

X

Summarizing nearly 400 pages describing the growth, machinery and action of the political Caucus in England, Ostrogorski makes the remark that "... the strength of . . . forces invading a community lies not so much in the fighting power of their own contingents as in the weakness of those which they tend to supplant."

Ostrogorski does not seem to be aware of the principle embodied in Newton's third law, that whatever pushes or pulls is pushed or pulled to the same extent. This law of stress holds of mutually acting bodies in motion as well as at rest. Nevertheless, the statement serves to introduce us to the idea of the RE-acting forces in Society—or rather in wealth production in the broadest sense.

We have shown that as time has passed in the history of human association the number of natural associations which men have learned how to establish has vastly increased, and that correspondingly the *power* to do things in human association has increased. More and more increments of association have become available to men and women, and also more and more "decrements"—merely increments which are disadvantageous in some way or other—have become apparent.

The balance struck at any particular time in history would be the Social Credit actually realised at that particular time. At every time this has been a fraction of the true Social Credit of that time, and for a long time past men and women have had available to them vastly more **POWER TO PRODUCE** *satisfactory results* than they have realised. In other words:

$$\frac{\text{Consumption of goods and services}}{\text{Potential goods and services}} = \text{an increasingly small fraction.}$$

$$\frac{\text{Produced goods and services}}{\text{Producibile goods and services}} = \text{Another fraction,}$$

which is also diminishing, though not so obviously.

The fact that $\frac{\text{Consumed goods and services}}{\text{Produced goods and services}}$ is a fraction less than one is common knowledge: there is sabotage of goods and services. It is not evident to many people how much of this is hidden under pretexts which would scarcely survive inspection, let alone critical examination by a mind uncontrolled by false axioms. The operation of the principle of obsolescence in industry is an example. The 1945 model is more often scrapped to make work than because it is an advance on the 1944 model, and, in any case, a five *per cent* improvement does not reduce the article improved upon to no value as wealth.

The most important of the above fractions, however, is the first. Let us suppose that it is $\frac{1}{4}$ at a given time (the fraction happens to be the smallest on the typewriter used for typing these notes. It is unquestionably very much less than $\frac{1}{4}$).

What prevents it from rising to $\frac{1}{2}$ or $\frac{3}{4}$ or $4/4 = 1$? Why is it not $1/400$, or $1/40,000$?

It is very important to realise exactly what these questions mean. Regarding the matter objectively, what we have to do here is to state, if possible, the conditions in which this result occurs; the result, that is, that the realised Social Credit is one quantity rather than another.

We must be very careful here that we preserve our scientific balance. In the first place the question is a particular case covered by the more general question: "What determines the course of observed events in human communities?" But, going back to Lecture VIII, these questions are only forms of words: they are not questions in the natural language of action, capable of receiving a natural answer, such as is alone acceptable to scientific people. Translating into this natural language of action, we must come down again to the individual and his policy. (Policy—the result intended, *i.e.*, the objective of action). When two billiard balls collide, the whole of each ball does not touch the other directly: they collide at a point, the point of impact. Their behaviour after impact bears, so far as observation goes, a constant relation to the conditions in which impact occurs, the mass and elasticity of the balls, their movements (direction and velocity: rotation) immediately before impact, the polish of their surfaces, their shape and the features of the surface on which they are moving. So the individual intention meets all the resistance there is to its complete expression in attainment at a point of impact. This is not a permanent point, resembling the point at which the sharp ends of two needles might be made to touch and remain touching for a minute, or a month, or a year.

It is something like the point of impact of the billiard balls—*instantaneous*. Living may be represented as a constant stream of such impacts (taking the words "individual intention") in their broadest sense to mean everything the individual does that has an effective goal to it), and the life of the community as a whole is the sum of these streams. Notice that the "equal and opposite" resistance is as fragmented as the individual intentions which are resisted. It forms, as it were, an incessant moving face of points of resistance.

