

*PAMPHLETS ON
THE NEW ECONOMICS*

No. 17

**WHAT IS THIS
SOCIAL CREDIT?**

BY

A. L. GIBSON, F.C.A.

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WHAT IS THIS SOCIAL CREDIT?

H.M. THE KING:

“ It cannot be beyond the power of man so to use the vast resources of the world as to ensure the material progress of civilisation. No diminution in these resources has taken place. On the contrary, discovery, invention, and organisation have multiplied their possibilities to such an extent that abundance of production has itself created new problems.”

(Opening World Economic Conference,
London, 1933.)

H.R.H. THE PRINCE OF WALES:

“ The urgent task for the world is to introduce the adjustment necessary to bring consumption and production into proper relationship.”

(Speech at the International Congress of
Commercial Education, 1932.)

WHAT IS THIS SOCIAL CREDIT?

A VERBATIM REPORT OF A LECTURE

DELIVERED BY

A. L. GIBSON, F.C.A.

*to an audience of 2,700 people at The
Central Hall, Westminster, London,
on 21st March, 1935. Chairman,
Bailie Philip McDevitt of Clydebank.
Organised by The London Social
Credit Club Caxton St., Westminster.*

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WHAT IS THIS SOCIAL CREDIT?

WHATEVER it is, there is something queer about it! When it was first published in book form it was very favourably reviewed in the *Times Trade Supplement*, and during the fifteen or sixteen years in which the ideas have been in the world the study of the subject has spread throughout every civilised country. In Japan an enormous number of copies of pirated editions of the books have been sold. In New Zealand something like thirty out of a total of eighty Members of Parliament support Social Credit. The Province of Alberta in Canada is practically on fire with it, and the Legislative Assembly of that Province has recently appointed Major Douglas, the author of *Social Credit*, as Financial Adviser, with a view to establishing the principles of Social Credit in Alberta, and, if possible, in the whole of Canada. When the author of these ideas went on a world tour about eighteen months ago, and visited Australia, he was given a State reception. When he addressed a meeting in Rushcutters' Bay Stadium, near Sydney, 12,000 people paid to hear him, and 5,000 or 6,000 people, who could not get in, listened outside, and the address had a continental broadcast. Yet for eight years it was impossible to get his name printed in a London newspaper. We know that the Press sometimes suppresses news, but I do not know that any of us have noticed any suppression of the names of men like Lenin and Stalin. The *Morning Post* may have referred to them as monsters, but they have not given even that distinction to Major Douglas! In connection with him there has been a dead silence. That silence was broken to some extent about three years ago, but it is still very difficult to get Major Douglas's name into a national newspaper.

What has Major Douglas done? Before the War, as an engineer, he carried out very important engineering undertakings in three continents of the world. During the War he was the chief executive official of the Royal Aircraft Factory at Farnborough. Since the War he has, in his spare time, pushed a tube railway under London, from Paddington to somewhere in the neighbourhood of White-chapel, for the purpose of carrying parcels for the Post Office; and one of the characteristics of that tube railway is the almost complete absence of human beings in its operation. He is known to the world, as far as the newspapers permit him to be known, as Major Douglas, but he is not a professional soldier; he is an engineer.

What had Major Douglas done to cause this boycott? He had put his finger on the spot! That is all. He had revealed that the fundamental social conflict is no longer Capital *versus* Labour, but Finance *versus* the Community. Major Douglas had not suggested the suppression of the banks; he had not even suggested their nationalisation. He had, indeed, expressed his admiration for the super-efficient manner in which the British banking system is administered. But he had shown up the private monopoly of the people's credit operated by the banking system, and had revealed the anti-social effects of the out-of-date axioms and principles on which that system is operated. The significance of the boycott I leave for you individually to interpret.

Social Credit is the name which has become attached to the contribution made by Major Douglas to economics and social philosophy. It would not be correct to say that that contribution put him in the vanguard of living economists; it put him ahead of the vanguard. He was a pioneer, laying the financial road which is essential if Western people are to advance into the new civilisation made possible, and even being thrust upon them, by applied science in the power age in which we live.

Social Credit consists of a social philosophy and of certain technical proposals. This evening we are chiefly concerned

with the proposals, and therefore I do not intend to dwell at any length on the social philosophy of Social Credit. It may be a sufficient indication to you if I mention that it is diametrically the opposite of the social philosophy of Fascism. In the philosophy of Fascism the State is supreme. The individual exists in order to serve, and, it may be, to die for the State. Hitler tells the women of Germany that their greatest pride and honour is to bear sons who may some day die for the State on the battlefield. In Fascism the State is the supreme unit.

In Social Credit the individual man, woman and child is the supreme unit; and the only justification for the existence of any organisation, from the humblest up to the mightiest, the State itself, is that that organisation is ministering to the fullest possible extent to the life and well-being of the individual men, women and children in it.

Major Douglas has not stated it in so many words, but my own view is that the Social Credit philosophy is based upon one of the fundamental principles of the Christian faith, that is, the sacredness of human personality, the infinite value of the individual man, woman and child.

