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AN OUTLINE OF SOCIAL CREDIT

By H. M. M.

With a Foreword
by
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THE STANDPOINT OF THE NEW ECONOMISTS

The people must realise that the old gospel of scarcity—that the necessities of life are strictly limited by Nature—which is still being preached to-day is no longer applicable to present-day conditions. Fifty years and more ago the problem was how to get goods to feed and clothe the population. To-day the problem is how to find markets for the means of life that can be produced in abundance.

Australia can produce far more wealth than its inhabitants can consume. And yet thousands of her people are living on the verge of poverty. Want and abundance walk hand in hand!

The public must realise that the tendency of modern industry is to free mankind from the drudgery of toil by the use of machine-power in the production of wealth. As this process develops the opportunities for employment in industry must become fewer and fewer because the final goal of inventions is to make manual labour in production almost unnecessary. When this end is reached are the masses of the people to live in abject misery because they cannot find industrial employment?

The nation's trade and industries are slowing down to-day because the people cannot buy what they produce. If the Australian people could buy more food and clothing, and insist on having better and more houses, there would not be a single factory silent in the country.

What is the barrier which prevents the people from buying and enjoying all the good things our industries can produce? The answer is INSUFFICIENCY of PURCHASING POWER (money). The amount of money in the hands of consumers to-day is not sufficient to purchase one-fourth of the goods we are able as a nation to manufacture. The present money system places industry and the people in a strait-jacket, leaving no room for natural expansion. This condition of not being able to buy what is, and could be produced exists in all modern countries. Hence, the struggle for foreign markets; hence, trade warfare, which engenders military warfare, and wars will continue as long as the present false money and economic system lasts.

Nations must now adopt a new method of distributing the products of fields, factories, and workshops. Machine-power is emancipating mankind from the necessity for long hours of manual toil and is giving all the opportunity to enjoy the leisure needed for other and higher pursuits than the mere drudgery to secure a livelihood which has hitherto been the lot of nine-tenths of the people.

Our immediate task is to replace the present irrational Financial Economic system with one based upon modern scientific principle, for it is to the money system that we must look for the cause of the nation's and the world's difficulties. To look elsewhere is a waste of time and a delusion.

PREFACE

In writing a short foreword to H. M. M.'s outline of the general principles which an increasing number of persons believe must be the basis of the coming epoch, I am impressed by the appositeness of the time at which his pamphlet appears.

It is, I think, generally appreciated that the path of those who endeavor to explain to the general public the defects and the dangers of the Financial system which governs daily life is not an easy one, and that an unusual number of obstacles impedes their progress. But in spite of this, it is evident that the matter is now attracting widespread and influential attention in quarters far removed from those commonly associated with social reform, and for my own part I am convinced that the next few years will witness a struggle between the forces of progress and reaction transcending in importance that which has raged around any issue within historic times.

The subject dealt with in these pages is one which presents peculiar difficulties in regard to a popular presentation of it. A political economist has been defined as "a man possessing a large amount of knowledge of what ain't so," and whatever little knowledge in regard to the subject of money is possessed by the general public shows a tendency to come under this definition. While, therefore, there is a sense in which it may be said that such matters as the control of credit and the initiation of the just price are simple, it is necessary to qualify this statement with the admission that it is almost impossible to understand them if the orthodox conceptions of wealth, the "reality of money," the "virtue of monetary saving," and the "objective of industry," are taken for granted. Many attempts to simplify the thesis have been made. Some of them have been simple without being sound; some have been sound without being simple, and numbers of them have been neither sound nor simple. I believe that H.M.M.'s has achieved both soundness and simplicity, and I feel sure that his effort will be rewarded by an increased apprehension of the magnitude of the issues at stake.

C. H. DOUGLAS.

The price-regulating formula is the idea of a genius; and the day of its adoption will be a red-letter day in the history of the world. By its use, if production gained on consumption—as it normally does if all financial hindrances are removed—the resulting fall in prices to consumers would be at one and the same time an intimation to the producer that he might slacken his efforts and take a holiday, an invitation to the consumer to consume more, and the equivalent of a gift of money enabling him to do so.

