MICHAEL

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At the Service of Producers and Consumers

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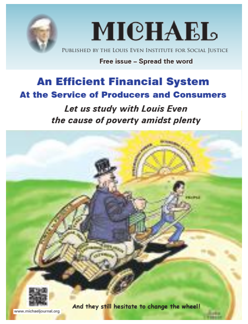

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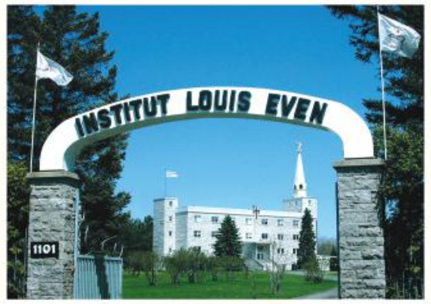
Louis Even
Founder

This is a complimentary copy of the Michael Journal, a periodical of Catholic inspiration that was founded in Canada, in 1939, by Louis Even (1885-1974), to promote the financial principles of Economic Democracy, also known as Social Credit, that were set forth in 1924 by Clifford Hugh Douglas, a Scottish engineer.

Social Credit would put an end to the perpetual indebtedness of nations, and guarantee that all citizens receive a basic income large enough to satisfy their basic needs. Before they can be applied, these principles must be made known. Since 1962, the Michael headquarters are found in Rougemont, Quebec. The Michael Journal is published by the Louis Even Institute for Social Justice. We invite you to subscribe to the Michael Journal. Back issues are also available on our website (see below).



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Foreword

The financial system discussed in this booklet is generally known as Social Credit. Its principles were set forth by the Scottish engineer and economist Clifford Hugh Douglas and have not been applied anywhere to date. They were first published in 1918 and since then have been taught throughout the world by followers of Social Credit.

Douglas' proposals would eliminate all financial problems where no physical limitations on production or distribution exist. His system puts finance in the role of service to the economy.

Douglas developed his proposals without much consideration given to their implementation. He pointed out that methods of implementation would vary according to place and established customs, etc., and could be modified, when necessary, if the principles were respected.

The Social Credit publications, "Michael" and "Vers Demain", and similar writings have generally refrained from discussing methods for establishing a financial system that conforms with Douglas' principles.

We believe that our role is foremost to explain what people need to obtain from their economic activities. We also wish to explain the reasons why people are entitled to the benefits which we will describe.

How to implement Douglas' proposals is a matter for experts rather than one for politicians or for governments. Politicians and governments can tell the experts what is required and the experts will determine how to implement what is expected.

Bearing this in mind, Douglas addressed a meeting of Social Crediters in these words: "The bankers themselves will establish Social Credit — once, of course, they receive the order to do so."

Douglas suggested that in order to get out of the financial rut in which individuals and governments found themselves during the 1930's, the government should assemble a few of the country's leading bankers, lock them up and keep them locked up until they found a remedy to the evils that afflicted the world!

Herein we will discuss how Douglas' proposals may be implemented. How can a constant equilibrium between prices and purchasing power in the public's hands be achieved? How can new production be financed, not with savings, but with newly created Credits?

Our goal is simply to demonstrate that it is possible to implement Douglas' proposals rather than to show that a particular method is the only way. We advocate these methods because they seem to be the most practical and the least confusing. The methods proposed make use of the existing financial system, but free it from the defects that stop it from serving human needs.

Root of the Problem

Why criticize and denounce the present financial system?

Because it does not attain its goal.

What is the goal of a financial system?

The goal of a financial system is to finance the production and distribution of goods that satisfy needs.

If the financial system succeeds then the goal is achieved, if it doesn't succeed the goal is not achieved. In doing anything else the goal is missed.

Why do you say that the present financial system does not meet its goal?

Because there are public and private goods that are required by the population and that can readily be made but are not because the financial system will not finance their production.

Moreover, there are goods offered to a population that need them, but some individuals or families cannot obtain these goods because the system does not finance their consumption. These facts can not be denied.

How are production and consumption financed?

Through Means of Payment in the form of coins, paper money or cheques drawn on bank accounts.

These Means of Payment can be termed Cash Credits because everyone accepts them. The word 'credit' implies confidence. One equally accepts four quarters, a one-dollar bank note or a one-dollar cheque drawn on any bank where the cheque's signer has a bank account. With any of these three Means of Payment a producer can pay for labour or materials for the value of one dollar and customers can purchase consumer goods for the value of one dollar.

From where does Financial Credit, these Means of Payment, draw its value?

Financial Credit draws its value from Real Credit, that is to say, from the country's productive capacity. Money, regardless of the form, has value only because the country's production can supply goods equal to that value. This productive capacity can be called Real Credit. It is a country's Real Credit, its productive capacity, which causes a person to believe he can earn a living in that country.

To whom does this Real Credit belong?

Real Credit is the property of society. There is no doubt that individual and group efforts have contributed to it. But without natural resources, which are a gift from Providence and not the result of individual competence, without organized society which allows for the division of labour, and without public services such as schools, roads, transportation systems, etc., the global productive capacity would be considerably less.

This is why we speak of national production and a national economy. These terms do not mean state controlled production. It is in this global productive capacity that each citizen finds a basis for the confidence he has that his material needs will be satisfied. This is what led Pope Pius XII to say in his 1941 Pentecost Sunday radio broadcast: "The national economy, the fruit from the activities of men who work together in the national community, tends toward no other thing than to secure, without interruption, the material conditions in which the individual life of the citizens will be able to fully develop."

To whom does Financial Credit belong?

At its source, Financial Credit, like Real Credit from which it draws its value, belongs to all. It is a communal good from which all members of the community must benefit in one way or another.

The use of this common good must not be subjected to conditions that hinder the productive capacity or divert production from its proper goal. This goal is to fulfill private and public human needs in the order of their urgency. Basic needs are to be satisfied first before the extravagant needs of a minority and before the grandiose projects of public administrators.

Can the general economy be led to conform itself to this hierarchy of needs without resorting to a dictatorship that plans everything, imposes production programs and administers the distribution of goods?

This can be accomplished through a financial system that guarantees to each individual a share of the community's Financial Credit. This share needs to be large enough to allow each individual to obtain whatever is necessary to satisfy basic needs from his country's production.

Such a financial system would dictate nothing. Production would organize itself according to the requirements established by consumers for private goods. Similarly, it would organize itself according to requirements established by public administrations regarding public works. On the one hand, the financial system would serve to express the will of consumers, and on the other hand it would be used by producers to mobilize the country's productive capacity in order to meet those consumers' requirements.

For this we need a financial system that reflects reality. This financial system would not contradict facts and would be sustainable. It would distribute needed goods and serve man.

Is such a financial system possible?

Yes. Its broad outlines were developed by Clifford Hugh Douglas, the master and genius who introduced the world to what is known as Social Credit. Douglas summarized in three proposals the basic principles of a system needed to meet these goals and that would be flexible enough to adjust itself to the economy in all its stages regardless of the degree of mechanization, or automation.

Douglas' Three Proposals

What are Douglas' three proposals?

Douglas set forth his three proposals at Swanwick, in 1924, before the MacMillan Committee in May 1930 and in a lecture given at Caxton Hall, London, in October 1930. He also published them in some of his writings, including in "The Monopoly of Credit".

The first of these proposals refers to the financing of consumption by an adjustment between purchasing power and prices:

"The cash credits of the population of any country shall at any moment be collectively equal to the collective cash prices for consumable goods for sale in that country, and such cash credits shall be cancelled on the purchase of goods for consumption."

Clifford Hugh Douglas

Douglas did not change the wording of this proposal: it remained as written in 1924 and in 1930. In this proposal, the Means of Payment, that is the cash money or scrip money found in the consumer's hands, are called Cash Credits. The term Credits is used to denote the financing of production.

The difference between the two types of credit is that the money in the consumer's hands is theirs. It is purchasing power for the purchase of products of their own choosing. However, the Credits issued to producers are advances that the producer must pay back when his products are sold.

We have translated "Cash Credits" to "Means of Payment" rather than to "purchasing power" because purchasing power does not depend only on the amount of money in the consumer's hands but also on retail prices. With ten dollars in Means of Payment, one can obtain ten pairs of socks if the socks sell for one dollar a pair. However, if the socks sell for two dollars a pair, one will only be able to purchase five pairs with the same ten dollars. It is understood that purchasing power decreases as prices rise even if the money available is the same.

These Cash Credits could also be called "consumer money". The individual with consumer money can obtain consumable goods. It is a different matter with Credits used for production since these will be used by the borrower to produce goods that he must sell in order to return this Credit to its source.

What is the goal of the first proposal set forth by Douglas?

The goal of this proposal is to achieve what ▶

can be called perfect purchasing power by establishing an equilibrium between the prices to be paid by buyers and the money in buyers' hands.

Social Credit makes a distinction between the "cost price" and the "cash price" to be paid by the buyer. The buyer would not have to pay the entire cost price, but only the price that corresponds to the Means of Payment, i.e. the Cash Credits in the population's hands.

The cost price must always be recovered if the producer wishes to remain in business. But the price to be paid must be adjusted to the Means of Payment in the consumer's hands if we want production to reach its goal which is the consumption of goods.

How can this twofold condition be met?

Through a "Price Adjustment" mechanism. An adjustment does not fix prices. Establishing cost prices is a matter for producers. They are the ones who know how much the production has cost them.

The proposed Price Adjustment would consist of a coefficient applied to all retail prices. This coefficient would be calculated on a regular basis according to the ratio of total consumption to total production for a specified period.

For example, during the period that is now ending, if the country's total production was $40 billion, and total consumption was $30 billion, it can be determined that, whatever the value of the total cost prices, the $40 billion production has cost the country $30 billion. Therefore, $30 billion is the real cost of the total $40 billion production. And if the producers must recover $40 billion, the consumers must pay only $30 billion. The producers must receive the remaining $10 billion through another means and not through the buyers. A Price Adjustment is the monetary mechanism that would remedy this situation.

In this case, a coefficient of 3/4 would be applied to all retail prices. The cost prices would be multiplied by this coefficient and the buyer would therefore pay only 75 percent of the cost price.

In other words, a general discount of 25 percent would be applied on all retail prices for the length of the new term. At the end of each term the general discount rate would be determined by calculating the ratio of consumption to production. This brings us as close as possible to a perfect purchasing power.

This operation is sometimes called a compensated price or a "Compensated Discount" because the money the retailer does not receive from the buyer, because of the discount, he will later receive from the national Credit Office. This compensation allows the retailer to recover all of his costs. No one loses. Producers, retailers and consumers profit because products reach who they are meant to reach more efficiently.

Why do you say that this would lead to the perfect purchasing power?