Men form communities chiefly for two reasons: (1) for mutual protection, and (2) in order that they may obtain the advantage of the unearned increment of association. Membership of a community necessarily involves some curtailment of personal liberty. In the Social Credit view, the ideal community is that which gives to its people the maximum enjoyment of the unearned increment of association, the very highest possible standard of life and well-being, with the minimum amount of personal constraint. Social Credit seeks the widest possible diffusion, amongst the individual members of the community, of economic satisfaction, security, freedom, and initiative. It asserts as one of its fundamental principles that the people of a country are entitled to consume all they can produce.

Our first indictment of the existing financial system is, that it is a monopoly in private hands: that the economic

life-blood of the community is controlled by private concerns, without social control, without social responsibility or obligation.

Social Credit does not propose to deprive the banking system of its existing power of creating money. It does insist, however, that the banks, if they continue to exercise that power, shall exercise it as a delegated power; and that the Crown, in the name of the British people, shall resume its historical sovereignty, and exercise an over-riding control of the issue and withdrawal of money.

I have stated that the banking system will be permitted, so far as Social Credit is concerned, to continue the creation and the destruction of money. It may be news to some of you, as it was to a client of mine, that the banks have such a power. This client came into my office about two years ago and I asked him how business was. He replied: "Rotten! There seems to be no money about, and yet there must be more money in the country than ever there was." I said: "Apparently you have not heard that the British banking system, in the ten years ended the 31st December, 1931, destroyed £1,000,000,000 of British money." He was unable to speak for several seconds! This conversation took place about two years ago, and therefore I was not able to give him the comforting information that since we went off gold the British banking system has created over £400,000,000 of British money.

I should like to ask your indulgence for a very few minutes while I attempt to describe to you the method by which the banks create and destroy money. Apparently this is not common knowledge, and I think all of you are entitled to a little information on this dark secret! Supposing I am a manufacturer, and I receive a substantial order which requires an addition of £5,000 to my overdraft. I see my bank manager, explain to him the nature of the order, tell him the identity of the people from whom I have received it, and ask him, with suitable politeness, if I may increase my overdraft by £5,000. He will probably

ask me what collateral security I can deposit. It may be the deeds of my factory, or the scrip of some Government or other gilt-edged stock, but that is not by any means always necessary, and it does not affect the nature of the transaction. It is only something for the bank to fall back upon in case of need, and that is the one thing the bank does not want to have to do. My bank manager tells me that he will give the matter consideration. Of course, that means that he will communicate with head office in London. In due course he gives me the welcome intimation that I may overdraw my account by a further £5,000. I immediately place orders for the materials which I need to execute the order, and at the "end of the month following delivery" of these goods, supposing that five of you gentlemen present this evening have supplied me with material, I draw five cheques for £1,000 each in your favour, and your cashiers pay them into the bank. Those cheques pass across the counter and are handed over a low glass screen. At the other side of the glass screen they enter the book-keeping department of the bank. For simplicity's sake we will assume that the five gentlemen who have received my five cheques bank at my bank. In accordance with the book-keeping system, operated on double entry, two entries are made simultaneously in respect of each of those cheques. Each of the gentlemen who has paid them in is credited with having deposited £1,000, and I, who have drawn the cheques, am charged with having borrowed £5,000; so that in the books of the bank, as a result of those cheques passing across that glass screen, the loans owing *to* the bank have increased by £5,000, and the money deposited with the bank (and owing *by* the bank to its depositors) has increased by £5,000, without any other account in the bank being affected, and without disturbing a single halfpenny in the till. The effect of that book-keeping transaction is that £5,000 of British money has come into existence, which five minutes before did not exist.

To carry the illustration on to the other side, and to

explain the destruction of money, let us imagine that I am slow in repaying the loan, and the bank presses me and gives me a time limit within which to make the repayment. I look round to see what I can sell, perhaps at a serious sacrifice. I find that the five gentlemen, with whom I had dealings some time previously, are willing to buy from me certain things which I possess for the total sum of £5,000. They give me their cheques, which I pay in to the bank. The cheques go across the bank counter, and over the screen into the book-keeping department, where they are again subjected to the double entry book-keeping system of the bank. The five gentlemen have their deposits reduced by £1,000 each, and my loan of £5,000 is repaid, and, as a consequence of those book-keeping entries, £5,000 of British money has disappeared. There are £5,000 less deposits in the bank, and £5,000 less loans.