If on the other hand, consumption gained on production, it would manifest itself to all by a rise in prices to consumers. This would automatically slow down demand for the time being, but only for the time being; for it would also inform the producer that fresh productive effort was called for, and, being himself a consumer, the loss of money caused by the rise in prices would stimulate him to make it and so earn more.

Many people find it difficult to grasp the idea that underlies this proposal to sell under cost. It seems preposterous to them; but only because they take the present costing system on trust without troubling to understand what it means.

It may appear clearer to them if they bear in mind the fact that, normally, the nation's power to produce is very much greater than its power to consume. Even during the war, when consumption and destruction together reached a higher level than they ever did before, or have since, production, except in the early days, before the productive machine got thoroughly going, was so easily able to cope with all needs that it was years after the Armistice before the surplus production was all absorbed, if, indeed, it is all absorbed now.

For instance, a house may be built in a year or less and last for fifty or a hundred years. A suit of clothes, or a pair of boots, made in a few days, or a few hours—or even minutes, under mass-production methods—will last for months, or it may be years, and so on. That means that we produce Real Credit—or wealth, if you like—at a faster rate than we consume or destroy it; and as our Financial Credit, or money, ought to be

an exact reflection of our Real Credit, it is clear that money ought to be distributed, via costs, as income to the community, during the course of production, at a faster rate than it should be taken back again, via prices, during the course of consumption, if the financial book-keeping is to give a true record of our production and consumption of Real Credit.

The difference that exists at present between the aggregate of prices and the aggregate of incomes (or consumer purchasing power) represents a large reserve of Real Credit, or power to produce wealth, upon which the community is ~~debarred from drawing~~, owing to the faults of the financial system, but upon which it could draw immediately if the necessary price-regulating arrangements were made and the necessary financial tokens (money) were distributed to the individuals composing it.

Selling under cost in the way described would not deprive anyone of a farthing of his income. The adjustment in prices corrects a flaw in the financial book-keeping which keeps prices above incomes and so hinders the distribution of goods. There is no question of penalising anybody or making him poor; that is quite unnecessary. The whole object is to make everybody rich, not a few only.

VIII.

To summarise:—

- (1) The primary cause of the world's troubles is the fact that the aggregate of prices is always greater than the aggregate of incomes.
- (2) The cause of the difference is the manner in which credit is issued and recalled, and its effect in raising prices if they are not scientifically regulated.
- (3) The effect of the difference is war or starvation, either or both of which will destroy civilisation unless the financial system be re-formed.
- (4) The nature of the reform must be to make the nation's money balance the money value of its capital assets and goods making and for sale. This

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IX.

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The remedy can be applied in several ways; but the principles outlined underlie them all. All that is needed for introducing it is a knowledge of the money value of the nation's production and consumption, and of the individual's consumption; and easy ways of arriving at these particulars can be found. Approximate accuracy will do to begin with; refined accountancy can come later.

If the banks were disinclined to introduce it themselves, the first step would be for Parliament to enact that on and after a certain date they must keep their books in accordance with the principles established by Douglas, and that, from the same date, the Government itself would regulate retail prices on the basis of the statistics of the nation's production and consumption.

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The financing of business would be done by the banks direct, as agents for the community, all manufacturers, dealers and retailers being granted credits to pay their costs as they arose. No production to be sold under the price formula would be financed out of earnings.

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Merely to illustrate the principles in action, let us picture the productive process, with goods passing through a succession of hands—A, B, C, D, E. . . . B's borrowings would cancel A's borrowings (costs) and pay A's profit. C's would cancel B's and pay B's profit. D's would cancel C's; and so on.

If E were the retailer, his borrowings would have to be large enough to pay D's costs and profit, and E's own costs and profit. This latter provision is to ensure that when goods enter the retail market enough money to buy them has been distributed to the consuming public, of whom the retailer is one.

