on their behalf. They have done so without a constitutional assembly, without consultations with Bosnian citizens' organisations and without providing a means of amending this "constitutions"

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Multi-ethnic, socialist Yugoslavia was once a regional industrial power enjoying a measure of economic success. In the two decades prior to 1980, annual GDP growth averaged 6.1%, medical care was free, the literacy rate was of the order of 91%, and life expectancy was 72 years. But after a decade of Western ministrations and five years of disintegration, war, boycott, and embargo, the economies of the former Yugoslavia are prostrate, their industrial sectors dismantled.

Despite Belgrade's non-alignment and its extensive trading relations with the European Community and the US, the Reagan administration targeted the Yugoslav economy in a "Secret Sensitive" 1984 National Security Decision Directive (NSDD 133) "United States Policy toward Yugoslavia". A censored version declassified in 1990 largely elaborated on NSDD 54 on Eastern Europe issued in 1982. It advocated "expanded efforts to promote a quiet revolution to overthrow Communist governments and parties" while reintegrating the countries of Eastern Europe into a market oriented economy.

The US had earlier joined Belgrade's other creditors in imposing a first round of macroeconomic reform in 1980, shortly before the death of Marshall Tito. Successive IMF-sponsored programs since then continued the disintegration of the industrial sector and the piecemeal dismantling of the Yugoslav Welfare state. Debt restructuring agreements increased foreign debt, and a mandated currency devaluation also hit hard at Yugoslavs' standard of living. By 1990 industrial production declined to a negative 19% growth rate.

In autumn 1989, just before the fall of the Berlin Wall, Yugoslav Premier Ante Markovic met President George Bush in Washington to cap negotiations for a new financial aid package. Yugoslavia agreed to even more sweeping economic reforms, including a new devalued currency, another wage freeze, sharp cuts in government spending, and the elimination of socially owned, worker-managed companies. The Belgrade *nomenklatura*, with the assistance of Western advisers, had laid the groundwork for the Prime Minister's mission by implementing many of the required reforms beforehand, including a major liberalisation of foreign investment.

Although inflation had eaten away at earnings, the IMF ordered wages frozen at their mid November 1989 level. Real wages collapsed by 41% in the first six months of 1990.

State revenues that should have gone as transfer payments to the republics and provinces went instead to service Belgrade's debt with the Paris and London clubs. The republics were largely left to their own devices. In one fell swoop, the reformers engineered the final collapse of Yugoslavia's federal fiscal structure and mortally wounded its federal political institutions. That fuelled secessionist tendencies that fed on economic factors as well as on ethnic divisions. The IMF-induced budgetary crisis paved the way for Croatia's and Slovenia's formal secession in June 1991.

The reforms demanded by Belgrade's creditors also struck at the heart of Yugoslavia's system of socially owned and worker-managed enterprises. As one observer noted, "The objective was massive privatisation and the dismantling of the public sector. The Communist Party bureaucracy, most notably its military and intelligence sector, was canvassed specifically and offered political and economic backing on condition that wholesale scuttling of social protections for the workforce was imposed."

Markovic's government passed legislation that forced "insolvent" businesses into bankruptcy or liquidation. If a business were unable to pay its bills for 30 days running or for 30 days during a 45 day period, the government would launch bankruptcy procedures within the next 15 days. These legal changes, combined with the IMF's tight money policy toward industry and the opening of the economy to foreign competition, accelerated industrial decline. From 1989 through September 1990, more than a thousand companies went into bankruptcy. By 1990, the annual growth rate of GDP had collapsed to 0-7.5%. In 1991 GDP declined by a further 15%, while industrial output shrank by 21%.

More than half a million workers still on company payrolls did not get regular paychecks in late 1990. They were the lucky ones. Some 600,000 Yugoslavs had already lost their jobs by September 1990. According to the World Bank, another 2,345 industrial enterprises, including some of the country's largest, were slated for liquidation. Their 1.3 million workers - half the remaining workforce - were "redundant". Yugoslav President Boris Jovic warned that the reforms were having a markedly unfavourable impact on overall situation in society. "Citizens have lost faith in the state and its institutions."