When a manufacturer makes such a request to the bank as I have indicated, and his application is accepted, he is apt to feel no end of a fellow, and plume himself on the idea that *his* credit is good for £5,000, but a little self-examination would reveal that that is not the whole truth. A manufacturer who persuades a bank to monetise credit does so on a basis of three elements in that credit. He, as a manufacturer, is the owner of some capital equipment—he owns some means of production—but that plant and machinery are of no use whatever to him unless he has a staff of workers willing to use it, and to co-operate with him in the production of some goods or services. Therefore the manufacturer, when he makes application to the bank for this creation of money, has not only the real credit attaching to himself as the owner of the means of production, but also the real credit attaching to the workers who are willing to co-operate with him in production. The combined credit of capital and labour, however, would be worthless without a consuming community, willing and able to purchase the products; and it is the existence of customers able to pay for the products, on which the bank really relies when it

makes the loan to the manufacturer. The vital factor in that trinity on which financial credit is created is the existence of a consuming community. Social credit. But the social character of the credit involved does not end even there. It exists in the capital equipment itself. That capital equipment is the embodiment of an inheritance of the community which has passed down through all the generations of men. It embodies a multitude of ideas, inventions and discoveries. In that historical sense the capital equipment, which forms one component of the real credit on which this monetisation is made, is essentially social in its origin.

On the subject of money there is probably more ignorance and delusion than on any subject occupying the thoughts of intelligent people. Most people do not seem to know very much more about it than that it is symbolised in this country by an old lady who resides in Threadneedle Street. That might explain to us why money talks, why money is shy and nervous, and constantly threatening to go abroad for the sake of its health if it cannot have its own way. But I am afraid it does not explain to us the one outstanding characteristic of money which will be familiar to all of us—why money is always tight.

One of the delusions about money is that money is wealth. It is nothing of the kind. Wealth consists of goods and services. A destitute man who receives sixpence knows quite well that that sixpence is not in itself wealth; it is a title to wealth; it is a ticket which entitles him to claim sixpennyworth of real wealth. Wealth, to that hungry man, consists of sixpennyworth of bread. Money is not wealth.

Another very common delusion is that money is something which is part of the order of nature. Even most intelligent and well-informed people do not yet seem to have realised that money is simply a human device, and operates according to man-made rules and principles.

Another misconception is that the kind of money which you and I use is the only kind of money in existence—the

kind of money which is made by the Master of His Majesty's Mint. Banking statistics show that of every £100 which pass across the bank counter only something like 14/- to 18/- consists of cash. The other £99 and odd shillings consists of cheques, bills of exchange; written instructions to bankers to make certain book-keeping entries. Over 99 per cent. of the financial transactions which take place in a country like ours consist of operations in the kind of money which banks create and destroy.

The banking system has the power at its own discretion to create and to destroy money. The most important power in the world. As Woodrow Wilson (President of U.S.A.) realised when he wrote in his book *The New Freedom*:

The great monopoly in this country (U.S.A.) is the monopoly of big credits. . . . A great industrial nation is controlled by its system of credit. Our system of credit is concentrated. The growth of the nation, therefore, and all our activities, are in the hands of a few men who . . . chill and check and destroy genuine economic freedom.

Our second indictment of the existing system is that it is operating on out-of-date principles. We are attempting to run the Flying Scotsman on wheelbarrow financial principles. We have passed through the machine age, and have entered the power age, but finance does not seem to have noticed it. Its basic principles and axioms are exactly the same as they were in the age of handicraft.

One of the consequences of the power age in the realm of finance is the diminishing ability of a modern industrial country to fulfil that basic principle of Social Credit—that the people shall be entitled to consume all that they produce. As we increase the mechanical equipment of industry we increase the overhead burden of costs, and correspondingly diminish the fraction of costs which is represented by the flow of incomes to individual members of the community. The consequence of this is that the people, the individuals

composing the community, are diminishingly able to exercise an effective demand over the whole of the community's production. In order to compensate for this defect, which is developing at an accelerating rate, two courses are being pursued; both of which result in the distribution of money incomes (wages, salaries and dividends) in respect of production which is not for consumption by our people. It is financial rather than physical necessity which compels these courses:

- (1) Capital production, i.e., increasing our productive equipment, and this, in spite of the fact that we are not fully using the equipment we already possess.
- (2) Exports in excess of Imports, i.e., a so-called "favourable balance of trade."

All readers of newspapers know that this is the chief aim of every industrial country: to get *larger and larger quantities of goods sent out* of their country in return for *smaller and smaller quantities of goods sent in* by other nations. This commercial invasion involves all industrialised nations in economic warfare, and will certainly plunge civilisation into the next World War. Underlying it all, the cause of it all, is the deficient purchasing power of the people of every country.

Let us glance for a few moments at what is happening in the physical world. We will take food first. In agriculture 75 years ago one man could cultivate 12 acres. To-day, using modern equipment, he can cultivate over 100 acres. In the United States, where they are much more technically equipped in agriculture than we are in this country, using modern equipment and methods, 4,000 men could have cultivated the 1929 crop; 100 years previously it would have required 5,000,000 men. At Sprowston, near Norwich, in this country, there is a mechanical planting equipment. It has been used for cabbages, celery and strawberries, and it sets and waters plants at the rate of 12,000

an hour. In the Fen district it has actually planted celery at the rate of 25,000 plants an hour, 7 plants a second. An experienced hand planter could plant no more than 700 an hour. Turning to cigarettes—which I suppose, to-day, we must consider as food!—using modern equipment 3 employees have an output equal to that of 700 hand-workers. They can turn out 12,000 cigarettes a minute, or 700,000 cigarettes an hour.