Method

The consumer, on making a purchase, would pay the retailer the full price of the article bought, and would receive with it a voucher for the amount paid, as is usual now. These vouchers he would present to his bank for recording, and at suitable intervals of three, six or twelve months he would be credited with the amount due to him, as discount on his purchases for the period, as determined by the Price Formula for that period.

The retailer, having already had his costs and profit paid by issues of credit, would repay the banks all he received from purchasers; but he would repay only as and when he made a sale. To make him repay at arbitrary dates, fixed independently of how his sales are going, is wholly unscientific, and forces him to rob the public whenever he can, besides throwing the whole economic system out of gear.

By this method the whole process of adjustment is carried through in the bank's books; and this makes for ease and simplicity of working; but there are other methods; and, as the British people pay little attention to theories unless they work out in practice, it is possible that some rougher and readier way would be adopted at the start.

X.

The promise this reform holds out for the human race is beyond calculation. It would not only put an end to labour troubles, and in so doing remove all fear of internal disruption; but it would also change international trade from being a struggle for markets terminating in war, and differing from war only in the nature of the weapons used, into a friendly exchange of superfluities, bringing advantage to all concerned, and doing harm to none.

With international trade established on a sound and friendly basis, all the probable causes of war would disappear. Nations could quarrel as much as they liked—if they could find anything to quarrel about—but they would no longer endanger each other's existence. Wars are not bred of casual quarrels, but from the existence of some stnading menace, and from the preparations made to ward it off.

The scheme of reform could be introduced within a few weeks of its adoption by the country. That is a sufficient answer to those who, like Ramsay McDonald, contend that economic conditions can only be improved very gradually. It is not true. The Government has it in its power to solve the unemployment problem, reduce retail prices far below the 1914 level, and put everyone beyond the reach of want and well on the way

to a lasting prosperity, within less than a year, if it cared to introduce this one measure of financial reform.

Needless to say, finance by itself, without real productive power behind it, can do nothing, being mere book-keeping; but the productive power is there all right, tremendous productive power; it is only waiting to be released. The war gave us a slight indication of what it can do, but only a very slight indication. The conditions have never been favorable for a proper test. But give people more purchasing power, and regulate prices in the way indicated, and you will see miracles happen.

Nevertheless, although the Douglas proposals would confer incalculable benefits on everybody in the country, by setting free on their behalf all this tremendous dammed-up productive power, they are opposed by two classes—ignorant people who have not the wit to understand them, and intelligent men who have, but who, being out for the acquisition of power, realise that their reign is over if the proposals are adopted.

If the British people were united on financial policy, no power on earth in Wall Street or elsewhere, could prevent them from putting through this scheme of financial reform; but the present controllers see to it that people are not united. They play Capital off against Labour, and both off against the consumer; and there is little doubt that the influence behind most of the movements that separate people and keep them apart, politically and socially, is Finance. But for the evil influence it wields, the interests of Capital, Labour, and the consumer would be seen to be identical; and unless the three unite on the financial policy here recommended, and it would benefit them all, the outcome is bound to be a catastrophe.

Three facts stand out as the result of our enquiry:—

- (1) Modern wars and revolutions arise from unstable economic conditions;
- (2) The cause of unstable economic conditions lies in the mechanism of finance, not in anything external to it;
- (3) No escape from revolution or war is possible until the defects in the mechanism are repaired.

The existing system works with increasing difficulty, to an accompaniment of bankruptcy, unemployment, strikes, revolutions and wars; and if it can be bolstered up for a little while longer we shall witness the strange spectacle of a world starving in the midst of potential plenty, refusing to satisfy its desires because it has increased its productive capacity too much!

And each industrial nation will see some other as the cause of its troubles; for the failure of the home market will be traced to the failure of the foreign market and the wickedness of foreigners, rather than to its proper source in the defects of the credit and costing systems. And, since the loss of markets is for all of them, under present conditions, a matter of life and death, they will be driven into war again in spite of themselves, while having nothing but the best of good intentions in their hearts.