It hardly needs statement that the forms assumed by the multiple individual resistances are legion, just as the individual practical intentions which are resisted are legion. One can get farther away from what determines the course of events in history than these collisions; but one certainly cannot get any nearer to it. If individual intention and the resistance are regarded as opposing forces, they reveal

themselves at the point, or points of application. We may say, then, that the first of the conditions we are seeking is (1) *equilibrium between action and reaction*.

It is probably well-known to you that many people have followed quite the opposite approach to this matter, and, trying to get as near to what they call (it is only a word) the "Truth", they have gone as far as they can get from the actual collision of the forces they profess to be attending to. Inevitably, they reach abstractions, which may or may not have some degree of correspondence to the reality they are seeking to define. Certainly when not understood, or interpreted in the wrong relationship, such abstractions have the effect of removing the individual from his personal objective. Thus *alibis* are constituted for the human agent, which, even when deserving of recognition, or even reverence, when not so perverted, are the 'untouchable' scape-goats for human error. It is not without significance that the highest concepts as well as the lowest of man's thought are pressed into this mischievous service. The following list is not exhaustive:—God, Divine Will, Prophecy, Allah, Ideas, (either in general or in particular), Pain, Pleasure, *Der Zeitgeist* (Spirit of the Age), *Die Gestalt* (Form), The Mode of Production and Distribution, Sin, Inexorable Economic Law, Evolution, Historical Determinism, Predestination, Climate, Sun Spots, The Profit Motive, Past Historical Events, "The War", "They", The System, The Economic System, Banks, Industrial Organisation(s), Fate, Education, Bad Education, Custom, Nationality, etc., etc.

To us as observers the great number and variety of these answers are informative:—

- (1) The individual who believes that Allah, or Fate, or the Spirit of the Age, or inexorable economic law, or some very strong individual or a tendency or "trend" is what is resisting the attainment of his individual intentions is likely to be influenced to the extent of diminishing his determination to secure his objective, or his intention may be abandoned. In this case an idea has at all events contributed to the course of events. Only individuals can either act or react. Ideas may be instrumental to action or reaction.
- (2) People are generally more prone to seek for explanations for what causes them discomfort than to trace their blessings to their source, apart from the "point of impact" already mentioned: they are realists in their pleasures, but not in their pains. We may infer, then, that men in general are not completely satisfied with their realisation of the Social Credit, since they seem to have sought diligently for the source of personal frustration.
- (3) If it were possible for anyone to influence the realisation of the Social Credit adversely by his own action, and this action involved

effort, he would approve of the ascription of responsibility to a wide variety of relatively irresistible forces of the abstract nature indicated in the list. The responsible individual is seeking an *alibi*.

- (4) In the same case as (3) any spread of knowledge leading to more effective individual action to increase the Social Credit would be resisted. It is foolish to resist what is ordained. Any objective evidence for such resistance as is indicated here, therefore, would be evidence of disbelief in external control, and any evidence of successful resistance would establish such belief as right in action.

One of the ideas which may be observed to operate as in paragraph (1) above is the idea that in the absence of humanly applied force (police, army, deprivation of livelihood, the establishment and maintenance of "inspiring" conditions—*i.e.*, hard conditions (Smuts) and the provision of DISTANT desirable objectives (Smuts) the "Race" would degenerate, die out, soften and decay. Thus Graham Kerr (Prof. J. Graham Kerr, M.P., F.R.S., "Evolution") has pictured Civilization as a self-extinguishing mechanism: anti-biological in its nature. Hence SOME men intervene to keep Nature straight in dealing with ALL men. We may stigmatise the view as lacking in naturalism or in piety; but what we have to do is at all events to notice it as evidence of the belief of some individuals that they have power.

Beginning at the "point of impact", then, what we find is that we have not to fly the expansive distances which the philosophers travel before we come to data which at least have a bearing on the size of the fraction:

Consumption of goods and services.

Potential goods and services.

Behind the billiard ball there is the cue, and behind the cue the player. The result of a game of billiards is a statement of the successive movements of the balls. It is a score, and says nothing about the players, the cues or the tables. So the fraction we are studying is a score: an account of the stream of human impacts. It says nothing about the system, and nothing about the players. If we studied the history and manufacture of billiard cues, of green cloth, or if we studied the factors concerned in the inheritance of a high degree of mechanical aptitude, we might still have to begin at the beginning in order to learn to play billiards.