With regard to clothing, the average weight of the fleeces of wool in Australia has increased during the past 70 years from $2\frac{1}{2}$ lbs. to over $8\frac{1}{2}$ lbs. When that wool comes to the knitting machines, there is a machine in operation to-day which makes 3,000,000 loops in the time in which 300 would be done by hand; and one girl, tending 25 automatic machines, can produce 3,600 pairs of socks in a day. There is a machine in existence at Los Angeles which produces boots and shoes with the assistance of two men. These two men require two helpers and a few operatives for odd jobs. The interesting feature about this machine is that it can turn out 1,000 pairs of boots or shoes per day.

Near New York, at Corning, there is an electric lamp manufacturing plant which has an output of 650,000 lamps per machine per day, an increase over handicraft of 10,000 times; and one of these machines can be built in six weeks by 37 men. The Redfern glass bottle machine, which has a rotating weight of 40 tons, has an output of 400,000 quart bottles or 1,000,000 pint bottles per week. Fifteen men, operating in three shifts of five each, have charge of this machine, and each machine displaces 300 men and boys. It may be of interest to some of you to know that the first two of these machines ever sold were sold to Japan. In 1880 the maximum production from a blast furnace was 1,200 tons a week. Now there are blast furnaces with an output of 1,000 tons a day. During the past fifty years the production of steel has increased from 4,000,000 tons a year to 90,000,000 tons a year. In the case of rolling mills,

a mill used for the rolling of sheet bars has an output of 700 tons a day. Two of these mills were recently supplied to Japan. In the production of bolts, where automatic machinery is particularly suitable, one machine operated by one man and one boy can do the work which was formerly done in the handicraft era by 6,000 men. Compared with the handicraft era, that machine saves £17,000 a week in wages. In the Wolseley motor-car works there is a machine which drills the holes in the crank cases. There are 70 holes altogether. Some of them are vertical and some horizontal, but they are all drilled in one operation, and the whole of them are drilled in just 60 seconds. The Smith Corporation of Milwaukee in the United States is practically one huge machine. It produces one commodity, and that is chassis frames for motor-cars. After 500 separate operations a complete chassis frame is delivered to the stacking plant every 8 seconds. The output of that plant when it is in full operation is 10,000 chassis frames a day. Thirty years ago the output of the factory was 10 chassis frames a day. The staff of that factory numbers 208 men. In 1904 about 1,290 man-hours were required to produce a motor-car. In 1929 the man-hours required to produce a car were 92.

It is estimated that if the resources of the United States were fully used they could supply all the needs of five times the number of people at present existing on the earth.

What are we doing with this amazing power of production? We know, even from our newspapers, that the problem of production presents no physical difficulties whatever. Man has so mastered the power and the materials of nature that production has ceased to be a problem. What are we doing with these modern powers? 31,500,000 bags of coffee have been destroyed in Brazil. Twelve million pigs and cattle have been destroyed in the United States, and half a million cattle have been killed and incinerated in the Argentine. Ten million gallons of port wine have been

poured down the drains in Portugal. Two or three years ago a few statesmen met round a table and produced the Ottawa Agreement. One of the decisions embodied in that Agreement was that in North America wheat should not be sown on 14,000,000 fertile acres which had been bearing wheat in the past.

Well might Dr. Norwood of the City Temple say in the first sermon which he preached in the City Temple after his world tour: "We have reached the end of the road. We cannot persist in the paradox of simultaneously demanding plenty and scarcity. I am almost heartbroken with the world's beauty, wonder and fertility, side by side with its hunger, weariness and hate. We have conquered scarcity, but we have no technique for handling abundance. The world is frightened of the earth's fertility and is practising contraception upon the seeds of wheat, on wool, sugar, cotton, silk, rubber, rice, tin and coffee, stifling at birth the fundamental necessities to man, for fear of disturbing prices."

The present financial system, as Dr. Norwood said, cannot carry the load of abundance. It is supposed to reflect the economic facts, but it is obvious to anyone who is able to read that it does not reflect them. Not only does it not reflect the facts, it controls the facts, by the relentless pressure it imposes upon industry, directly and indirectly, compelling "for financial reasons" the destruction of production and restriction of productive capacity. A scheme is now being considered for the scrapping of 10,000,000 spindles in Lancashire. On the Tyneside, there were recently eight shipyards and now there are only four.

Destruction and restriction are being enforced in order to maintain an out-of-date financial system; but they have gone further than that in America. They have paid at least 20,000,000 dollars to farmers for not raising pigs, and in that connection I should like to read to you a letter sent to the *New York Commercial and Financial Chronicle*. "Dear Sir, A friend of mine in New England has a neighbour who has

received a Government cheque for 1,000 dollars this year for not raising hogs. So my friend now wants to go into the business himself, he not being very prosperous just now; he says, in fact, that the idea of not raising hogs appeals to him very strongly. Of course, he will need a hired man, and that is where I come in. I write to you as to your opinion of the best kind of a farm not to raise hogs on, the best strain of hogs not to raise, and how best to keep an inventory of hogs you are not raising. The friend who got the thousand dollars got it for not raising 500 hogs. Now, we figure we might easily not raise 1,500 or 2,000 hogs, so you see the possible profits are only limited by the number of hogs we do not raise. The other fellow had been raising hogs for 40 years and never made more than 400 dollars in any one year. Kind of pathetic, isn't it, to think how he wasted his life raising hogs when he could have made so much more not raising them! I will thank you for any advice you may offer."