Because it sets at one to one the ratio between the Means of Payment and prices. In the example given above this ratio was 3/4. We could only afford to pay 3/4 of the production. After the Price Adjustment the ratio becomes one to one. The entire production can now be afforded. This allows production to reach its goal since products are made for consumption.

This is perfect, since it is fair that the population pay only the "just price" which is the true cost of its production. It is Douglas who gave 'just price' a definition sought after by generations of sociologists. He formulated it in the following way: "The true cost of production is consumption." This fact is entirely ignored in Economics' textbooks.

Methods for the adjustment of prices may vary but they must seek to attain this perfection and do so with a minimum of operations. In comparison, this would be much simpler than calculating the return owed to each member of a consumer co-op, and better results would follow.

And what is Douglas' second proposal?

Douglas' second proposal relates to the financing of production. It was expressed as follows at Swanwick, and before the MacMillan Committee:

"The credits required to finance production shall be supplied not from savings, but be new credits relating to new production."

At Caxton Hall, in October 1930, Douglas modified the end of his statement to:

"new credits relating to production."

He no longer says "new production", but only "production", since both expressions mean the

same. As products are being made it will be new production that will maintain the level of goods flowing to consumers.

Some people have wrongly interpreted this proposal as though it applied only to an increase in the volume of production. This is certainly not the case when viewed in the context of all three proposals. Douglas adds:

"And these credits shall be recalled only in ratio of general depreciation to general appreciation".

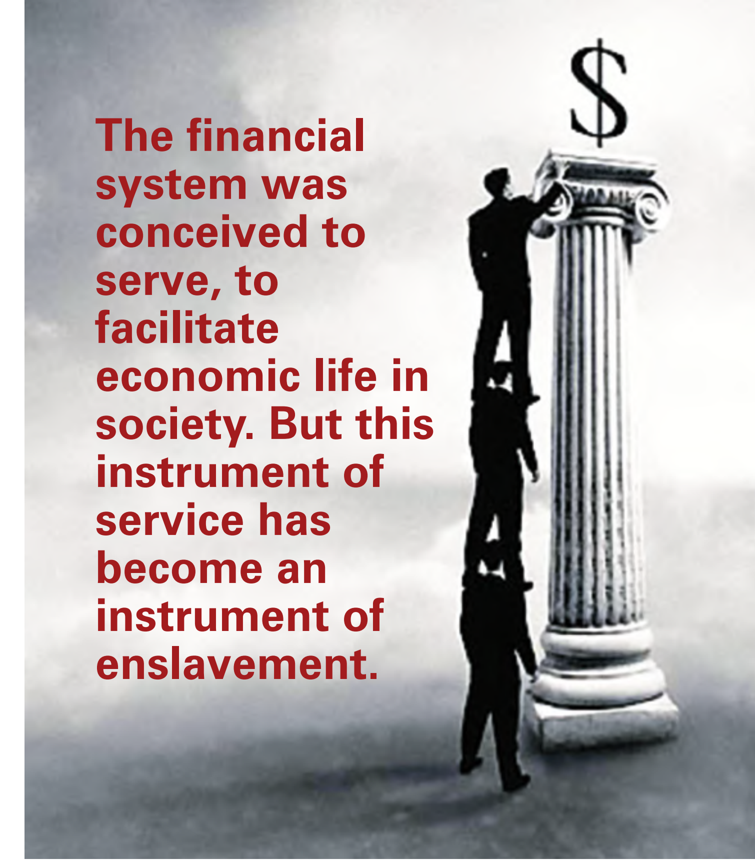
Why finance production with new credits and not with savings? Because savings come from money that was distributed in relation to a production made in the past. This money was included in the costs of the former production. If this money is not used to buy the earlier production the gap between the Means of Payment and prices will grow.

It can be argued that the savings used to finance new production, through investments or other means, will be returned into circulation as purchasing power. This is true, but only as an expense made by the producer and thus it creates a new price. The same amount of money cannot be used to simultaneously pay the price that corresponds to a former production and the price that corresponds to a new production.

The money saved above is returned to consumers and it creates a new price without cancelling the previous one.

This does not mean that one who saves is wrong in investing his money for the expansion of production. One is perfectly free to do what he pleases with his money. But the subtraction to overall purchasing power made by savings must be compensated in one way or another by an equivalent amount of money placed into the consumer's hands. This can be accomplished through the social Dividend or through an increase in the Compensated Discount. Once this is done the effect on purchasing power will be the same as if the production had been financed directly with new Credits. These newly created Credits would replace the savings that were diverted from purchasing power.

The present system does not make this adjustment. It insists that financing be achieved through savings without heeding the resulting deficit in purchasing power. This is one reason for the gap found between the consumer's



Means of Payment and the prices of goods.

And what is Douglas' third proposal?

The third proposal introduces a new component to purchasing power. This is the distribution of a Dividend to everyone whether employed in production or not. It is therefore a component of purchasing power that leaves no one without Means of Payment.

It is recognized that everyone has a right to a share of production as co-capitalists and coheirs of what is the largest factor in modern production. This factor is the benefit resulting from progress that was acquired, increased and shared from one generation to the next and as co-owners of God's given natural resources.

The Dividend is also a means to maintain the flow of purchasing power relative to the flow of production since production will increasingly require fewer workers. This would be the solution to today's biggest headache which leaves economists with their arms raised to the sky and which leaves governments dumbfounded before the failures of full employment policies. Today, the pursuit of full employment is pure nonsense. Progress inevitably results in employee lay offs. In Douglas' words:

"The distribution of cash to individuals shall be progressively less dependent upon employment. That is to say that

the dividend shall progressively displace wages and salaries."

This would occur over time as productivity increases per man-hour as Douglas explained elsewhere. This is perfectly in keeping with reality since it takes into account the part played by work and the part played by progress in the course of production.

Progress, a collective good, becomes an increasingly important factor of production while human labour becomes decreasingly important. This reality must be reflected in the distribution of incomes, through a Dividend to everyone on the one hand and through a reward for employment on the other.

We will return to this question later when the periodic Dividend to each citizen will be discussed.

Does this mean the complete overthrow of the methods used for financing production and of the methods used for the distribution of the claims to production?

Above all, it is a change in the way we view the role of the economic system, returning it to its legitimate goal. This goal would then be supported by appropriate means. The time has come to return the "goals and means" to their correct positions. The time has come for monetary reform.

This seems to imply that money, or Financial Credit, can appear at the snap of a finger to finance production and consumption!

Certainly. The monetary system is essentially an accounting system. Are the accountants short of figures to count, add, subtract, multiply, divide or to calculate percentages?

Besides, facts show that money is only a matter of figures. Those who control credit can make figures appear or disappear according to their whim. All they need is a book and a pen.

In a lecture he gave at Westminster on March 7, 1936, Douglas told his Social Credit audience:

"We, Social Crediters, say that the monetary system at present does not reflect facts. The opposition says it does. Well, I put it to your common-sense, how was it that a world which was apparently almost feverishly prosperous in 1929 — or alleged to be so, judged by orthodox standards — and certainly capable of producing tremendous quantities of goods and services and distributing a considerable proportion of them, could be so impoverished by 1930, and so changed fundamentally that conditions were reversed and the world was wretchedly poor? Is it reasonable to suppose that between a single date in October, 1929, and a few months later, the world would change from a rich one to a poor one? Of course it is not."

Douglas made this comment three and one half years before World War II broke out. Once war was declared everyone could ask himself a question of the same nature but in reverse: how is it that after lacking money for ten years they found overnight all the money that was needed for a war that lasted six years and which cost billions?

A single answer applies to both questions. The monetary system is only a matter of accounting and all it requires are figures that bear a legal seal.

If money is lacking to answer basic needs when production can readily be made, and if there is no shortage of money when producers are enlisted for war, it is because the present monetary system imposes arbitrary limitations instead of reflecting facts.

Douglas' Three Proposals

1. The cash credits of the population of any country shall at any moment be collectively equal to the collective cash prices for consumable goods for sale in that country, and such cash credits shall be cancelled on the purchase of goods for consumption.

2. The credits required to finance production shall be supplied not from savings, but be new credits relating to new production, and shall be recalled only in ratio of general depreciation to general appreciation.

3. The distribution of cash to individuals shall be progressively less dependent upon employment. That is to say that the dividend shall progressively displace the wage and salary, as productive capacity increases per man-hour.

Financing Production

But, where will we get the Financial Credit, these "legalized figures", to be used by the financial system that is in keeping with Douglas' proposals?

The Credits required to finance production and distribution would be drawn from the country's Financial Credit which is based on the country's tremendous Real Credit.

No major changes need to be made to the existing structures. Private businesses would remain privately owned. Banks could remain private businesses as they presently are. It is through banks that Financial Credit would be issued.

Banks now possess all that is needed: the equipment. a well-established network of branches and a well trained and competent staff to conduct this service efficiently. Banks could continue to be rewarded for their services. They could continue to be responsible for the loans granted for production and for the accounting operations related to consumer credit [the Dividend and Compensated Discount] and receive proper remuneration for doing so. But the Credit managed by the banks would remain the property of society and their different operations would have to abide by the objectives set by a financial system that meets the goal and respects the principles explained above.

Different methods can be devised to implement Douglas' proposals. But the best methods are undoubtedly those that would do it efficiently while making the least amount of changes to existing institutions.

You say that the chartered banks could be responsible for the loans granted for production. Do you mean that producers would continue to deal with the banks to finance their expenses while waiting for their products to be sold?

Of course. We need such a service and the banks are very well organized to offer it.

Usually, production undergoes several transformations before finished goods are completed. The first producer involved in the process may need an advance of Credit. When he passes his semi-finished goods on to a second producer he will want to be paid immediately to cover his costs and to pay back the banker. Neither the first producer nor his banker can wait for the goods to reach their final stage of transformation, which may be several months or even several years. Neither can wait for finished goods to be sold by the dealer and paid for by the consumer before getting their money.

Let us say that three firms are successively involved in the process, firms 'A', 'B' and 'C'. Here is how we can conceive the financial operations: 'A' needs a loan to mobilize the raw material, to pay the transportation costs, his employees, his utility bills, his power equipment and other overhead charges. He goes to a commercial bank and obtains these Credits.

When 'A' sells his semi-finished products to 'B', he will include in his price all that he spent including the amount he borrowed, which must be returned to the bank. To this he will add his profit which is his salary. 'B' may require a loan to pay all of this to 'A' and perhaps to cover his own operating costs: transportation, salaries, overhead charges, etc.

'B' will go to the bank and obtain the Credit he needs and will pay 'A'. With the money obtained from 'B', 'A' will be able to reimburse the bank.

When 'B' passes his semi-finished goods to 'C', he will also include all his expenses in the price including his loan from the bank. 'C' will also go to the bank to pay what he owes to 'B' and to cover his operating costs.

Once paid by 'C', producer 'B' will settle with his bank.

