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Incomes and Prices*

BY BRYAN W. MONAHAN

In 1918 Major C. H. Douglas, a Scottish engineer with a first-hand knowledge of modern factory production and accounting procedure, published a short article in an English periodical, contending that factory production did not distribute sufficient money to enable the purchase of the goods produced. This thesis was subsequently expanded in a series of books, and together with the analysis of the whole social system to which it gave rise, became widely known as the doctrine of Social Credit. Controversy, however, has centred almost entirely on the proposition now commonly known as the A plus B theorem, that incomes distributed in the course of production were less than the cost, and hence price, of that production. Many officially recognised economists have denied the proposition publicly and explicitly, and it appears to be a fact that public economic policy is based on the contrary proposition—i.e., that industry automatically distributes sufficient money to enable the purchase of the whole of its output at a profitable price. This proposition is explicitly maintained by Professors Mills and Walker in their book *Money*, which is prescribed as a course of study by the Commonwealth Institute of Accountants, and consequently it is a matter of some consequence whether Mills and Walker are correct in their contention.

In the section of their book where they deal specifically with this matter, they do not state exactly what it is that Major Douglas contends. They say "Some people believe that there is an ever-present flaw in the monetary system as generally constituted, so that industry cannot distribute enough money to consumers for them to be able to buy the products of industry at prices which will cover costs. . . . This belief is advanced as a theoretical justification of the so-called 'Douglas credit proposals.'"

At the time when Douglas first put forward his analysis of the situation, it was commonly believed that there was only a fixed quantity of money in the world (or a quantity which increased only slowly through the mining of gold, etc.), and that this money circulated through industry. A manufacturer got hold of some of it, in

the first place perhaps by saving some of his income, and then he paid it out as wages to his employees for producing goods. If we were to look on the manufacturer's profit as wages to himself, we could say that all costs were represented by *wages*, and consequently wages were equal to costs. Professor Copland, following J. M. Keynes, puts this proposition thus: "Let X be equal to the costs of production of all producers. Then X will also be equal to the incomes of the public."

In fact, however, this proposition is simply and obviously not true. Every factory, even the simplest, adds to the cost of wages a charge for the use of plant—a charge to cover depreciation of the plant. This charge may vary from a very small amount, as when a workman using his own tools has to include in his cost of living a sum to cover the replacement of the tools when they wear out, to the high charges of a heavily equipped factory where the plant charges may amount to several times the direct labour costs. The essential point to bear in mind is that *every* factory, whatever it is making, is including these plant-charges, or overheads, in the cost of its production. But they are not *income* for anybody; they are not distributed. They are figures added to the direct wage cost.

Now if we consider series—production—i.e. production through a series of factories (as from the growing of wool through spinning, weaving and tailoring to the finished suit of clothes, to take Mills' and Walker's example)—there is no sort of manipulation that will get rid of these overhead charges. They are carried forward through each stage of production, and the total plant-charge appears in the ultimate price of the consumer's goods when they reach the market. Perhaps the simplest way to grasp this matter is to regard all the factories of a country as one single factory; the total cost of its product is made up of the wages paid to the workers, *plus* a charge for the use of its plant. The incomes of the public consist of the wages; but the cost of the product consists of the wages plus the plant-charges. And as the total amount of plant increases, so the absolute size of the charge for its use increases. If we assume that the wage-rate,

* Originally published in *The Australian Social Crediter*, July 3, 1948 and germane to the present economic situation.

and number of workers, remained constant, clearly the ratio of plant-charge to wage costs would become ever greater, so that the wages distributed would buy an ever-decreasing proportion of the output. This process could be off-set in two ways—by increasing wages, and so lessening the ratio of plant charges to wages; and by improvement of efficiency—i.e., by distributing the fixed plant charges over a greater volume of production. But both these possibilities are limited; and if it were true that the amount of money is limited by the amount of gold or other metals mined, it is clear that the system would soon choke up and come to a stop.