But that is by no means the end of the tragic farce which is being enacted before the gaze of the civilised world. This deliberate destruction of the bounties of God is a small thing compared with what is happening in the hearts and minds of men and women. Do we realise that in this country a suicide takes place on an average every hour and a half day and night all the year through? If you examine the curve of suicides in the graph which Major Douglas submitted to the Macmillan Committee you will find how closely linked it is with the curve of bankruptcy. We all know that one of the greatest causes of suicide is the difficulty that people have in making ends meet.

The most important feature of our Western civilisation is the displacement of human energy in production by the use of solar energy. We have passed through the machine age and we have entered the power age. We use steam power, electrical power and the power of the internal combustion engine. The consequence of this is, that as we use more of the stored up energy of the sun in production,

we are reducing the need for human energy. Yet the current conception is that the problem of unemployment is to be solved by providing work. In the city of Sheffield we have a city hall which cost over half a million pounds, and which contains a very large dance hall beneath the ground level. The construction of this dance hall necessitated the excavation of many thousands of tons of earth, and the contractor used a couple of steam navvies for the job. One day two Sheffield unemployed men were watching these steam navvies at work. One of them turned to his friend and said: "It's a rotten shame, George, them things bein' theer. If it woren't for them there'd be five hundred fellows wi' shovels on that job." George pondered a moment, and replied: "Aye, th' art reight, but why not fifty thousand wi' salt spoons?" You can observe the logical process, and it brings us right up against one of the most important and crucial questions an intelligent man or woman can ask himself or herself to-day. That question is: What is the purpose of industry? The answer of Social Credit to that question is, that the purpose of industry is to supply the people with goods and services with the minimum expenditure of energy, either human or mechanical. If you were able to penetrate the mental processes of modern statesmen you would find that, consciously or unconsciously, they assume that the purpose of industry is to provide employment. Social Credit gives a direct negative to any such assumption. Looking at the position from an engineer's point of view, can you see an engineer keeping his job for one week if he persisted in employing 25 men to do a job which could quite satisfactorily be done by 5 men; or would any engineer in his senses use a 500 h.p. engine when he could get all the power he needed from a 5 h.p. electric motor? The engineer, all the time, is out for maximum results with the minimum expenditure of energy, either human or mechanical. The Social Credit answer to the question, "What is the purpose of industry?" is the engineer's answer.

Although it may seem trite to dwell for even a moment or two on this question, I can assure you that it is of the utmost importance that it should receive your very serious consideration; because, if you examine your thoughts on current political problems, I think a very great number of you will find that, underlying all those thoughts, there is the false assumption that one of the primary purposes of industry is to provide employment.

I am indebted to my friend, Mr. Maurice Colbourne, for the information which I am going to give you now. It is embodied in a pamphlet which he has written, entitled *The Sanity of Social Credit*. "In the first twenty years of this century in the United States production and employment increased; production increased by 70 per cent. and employment increased by 40 per cent. In the next nine years, from 1921 to 1929, production increased a further 25 per cent., but employment *decreased* 7 per cent."

Mr. Stuart Chase makes this comment: "For 100 years every Census tabulated an increasing number of persons employed in factories: now, suddenly, since the War, with an increasing population, there are fewer persons in factories. Something cardinal has happened: some mighty corner has been rounded." Mr. G. W. Gray, the President of the British Institution of Mining and Metallurgy, says: "We are face to face with something entirely new in human experience."

In this country the standing army of unemployed, in 1913, was 500,000. As the result of an investigation made a few years ago, a society of engineers arrived at the conclusion that if industry then were as busy as in 1913, the standing army of unemployed would be, not 500,000, but 1,500,000.

In a community which places no restriction upon the activity of scientists, but is applying science every day to industry, making machinery more and more automatic, and harnessing greater and greater power, we are face to face with the fact that unemployment is a permanent feature

of civilisation, and is going to be an increasing feature, unless we take steps, by putting the clock back, to restrict the introduction of labour-displacing power units and machinery, and thus see to it that there is work for everybody. Such a course would be logical but it is unthinkable. Therefore we have to face the fact that, in Western communities, technological unemployment, as indicated by the figures of the United States, and confirmed by the facts in this country, is a permanent feature of our economic life, and is going to increase as the work of applied science develops.

Social Credit, having a realistic point of view, and looking at the facts through the eyes of an engineer, welcomes this technological unemployment. It does not look upon it as an incurable disease, but as an incurable blessing; as a great opportunity, a release from industrial labour. This technological unemployment is due to the inheritance which we of this generation have received from all the past generations of men, right away back to the man who first discovered how to make fire.