XI.

There have been times in the history of the world when some event or discovery has enabled the human race to take a great step forward. Major Douglas's discovery is of this type. It brings economic emancipation within our reach, if we can free our minds sufficiently from economic superstitions to understand and grasp what is offered.

What is emancipation? It is to be free to live without having to beg anyone's permission; to do what one wants to do, and to work all day at it if one is so inclined. To make one's living depend on the performance of some task which one has no power to reject is not freedom at all, whether it be performed for a private employer or the State.

Under modern conditions, real freedom can only come with the possession of a private income which no one has the power to withhold. Hard things have been said of the man who gets an income without having to work for it, but at heart everybody envies him. He is the only really free man in the community; but if Douglas's ideas were put into operation, everybody would become the possessor of a private income and reach the same happy state of freedom.

Where work is made the sole test of the right to an income, the worker is inevitably the puppet of the people who distribute incomes, be they private employers under Capitalism or public officials under Socialism.

The only sane policy is to set men free as fast as we can invent machines to supersede them, and to pay the whole community a social dividend equal to the value of the saving effected.

This does not necessarily mean that there would be less work done; probably there would be a great deal more. Men must expend their energy in some way, and the present system is constantly throwing up barriers—such as unemployment—to prevent their doing so in useful ways; but much of it would be work of a different kind; and there would be a great deal more play and recreation.

Most of the things we want to do are things nobody would pay us for doing. Who, for instance, would pay us for studying music, literature, art, science, philosophy or religion; or for cultivating a garden, or indulging a taste for travel or golf? Nobody; yet, if emancipation means anything at all, it means setting men free to do these or similar things.

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The reform suggested is not put forward as an alternative to Capitalism, but as an alternative to chaos. So long as the present system can provide the majority of people with a living of some sort, no alternative, however attractive, has much chance of being considered. But if it become obvious that the system is breaking down—and the manifest difficulty of providing employment and doing profitable business are two of the evidences that it is breaking down—the only alternative that has a chance of being successful is the one that can reconcile the greatest number of interests with the minimum of disturbance. The Social Credit proposals of Major Douglas fulfil these conditions. Their title to general support is that they can make the poor rich without making the rich poor, and involve no change in administration, only a change in financial policy. ?

No question is of greater importance for the country or the world than this question of the purchasing power of money. It dominates all other problems. Incomes are good or bad, according to what they will buy, not according to the number of pounds of which they are composed. But until we decide to regulate prices on scientific lines, we must expect to see the value of our money decline with every fresh credit issued, and see the next war come correspondingly nearer with every such decline.

The world is travelling towards war and chaos because it is still largely dominated by its subconscious instincts. For thousands of years, a million, perhaps, until the growth of reason brought civilisation into existence, mankind had to fight hard with Nature for a living. During that time the conditional truths of scarcity and the need for hard work sank deep into the unconscious, and acquired the validity of immutable laws, as little to be questioned as the law of gravity.

The general mode of living being relatively unchanging, instinct developed into a quick and reliable guide, able to deal with most of the circumstances of life; but, with the coming of civilisation, greater adaptability was called for, and the responses of instinct became misleading and dangerous in the new and ever-changing situations which arose. The need to substitute reasoning processes for unconscious instinct, in order to deal successfully with the numerous problems of civilised life, grew faster than did the process of substitution; and that is probably the whole explanation of the failures of civilisation.

XII.

Conscious reasoning has not yet proceeded far enough, however. If it had, it would have been seen that the organisation of power and knowledge had destroyed the validity of the above-mentioned conditional truths. It would have been seen that there is no longer any real scarcity, and that insistence that everybody must work as a condition of being granted a living, far from helping the civilised world out of its difficulties, is

the very thing which, in face of the competition of more efficient machines, will ere long smash it up completely.

Unfortunately, the subconscious instincts of a million years' growth are not easily uprooted by a few thousand years of civilisation.