In regard to the requisite materials for continuous growth, trees might grow much higher than they actually do grow. Many trees reach a height at which the surface they offer to the pressure of the wind is greater than the cross section of their trunks will stand. They fall. Mechanical factors control the height of trees.

A billiard score and the height of the highest trees are practical matters, and so is the realisation of the Social Credit a practical matter.

What have those who have used our method with the greatest effect to say about all these ?

That things (causes) are not to be multiplied beyond what is necessary.

Proceeding from the actual impact between intention and resistance, step by step, one may find an alterable element here or there. *The first* alterable element is the one to seize upon. If the intention of an infant (disclosed by its actions) is to obtain food, the proper thing to do is to feed it. An infant who dies of starvation does not die of *Zeitgeist*, or because of ideas, or from Predestination. It dies from lack of food. A mother unable to buy food offered for sale fails because she has not the money. A husband unable to renew or increase his bank overdraft fails because the bank manager decides unfavourably to him. A government unable to carry out its expressed policy fails because its members defer to experts. If we are seeking extended knowledge of all these matters, we must, of course, examine the actions of individuals at every remove from the availability of wealth to the individual, and each instrument used. But our survey will probably reveal controllable factors long before we reach Allah, and will, in any case, not violate the principle that impact is always at a point. Alternatively, when we are obliged to trace the causes of action beyond the range of human responsibility we are in the sphere of that aspect of Reality with which man has to co-operate or die.

Action alone will establish the case, and the interpretation of the case as established will always be a matter of human judgment and perception. Nevertheless it lies within our province to observe the frequency with which effective causes for which natural authority is claimed require the assistance of human agents before they operate. The beam of the physical balance does not wait until an economist or a politician applies the laws of motion to it before it reacts to its conditions. Whenever economic law is invoked to explain social phenomena, what we actually observe is someone posting letters to convene a committee to decide whether the "law" shall be applied, when it shall begin to operate, what name it shall receive, who shall apply it and where.

Take two examples :

- (1) "The War (1914-1918) gave great opportunity for the development of Medical Science, particularly in the application of scientific principles not hitherto applied, chiefly chemical and physical". The statement suggests a "complex" of forces in society, *e.g.*, the liberating effects of a great upheaval (break-up of "old ideas", fertilisation of the social terrain, *etc.*). As revealed by the Scientific Correspondent of the *Manchester Guardian*, a superfluity of trained chemists was demobilised, and

because they were intelligent and purposeful individuals, something had to be done about their future. A political and press campaign was inaugurated chiefly concerned with the wonders of science. Chemical Physiology (undertaken by subordinate members of university staffs) became Bio-chemistry in the hands of new chiefs of departments, the results were advertised, the scheme flourished (as all scientific work must flourish if it is allowed to do so) and "Medical Science was revolutionised". The War did not do this ; nor did the war prevent the doing of something else not yet done.

- (2) The personal consequences of rearmament ; these are not the result of "inflation" or "deflation" ; they are the consequences of Acts of Parliament passed by M.Ps.

Whence do the controlling forces derive their power ? (By "their" power is meant the power actually displayed in the actions constituting control). The answer is : from all available sources, in proportion as those individuals who actually exercise control can establish an effective demand for these sources, or it may be effectively established on their behalf. In our society, effective demand is largely represented by money.

Since these Lectures were first instituted, the history of the Alberta Experiment has been written by Major Douglas. Students will gain more information concerning the resources of the controlling power from that book than from any other examples which might be cited.

XI

The existence of an "Art" or "Arts" of Government is in itself a recognition of the claim that some or all individuals may exert a measure of control over the use and development of human associations.

The Arts of Government are known to and practised by some *individuals*: that is to say, they are not known to and practised by "Allah" or "Fate" or "*Die Gestalt*". The Art of Government includes the Arts of Government, and may be defined as the means whereby all the members of a community (in the result) are constrained to accept an objective entertained by less than the whole number.