Every newborn child as it arrives into this land of ours inherits a portion of the National Debt. The time has arrived when, on the basis of the cultural inheritance we have received through all the past generations of inventors, workers, discoverers and scientists, we should admit every child to another inheritance—a share of the National Real Credit. In other words, if we care to look upon our country as Great Britain, Limited, immediately each little one arrives, we should transform its birth certificate into a share certificate. The inheritance to which that child is entitled does not need to be expressed in ownership. We as individuals are not concerned with ownership; we do not wish to own the tree, but we do want to enjoy its fruits. Each child born into our land can have its inheritance, enjoy its share of real credit, as a shareholder in Great Britain, Limited, by being paid a dividend in money regularly every week, so that the child can draw upon the productive capacity with which we are so

richly endowed. That is the first technical proposal of Social Credit. In response to the blessings of applied science, and as an answer to the so-called problem of unemployment (which, of course, is not a problem of unemployment at all, but a problem of "unemployment"), Social Credit says there shall be paid to every man, woman and child, from birth to death, a National Dividend; the amount of the dividend to increase as the productive capacity of the country increases, and as labour is increasingly displaced by applied science; and the amount of the dividend to diminish if the productive capacity of the nation happens to diminish.

If we issued the National Dividend and did nothing else, in a short time we should discover we had caused inflation. "Inflation" is a very much misunderstood term. In the minds of most people, and, I am afraid, in the minds of all orthodox financiers, inflation just means an expansion of money in the country. But an expansion of money in itself is not inflation; we do not have inflation until we have expanded the price level. Inflation is an expansion of the price level, most commonly caused by an expansion of money without a corresponding expansion of goods. If we paid this National Dividend and did nothing else, beyond any question in a comparatively short time we should have the one sign of inflation in evidence, namely, the price level would rise. But here we bring into operation the second proposal of Major Douglas, the Compensated, or Just Price. I think our Chairman will agree with me when I say that probably only a Scotsman could have made such an ingenious discovery!

The discovery amounts to this: by means of the Compensated Price it is possible to increase the money incomes of the people, and, as a consequence of doing this, and as you do it, to *reduce* the price level. Major Douglas has the proud distinction of being the first man in the world to discover how to accomplish that.

The method of doing it is based upon an axiom which states that the physical cost of production is consumption.

That may be rather too tabloid a statement to be assimilated readily at a moment's notice. Therefore let me illustrate it in the simplest way I know. A friend of mine who has spent some years on the Malabar Coast of South India told me that the natives there derive practically all their food, clothes and shelter from coco-nuts. Now if we were such a community and in the course of the year we produced 2,000 tons of coco-nuts, but in the course of that same year we needed to use as food, clothes and shelter 1,500 tons of coco-nuts, the axiom which I have just stated, reduced to terms of coco-nuts, would be that the physical cost of producing 2,000 tons of coco-nuts had been 1,500 tons of coco-nuts.

Under Social Credit, the Budget which is now submitted annually to Parliament, would be superseded. Taxation as we know it would be unnecessary, and for the first time in the history of the land a Budget would be presented to the House which would be a true and adequate account. As a statement of the national accounts, the existing budget, presented by the Chancellor of the Exchequer, could not obtain the signature of any self-respecting accountant. The character of the whole account, the omissions from it, and so forth, do not bear talking about. It is not even that poorest form of account, a cash account. It simply indicates on the one side what it is hoped to get out of us, and on the other side what it is expected will be spent. Under Social Credit the budget would be concerned with real facts, and the nation would be provided with an accountancy instrument which at present is totally lacking. We are able, in the accounts of all industrial concerns, to arrange that the consumers bear all the costs of depreciation or wear and tear of the plant and equipment, but there is not in the existing accountancy technique any instrument for giving the people of a nation direct credit for appreciation, the addition to productive capacity which has resulted from their activity during the period under review. The "Real Credit Budget" does give the people full and direct credit for the

appreciation and at the same time charges them fully with the depreciation. Please remember that the figures of this specimen budget to which I now ask you to refer are based on no facts whatever, they are only illustrative.

At convenient intervals—Quarterly, Half-yearly or Yearly, the Treasury would prepare a

DR.	REAL CREDIT BUDGET.		CR.
	£		£
	millions		millions
IMPOVERISHMENT		ENRICHMENT	
1. CONSUMPTION		1. PRODUCTION	
(a) People's Goods sold retail	1100	(a) People's Goods	1100
(including National Dividends spent)		(b) Business Goods	700
(b) Wear and Tear (Depreciation) of Business Equipment	200		
2. EXPORTS		2. IMPORTS	
(Real wealth lost by us)	200	(Real wealth received by us)	200
	—		—
TOTAL IMPOVERISHMENT	1500	TOTAL ENRICHMENT	2000
Balance carried down	500		
	£2000	Balance brought down,	
	—	NET ENRICHMENT	£500

$$\text{DISCOUNT} = \frac{\text{Net Enrichment} \dots 500}{\text{Total Enrichment} \dots 2000} = \frac{1}{4} = 25\%$$

(These figures are merely illustrative and make no pretence of accuracy.)