Now what Douglas actually said was that the process of production could only be carried on *if there was available a source of income which was not included in the cost of the production for sale*. There is such a source—bank-credit. When a bank makes a loan, it actually increases the amount of money in existence; and when that loan is repaid, that extra money goes out of existence. But over a period of time more loans are made than are repaid, so that there is a net increase in the amount of money in existence over that period. Now advances of credit by banks are predominantly made to finance new production, and it is the financing of that forthcoming production which provides the money to buy the existing produce of industry. The plant-charges on account of existing plant are met by the distribution of income in connection with the construction of further plant, the operation-costs of which are not yet an item in price. So long as there is occasion to expand industrial plant, so long will the deficiency in income be masked; but as saturation point in the number of factories is approached, so is the pressure of plant-charges felt. This is the point where it is said that private enterprise has 'failed', and that the Government must take over; and the contemporary expedient is the construction of public works to 'give employment'—which really means 'distribute income.'

It should be clear that this process is like a dog chasing its tail; there is a great deal of activity, but the gap is never closed. The works, whether private or public, represent *future costs*; they enable the distribution of existing production, but aggravate the problems of future production. Public works represent public debt, which is reflected in increasing taxation, and this is exactly equivalent to the plant charges discussed previously. It should, perhaps, be pointed out that it is not primarily the interest on the debt which matters, but the fact that the debt has to be re-paid. Plant-charges and public debt represent a cost to the public which can only be met by the creation of new money (bank-credit); and the creation of this new money is governed by what Mills and Walker term "monetary policy."

The use of this term "monetary policy" really constitutes an admission of the validity of Douglas's contention. "Monetary policy" says that before the distribution of existing bread and clothes can be undertaken, new factories or public works, or production for export (which distributes incomes, but removes the goods from the local market) shall be put in hand. Building new factories does not affect the *existing* amount of bread or clothes, though it may increase the future supply; but it does distribute incomes, which either make good an existing deficiency of income in relation to costs, or are purely inflationary. Douglas's proposal is that this money should be applied in such a way as not to be reflected in future costs. His view is that neither factories nor public works should be built "to keep up employment" to make up income; once sufficient factories have been built, an accounting adjustment should be made so that plant charges, and other overheads, can be met without piling up debt. Only in this way, he says, can the public secure control of the programme of production, and *ensure that capital and export production is subordinated to the production of a satisfactory volume and diversity of consumers' goods*. The present system ensures that every generation works unduly hard for posterity; the benefits of improved process, which ought to be distributed in the form of increasing leisure, at present go into the excessive production of non-consumers' goods. That is why re-armament, for example, can end a depression, or create a boom; wages are paid for goods which do not come on the market. But while armaments may be indispensable for public security, of themselves they do nothing to raise the standard of living; they are not available for purchase by the public.

The essence of Douglas's view on this matter is that the monetary system should not be used as an instrument of policy at all, and particularly that it should not be used to enforce a policy of "full employment." The true nature of a monetary system should be that of an accounting system, and as such it should reflect the physical facts; and these are dominated by the fact that every harnessed horse-power of energy is capable of replacing ten man-hours of "employment." Now if we consider a country starting industrialisation from scratch, the present monetary system, by removing from consumers (workers) all the money they receive, whether this is paid for work on capital, intermediate, or consumer goods, ensures that the workers must continue working, and in particular, that they must continue working on capital production in order to ensure the distribution of consumer goods. But the limit of industrialisation would be a system where all production was achieved by fully automatic and self-renewing machinery, with man-power completely displaced, and then there would be no mechanism for dis-

tributing purchasing-power in return for employment. While this limiting condition is unlikely ever to be reached, we obviously lie somewhere between the two limits of no industry and fully automatic industry, and are moving towards the latter; and if the *true* benefits of machine power are to be distributed there must be a distribution of purchasing-power which does not depend on employment, and does not enter into, and inflate, prices. That is to say, once the basis of industrialisation is laid, the process of further industrialisation should be slowed down; otherwise we are merely sacrificing this generation to some succeeding generation which will reap the benefits when the rate of industrialisation is slowed down.