Doubtless briefer though less detached definitions might be and are formulated.

The word "objective" calls for examination. It illustrates a dilemma which has frequently shown itself in the development of the natural sciences. It is all very well to say "10 lbs"; but what is a pound? Remember that we are chiefly interested in the power of human beings to produce intended results, and in the first lecture we dismissed the closing phrase of the definition "in terms of their satisfaction" with a brief indication that this was merely the standard of measurement to be adopted. We thus asserted, by implication, the measurability of objectives, and stated the term of measurement. Satisfaction, as we have shown in Lecture IX, can only be truly revealed if there is a sufficiency of freedom (Douglas: "freedom to choose one thing at a time"). If there is this degree of freedom, satisfaction can be measured and expressed as a fraction, the numerator of which is the number of people who reveal by their actions (cessation of demand) that their needs are satisfied, and the denominator the total number of people concerned. We need not, therefore, be concerned with any difference between what people think they are about to get and what they actually do get. These are two totally different meanings of "objective". The true or real objective is satisfaction.

The Art of Government, therefore, is an art exerted to falsify the Social Credit—to substitute a false standard of satisfaction for a real standard; to represent the objective as being attained when it is not, in fact, attained: to deflect the aim of individuals in their attempts to reach their objective: to alienate policy from individuals: to tyrannise—all these paraphrases are useful, and doubtless many others. The aim of government is control of policy, and the Art of Government is chiefly concerned with the development of skill (exerted by individuals) in the control of policy. In a true democracy this skill would be developed and devoted solely to the end of securing that the real objective of association was correctly expressed (not necessarily in words or formulæ: better still in *fact*: *factum* = the thing done).

It is important to observe that skill of the kind described, like all knowledge of how to do things, contains a large element of cultural heritage.

Thus we find that those individuals in the community who may be given opportunity of displaying skill in the Arts of Government are so trained that they may develop skill and use it to the greatest advantage with the minimum of trouble to themselves. It is even more widely recognised that a requirement of successful government is the evocation of a minimum of conscious resistance in the governed.

It has already been stated (Lecture X) that the resources in regard to power available to those who control the progress made towards the attainment of any given policy are all those resources available to effective demand. The ability to develop inventions to assist in the special technique of government is only one of them.

Observe that the evocation of a minimum of conscious resistance implies that the Art of Government should be, as far as possible, an art which conceals art: if it were concealed from the governor as well as the governed, both would be influenced by the conviction that they were largely the passive instrument of action and reaction. On one hand Art plus action would be opposed to Reaction without art. Since the Art of Government has exercised the ingenuity of rulers throughout history, we should expect a detailed understanding of it to be hard to acquire. Modern society reveals the volume of effective knowledge in THE RESULT: namely, an association in which the associators (individuals) do not effectively determine policy: at least the acquisition of a sufficiency of freedom is a pre-requisite to their doing so. What cannot be shown to be done, cannot rightly be said to be done.

While the field is one of the greatest importance to students of Social Credit, it must be emphasised that it is a dangerous field to potter in. If the objective method of induction is applied to its problems, it must be applied rigorously. Our remark concerning the evocation of a minimum of conscious resistance is alone sufficient to suggest that the associations we may light upon are capable of generating emotion. Responsibility undertaken unsuccessfully for the attainment of an objective is likely to be confused with culpability. It is within the province of students of Social Credit to assess the objective effect of moral qualities in increasing or diminishing the Social Credit: but such an estimation implies, again, a sufficiency of freedom.

The following expressions used in praise of a deceased British Statesman by another will show that statesmen are not condemnatory of each other concerning the exercise of a high degree of skill in the Art of Government. He was:—

Completely disinterested,
Perfectly loyal,
Sincere above everything,

Sympathetic,
Attentive,
Courteous,
Understanding,
Respected,
Self-sacrificing,
Generous to a fault,
Fair,
Determined,
Influential,

In his company nothing unworthy in public life could live. He was courageous and upright. To be asked to speak about him was a treasured privilege.