The same thing will happen when 'C' passes his finished goods to the wholesaler. The wholesaler will do what the three producers did which is to obtain a loan from the bank with which to pay 'C'.

The bank, with its accountants and equipment, is well organized to handle these operations. They can keep track of loans issued and repaid. Douglas' proposals can be implemented easily using this method of financing whereby loans are granted at the different stages of production while using the present banking system.

Would the banks create these Credits as they do today?

No, as explained before, these Credits represent part of the country's productive capacity which is the result of various activities, natural resources, applied science and the existence of an organized society, etc. These Financial Credits only draw their value from Real Credit which is the country's productive capacity. The Financial Credit is the numbered expression of Real Credit, of a wealth that is social by nature. At its root, Financial Credit, being a social credit, can only be the property of society.

We can use the existing banking system to place Financial Credit into circulation to mobilize the country's productive capacity. Later, the Credit will be returned to its source using the same banking system. Banks need not be nationalized to carry out this function.

There is therefore no need for a Central Bank to establish a new network of branches. Neither does the Central Bank need to make its own credit inquiries of borrowers. Similarly, it does not need to involve itself directly with the recalling of Credit after it has been used. All of this can be left to the chartered or commercial banks as they are very competent in this type of work.

But this Financial Credit remains a social instrument and it can only originate in a system devoted solely to the service of the community: a national or provincial Credit Office, or else, in a national Central Bank that would fulfill the function of creating Financial Credit.

From where would the commercial banks get the Financial Credit they would lend to producers?

They would get it, upon request and without cost, from its very source, the Central Bank. It would be obtained with one obligation only which is to return the same amount to the source after its journey in circulation.

The Central Bank would keep track of what is issued and what is returned. The loans would be debited from the commercial bank's account and money that is returned would be credited.

There is nothing new in these accounting practices between a Central Bank and the commercial banks. In Canada, each commercial bank already has an account with the Bank of Canada in which debit and credit entries are made every day.

But would the chartered banks continue to charge a borrower fees for the loans they would grant?

Of course. The banks must be able to meet their expenses, pay their employees' salaries, cover their overhead charges, and make legitimate profits like any private business.

The banks must also foresee cases where some borrowers will fail to pay back their loans. A borrower's bankruptcy would not discharge the lending bank of its obligation toward the Central Bank. It would remain responsible to return to its source the Credit it has obtained from society.

Social Credit does not wish for people to be irresponsible, not in the least. Quite the opposite as commercial banks would remain responsible for the Credits they obtained from the Central Bank, and the borrower, whether an individual or a company, would remain responsible to the commercial bank which does the lending. The latter would undoubtedly require guarantees of repayment particularly from new clients or from businesses when a greater risk is involved.

The fees that the banks charge for their loans could still be called interest. However the repayment period of the loan should be of lesser importance. Whether the loan stretches over a few months or years, the banker's financial position is not affected since it is society's Credit that is in circulation, not his own. At the very most, a longer period would result only in a greater number of bookkeeping entries to the borrower's account.

But do these fees, these interest charges, mean that the borrower must pay back more Credit than was issued? Would the same apply to all other borrowers? Will this not create a mathematical impossibility like the one we denounce today?

Not under a Social Credit financial system that equates purchasing power to prices through the periodic Dividend and the Compensated Discount. Interest charges and all other financial costs are included in prices. They can therefore be recovered through the Means of Payment that will have been placed in the public's hands.

Are these additional costs compatible with Douglas' proposal that "All new production be financed by new credits"? It would seem that if one must pay a 5 percent charge on the financing of production, that is to say 5 percent on top of the Credits lent to the producer, that the new production will not be entirely financed by new Credits.

During the different stages of production the source of financing can be the producer's personal funds, partly with loans, or even totally with loans, except for the interest costs. This will be determined at the time production is delivered in the form of a finished product. Only then does it become a new production. At the point at which the finished product goes from the wholesaler or last producer to the retailer, an operation will be carried out that fulfills Douglas' proposal. It is then that new interest free Credits can be issued to cover all the costs necessary for this new production.

How will this be accomplished?

Once again, several methods may be used to achieve this. Mr. W. B. Brockie, a New Zealand Social Crediter, suggests that it should be done when the goods are received by the retailer. He would be granted an interest free loan that covers the total cost price of the finished goods. In our view, this method seems to reach a double objective: first, to finance production by new Credit and, secondly, to later allow the Credit to return to its source at the rate goods are consumed.

Production is a continuous flow from raw material to finished product. It becomes finished goods at the point of delivery to the retailer who will undertake its distribution to the consumers.

What is this point or moment of delivery? Delivery occurs at the wholesaler, or at the last producer, if this is where the retailer takes possession of the finished goods.

These finished goods have a price which will be the amount charged to the retailer. This is the cost price of production. However, to obtain the total cost price we must add the distribution costs, that is to say, the retailer's expenses. And it is this final cost price that must be covered by the issuing of new interest free Credits.

The retailer must therefore add to the wholesaler's bill his transportation costs, employees' wages and salaries, the unavoidable losses and his overhead charges. Through experience, he knows the weekly or monthly amounts of these costs. He also knows the average amount of goods he can sell on a weekly or monthly basis. Therefore, he knows the percentage to add to the wholesaler's bill to get the final cost price of the goods that will be passed on to buyers.

Could you give a hypothetical example to help us understand this important point better?

Let us suppose that the retailer knows through experience that the handling and service charges to sell his goods cost on average an amount equal to 10 percent of the price he pays the wholesaler.

Then, let us suppose that this retailer receives a shipment for which he is billed $4,000. He will conclude that he needs $4,400 to cover his total costs: the wholesaler's price, plus handling costs, but excluding all profits. The $4,400 is the sum of $4,000 + 10 percent of $4,000, i.e. $4,000 + $400 = $4,400.

The final cost price of this new production thus totals $4,400. It is therefore $4,400 of new interest free Credits that are needed to cover the total cost of this new production.

To achieve this, we can use, while improving it, a method of financing used widely among retailers, that is, bank overdrafts. Today, most retailers pay their bills to wholesalers with overdraft cheques. That is to say that, through an agreement between the retailer and his banker, the bank honours these cheques even when the retailer's account does not have sufficient funds. It is like a loan made on request, in proportion to the retailer's needs, up to a certain limit which constitutes his "line of credit". It is very convenient since it allows the wholesaler to be paid immediately so that he may meet his own obligations.

In the bank's ledger, these overdraft loans are debited against the retailer's account. As he sells his products, he must return to the bank the fruit of his sales to replenish his account to the banker's satisfaction. In fact, this is a series of loans and repayments made by mutual agreement. Under the present financial system, the banker charges fees to the retailer for this service. These fees are interest charges calculated on the amount and the duration of the deficits.

Under the proposed system for the financing of new production by new Credits the retailer would pay his bills relative to this production with interest free loans obtained from his bank. This is something which should please retailers.

In the above example, the retailer would get from his bank an interest free loan for $4,400. The chartered bank would draw this amount free of interest from the Central Bank, the source of Credit. Let us remember that we are dealing with a financial system that adapts itself to reality, one that issues credits at the rate goods are produced, and withdraws them at the rate goods are consumed.

But why this difference between the producer's case, who must pay interest on his loans, and the retailer's case, who would get interest free loans?

This is so for more than one reason. First, the situation is different. In the producer's case, the loan is made for a production that does not yet exist, whereas in the retailer's case, the loan is issued for a production that has already been made. Let us add that the producer did not suffer from having to pay interest, since he included these interest charges in his prices and loans at the subsequent stages of production.

And should the loan to the retailer draw interest, the interest would add to the retail price an element not covered by the loan. Then the new production would no longer be financed entirely by new Credits, as Douglas' proposal requires for a financial system to reflect reality accurately.

Then again, if interest was charged on the final retail price, this interest would become the property of the commercial bank when the loan was paid back by the retailer. Therefore, part of the Credit would not go back to its source when the goods were consumed, and the system would not reflect reality accurately as Cash Credits, says Douglas, "Shall be cancelled on the purchase of goods for consumption."

Our retailer therefore gets a $4,400 loan. When he sells his goods, he will return to his bank $4,400 without any additional charges.

When the goods are bought, the money the buyer gives to the retailer stops being Cash Credit and simply becomes Financial Credit. When this Credit is returned to the bank by the retailer it will begin its journey back to its source.

You said earlier that this amount of $4,400 included all the production and handling costs from the raw material to the delivery of the product to the consumer, but did not include the retailer's profit. Will the retailer now sell his goods for more than $4,400 by adding his profit to it?

No. For the method proposed here to achieve its goal, the retailer's profit must not be included in the price paid by the buyer. If his profit was to be included in the retail price, this portion of the retail price would belong to him and would not be returned to the Central Bank to cancel out the Cash Credits. This would cause the same defect we mentioned above.

In the above example, if the retailer was to sell his goods with a 10 percent profit margin, it would raise the retail price to $4,840. This would exceed the new Credit issued to finance this new production by $440. It would distort Douglas' proposal which requires that all new production be financed by new Credits. Nor would it be suitable to have this profit included in the other costs covered by the amount loaned to the retailer. Increasing this loan to $4,840 and telling the retailer to bring back only $4,400, while keeping the remaining $400 for his profit, would amount to paying the retailer for work not yet performed.

The retailer's profit must come from a source other than the buyer's wallet and must come to him only after he has carried out his sale.

Therefore, the retail price will not include the retailer's profit. This will prevent price increases that are due to the tendency by too many retailers of raising their profit margin when business is good. Under a Social Credit financial system business would always be good since the purely financial problem would be eliminated. To take advantage of this situation by charging exaggerated profits would lead to the inflation of prices whereas the proper flow of production, free of obstacles, should make prices fall.

Do you mean to say that, under a Social Credit system, the retailer would no longer make a profit or that his profit would be limited?

Not at all. But the retailer's profit must not depend upon a price increase. His profit would depend rather on the volume of his sales. With a moderate profit margin, determined in advance according to the type of goods for sale, the more items sold the larger his profit. In a non-monopolistic and competitive economy retailers who give customers the best service would generate the most profits, without exceeding the agreed upon profit margin per type of item. Therefore, it is the percentage of profit, not the volume of profit, that must be regulated for each type of business.

Whereas most economists think in terms of money, Douglas, who was training as an engineer, rather thought in terms of realities: money is the symbol that must reflect realities, and human beings must come before money.

Society has the right to demand this of its retailers. Society provides interest free loans to retailers so that they can pay their bills. Also, an equilibrium would thus be maintained at all times between total purchasing power and total price of the goods offered.

Since it is society that provides retailers with the Credit needed to maintain their stock, it is society that is therefore the owner of these goods in a manner of speaking. The retailers are simply the agents in charge of selling them. It is only fair that society should reward the retailers for selling products but without allowing them to exploit buyers.