On the right-hand side of this account you will see tabulated the Enrichment which has taken place in the community, during (say) the past six months. There is the production of people's goods; that is, the goods that we buy retail; and there is the production of business goods, that is, factories, plant, equipment; telephones, typewriters, and everything used in industry and commerce. Then there are imports, which are real wealth received by this country. The total of that enrichment in our illustrative figures is £2,000,000,000. On the other side of the account are the figures of Impoverishment, represented by people's

goods sold retail; wear and tear or depreciation of plant and equipment; and exports, which are real wealth lost by us. The total of Impoverishment, for the purpose of our illustration, is £1,500,000,000. If the figures were as we have shown them, the Chancellor's statement in the House would be that retailers could allow all their customers 25 per cent. discount on their purchases. The total enrichment is £2,000,000,000 and the total impoverishment is £1,500,000,000, so the net enrichment is £500,000,000, which is just one quarter of the total enrichment. The compensated price, which is designed to reflect the productive and consuming activities of the people in retail prices, would be one-quarter below the normal retail price. If the budget figures revealed the fact that enrichment had been £3,000,000,000 and impoverishment only £1,500,000,000, the net enrichment would be just one-half of the total enrichment, and the discount would then be sixpence in the shilling, or ten shillings in the pound. If, on the other hand, we suffered any catastrophe of nature, such as an earthquake, or suffered an invasion by enemy aircraft, with the consequence of widespread destruction of our productive capacity, we might find that the Real Credit Budget stated: Enrichment £3,000,000,000, Impoverishment £4,500,000,000. In that case a shilling article would sell for 1/6 and a 20/- article would sell for 30/-.* If we became poorer in productive capacity it would be reflected in retail prices. By means of the Compensated Price, the exact economic condition of the community, taking into account not merely consumption but production, including increased productive capacity, would be reflected in retail prices.

The additional money required to finance the national dividend and the compensated price discount would not be taken out of taxation and would not be borrowed from the banking system. It would be created by His Majesty's

* The 50 per cent. margin above normal price would pass to the Treasury by way of a Turnover Tax.

Treasury on behalf of the British people. It would not result in inflation, because the issue of it would follow the sale of goods at a *reduced* price level.

Some of you may be wondering how the Compensated Price could be worked. We have an excellent example of one way in which it could be operated in the practice of the Co-operative Stores in issuing a chit or check in respect of each purchase. If the discount were operated on this method, we would pay a shilling for a shilling article, and when we had accumulated a convenient number of checks we should pass them into our bank, where, if the rate of discount were 3d. in the shilling, and we were paying in £20 worth of checks, we should receive a credit of £5, being our discount on the basis of the Compensated price. The Bank would recover the amount of such Discounts from the Treasury.

The effect of the Compensated Price operating in conjunction with the Dividend would be that the people of the country could fulfil the Social Credit objective which is, that they could exercise an effective demand on everything they could produce. We should put an end to the idiotic state of affairs where we have immense productive capacity only partially used, and a vast mass of people in dire need. The object of the Compensated Price is to ensure, not only the elimination of any possibility of inflation, but that the people of the country shall be able to consume all that the country can produce.

The advocates of Social Credit are not dogmatic regarding methods. We recognise that the most appropriate methods of carrying out such principles as I have endeavoured to put before you should be left to experts, such as the experts at the Treasury, men who, all their lives, have been engaged on matters of this character. We are not dogmatic as to the precise methods which should be employed, but we do insist that the people of England, by some method or other, shall be able to buy the total production of their country.

Before concluding my remarks, I should like to ask your

attention to some insurance statistics. These statistics take no account whatever of any future developments of applied science. They are based upon past experience. They reveal this position: of every 100 fit young men aged 25 to-day, in forty years' time 36 will be dead, 5 will be well off, 6 will still be working, and 53 will be dependent on charity. If you are satisfied with that prospect you will not waste another minute on Social Credit; but, if you are in the slightest degree appalled by the thought that you may be involved in some of the more sinister figures of those statistics, I refer not to those dealing with mortality, but to poverty, I think I am justified in asking you to give further consideration to this contribution to modern thought, which, as the Chairman said, supplies us with the key to the gateway which leads into a new civilisation.

THE SOCIAL CREDIT PROPOSALS OF MAJOR C. H. DOUGLAS, M.INST.MECH.E.

(Re-stated by A. L. GIBSON, F.C.A.)

1. OPEN THE NATIONAL CREDIT OFFICE
2. ISSUE THE NATIONAL DIVIDEND
3. APPLY THE COMPENSATED PRICE

REAL CREDIT AND FINANCIAL CREDIT

A nation's "Real Credit" consists in its ability to produce and distribute goods and services to its people.