Some Yugoslavs joined together in a doomed battle to prevent the destruction of their economy and polity. As one observer found, "worker resistance crossed ethnic lines as Serbs, Croats, Bosnians and Slovenes mobilised shoulder to shoulder with their fellow workers. Serbia rejected the austerity plan outright, and some 650,000 Serbian workers struck against the federal government to force wage hikes. **Both Croatian leader Franjo Tudjman and Serbia's Slobodan Milosevic joined in railing at Yuguslavia's harsh reforms**."

Just as the economic collapse spurred the drift toward separation, the separation in turn exacerbated the economic crisis. "The republican oligarchies, who all had visions of a "national renaissance" of their own, instead of choosing between a genuine Yugoslav market and hyper inflation, opted for war which would disguise the real causes of the economic catastrophe."

Following Franjo Tudjman's and the rightist Democratic Union's decisive victory in Croatia in May 1990, German Foreign Minister Hans Genscher gave his go-ahead for Croatian secession. Germany pressured its Western Allies to recognise Slovenia and Croatia and sought a free hand "to pursue economic dominance of the whole Mitteleuropa."

"US Secretary of State Baker told Tudjman and Slovenian President

"State revenues that should have gone as transfer payments to the republics and provinces went instead to service Belgrade's debt with the Paris and London clubs. The republics were largely left to their own devices. In one fell swoop, the reformers engineered the final collapse of Yugoslavia's federal fiscal structure and mortally wounded its federal political institutions. That fuelled secessionist tendencies that fed on economic factors as well as on ethnic divisions."

Milan Kucan that the US would not encourage or support unilateral secession, but if they had to leave, he urged them to leave by negotiated agreement." Instead, Slovenia, Croatia, and finally Bosnia fought bloody civil wars against rump Yugoslavia (Serbia and Montenegro) or Serbian nationalists. But now the US has belatedly taken an active diplomatic role, and positioned itself to play a leading part in the regions future.

Western creditors have turned their attention to Yugoslavia's successor states. The consensus is that past macroeconomic reforms adopted under IMF advice had not quite met their goal and further shock therapy is required to "restore economic health." Croatia and Macedonia have agreed to loan packages - to pay off their shares of the Yugoslav debt. The too familiar pattern of plant closings, induced bank failures and impoverishment continues apace.

But Western intervention is making its most serious inroads on national sovereignty in Bosnia. The neo-colonial administration imposed by the Dayton accords, supported by NATO's fire power, and ensures that Bosnia's future will be determined in Washington, Bonn and Brussels - not Sarajevo. Western assistance is likely to drag Bosnia into the Third World.

"I have listened to my country's lies, evasions and propaganda: cringed at sly pieties; detested the plays with words; shuddered at the jingoism; recoiled at the militarism; spotted the process of denomination by which war-mongering leaders motivate the led; seen how morality, self-serving, follows chance; noted the ease with which a militant politico-cultural force finds a moral right to push forward its frontiers. Scales have fallen from my eyes."
(Matthew Parris in his article *A New Empire is Born: Posterity will come to see war in Kosovo as the germ of Pax Atlantica* – The Times, June 5th. 1999.)

The Bosnian government estimates that reconstruction costs will reach $47 billion. Western donors have pledged $3 billion in reconstruction loans, yet only $514 million have so far been granted. Part of this money is tapped to finance some of the local civilian costs of the IFOR's military deployment and part to repay international creditors. Western governments show greater interest in access to strategic natural resources. **Documents in the hands of Croatia and Bosnian Serbs indicate that coal and oil deposits have been identified on the eastern slopes of the Dinarides Thrust, retaken from rebel Krajina Serbs by the US-backed Croatian army in the final offensives before the Dayton accords. "Substantial" petroleum fields also lie in the Serb-held part of Croatia just across the Sava River from Tuzla, headquarters for the US military zone. Exploration operations went on during the war, but the World Bank and multinationals that conducted the operations kept local governments in the dark.**