Therefore, it is society that will provide the retailer's profit not as a loan that must be paid back but as Cash Credits that will become the retailer's own property.

The retailer, while remaining the real owner of his private business and managing it freely is at the same time an agent of the community for the distribution of goods. In exactly the same way, the producer keeps his private business but is also an agent of the community to mobilize its Real Credit, that is, the country's productive capacity. Similarly, the banker remains the owner of his bank but is as well an agent of the community for the circulation, from the Credit Office and back to the Credit Office, of the Financial Credit which is based on the country's Real Credit.

Social Credit is a firm defender of private property. But every private enterprise also has a social function to fulfill, a function it would automatically fulfill through the simple workings of a Social Credit system faithful to the proposals set forth by Douglas.

But when and how will the retailer draw this profit from society?

Once again, through the chartered bank that will in turn draw this Credit from its social source, the Central Bank or a national Credit Office.

The retailer has two accounts at his bank: his overdraft account, in which the bank keeps a record of the loans made to the retailer and the repayment of these loans and, his personal account, where the retailer can deposit his savings and on which he can issue cheques for his personal affairs, from which he can withdraw cash, etc., like any other individual.

As he sells his goods the retailer returns the money to the bank where it is entered in his commercial account as a repayment of Credit. At the same time the banker enters in the retailer's personal account the profit to which he is entitled for the sales he made according to the percentage agreed upon for his type of business. For this entry, made in the name of society, the banker issues a cheque drawn upon the national credit, that is to say, on the Central Bank.

For example, if the agreed profit margin is established at 10 percent, with each $100 that the retailer brings as repayment, the banker credits the first account with $100, a Credit which begins its path back to its source. The banker then enters $10 to the credit of the retailer's personal account.

For all the accounting services performed and not paid by the customers, such as interest free loans, profits to the retailers and periodic Dividends, the banker is reimbursed by the Central Bank according to established practices.

Isn't all of this very complicated?

Not at all. Many sentences are needed to explain it but it would soon work in a routine manner as efficiently as banking operations do today in all local banks.

It is infinitely less complicated than the accounting used by consumer co-operatives, where the accountant must keep track of each of the member's purchases, to distribute to each one a rebate in direct proportion to purchases.

Furthermore, this system would be sound and would reflect economic facts with precision. It would finance production and consumption efficiently. Economic life would be served to our satisfaction with less bureaucracy, fewer inquiries and fewer financial operations than is required today, when government institutions try to settle the deficiencies in purchasing power from which the whole economy suffers. The system would do away with the heavy tax burden now needed to put bread on the table of the less fortunate. It would also end the poor being subjected to lengthy and humiliating questions.

Would this not be too different from the financing methods we are accustomed to?

Different by its results, yes, but in all points similar to the present system.

The same banking establishments, bankers, debit and credit entries in bank accounts, payment system by cheques, formalities for loans to producers, responsibilities on the part of lenders and borrowers and overdraft payment options for retailers but without interest fees reflect the similarities to the present system.

Add to this that total purchasing power would be maintained at the same level as total production with a correct share guaranteed to each one. This would result in a better distribution, in the sharing of the fruits of production, in the protection against unjustified price increases and in the abolition of the money dictatorship.

Then, consider the final situation in relation to the $4,400 worth of production as an example.

It was possible to carry out that production without any financial limitations. Credit came according to the needs from one stage of the production process to the next. All participants were duly paid including the bankers who received interest on loans for their services. The complete final payment, which covered financial costs and production costs, could be made as soon as the goods were finished by the interest free loan to the retailer who took possession of this production. The production could then be sold without adding any charges to the cost price.

The financial machinery uses the same mechanisms, but under a Social Credit system, it is properly lubricated instead of sand being allowed into its gearbox, making a world of difference in its operations.

Would these Credit releases not cause an accumulation of money with all the evils of inflation?

Follow the Credit's trajectory outlined in these pages. Credit does not pile up. It follows the movement of wealth. It comes into circulation at the rate goods are produced and takes the return route to its source at the rate goods are consumed.

These Credits make up what could be called an operating capital which belongs to society and is placed at the service of the economy so that it can meet the needs of the population in accordance with the physical means that now exist. This working capital can be increased as needs increase and are limited only by reaching full productive capacity.

With its periodic Dividend to all, Social Credit guarantees our sharing in the fruits of production. This topic will be addressed further.

Financing Public Works

What was just explained shows how Douglas' financial proposals could be applied to the production and distribution of consumer goods. Could this method be applied also to the production and payment of public works?

Definitely! In this case, consumption is the gradual "wear and tear" that accompanies the aging of public works.

Public works such as schools, waterworks, municipal buildings, roads, sidewalks and sewer systems are consumed by everyone. Once built these public works are a new production which must be financed by new Credits.

In the case of consumer goods, producers use the existing financial system including bank loans that charge interest fees. These costs are covered by interest-free social credits when the finished goods go from the wholesaler to the retailer who serves consumers. Would this be the same for public works? When would the financial costs of this new production be covered by interest-free Credits?

Usually, governments and other public administrations entrust contractors with the execution of these projects. Most often, the lowest bidder is chosen after his competency and liability are assessed.

The contractor would finance himself in the same manner as do the producers of consumer goods.

As for the new Credits to finance these public works, the public administration that initiated the project would secure interest-free Credits to pay the contractor when the project was completed.

After a public work is delivered the population, which is the consumer in this case, would begin to pay for its consumption, i.e its wear and tear.

Would you explain this by an example?

We have seen at the beginning of this study that a country's Real Credit resides in that country's productive capacity.

Therefore, all new Financial Credit must come from a Monetary Office, which can be a Central Bank, operating on behalf of society. But this Credit can be directed toward production by the system of banks that now exist and be returned to its source using the same banks.

We have also said that the Monetary Office could be the Bank of Canada on a national level, or a provincial Credit Office on a provincial level. For this example, let us suppose that Social Credit is established in all of Canada.

Government representatives at the federal, provincial, or municipal levels need not wonder whether these projects are financially possible, but only whether they answer real needs and whether they are physically feasible. By physically feasible, we are asking if the country's productive capacity is capable of carrying out these public works while continuing to supply the goods required to answer private needs. Or will this new public project prevent a more urgent production from being made?

The decision to proceed or to postpone work on the submitted projects will be made accordingly, setting aside financial considerations. Finance will carry out its role which is to serve. Balanced budgets would no longer be a consideration. Our only priority would be to determine the order in which feasible works are begun.

For instance, let us consider the building of a bridge. The decision to build was made because it answers a real need and because there is no reason to fear that activities directed toward this construction would prevent stores from being supplied with consumer goods.

In a Social Credit system the financing of the bridge is not a concern. The government will nevertheless ask that tenders be submitted. Selection of the lowest bid would mean that fewer materials and less energy and time would be used and ensure a smaller portion of the country's real wealth would be dedicated to the project.

Let us say that John Smith is awarded the contract after a bid of $5,000,000. This bid reflects all his expenses and a legitimate profit. He has already calculated how much he needs to borrow to pay for the materials, his employees' wages and for interest. He owns the construc-

Architect's view of the new Champlain bridge in Montreal (Canada), due to be completed in December, 2018. Engineers say it will last for 125 years.

tion company, the government doesn't. His only guarantee is that once the bridge is completed, he will receive $5,000,000 from the government if its inspection shows that the bridge was built according to agreed upon standards.

Whether Mr. Smith is compelled to borrow $2,000,000, or $3,000,000, or even the total amount of $5,000,000 is his own concern. If he deals with a bank they will settle the matter between themselves. The government has no part in this.

As was the case with private production if Smith borrows the money from the bank, it is justified in requiring that he pay interest to cover its own operating costs. Once completed the bridge is John Smith's property but it is of no particular use to him and he will want to deliver it to the government. After a successful inspection the government will pay him the agreed upon price.

This price includes all material and labour costs, anticipated financial costs and the profit John Smith included in his bid.

If financial costs include interest charged on his loan does this mean that this new production will not be paid with new interest-free money?

Yes, it will be paid with new interest-free money just as was the retailer when dealing with consumer goods. The government will obtain the total amount of new interest-free Credit to pay this newly completed production.

How and from where will it get this money?

It will get it from the source of Financial Credit, that is from the Central Bank, either directly or through a commercial bank.

Is the government now indebted for $5,000,000?

Not at all. There is no getting into debt. The bridge is wealth created by the country's population. Other workers supplied the things that allowed the bridge to be built such as food and goods of all kinds.

The population must not be put into debt for its own production just as the baker is not required to purchase the bread he has made. If the bridge had been built by Mexico or China, then it would be recorded as a debt owed to Mexico or China. In a sound financial system, in keeping with reality, a public or national debt can only exist if owed to a foreign country.

But in the case of consumer goods the retailer paid back to the bank with no interest, the amount he had obtained to take possession of the finished goods. He was required to return to the bank the Credit obtained as goods were sold.

That is correct! Producers obtain their own loans to produce goods. The retailer obtains a new interest-free loan to pay the producer of the finished goods. The consumer pays for the retail goods.

And in the case of public production, such as the bridge, will the interest-free Credit obtained from the Bank also be returned to its source? And if so, by whom and how?

The same way as with consumer goods. The population does not have to pay for the production of the bridge. Rather the population will pay for its consumption or depreciation. This is in keeping with Douglas' second proposal: "The credits required to finance production shall be supplied not from savings, but by new credits relating to new production, and shall be recalled only in ratio of general depreciation to general appreciation."

Let us return to the baker's bread. The consumer of the bread will pay for its consumption but not for its production. Similarly, the consumer of the bridge will pay for its consumption but not for its production.

How will the population pay for the bridge?

Let us say that the bridge is expected to last for fifty years.

At the end of fifty years, whether the bridge is totally "consumed" or not, payments will no longer be required. Nothing can be consumed twice, nor should it be paid for twice, just as the consumer should not pay the baker twice for his bread.

It is only an absurd and plundering financial system, such as the system we now have, that can make the population pay twice for its waterworks, schools, bridges, roads or even for the wars it has fought and won!

Is it through taxes that the government will withdraw from the public the yearly amounts to be paid for the depreciation of the bridge?

It will withdraw them by means of a levy that can vary, but not necessarily be the present method of taxation, which is cumbersome, expensive, and often unfair.