This "Real Credit" is a social creation—"Social Credit." Whenever Real Credit exists it is permissible to create corresponding Financial credit. Financial credit is a system of book-keeping, supplemented by "printed stationery" (£1 and 10/- notes) and metal coins. Its creation is practically costless. Its purpose is to account the processes of production, and to effect the distribution of the products to the people. It is in this latter function that the Financial System is failing, because it obstinately refuses to adapt its basic principles to the conditions of a Power Age. Labour is a diminishing factor in production, more and more work is being done by machines, therefore the wage system cannot by itself ensure the purchase of all the possible products of industry. At present, rather than make the Financial System more scientific, i.e., more closely related to the real facts, civilised man is restricting production, and destroying vast quantities of real wealth, corn, cattle, fruit, coffee, which the people need, but which they lack money to buy. The "National Dividend," by supplementing wages, salaries and dividends, would ensure that

this real wealth would be distributed not destroyed. It would be a Dividend in Goods, operated by means of these proposals.

(1) *THE NATIONAL CREDIT OFFICE*

This would be a Department of the Treasury. At present there is no National Credit Office. There is a National Debt Office. The purpose of the new Department would be to keep a proper account of the economic activities of the nation, i.e., of its total production and consumption. Such an account does not at present exist. On the basis of the new Accounting the Treasury would regulate the issue and withdrawal of money through the existing Banking System, just as the Bank of England (a private institution) does now. It would do this in the course of administering the new Social Credit Principles which are designed to bring the Financial System up-to-date, and make it capable of dealing with the abundance and leisure which science is thrusting upon civilised man.

(2) *THE NATIONAL DIVIDEND—The response to “Applied Science,” and the remedy for “Unemployment.”*

This would be an issue each week of an equal sum to each British-born man, woman and child; receivable by them as life-shareholders of “Great Britain Limited.” The National Dividend would be a birthright. Each Birth Certificate would become a Share Certificate.

It would be paid out of money specially created by the Treasury, not out of taxation or loans, and would be in addition to any wage, salary or industrial dividend.

It would not be paid out of “profits,” but would be a financial expression of the country’s power to produce goods and services. As that power increased, and, in particular, as Applied Science reduced the need for “work,” the National Dividend could be increased. If productive capacity decreased the Dividend would be reduced.

(3) *THE COMPENSATED PRICE*

A device for counteracting inflation, i.e., a rise in prices: and at the same time increasing the purchasing power of the people until it equalled the productive capacity of Industry. It does this by operating a Discount on all Retail Purchases. This Discount is calculated so as to give the People "credit" for having created new means of production—factories, machinery, etc. The existing Financial System has no accountancy mechanism for fully and directly reflecting this enrichment in the lives of the people. All it can do is to charge them for the use of the machinery.

The principle of the Compensated Price is based upon the axiom that the Real, the physical cost of Production is Consumption. The rate of Discount would be arrived at as shown on page 23.

If the figures were as shown, Retailers would be authorised to allow a DISCOUNT of 25 per cent. (3d. in the 1/-; 5/- in the £) to all Customers. This could be done in one of two ways:

- (i) By Retailers selling 1/- articles for 9d., and obtaining from the Treasury, through the existing Banking System, the discounts which they did not collect from their Customers.
- (ii) By Retailers selling 1/- articles for 1/- and giving a "check" for purchases, just as the Co-operative Stores do now. When the Customers lodged these checks in a Bank (Savings Bank, Post Office Bank, or one of the big Banks), they would receive the Discount (5/- in the £) on their total purchases.

If Net Enrichment were found to be one-half of Total Enrichment the Discount would be 6d. in the 1/-.

If there were no balance of Net Enrichment, because Impoverishment equalled Enrichment, there would be no Discount at all.

The money required to finance the Discount would be *created* by the Treasury. It would not be raised by taxation,

or by loans. The backing behind it would be, not gold, but the ascertained increased power to produce the Goods and Services which the people need for a higher standard of living.

It could not produce "Inflation," because inflation exists only if the price-level is raised. The credits issued to finance the COMPENSATED PRICE would be issued only because a *reduced* price-level was in operation.

The Social Credit Proposals could be introduced gradually. In full operation they would provide an automatic balance between the people's purchasing power and the country's productive capacity. They would also provide a flexible financial mechanism by which any economic policy desired by the people, and within the scope of their productive capacity, could be fulfilled.

The National Dividend and the Compensated Price are both social reinforcements of the consumers' purchasing power. The Discount is the Key to Plenty, the Dividend the Key to Leisure. If one were specially applied it would be at the cost of the other. By means of a relatively large Discount and a small Dividend we could have great industrial activity and luxury. By making the Discount smaller and the Dividend larger, we could enjoy a life of leisure and simple plenty.

Poverty is unnecessary. Applied science has solved the problem of scarcity. For the first time since human beings appeared upon the earth, man is now at the threshold of the Age of Plenty and Leisure. Only money locks the door against him. Money costs practically nothing to make.

The Social Credit Proposals indicate the scientific principles on which it must be issued as income and withdrawn through prices, if industry is to prosper, and the people are to enjoy economic satisfaction, security and liberty.

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