The most faithful reflection of this situation would be the steady increase in the purchasing power of the unit of money, which could be achieved just as automatically as the depreciation of money is achieved under the present policy. Such an appreciation of the value of money would pass on to the consumer directly and smoothly the increasing benefits of improvement of process, and would bring about a transition to that age of leisure which machine-power replacing labour should make possible. It is this, as opposed to "full employment," which Douglas's proposals are designed to secure.

The existing monetary system delivers a relative trickle of consumers goods, and progressively diverts labour into an expanding programme of capital production, and production for export; and that is "full employment." If Professors Mills and Walker think that is economically necessary, they are wrong. If, however, they think it is morally desirable, that is another question. What is certain is that the general public considers it is pragmatically undesirable—hence the strikes for shorter hours and higher wages, and the social friction generally. There is an ever-growing discrepancy between the actual and the possible standard of living; and the real depressant of the standard of living is excessive capital production. This is the result of the point of view defended by Mills and Walker; and if, as seems increasingly likely, it leads to a social upheaval, they must accept their share of the responsibility for it.

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Culture and Ritual

The following article by C. H. Douglas was originally published in our issue for August 25, 1945:

We gather from a remark of Dr. W. R. Inge in the Sunday press that the idea of inevitable progress towards good as a result of the mere lapse of time—an idea closely connected, if not identical with Darwinism—is known to theologians as "the Western heresy". It is singular that from every quarter we hear the opinion expressed that the European Age is passing, an idea linked with the rise of Eastern political ideologies such as Marxism. That is to say, we have succumbed to the East, because of our own unsoundness. It is highly important to realise that the idea and the retrogression have been contemporaneous; that it is almost possible to say that the prevalence of "the Western heresy" has driven out of Europe that subtle quality which gave poise and resistance to the European. If Europe (and Great Britain) are to be saved, they have to recover their soul. There is no hope in the stampede of the Gadarene swine. In the economic plane, as in the social structure, the future of this country lies, as it always has lain, with quality, not mass-production; and there will be no quality-production if Professor Laski has his way.

We make no pretence of ability to judge the inevitability or otherwise of cultural defeat. But we notice in many quarters a new awareness of what we have been proclaiming to the best of our ability for the past ten years—that the wars and economic depressions of this century were consciously planned to induce the psychological background for a world revolution which would use the exaggerated and manufactured prestige of "Labour" to eliminate the prestige of culture, and, "in war, or under threat of war" to replace the vitality and attraction of the old Europe by the drab uniformity of a Russian workers-ant-heap. That is a new feature in the situation; and it may be that the shock of the election has wakened many people to the fact that the greatest war of all is still to be fought—to a conclusion, this time. For it is evident that the root of insecurity, both personal and national, is embedded in the rise of the politics of mass democracy. The mere mechanism is immaterial; what is deadly is the technique, however embodied, of using mass action against minorities.

It may quite reasonably be asked at this point, "What do you mean by culture—a word which in itself may mean anything from a bacteriological preparation to the output of a ladies' school?" While a short answer is not easy, we are more and more convinced that one very important component of the culture we have in mind is ritual. We are the more certain in this respect because of the existence of two factors amongst many. The first is that the most important forces in the world, the Catholic Church and Freemasonry, are obviously based on ritual. And the second is the persistent campaign of ridicule waged through the press and the "B." B.C. against the ritualistic basis of the English tradition. It is relevant to this matter that, on no less authority than that of Sir Paul Dukes, "The Comintern was founded with this specific aim" (the overthrow of existing institutions) "and the British Empire was declared to be the main target of the Revolutionary crusaders".—(*The Tablet*, August 11, 1945).

Every effort is made to suggest that ritual is a "class trick"; that "Manners makyth man" has no reality in comparison with a six valve radio or a rousing gangster film straight from Hollywood. There could be no greater falsity. The culture we have in mind is far more extensively diffused amongst the "lower income brackets" than amongst the ornaments of Big Business. But it is not politically effective—in fact, the generous tolerance which goes with, and is the outcome of it, has been used to enlist its suffrages to its own destruction as well as the permanent enslavement of the populace.