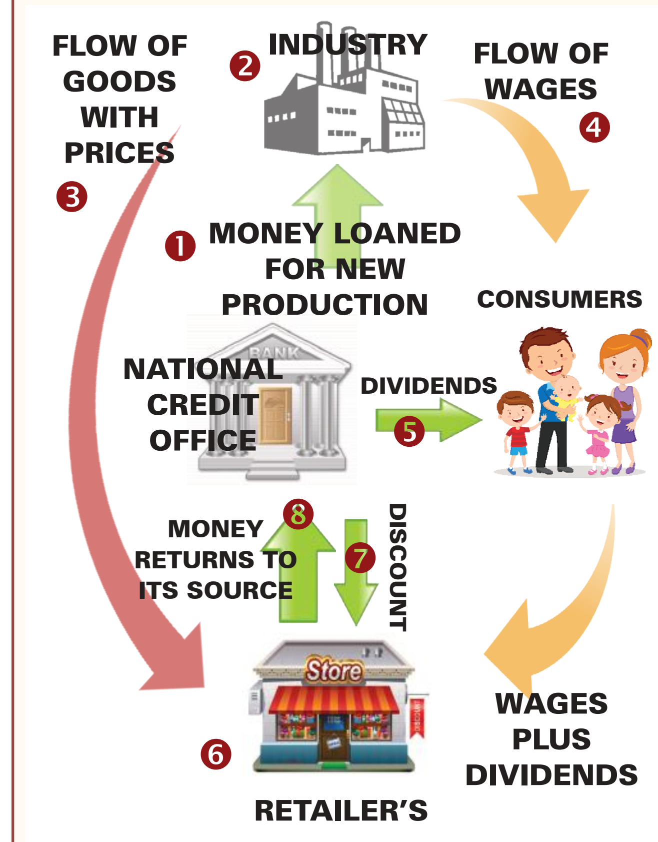
The wear and tear for a given period would be added to total consumption for that period. As a result the Discount would be slightly lower and would necessarily affect all consumer prices.

And what if by accident or sabotage the bridge should fall down at the end of ten years?

This would raise, at once, by the amount of the value that was lost, the country's total consumption for the current period and the matter would be settled by the Price Adjustment mechanism.

The outstanding amount would be included in the current period's consumption. This would be the case since prices, under a Social Credit system, are adjusted by taking cost prices and multiplying them by the ratio of "consumption/production". In this case, the greater the total consumption relative to total production the smaller would be the Compensated Discount. This is in keeping with the principle that finance must be the exact reflection of reality.

The Circulation of Financial Credit In a Social Credit System



Money is loaned by the National Credit Office ❶ to the producers (industry) ❷ for the production of new goods. The left arrow shows the flow of goods with their prices attached. ❸ The top right arrow depicts earned wages distributed to consumers (who are workers). ❹ The horizontal arrow shows the National Credit Office issuing a dividend to each citizen (consumer). ❺ Both wages and dividends flow from the consumers to the retailer as sown by the lower right arrow.

Both consumers and goods meet at the retailer's ❻ where a final adjustment to prices is made using a compensated discount: ❼ Once a product is purchased (consumed), the credits that were created to finance its production and consumption are returned to the National Credit Office. ❽

Circulation of Money

If I have understood correctly, under a Social Credit financial system, the banks could continue to operate as they do today. They would lend money at interest to producers of consumer goods and contractors of public works.

The Credit they would lend belongs to society. The banker would no longer lend money that he created but Credit obtained from the Central Bank. The Central Bank is the custodian of the nation's Credit. Chartered banks would not create Credit, only distribute it.

This may seem insignificant at first but there is an enormous difference. As Douglas pointed out before a committee of the Alberta Legislative Assembly in 1934: "If credit is at birth the property of financial institutions, these institutions get, for nothing, a mortgage security on all wealth produced and financed by this credit. Whereas if all credit is, at its source, the property of society, it is the whole population which has this mortgage security and it is the population as a whole which provides the loans. This confers on all citizens the right to a dividend, a share of the wealth produced and financed by this social credit."

Would this Financial Credit continue to be trahsient money as it is today? Would it be created as a loan which disappears and is cancelled when the loan is repaid?

No. The loan would not create Credit as Credit would already exist. It would be in the custody of the Central Bank waiting to be used. The repayment of a loan would not cancel the Financial Credit but would have it return to the Central Bank from where it originated.

Again this seems to make little difference as today's chartered banks already create money as new loans. But the proposed method is more in keeping with reality.

The Financial Credit only has value as a reflection of the country's productive capacity. And the country's productive capacity does not disappear when borrowed Financial Credit is repaid. Why then should the Financial Credit, which represents this productive capacity, be cancelled, even temporarily?

Should the Financial Credit issued by the Central Bank and put into circulation through commercial banks have to be returned to its source at a predetermined date just as it does under today's loan conditions?

No. The Credit that is used to finance production would leave its source according to the rate of production, whether private or public. Credit would return to its source at the rate of consumption and depreciation.

Asking that this return occur faster than does consumption is not in keeping with reality. This fact is even more obvious when dealing with public works.

We contradict reality when we remove Credit from circulation through taxation. Twice the price is paid for an aqueduct, a bridge, or a school building through inflated loans, before they are "consumed" even once.

Does this mean that there is no relation today between the flow of money and the flow of real wealth?

This is precisely one of the great defects of the present system for several reasons. Not only because we require that production Credits be returned faster than consumption occurs but also because there is a gap between the cost prices of products and the Means of Payment in consumers' hands.

Price is calculated while the product is being manufactured. A final price is added to the finished goods as they reach the market place, whereas the money distributed during the production process follows different paths and is spent at different points in time. Money spent today uses money earned today and buys products made in the past. This means that there will be no money to purchase the products that reach the market place today. It will already have been spent.

Costs are included in the retail price for the replacement of machinery. There are also individuals' savings which are no longer part of the purchasing power although they are included in prices.

So if there is no Price Adjustment, as proposed by Social Credit, the unavoidable gap between purchasing power and prices remains, and production does not meet its goal.

One more point must be made. The amount

of purchasing power now available leaves out many consumers. Purchasing power is distributed mainly as a reward to producers. Those not hired for wages have little or no purchasing power. For all of these reasons, we need to take into account the financing not only of production but also of consumption.

This need grows as progress benefits production and reduces the workforce.

Where must the Means of Payment come from to finance what is now lacking for consumption?

Just as for the financing of production, the Means of Payment will come from the Central Bank. This too can be managed through commercial banks.

Would this be money loaned at interest by commercial banks to consumers?

No. One must make a distinction between the money that finances production and the money that buys production even if both come from the same source.

Douglas makes this distinction when he talks about Credits and Cash Credits. Credits are the money advances for production that must be repaid to the lending bank. Cash Credits are what we might call "consumer money" that the consumer uses as he pleases.

The difference between these two kinds of money lies in their function and not in their nature. In fact, both are Financial Credit originating from Real Credit. Note that money for production changes into consumer money when it is paid by the producer as wages, salaries and industrial dividends.

Today, virtually all consumer money was once money used for production, since it is through the activities of production that purchasing power is distributed.

Under a Social Credit system, additional consumer money would come directly from the Central Bank, or national Credit Office, without going through industry in two ways:

a) as a compensation to the seller for the general discount granted to buyers in accordance with the Price Adjustment mechanism mentioned above; and

b) as a social Dividend to All, the topic of the next section.

This increase in purchasing power would allow consumers to meet certain costs that are included in prices but that are not yet in consumers' hands when goods are available to purchase.

This would be more satisfying than contracting debts to financial institutions. The present system allows some financiers to benefit and has the population suffer under a system that is incapable of establishing an equilibrium between prices and purchasing power.

Under Social Credit and private entreprise

The owner, while remaining the private owner of his enterprise is at the same time an agent of the community who sets to work the Real Credit which is the country's production capacity.

The banker, while remaining the private owner and manager of his banking enterprise, is an agent of the community, directing to and from the Central Bank, Financial Credit, which is based on the country's Real Credit.

The retailer, while remaining the private owner of his business and running it without constraints, is an agent of the community for the distribution of goods.

Social Credit is a firm defender of private property and private enterprise. But all private enterprises have a social function to fulfill. This would be accomplished automatically by a financial system in keeping with the proposals set forth by Douglas.

A Dividend to All

A Dividend to all? But does this not mean that a productive capital was invested?

Precisely. It is because all members of society are "co-capitalists" of a real and immensely productive capital that all are entitled to a Dividend.

We have said repeatedly that, at its origin, Financial Credit is the property of society as a whole. This is so because Financial Credit is based on Real Credit which is the country's productive capacity. In part, this productive capacity is made up by those who take part in production. But it is increasingly made up of other elements that are the property of all individuals.

First of all, natural resources are not made by any man but are a gift from God. This gift must be at the service of all. There are also the inventions created, developed, and shared from one generation to the next. This is the biggest factor of production. Of this progress no man can claim ownership as it is the fruit of many generations.

No doubt some people are needed to set progress in motion and these individuals are entitled to wages and salaries. But a capitalist who does not personally take part in the industry where he made investments is entitled nonetheless to a share of the results because of his invested capital.

Yet, the greater part of the real capital in modern production is the total of the discoveries and accumulated inventions that allow us to obtain more goods with less work. All human beings share in this ever increasing capital and therefore all are entitled to a share in the fruits of production.

The employee is entitled to this Dividend and to his salary. The unemployed person receives no salary, but is entitled to a social Dividend since it is derived from a social capital.

This is something new. But it seems logical.

Yes it is. And it is the most direct and concrete means by which every human being is guaranteed his fundamental right to a share of the goods of the earth. Every individual person possesses this inalienable right not as an employee but simply as a human being.

"Every man, as a reason-gifted being, has from nature the fundamental right to make use of the material goods of the earth. Such an individual right can in no way be suppressed, not even by the exercise of other certain and recognized rights over material goods." (Pius XII radio broadcast, June 1, 1941)

Other rights, such as the right to property, the right of the wage earner, the right of the shareholder, etc., can in no way suppress the right of individuals "to make use of the material goods of the earth." The Pope duly added: **"It is left to human will and to the juridical forms of peoples to regulate more in detail the practical realization of this right."** (Ibid.)

That is to say, it is up to the people, through laws and regulations, to choose the methods that will allow each man to exercise his right to a share in earthly goods.

The Dividend would achieve this. No other system has come close to being as efficient, not even the social security laws.

We do well to recognize the right of each individual to basic necessities. No one can deny this. But try to exercise this right in today's world when you have neither money nor the means with which to produce necessary goods. As well, today, the means of production are increasingly concentrated into fewer hands.

In this modern world the fundamental right to make use of material goods is made impossible without money. Money is, indeed, an agreed upon "permit" to exercise what is a natural right.

The periodic social Dividend is a basic income guaranteed to everyone as a birth right and is an income sufficient to cover at least the basic necessities of life. It is the foremost demand made by Social Credit economics and recognizes the undeniable fact that all human beings are the co-heirs of past generations.

But would this not amount to giving individuals something for nothing?

Well, tell a capitalist that he is getting something for nothing when he is paid a dividend as a return on his invested capital! On the contrary, he would claim that an injustice was committed if he was to be refused his dividend.

In a Social Credit system, nobody would be put aside and all, rich or poor, as co-heirs of natural wealth and progress, would receive a dividend.