Western-backed neo-liberal restructuring helped destroy Yugoslavia. **Yet since the onset of war in 1991, the global media has carefully overlooked its central role. Instead, it has joined the chorus singing praises of the free market as the basis for rebuilding a war shattered economy. Opinion-makers instead dogmatically present cultural, ethnic, and religious divisions as the sole causes of the crisis.** In reality they are the consequences of a much deeper economic and political fracturing. No alternative to global capital, be it market socialism or "national" capitalism, will be allowed to exist. (Emphasis added)

Michel Chossudovsky
Professor of Economics
University of Ottawa

"Opinion-makers instead dogmatically present cultural, ethnic, and religious divisions as the sole causes of the crisis. In reality they are the consequences of a much deeper economic and political fracturing. No alternative to global capital, be it market socialism or "national" capitalism, will be allowed to exist."

William Krehm, Chairman of COMER in another article on Yugoslavia in the same issue of *Economic Reform* makes the following supplementary comments:

- Recently the 1984 National Security Decision Directive (NSDD 133) *United States Policy towards Yugoslavia* was released from secrecy. Applied to the United States itself, that directive would have ruled out Roosevelt's program for lifting the US out of the Great Depression.
- Another important landmark was the reunification of Germany. The reunited Germany, once again become a major power, seemed to be taking over the Balkans just where Kaiser Wilhelm left off. With the best of intentions obviously Hans-Deiter Genscher, Minister of foreign Affairs in Germany had already encouraged Slovenia and Croatia to declare their independence without negotiating their exit from the federation with the central government.
- Not only in the former Yugoslavia, but also in countless other spots of several continents bottomless impoverishment, seen as the ultimate efficiency, is making man wolf to his fellow man. Under its impact the reel of history is rolled backwards while the technologies of killing move ever ahead. **And moneys that were declared unavailable for restoring society is always on hand for military adventure.**

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(**Bold type** indicates our emphasis added. *TSC.*)

THE EROSION OF SEIGNIORAGE ON THE NATIONAL CURRENCY

R. F. Morrison

Banking and the creation of money have been synonymous since the King of Lydia issued the first coins and moneylenders made their first appearances in the market places of the ancient world. But they are *not* one and the same, and the progressive erosion of these differences continues to prove a major barrier to much social evolution today.

Only Kings and governments create and issue Coin of the Realm as the sole authorised currency of the Nation and its means of exchange. It is spent into circulation interest-free by government. Anyone else printing or coining money is a counterfeiter and this is justifiably a major crime. Conversely, banks create *credit*, not money, as a business for profit. Over the years, this distinction between a function of government on behalf of society, and that of a commercial undertaking on behalf of its shareholders has become increasingly blurred. The purpose of this paper is to re-assert these differences in context, assemble the social cost of ignoring them, and finally to suggest a means of re-establishing each function into proper focus.

Early moneylenders were limited in the amount of business they could undertake by their capital - i.e. they could not physically lend out more coin of the realm than they had in their coffers. Their gold was their capital and they lived off the interest they earned. Banks became viable as businesses when paper money appeared. This paper money first appeared as receipts for gold or coin deposited by merchants for safe keeping in the bank's vault. Gradually these receipts became used as a means of exchange, being much more convenient than delivering bags of specie in settlement of trade. These receipts developed into "banknotes" of various denominations.

At this point the bankers began to print more banknotes than they had gold to cover in their vaults - on the basis that not all of their customers would appear at the counter demanding their money back at the same time. This then was the beginning of bank credit as it is practised to this day. Banks lend "notional money" for a profit of interest on the basis of a legally enforceable obligation upon their customers to repay and, in the U.K., this is legitimised by Acts of Parliament dating back to 1694. To the banks, coin of the realm is Government Created Money (GCM) and merely a necessary adjunct to credit. It is a means of denominating and quantifying the Bank Created Credit (BCC), which is their stock in trade. But in all other respects cash is something of a nuisance, which they are obliged to retain for the convenience of their customers.