But of course the whole question is beyond argument. No honest person hesitates to admit the defects of the nineteenth century while claiming that it was the high watermark of modern civilisation. No instructed person has any doubt that it was, fundamentally, the corruption of the English tradition by the essentially "vulgar rich" on both sides of the Atlantic and the North Sea to which practically all those defects can be traced—the same vulgar rich who are using mass democracy to complete the ruin they have conceived. And the bulwark against these vulgar rich was tradition; a national ritual arrived at by centuries of trial and elimination. It is in the failure to present that tradition as a living force of which to be immeasurably proud, instead of as something for which to make apology, that the so-called Conservative Party—a body, as such, without a soul—has been guilty of the unforgivable sin, and must suffer for it. And the most deadly error we can make is to look to it, in its present form, for salvation.

The Socialist Fallacy

Colin Clark, in *Putting the Population Explosion in Perspective*, attacks the scarcity obsession, which alone gives socialism any reason for existence. For if food and other necessities fail to supply a people's needs, then a policy of fair shares with attendant control and planning can be justified. But where scarcity arises from a deliberate policy of repression, then socialism appears as a handy weapon to crush freedom and initiative.

Moreover this imported doctrine attacks the possibility of independence through its teaching that paid labour for the State alone justifies a person's existence. This it demonstrates by its attack on private medicine or schools, in its taxation on production and its insistence on "foreign aid".

But Colin Clark, director of the Agricultural Research Institute, Oxford, denies that half the world's population suffers from hunger, although he admits there is malnutrition in India and China, the latter being largely due to "crass political interference with an ancient and delicately balanced agricultural system." He notes that if the Indian farmer cultivated his land with the care of the Japanese, he could nearly quadruple his yield of rice. He further gives encouraging reports on possibilities of cultivation in Africa and Asia.

Yet we find the Rev. Laurence Bright advocating "Christians for Socialism" in *The Tablet* and Mr. Douglas Hyde writing some objections. (September 27 and October 4, 1975). Mr. Hyde points out that the philosophy of Marx and Engels was "unashamedly atheistic, based on the belief that man is a material creature living in a purely material world." He further complains that Marxism has so far "ridden rough-shod over the individual, subordinating him to the interests of the masses or the cause", and asks whether this is built into the system or could be humanised. Fr. Bright in his reply relies wholly on abstractions. Marxist theory, he states, arises from and is concerned with "very specific needs in the struggle to achieve socialism", and the chief purpose of the "Christians for Socialism" movement "will surely be the practical one of involving Christians in the class struggle, and on the correct side."

Fr. Bright appears oblivious to the sponsors of communism, some of the world's richest and most ruthless men, and he shuts his eyes to the results, which spread from the Irish Red Army to the Berlin Wall, and which include empires of hunger and fear. Russia used to export corn but now cannot feed herself: the population may have doubled, but yields should have also increased. Solzhenitsyn has complained that Russian citizens "have to render unto Caesar what is God's." (*Time* digest, quoted in H. Fraser's *The Fort Betrayed*.)

Indications of the kind of future favoured by Fr. Bright are given by J. Mitterand, the masonic authority, who says of his craft that "they go even as far as to envisage the possibilities of a world government." He adds, "whether it is a question of the building of Europe . . . or of sexual freedom, of socialism or simply of the rights of man, whereas dogma thinks in terms of the past, free-thinking looks towards the future." (quoted by H. Fraser in *Freemasonry and the Church: Are they compatible?*) Marcel Clement, commenting on Mitterand in *L'Homme Nouveau*, September 2, 1973, remarks, "it is a question of nothing less than the establishment of the world government of an 'anti-Church'."

The Anglican clergyman who, calling himself Vindex, wrote *Light Invisible* twenty years ago, made the contrast plain enough, saying, "The liberal Christian has more in common with the liberal Jew or the liberal Buddhist than he has with the bigotries of either extreme Protestantism or extreme Catholicism, Anglo or Roman." This rules out the possibility of any contribution in the manner of Fr. Bright today being specifically Christian.

The Archbishops have asked, in a Pastoral Letter to be read to their congregations, what sort of society people want. I should have thought that people undoubtedly want to lead their lives with the minimum of State interference, and that in view of Colin Clark's analysis the desire is practicable enough, as long as finance is adjusted to reflect the facts.

—H.S.