The same is true of each member of society, as co-capitalist and co-heir of a real capital. This capital is far more essential than the dollar bill or other monetary symbols that have representative value only.

An economy based solely on exchange cannot be a humane economy, given that more than half of the population have nothing to exchange. This is the case for children, mothers at home, the disabled and the sick, the unemployed, older workers and for the able-bodied men who have been replaced by machinery. An economy based strictly on exchanges, an economy of "nothing for nothing" can only be called barbaric. Such an economy sacrifices individuals to rules that are oriented to money instead of to people.

The French Thomist philosopher, Jacques Maritain, speaking on the topic of the distribution of goods as it relates to social justice came to a similar conclusion: **"It is an axiom for the 'bourgeois' economy and the mercenary civilization that one has nothing for nothing; an axiom linked to the individualistic conception of ownership. We think that in a system where the conception of ownership outlined here above (with its social function) would be in force, this axiom could not survive. On the contrary, the law of '*usus communis*' would lead us to lay down that, at least and above all for what concerns the basic, material and spiritual needs of the human being, it is right to get for nothing as many things as possible.**

"For the human person to be thus served in his basic necessities is, after all, only the first condition of an economy that does not deserve to be labelled barbarous. The principles of such an economy would lead to a better grasp of the profound sense and the essentially human roots of the idea of heritage in such a way that every human, upon coming into the world, may be able to effectively enjoy in some way the condition of being an heir of the past generations." ***("Integral Humanism" 1936, p. 205-206)***

But could we not get the same result by increasing wages paid to workers?

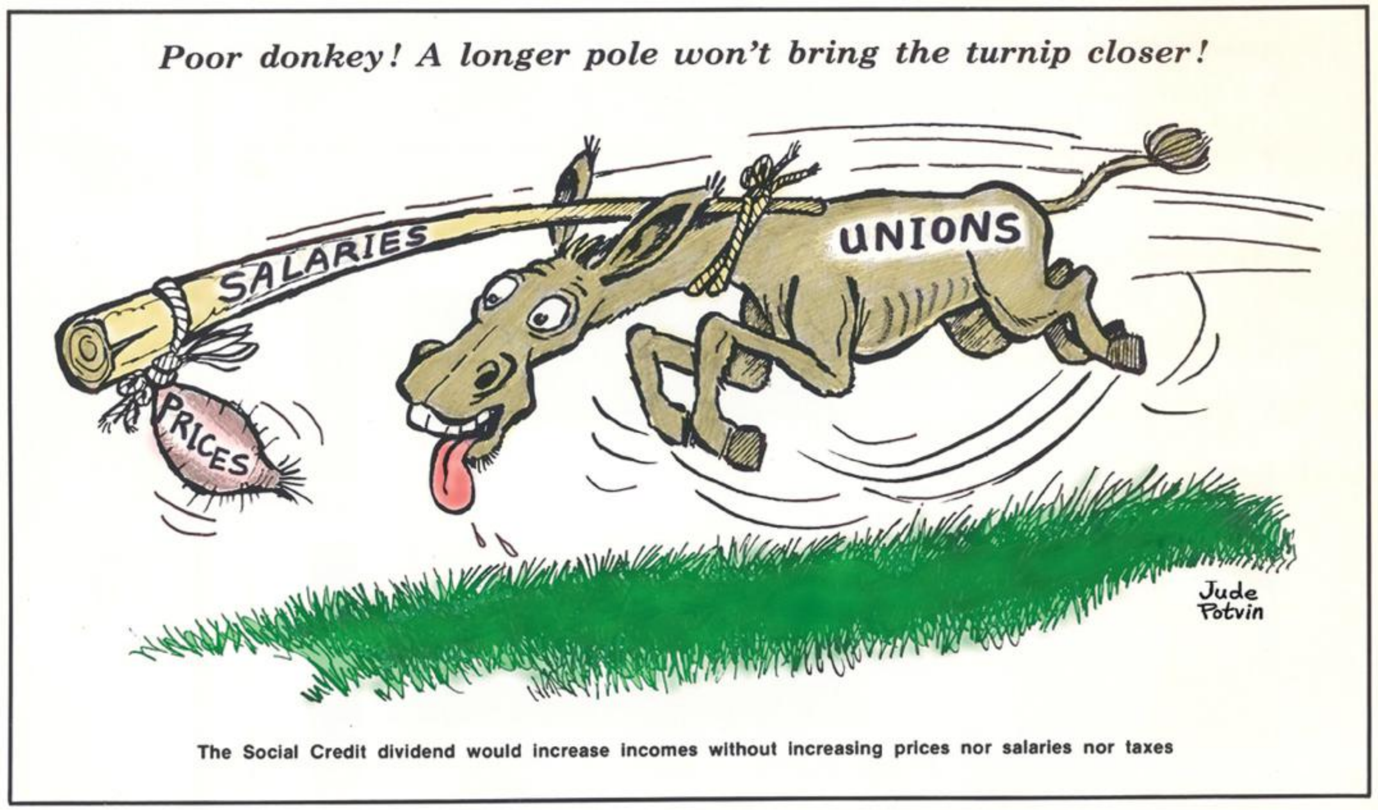
Absolutely not, since increasing wages only affects the wage earner and gives nothing to the unemployed. Moreover, because all wage increases are added to prices the gap between prices and purchasing power remains.

An individual income not linked to employment, such as a social Dividend given to all, is increasingly called for as productivity increases.

For those who say "we must work for a wage", we ask how will production be distributed when we have full automation? We are not there yet, but automation is advancing at an increasing speed. The distribution of purchasing power must reflect this reality.

Not only is raising wages in order to increase purchasing power not a solution it is also an injustice. If wages are a reward for labour they would normally decrease as the amount of work decreases. All wage increases are a theft of the people's Dividend. Douglas said: "The dividend shall progressively displace the wage and salary".

Much could be said about a Dividend to all. It ▶



The Social Credit dividend would increase incomes without increasing prices nor salaries nor taxes

is a question that startles those who have never examined their faulty economic ideas.

And what value is there in the objection of those who persist in seeing "unearned" money as being immoral? Do they see as immoral the bequeathing of an inheritance of a father to his child who has never contributed to create this inheritance? Do they see as immoral the dividends paid to millionaires who have never produced any real wealth? Do they see anything immoral in the lavish salaries of civil servants who do absolutely nothing for the people who pay these salaries with their taxes? And how many more questions of this nature could be asked of those who are against the Dividend?

So, in the financial system advocated by Social Credit which you say is sound and efficient, purchasing power would reach the consumer in two ways: 1) through wages, salaries and other forms of remuneration linked to employment, and 2) through Dividends not linked to employment.

This is happening now. Those who are employed by production receive salaries, but capitalists receive dividends on their capital, even if they don't participate in production. If the capitalist is also an employee he receives an income in two ways: through money linked to his job and through money linked solely to the dollars he has invested.

The same would apply under a Social Credit system except that all citizens, simply for being members of society and being the co-owners of progress, would receive a periodic Dividend.

But if both the rewards to employment and Dividends can be used to buy products what portion must go to wages and what portion must go to Dividends?

The same question now causes friction between capitalists and workers. The capitalists say: "Without our money there would be no jobs and therefore no production." The workers say: "Without work there would be no products." In fact, both capital and labour are production factors, and it is usually agreed that the greater share of the money distributed must go to the workers who are also in greater numbers.

Under a Social Credit system, it is the capitalists, all citizens, who would be in greater numbers. In Canada, there are approximately 12 million wage earners, out of 30 million Canadians [in 1964]. There are therefore 12 million workers and 30 million capitalists.

Moreover production is due increasingly to the real capital that belongs to the 30 million people rather than to the work done by the 12 million workers. If purchasing power was made to reflect with precision the part of production that is the result of progress, which is a common capital, and the part that results from the efforts of those who take part in production the total amount given as social Dividends would have to be much greater than the total amount given as wages and salaries.

But it would mean giving more to those who do not work than to those who work. Would it not encourage laziness?

Do not jump to unfounded conclusions. It is incorrect to say that the individual who is not working would get more money than the one who is employed. Both would have a Dividend and one would have a Dividend plus a salary.

The incentive created by a salary would still exist. With time the wage earner would come to understand the need for a Dividend as his sense of society grew.

A Dividend, based upon the dominant part played by the real communal capital as a modern factor of production, would therefore be a generous amount.

We can understand that the transition from a low-carb food plan to high energy food might require some adjustments. One does not go from hospital food to a normal diet without first making similar adjustments.

Wisdom requires that the amount of the Dividend be increased gradually.

The Dividend must first be applied. We must fully embrace an economy of "plenty", of Dividends to all, leaving behind an economy of scar-

city where income is limited to employment.

What did Douglas say on this topic?

Douglas states in the third proposal which would be in conformity with the facts: "**The distribution of cash credits to individuals shall be progressively less dependent upon employment. That is to say that the dividend shall progressively displace the wage and salary, as productive capacity increases per man-hour.**"

This means that an increasing portion of purchasing power would come from Dividends and a decreasing portion would come from employment.

In his 1933 outline for Scotland, Douglas considered that a Dividend given to every man, woman, and child would comprise one percent of the country's total assets. In his words: **"The dividend thus obtained might be expected to exceed three hundred pounds per annum per family."** In Canadian dollars this amounts to $1,450 per year or $121.50 per month. This breaks down to a $25.00 Dividend per month for every man, woman, and child in Scotland.

If this amount was thought to be reasonable in 1933, it should be at least $50 a month in 1964 as the cost of living has doubled in the last twenty years. As well, the productive capacity has also increased meaning there are more products to be distributed.

This was, in Douglas' mind, an initial Dividend, which should increase as the productive capacity per man-hour increased. [Ed. Note: The $50 cited above for 1964, equal to $1,200 in 2017, is a very conservative estimate. 60% of GDP per capita would be closer to reality, that is: 60% of $50,000 = $30,000 per capita per year, or $2,500 per month for every man, woman and child in the country.]

Considering Canada's productive capacity the periodic Dividend should guarantee now and in the future the money needed to satisfy all of the citizen's normal needs. This would simplify and decrease the bureaucracy of the social security system making the government more efficient. Social involvement and personal responsibility would flourish.

What do we mean by an "increase in the productive capacity per man-hour"?

An example will help us understand: Let us suppose that over the period of one year a workforce of 100,000 men had an output of 100,000 production units. And the following year twice as many workers, that is 200,000 men, had twice the output of 200,000 production units. The productive capacity per man-hour would be exactly the same for both cases.

But if in the second year we obtained a twofold output of 200,000 production units with a workforce of 100,000 men, then the productive capacity per man-hour would have doubled.

Or, if in the second year we obtained the same output as during the first year, i.e. 100,000 units, but with half the workforce of 50,000 men, then the productive capacity per man-hour would also have doubled.