The banking system can create credit up to whatever amount it considers prudent in the context of the Principles laid down by the government's banking watchdog – in the U.K this is the Financial Services Authority (FSA). In effect the limit is reached when banks become nervous about their customers' ability to repay on time. It is the job of the FSA to ensure that banks do not go bust owing money to their depositors.

Coin of the Realm however is not issued by government as a business venture, but as a medium of exchange to facilitate effective government and the activities of the population. Government franchises credit creation to the banking system under conditions of strict regulation, because it has proved a reliable and convenient method of financing the bulk of private sector activity. Not even the most socialist of governments would wish to become embroiled in the problems of lending to millions of small businesses and individuals.

During the late seventeenth century when modern banking first began in Europe, coin of the realm represented virtually all the money in circulation, what we now call "the money supply". Gradually credit came to represent a growing element of this total and in more recent times it has displaced cash to become the vast bulk of the money supply. We do not have accurate statistics for these early days - credit has always been a factor of trade even before banks came on the scene, but we do know (from The Annual Abstract of Statistics) that as recently as 1963 the ratio of coin of the realm, or GCM to bank loans and advances (Bank Created Credit, or BCC), was 35.65 and that the seigniorage on that cash still contributed 29% of the government's revenue in that year. By 1966 this ratio of GCM to BCC had tumbled to 4.96% and the contribution to government revenue had slipped to approximately 10%.

When we look at the increase in the money supply (M4) over a similar period, in 1967 it stood at £18.8bn, by 1977 it had rocketed to £680bn, and in the most recent two years to 1999 it had jumped again to £780 bn, increasing at an average rate of £50bn per annum.

Thus we can begin to quantify the rate at which BCC has replaced GCM in our contemporary society.

Year	BCC	GCM	GCM/BCC	Government Revenue	GCM/Govt. Revenue
1963	£4.5bn	£ 2.4bn	53%	£8.3bn	29%
1996	£563.6bn	£22.4bn	4%	£217.3bn	10%

At the same time we can assess the loss to government revenues which this has occasioned. Whereas in 1963 the seigniorage on GCM contributed £2.4bn to government revenue of £8.3bn or 29%, thirty-three years later, although the amount grew to £22.4bn – this represented only some 10% of its 1996 revenue of £217bn. Had government maintained its seignorage even at 1963 levels until today, this source might be contributing some £63bn per annum to the public revenues?

The effect of this upon governments in recent years has been to steadily reduce its revenue and to raise the pressure to increase taxation and/or cut public expenditure. **Restoration of GCM even to 1963 levels in the form of Treasury Credits would simply replace credit that would otherwise be issued by the commercial banks, and would not be inflationary; secondly, it would come into circulation debt-free without the commercial profit earning imperative attached; thirdly, there is no proposal to curtail commercial bank lending or alter the FSA Principles and Guidelines as a sine qua non of such restoration.** It may or may not increase the money supply (M4), but it is now accepted Treasury Policy that the sheer volume of circulation is less significant than the interest rates as a control medium. The income from seigniorage, previously enjoyed as a sovereign right, would then keep pace with growth and inflation. That contribution has now all but disappeared.

Even if this argument were developed to entitle governments to claim seignorage on the *entire* money supply, this would still not affect current banking practices. As stated above, banks do not earn profit from creating *money* - that has always been the sovereign right of the State. Banks are franchised to deal in credit on a business basis and offer it at interest. In performing this service they lubricate the wheels of commercial or industrial activity but they do not create wealth. That is the function of commercial and industrial activity. The balance sheet of a bank always shows its loans as assets balanced by the liability of borrowers to repay them. They *follow* wealth creation, and when circumstances stimulate the economy the banks are always on hand to provide the necessary wherewithal; when matters take a turn for the worse, then they are even more assiduously on hand to take it back again.