And what of the League of Nations? Can it do nothing to prevent war?

The League of Nations has, no doubt, the instinct to prevent war; but it is not using its reason to that end. Instead of seeking for the cause of wars, and working to have it removed, it plans only to bring about general disarmament, hoping by thus clipping the wings and claws of possible belligerents, to make war impossible. It is a vain hope. Deadly and destructive wars can be fought with improvised weapons and means of attack, and will be fought as long as one nation endangers the life of another.

Moreover, supporters of the League are not all animated by humanitarian motives. The well-meaning, if somewhat unthinking, majority want quite genuinely to make the world safe for mankind in general, it is true; but the cleverer minority who determine the policy of the League are more concerned about making it safe for International Finance; and this they hope to do by taking from the nations the capacity for effective resistance, and reducing them to a state of impotence.

The League's policy is a banker's policy; the record of its activities proves that. One of its main functions, so far, has been to bring pressure to bear on any nation which showed a disinclination to be bound by the gold standard or the rulings of orthodox finance. Austria, for instance, after the war, was reported to be making a very interesting financial experiment. Like other countries which had been engaged in the war, it needed money to carry through its schemes of reconstruction; but, instead of putting the new money it created into circulation in the ordinary way, as they did, and so inflating prices, it made free gifts of it to merchants on condition that they reduced their prices to the public in proportion to the amount of money they received.

By acting in this enlightened way, Austria was rapidly getting over its economic difficulties and becoming the most prosperous country in Europe; but, at that point, the League stepped in, and, by persuasion or pressure, induced it to return to the straight path of "sound" finance and the gold standard, whereupon it sank to the poverty-stricken level of the other "faithful" nations.

As International Finance alone had anything to gain by the abandonment of the experiment, the only possible inference is that the machinery of the League was set in motion to that end by International Finance.

To anyone who has followed the arguments here presented, it should be clear that orthodox finance can offer the world no alternatives but war or starvation; and, as no nation will accept starvation if it can avoid it, all the nations are doomed perpetually to war until they either exterminate each other or acquire sufficient intelligence to reform their financial system. Until then, the League of Nations, despite the good intentions of most of its supporters, must be regarded as a menace to the peace of the world.

It is not necessary to assume that the bankers set out deliberately to will bad trade, unemployment, poverty, revolution or war. They are probably, in their way, humane men, good husbands and fathers, and hate these things quite genuinely. Nevertheless, they will the policy that brings them about, and must, therefore, accept responsibility for them. At present they have power, supreme power, without responsibility, and the blame for the evil results of their policy is successfully thrown on the Government, or the employers, or the workers, or the Communists, or on foreign competitors—on everybody, in fact, but those on whom it properly lies—themselves. The truth is, their operations are so hidden from view that the bulk of the people, not being given to the practice of hunting for ultimate causes, do not connect them with their own misfortunes. But if the bankers persist in disclaiming responsibility they must make way for men who are prepared to accept it.

Let us
turn the
Banker
back
to the
Bank of
Europe

Finally something
saying for bankers
too.

to economise

of Brisbane

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If, in order to get to the bottom of this business, the Government were to have the leading bankers detained in close confinement—in not too comfortable surroundings—until they devised a scheme such that it would remove the fetters from industry, and ensure that what the consumer wanted produced would be produced, that it would be produced in sufficient quantity to satisfy him, and that he would get it when produced, there is little doubt that a suitable scheme would be forthcoming in a few days' time. They know quite well what is wrong with their system; and it is unlikely that they would care to defend it in the face of an awakened and very possibly incensed, public.

Such a step would put an end to and prevent untold misery, and, in the long run, might be doing the bankers themselves a kindness; for, if nothing is done—and they show no sign of making a move—and if a knowledge of their culpability in respect of the world's sufferings penetrates to the masses, and it is penetrating, the consequences for the bankers are likely to be unpleasant

Bankers are like fire—good servants, but bad masters. Let us raise them to the level of servants.

(The End.)

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