The productive capacity per man-hour increases each year in all industrialized countries. One can lower the number of employees or lower the number of working hours without reducing total production. With the same number of work hours production will increase.

This increase is not the result of a greater effort made by each worker but comes from advances made by the use of mechanical and technical tools. We are all co-heirs and co-owners of this progress. We should benefit from this increase by receiving a larger monthly Dividend.

Wouldn't this mean a lowering of the worker's current wages?

Not necessarily although there are reasons that could justify this under a Social Credit system. But by leaving wages at their present level any increase in the monthly Dividend as the country's productive capacity increases would lower the ratio of total wages to total purchasing power.

The ratio of total wages to total purchasing power must be taken into consideration in a system that wants to be consistent with economic realities.

A factory employing 100 men at 40 hours a week (4,000 man-hours) producing 8,000 units, yields 2 units per man-hour.

By adding automated machinery, 70 men working 30 hours (2,100 man-hours) will produce 10,500 units.

Here, 2,100 man-hours, rather than 4,000, increased production to 10,500 units, giving an output of 5 units per man-hour instead of the 2 units we had before.

Productivity that went from 2 units to 5 units per man-hour is certainly not the fruit of more labour. It was due to advanced techniques and to progress which is a communal capital that grows with each generation and which is increasingly productive.

This increase in productivity should benefit the owners of this communal capital, namely everyone. To this social capital, must be associated a social Dividend.

We see that 3 production units out of 5 are due to technical advancements and modernization of the above factory. It is fair to reward the producers, employers and employees with 2/5 of the production. The whole community, producers and non producers alike, should have a share in a Dividend that corresponds to the remaining 3/5 of the production.

This is only an example to make us understand Douglas' proposal which says that as the output increases per man-hour the percentage of purchasing power distributed in Dividends must increase and the percentage in wages and salaries must decrease.

If this proposal by Douglas had been adopted 40 years ago, in 1924, the economic situation would have evolved quite differently from what we have witnessed. Instead of wage increases to workers who have less employment, we would have seen increasing Dividends issued to all, including workers, their wives and their children.

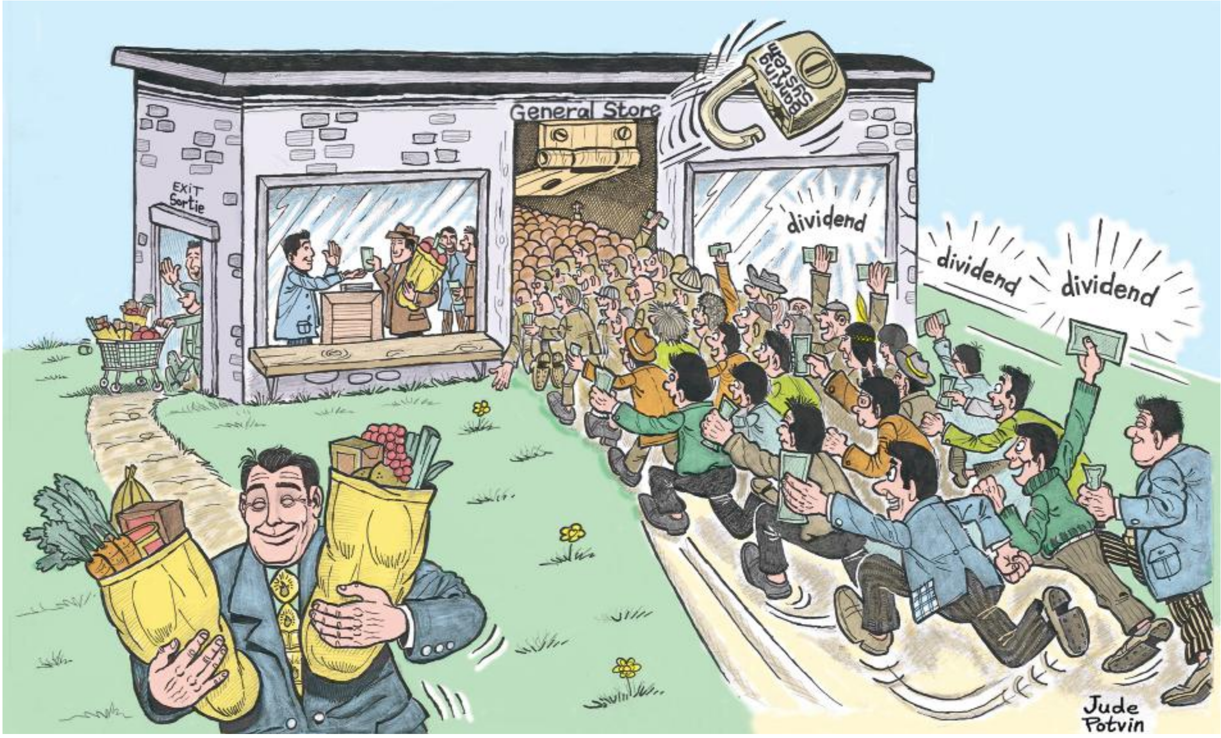
There would have been less inflation as every person would be provided with enough purchasing power. As well, production would correspond to the community's needs.

If purely financial obstacles had been removed, the quantity of goods made and distributed would have been greater, limited only by the physical capacity to produce or by the saturation of consumption.

The wage earners would have lost nothing. Like the capitalists they would have received more Dividends than wages.

How would this monthly Dividend be distributed to each and every member of society?

In the way that would be considered the most practical and required the least bureaucracy. The preferred way is the one requiring the least number of changes in how the Means of Payment are transferred.



Family Allowances are paid monthly to mothers for their underage children. Old Age Security payments and other similar allowances for the blind and disabled are also paid monthly to each eligible person and the same can be done for the monthly Dividend.

We can also resort to the commercial banks. Each citizen would be registered at a local bank. Each month, the commercial bank would simply credit each account with the amount determined for the monthly Dividend. Here again, commercial banks would obtain interest free credits from the Central Bank and deposit a monthly Dividend in each of the accounts in their jurisdiction. Commercial banks would be paid by the Central Bank to render this service.

Another way the monthly Dividend could be paid would be by using the postal service. This is the method that Douglas advocated in his scheme for Scotland: "The dividend shall be paid monthly by a draft on the Scottish Government credit, through the post office."

Using today's computers, banks can easily find a fast, safe, accurate and efficient way to distribute a monthly Dividend to each individual. It would undoubtedly be easier to distribute a Dividend to a co-capitalist than it is to collect taxes from a citizen.

Would this distribution of money to the consumers through Dividends lead to an inflation that everyone fears?

It would be an increase of money in the consumer's wallet, and I do not believe that the people who will benefit from this will complain. It is not when your income is raised that one is hurt. Have you ever heard anyone complain about an increase in income? It is when prices go up that everyone complains.

But would this distribution of money through Dividends not make prices increase?

Cost prices would not be affected as social Dividends are not paid by either retailers or manufacturers. Salaries, stocks and shares given to money brokers are, in fact, issued by industry. The Dividend is not included in the cost price. It would be issued by the Central Bank, the property of the people.

In today's system, restrictions are in place where none are needed. None exist where some are needed. Increases of consumer money could give rise to an unwarranted increase in retail prices. But in a Social Credit system, prices are determined by true cost accounting and the sales price is kept in check by the Price Adjustment mechanism.

Would there be a Dividend during the years when the country's production does not increase?

Yes, whatever the amount of production, there is always a substantial part of it that was made thanks to real communal capital. It is only the case where production stops that the basis for the Dividend would disappear. In this case, the basis for wages and salaries would also disappear since there would be no production.

Of course, when production is low the total purchasing power must be low to be consistent with reality. In such a case, both Dividends and salaries can understandably be lower than during a period when production is plentiful. One can only distribute products when they exist.

Some Social Crediters have mistakenly presented the Dividend as the distribution of the increase in annual production only. This growth can justify an increase in the Dividend as we have seen. Whatever the amount of production, there is always a part owed to social capital, and therefore there is a portion of production that always justifies a social Dividend.

Others have said that the Dividend would distribute the money lacking in purchasing power needed to become equivalent to retail prices. This is not correct either. The Dividend certainly contributes to filling the gap between prices and purchasing power, but this is not its purpose. And even if there was no gap between prices and purchasing power, each citizen would still be entitled to a Dividend for the reasons cited above.

To guarantee a Dividend is one of the functions of a sound financial system, as stated in Douglas' third proposal. To establish or maintain the equilibrium between the sum of prices and purchasing power is another function [Douglas' first proposal]. The Social Credit method accomplishes both functions, through simple accounting operations to Financial Credit which, we must remember, reflects the country's Real Credit.

Taxes under Social Credit

Would taxation still exist under a Social Credit financial system?

This question is asked within the context of the present financial system. To answer this question, we must think in terms of Social Credit. Social Credit requires us to reason in terms of reality rather than in terms of money. Once the answer reflects reality, then finance can be adapted to it. This is true of every aspect of the Social Credit economy.

The present taxation method is corrupt, as is the present financial system. It contradicts economic reality. It steals from the people and is a tool of centralization by both the financial empire and the state. Speaking on this topic, Douglas said in a lecture at Westminster in February, 1926: **"Modern taxation is legalized robbery, and it is none the less robbery because it is effected through the medium of a political democracy which is made an accessory by giving it an insignificant share in the loot. But I do not think robbery is its primary object. I think policy is, much more than mere gain, its objective. I think it is most significant that every effort is made by economists of the type turned out by the London School of Economics to instill into the Labour Party that it is possible to obtain some sort of a millennium by accelerating the process of stealing."** ("Warning Democracy", 1934 page 61)

Douglas later wrote: **"Present-day finance and taxation is merely an ingenious system for concentrating financial power."** ("Social Credit", 1937 page 105)

Again in the same book: "**The main tendency of the process [of taxation] is to concentrate the control of credit in a potential form in great organizations, and notably in the hands of the great banks and insurance companies."**

Douglas strongly condemns the present tax system. He states: **"It is well understood that taxation in its present form is an unnecessary, inefficient and vexatious method of attaining the ends for which it is ostensibly designed. But while this is so, there is, of course, a sense in which, while private enterprise and public services exist side by side, taxation is inevitable. Public services require a provision both of goods and human service, and the mechanism by which these are transferred from private enterprise to the public service must in its essence be a form of taxation."** ("Warning Democracy").

Does this quote by Douglas not contradict previous quotes?

Not at all. Douglas is speaking in terms of reality regarding finance. If one considers his arguments, what Douglas describes as "legalized robbery" is the present taxation system, ▶

which takes money from individuals to satisfy the demands and aims of the financial system. Whereas, the form of taxation which Douglas considers under Social Credit, does not take money from individuals, but rather transfers from the private sector to the public sector the necessary supplies and labour to satisfy community needs.