The reinstatement of seigniorage may well oblige the banks to forgo the currently fashionable and profitable ploy of the Private Finance Initiative. However, it is already a widely held view that financing the creation of *public* assets is none of the banks' business anyway - they exist to create personal and commercial credit against the pledge of *privately* owned assets. This is really the heart of the problem because at present the money required for public services can only be raised by taxation or borrowing at interest against the collateral of the state, which is nonsense.

Government can create wealth by the funding of public assets and social improvements, but it should not do so by borrowing money from its own franchised banking system to finance such expenditure. No matter how worthy the cause nor how creative the accounting, this would simply add to an already unsupportable National Debt, the yearly interest upon which usually exceeds the average annual Public Sector Borrowing Requirement.

There is no doubt that as technology and sophisticated trading practices have reduced the need for cash and replaced it with credit of all stripes and hues, so has a primary and legitimate source of Government income dried up. Rather than borrow to balance the budget, government should exercise its sovereignty by replacing its lost seigniorage with the issue of Treasury Credits to match the rate of increase in the money supply. These credits would be the security upon which the Bank of England would pay for the element of public expenditure commensurate with the National growth of economic activity. The same security and status which renders Government Bonds or Gilts "as good as gold" endows the same credibility upon the government's issue of Treasury Credits to the Bank of England. The practice would have historical precedent and go a long way towards restoring the natural balance between public and private expenditure, which is currently causing wide concern.

The gradual erosion of seigniorage over the Nation's money has largely been responsible for the creation of substantial government debt at taxpayers' expense. It might be destabilising to rectify this by replacing National Debt through the bulk issue of Treasury Credits retrospectively. There is however no reason to permit the situation to continue and it should be possible to cap the debt, say at its 1967 level of approx. £300bn and thereafter endeavour progressively to reduce it further from seigniorage resources over a period of perhaps ten or twenty years.

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If you wish to comment on an article in this, or the previous issues, or discuss submission of an essay for a future issue of *The Social Crediter*, please contact the Editor directly:

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The Social Crediter is the official journal of the Social Credit Secretariat. It promulgates the analysis and prescription for radical change to the current financial/economic system developed by C. H. Douglas in the 1920s. At the centre of our concern is the need for radical reform of the international fractional reserve, debt-money system. Only then might other major socio-economic changes, including the introduction of a National Dividend, follow and to help ensure that all of the world 's people have the potential to enjoy economic sufficiency, while simultaneously living a full and satisfying life in harmony with each other and the natural environment. It is our conviction that whatever is **physically possible and socially desirable** CAN be made financial possible. This should be everyone's concern and radical reform is urgent, so that this potential might be realised.

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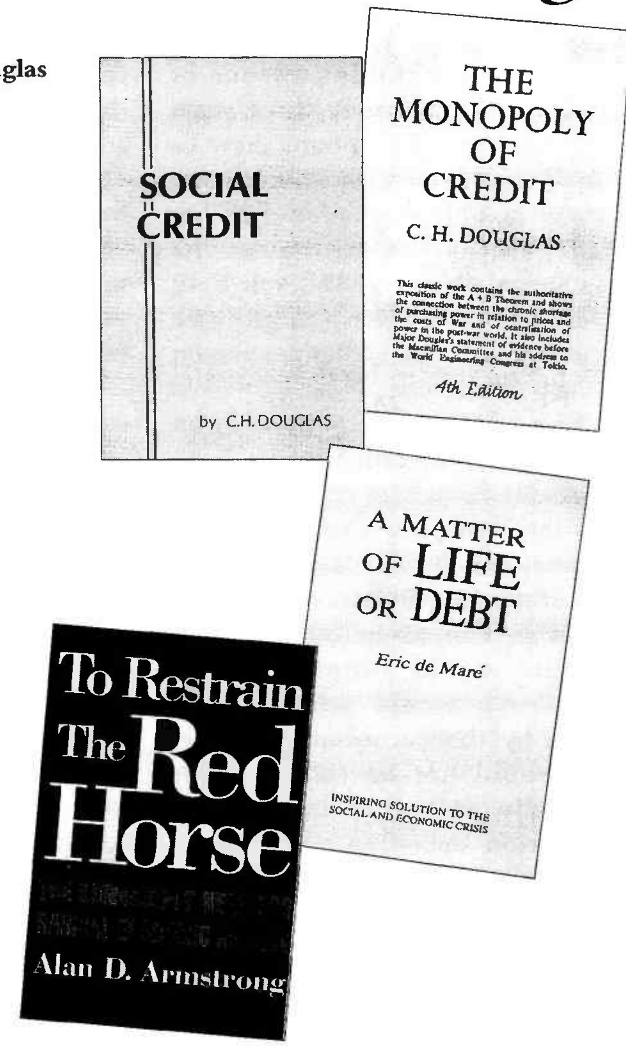
Recommended Reading

Books by Major C.H. Douglas

Social Credit
The Monopoly of Credit
Economic Democracy
Warning Democracy
Credit Power and Democracy
The Control and Distribution of Production



Eric de Maré
A Matter of Life or Debt

Alan D. Armstrong
*To Restrain the Red Horse**
The Urgent Need for Radical Economic Reform (1996)

Books and booklets on the subject of Social Credit are available from Bloomfield Books, 26 Meadow Lane, Sudbury, Suffolk, England CO10 6TD.
* Also available from Towerhouse Publishing, 32 Kilbride Avenue, Dunoon, Argyll, Scotland PA23 7LH.

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NEW AGE ECONOMICS

An introduction to SOCIAL CREDIT

OCCASIONAL PAPER
NUMBER 1

An introduction to SOCIAL CREDIT

The term Social Credit was coined for the first time in the 1920s when A.R.Orage , editor of the New Age, in his explanatory notes to C.H.Douglas' ***Draft Mining Scheme***, suggested that "*We are not accusing the Financial Power of malignant hostility to society ... (but) ... The effect is inherent in the separation of Real Credit from Financial Credit - Social Credit, that is to say, from Financial Credit privately controlled.*" (1) Social Credit, defined by Douglas as "the correct estimate of ability to produce and deliver goods as and when and where required.by the potential customer" has since become a kind of "shorthand" for the great body of C.H.Douglas' work dealing with his analysis of the malfunctioning finance/economic system and his comprehensive prescription for its radical reform.

In that analysis, he identified a critical flaw in the fractional reserve monetary system. Giving evidence to the Canadian House of Commons in 1923, he asserted that "*Nearly all loans are made by credits entered on the books of a bank or by cheques or by drafts or by acceptances; these pass into the general clearings of the community of which only the resulting balances are settled in money. Hence the mere plentifulness* ***of money is only remotely connected with the supply of loanable funds***." (2) (emphasis added)

That fact, which was much disputed at that time, and which most of the general public would still find hard to accept, is now agreed within economic orthodoxy, albeit with varying and often contradictory explanations of the mechanical detail. Virtually all basic economic and banking textbooks now acknowledge that banks do in fact create some 95% of the total money supply while governments create, in the form of legal tender, only the balancing 5% of the total. However, even now economics professionals, despite their concern to have their discipline considered a science, rarely acknowledge the socio-economic implications of such a monetary system. Douglas, on the other hand, did understand, and clearly spelled out, these implications in his works. They include the concentration of immense wealth and power in the hands of a small international elite; an inevitable drive for economic growth, without which the system cannot survive; escalating debt of national and local governments, business and consumers; progressive damage to the global environment; socio-economic breakdown, and technological unemployment. His proposals for change however, albeit after a mighty struggle, went unheeded.

But again today, Hutchinson and Burkitt are able confidently to assert that "*From their inception within guild socialism, the Douglas/New Age texts raised questions* ***which remain relevant at the turn of the twentieth century****... (and)..* ***provide an early exploration of the potential for a co-operative, local, 'steady state' economy in which industrial production, the arts, sciences, politics, learning and caring professions are freed from the artificial restrictions of capitalist finance ... (and)... Following over half a century of neglect, these texts possess the potential to provide the basis for a new economics of co-operation***." (3) (emphasis added)

REFORM OF THE MONETARY SYSTEM

As we have noted, in countries which have an industrial economy, the act of creating the nation's money supply is shared between a central bank and a private commercial banking system.