Would you mind shedding some light on this matter?

When the government builds a road does this decrease to any extent the production of milk, butter, vegetables, clothing, shoes or other consumer goods? On the contrary won't workers have more money to spend on consumer goods?

But in today's system, the government requires the taxpayer to pay workers' salaries. It takes money away from the purchase of consumer goods to pay for the building of a road.

This system does not reflect reality. If the country is capable of producing both private and public goods, then the financial system must supply the money to pay for both.

Under a Social Credit system money would be issued automatically to finance all production that is physically possible and required by the population, whether it be private or public production. This was explained previously with the building of the bridge.

Is it because of the way public works are now financed that Douglas calls taxation "legalized robbery"?

Only madness could excuse such theft. Following is an excerpt taken from the Michael Journal published in 1964: "When the country's population is capable of supplying both private and public goods simultaneously, one would have to be an idiot or a thief to take away from individuals their claims upon private production under the pretext of allowing public production to be made."

There are other situations where taxation represents an unjustifiable but legal plundering, such as when all the purchasing power is taken from individuals through taxes while products are waiting to be purchased.

Another instance is when responsibilities that belong to individuals, families and intermediate institutions are taken over by the government using tax dollars. As the government's intrusions multiply the theft is increasing. The reason given by the government is always the same: individuals, families and local public administrations do not have the necessary financial means. The government's actions should be directed at correcting this financial incapacity as would occur under a Social Credit system. The costs of collecting taxes is another feature of the legalized robbery that is the tax system. No services are rendered to the community when taxes are collected.

But Douglas' last quote mentions a "form of taxation" which transfers, from the private sector to the public sector, a share of the country's productive capacity, and you added that money need not be transferred. How is this explained?

It must first be seen in terms of reality, and its financial expression can take different forms.

Let me explain. The decision to build the bridge was made by the government representatives of the population. This decision would constitute a transfer of part of the country's productive capacity to the public sector. The effect this will have on the quantity of consumer goods being made could influence the population's standard of living.

The population can only enjoy that which is produced. If too many public work projects are requested then production of private goods could suffer. The personal standard of living would be lowered while the enjoyment of public works increased. It has nothing to do with finance; it is a matter of real wealth.

How is this real wealth accounted for in financial terms?

It is expressed as a reduction in purchasing power, since it is impossible to buy things that do not exist. Under a Social Credit system, this reduction in purchasing power would be calculated and corrected by the Price Adjustment mechanism. This would be "a form of taxation" that would correspond to the transfer of a share of the country's productive capacity from the private to the public sector.

Any price increase resulting from this Price Adjustment would be justified. It would not be speculative or exploitative since all prices would be adjusted according to the ratio of consumption to production. The increase in the production of public works might result in a reduction

in the production of private goods. Being aware of this, if people thought the load was too burdensome they could instruct their government to curb public sector activities.

The "form of taxation" described above is not the only one possible. The main requirement is that its financial aspect be an exact reflection of reality. As for the choice of methods, it is a question of feasibility. Circumstances need to be considered and different methods allowed as long as principles are respected.

Does this mean that under a Social Credit system we would no longer pay anything to governments, municipalities, school boards or to other public administrations and that new money would be issued to cover their needs?

There are distinctions to be made. We said that new production must be financed by new Credits but we added that we must pay for these goods at the rate they are consumed. For example, if a school built with new Credits is estimated to last twenty years, the population that uses it must pay one-twentieth of its price each year.

This is not a tax that robs but rather it is a payment for what is consumed. This is as logical as paying the tailor for a suit or the baker for a loaf of bread.

The same applies to public services such as garbage removal and aqueducts. They were instituted to provide services to individuals and families in a more efficient manner. If each family had to obtain water at a lake or river or pay to have it delivered there would be a cost in time and energy. The same applies to the removal of garbage.

As for education, a mother seldom has the time, even though she may have the competence, to teach her own children. We can hardly expect every family to hire a private tutor. But if 20, 30, or 100 families decide to hire a teacher each family will spend less for the same service.

Must we call what each family will have to pay, taxes? Perhaps, because the term is commonly used. But in fact, it is no more a tax than the money paid to a doctor who treated a family member or to the shoemaker for a shoe repair.

Regarding taxes, what difference can we expect under a Social Credit system than what currently exists?

There is a huge difference. First of all, the country's projects would be financed by new Credits. Financially, we would only pay for their consumption, i.e., their wear and tear, rather than for their production. We would no longer be burdened by public debts and interest that cannot be paid. It is public debts that currently consume the greater part of tax revenue.

We would not pay taxes to support government employees who perform tasks that should be performed by individuals and families. The financial incapacity of individuals and families that requires governments to stand in their stead, would be a thing of the past.

Taxes would no longer maintain a burgeoning government run social security system. As co-heirs and co-owners of a common capital, all citizens would find their unconditional economic security in the social Dividend combined with the Price Adjustment mechanism.

Since all that is physically possible would be financially possible, the public could collectively pay for any public or private goods that the country can produce. The payment of public services would no longer be a burden and an obstacle to obtaining private goods, as it is today.

Under a Social Credit system all citizens would be shareholders entitled to a Dividend. As shareholders, they would also be kept periodically informed of the nation's bookkeeping. Bookkeeping would be simpler and more transparent than the complexities of the present system. The public could more readily intervene with their elected representatives should they wish goods to be produced that answer the real needs of the people.

Moreover, the guaranteed income to each person, first at a level that ensures the satisfaction of basic needs and later increased to the level warranted by a civilized society, would be the means that allows people to give instructions to the production system.

To get a proper perspective on a Social Credit world, we must look at everything from the standpoint of reality. The standard of living would no longer depend on the financial system but rather on available or requested production. Finance would only intervene to lubricate the production system and to foster the consumer's freedom of choice.

How would the population pay for public services?

Different formulas will have to be determined according to the services offered and depending on whether they benefit the entire population or only a given geographical area. The formula chosen would be the one found to be the most practical. But we must avoid what might cause people harm under the pretext of being effective. No financial objective can justify causing harm.

Some public services can continue to be paid by those who use them such as with the postal service where users pay by purchasing stamps. The same applies to expressways although their financing under a Social Credit system would avoid lengthy repayment obligations.

Other public services are used by all citizens regardless of where one lives in the country. This is the case for most roads. This also applies to national security, such as the protection of the country against a possible threat of aggression. This requires the readiness of armed forces to carry out military operations. The same applies for a police force needed to maintain public order. All individuals benefit equally in these cases. The simplest way of paying for these services would be to use national credits that would be recovered from the public by the Adjusted Price mechanism.

But some public services are offered to only a part of the community, such as water and sewage treatment. These services benefit city residents rather than country residents. It would be unfair to ask everyone to contribute to the same extent by a Price Adjustment applied to the entire population.

Generally speaking, the people who benefit from a given service should be the ones who bear its cost. As for the best method for doing this, Douglas wrote:

"Now, just as there are two methods in theory by which the unearned increment of association, which we call public credit, can be distributed, these two methods being either a grant of 'money' or a general reduction of prices, and the choice between these two methods is one of practicability and not of principles, so there are two methods by which this transfer of goods and services from private to public use can be obtained, the direct and the indirect method, and it is curious that we have such a tendency to insist on the direct method, with its crudities, complications, and iniquities. It would be both simple and practical to abolish every tax in Great Britain, substituting therefore a simple sales tax on every description of article, and, apart from other considerations, such a policy would result in an economy of administration far in excess of anything conceivable within the limits of the existing financial system." ("Warning Democracy", 1934 page 176)

Direct taxes are the amounts levied against individuals, like the income tax, poll tax, tax on succession, property taxes, etc.

Douglas prefers a sales tax on prices, the indirect method. In a Social Credit system this would combine with the Price Adjustment on consumer goods. This method is suited to the payment of public services that are offered to the whole community as we have pointed out above.

But when everybody pays for public services, is it not unfair since it includes low income people and large families that will buy more because of their many children?

We need to remember that prices are also the same for the poor as for the rich in today's system.

We must not forget that under a Social Credit system individuals regardless of age are guaranteed an income through the social Dividend linked to the individual and not to employment. Each member of a family thus receives a Dividend. This Dividend must be large enough, even when adding the prices of public services and consumer goods, to ensure everyone receives what is needed to obtain the bare necessities. In fact, the hierarchy of needs requires that the country's productive capacity be used first for the necessities of life for each person. Of course, this country can provide much more than the bare necessities to all.

Usually the rich buy more than the poor. In the indirect method proposed by Douglas the rich would finance a greater share of the public service costs than the poor. It is only fair that the ones who benefit the most from national wealth should pay more.

A closer look will reveal that taxes on prices are less dictatorial in character than the income tax or the property tax. This is a point emphasized by Douglas. If one wishes to pay smaller taxes it is possible to choose to buy less and be satisfied with a lower standard of living. Whereas income and property taxes are harsh considering that one does not benefit from having either income or from having property.

The Most Unfair Tax Ever

Here is an opportunity to say a word on property taxes levied on the family home. Property taxes are the source of a multitude of evils.

The family dwelling is a home, not a money fountain. Why ask families for money that does not grow on their home's walls or roof?

This discourages ownership and leads us closer to totalitarian regimes such as communism.

Property taxes that cannot be paid cause anguish to families and fears that the family could be thrown onto the street. This may be so even after the family has endured hardships over time, without successfully securing the amount required to pay their taxes.

This form of taxation is preferred over other forms because it allows the taxing authority to punish those who do not pay by putting their properties up for sale. This gives the collection of money more importance than is given to human beings.

It is our opinion that property tax is the most unfair tax ever established and that it should be eliminated. In closing, let us repeat that, under a Social Credit system, there are no taxes, so to speak. There are payments for public and private services rendered. In any case, the country's population would be provided with the Means of Payment to purchase all that is offered to consumers to satisfy their public and private needs.

Conclusion

We will now end this study on a sound and efficient financial system, not because we have covered every aspect of the subject, but because we believe that we have set the reader on the road to tackling any economic problem that might arise, and its many consequences, in the light of Social Credit.

To tackle those problems in the light of Social Credit means making a clean sweep of limitations that are purely financial.

With Social Credit, there are no purely financial problems for setting in motion the country's productive capacity, or for adequately distributing the fruits of production to each and every person.

This can be accomplished without nationalizing any enterprise and without a utopian expectation that all standards of living be equal. We would not revolutionize established methods of production and marketing, nor suppress any rewards to those who, by their activities as entrepreneurs, producers or retailers, set in motion the means of producing and offering goods and services to the population.

We might add that a financial system that reflects reality, as does Social Credit, would allow a country with greater production to share its wealth with countries that suffer from poverty.

The abolition of purely financial limitations opens the door to developments that would benefit everyone, benefits of a cultural as well as a material nature. These are benefits presently lost because of the defects of today's financial system.