The former prints, and puts into circulation, legal tender in the form of notes and coins of the realm. This legal tender subsequently provides the "reserves", on the basis of which commercial banks create "credit" in the form of bank loans. This bank-created credit, equivalent to some 95% of the total money supply, is circulated into the economy only as interest-bearing debt. Bankers of course extend this privately created credit only to those they are confident will be able to repay **money** to the total of the loan plus interest. As a result, they exercise "*a dominant policy formation in the system of production, distribution and exchange*". The interest due must also, of course, be included in final prices. Yet when bankers create their credit they do not simultaneously create any money with which this interest might be repaid. Thus, **in addition to other major factors**, the inclusion of interest ensures that in each production period there is a shortage of purchasing power in the form of wages, salaries and dividends relative to aggregate final prices.

The implications of this have been noted above escalating total debt, the drive for growth (involving production which will release purchasing power in advance of the new goods or services coming onto the market to clear current surpluses, but which simply aggravates the subsequent surpluses problem), pressure on the environment and technological unemployment as firms try to reduce input costs to remain profitable and keep shareholders happy.

Before other necessary and desirable socio-economic changes can be effected, on a sustainable basis, therefore ***the present fractional reserve debt-money system must be reformed***.

NATIONAL DIVIDEND

Douglas identified the major factor in the production process as being neither labour nor capital. It is rather the community's ***Cultural Inheritance***, by which he meant the combination of gifts of nature and the accumulated knowledge and technique, handed down to each generation by countless previous generations of scientists, engineers, inventors, artists and others who have contributed to each generation's ability to produce more with less labour input. The effect is to provide simultaneously an increasing provision of goods and services while fewer and fewer people are needed to produce them.

The National Dividend therefore, payable to each individual as a right of citizenship, would allow each to share in the community's wealth and to have the time and economic security to enjoy it and to conduct his or her life in constructive and fulfilling ways.

THE JUST PRICE

To counter any real or imagined prospect of inflation following from the proposed reform of the monetary system and introduction of the ***National Dividend***, Douglas offered a proposal known to Social Crediters as the application of the ***Just Price***. It is a device designed to ensure "*equality between output and aggregate purchasing power at an administered 'fair' level of prices.*" It would involve a subsidy to producers and/or retailers to ensure market prices would be set below cost and so act as a double lock against inflation. Its operation has been likened to a negative VAT.

SUMMARY

Social Credit therefore proposes that the authority, currently exercised by commercial banks in the creation of most of the money supply, be returned to the state under carefully defined rules. A **National Credit Office** would be charged with ensuring that the total money supply is always designed to balance the real potential to produce goods and services, which are expressly desired by the community, with a price index which remains constant or falls (as an increasingly efficient process allows) while remaining consistent with the reasonable profitability of industry and commerce.

The **National Credit Office** would inject newly created money into the economy in the form of a ***National Dividend*** to each citizen; a subsidy to producers and/or retailers to maintain the ***Just Price*** of goods and services and to act as a double lock against inflation (think of it as a negative V.A.T) and of course via ***government expenditure***, reflecting voter choice, on infrastructure and centrally provided community services. Douglas was always of the view that the actual technical detail of the necessary change could be established quickly and easily by appropriate expert working groups.

Social Credit, therefore, stands for optimum economic and political freedom for each individual by ensuring:

a. Consumer control over output of the production process: **economic democracy**
b. Voter control over policy: **political democracy**

Notes:

(1) C.H.Douglas, May 1921 (2nd.edt.) *Credit Power and Democracy*, Cecil Palmer, London. p.166
(2) F.Hutchinson & Brian Burkitt, 1997., *The Political Economy of Social Credit and Guild Socialism* Routledge Studies in the History of Economics, Routledge, London & New York. p.37
(3) Ibid. p.183

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