Admitting that some of these terms are arbitrary, and that all of them are by no means exhaustive of the qualities which may find effective expression in any individual's actions, it is clearly useless to look for the source of social conflicts to the *qualities of esteemed individuals*. But the objective method is not easy of application, without, as has been suggested, engaging the emotions of at least some individuals. Every effort should be made by the student to connect results with apparent associations at every stage. It is necessary to avoid cynicism, and the appearance of cynicism, more than the thing itself (which is rare in all true students) if it is the object of the individual to increase rather than to diminish Social Credit. Niccolò Machiavelli's "The Prince" is relatively unpopular in governmental circles, not because its indications have been surpassed by modern technique, but because of its satirical effect, which is repugnant to those who are themselves conscious of trickery in their dealings with others. We must bear in mind, too, that an *objective* grasp of any considerable field of events may be within the capacity of relatively few people. The division of labour applies; and as each individual becomes more and more proficient in performing a part of the total process, the other parts, and even the finished product, may be increasingly strange to him. Politicians themselves sometimes foster the tendency to cynicism, perhaps purposely (*e.g.*, Sir Josiah [later Lord] Stamp's assertion to the effect that the resources of modern psychology suffice to induce people to LIKE higher taxation); but, broadly, any inducement to depart from the objective method operates to deflect the aim of a serious study such as our own.

Let us study an example :—

Let us assume that the objective (to be ascertained in an environment affording a sufficiency of freedom for its ascertainment) of the practice of medicine is the maximum provision of health to the individual. Certain insurance companies popularise this idea, omitting the last three words. (Enlightened public policy). The process costs money (generosity). A statistical investigation is made of the incidence of disease. (Scientific). Clinics are established and endowed (Good

business). Research is promoted into the causation and treatment of seven (7) ailments. (Public spirited). The clinics are financed out of premiums. (Equitable distribution of cost and increased popularity of insurance). (Note : This is also "nationalisation" on a small scale). Nationalisation on a large scale advocated by Insurance Companies and adopted, the doctors being divided, but on the whole favourable to the scheme, since their incomes are falling and salaried security is better than high-fee-ed insecurity. (Political question). *Results* : (1) increased control. (2) Diminished personal freedom. (3) Economy in the use of money. (4) Higher actuarial certainty concerning insurance. (5) Reduced mortality in certain disease groups and increase in the average length of life. (6) Doctors complain *publicly* about loss of professional freedom (freedom of individual doctors to treat and to investigate disease) and privately about loss of income. (7) Someone counters with a public demonstration of loss of professional income and gain to the public through reduced mortality. NOTE THAT THE INDIVIDUAL MUST NOW BE CAREFUL TO SUFFER FROM THE "RIGHT DISEASE" IF HE WISHES TO BENEFIT FROM MEDICAL ADVANCES, and a *substitution of objectives has brought this about*. There has been

ADVANCE TOWARDS A MAXIMUM OF "HEALTH",
but not

ADVANCE TOWARDS A MAXIMUM OF "HEALTH"
TO THE INDIVIDUAL.

Presumably this is not the policy of the individual member of the community, who nevertheless has to contribute his quota of cost (Financial). Nevertheless, let us suppose there is an electoral majority for the policy, indeed the popularity of the "Health Service" plank in the platform of the party returned secures at the same time endorsement of other policies of an even more far-reaching character. The steps enumerated above might be assisted by all the political parties. In so far as they have been taken they are not yet complete.*

Certainly we may write down "Substitution of policy" as an important *art of government*, however this substitution may be effected. ("Carrier" policies—*i.e.*, "popular" but unimportant policy "a" with unnoticed policy "A" on its back—are a *method* of substitution.)

The illustration reveals a substitution of another kind namely, substitution of MEANS for ENDS—in the demand arising directly or indirectly from the public for (in order in time) the return to power of a party, and the introduction of a "measure" (incompletely available for study and incompletely studied) which is not itself the objective to be gained.

*The editor cannot forbear to remind the student that the passage, which epitomises the present (1946) manoeuvres all over the world for a "State Medical Service" and *control of certification* of patients, was written in 1936.

The second art here shown, then, is the art of
SUBSTITUTING MEANS FOR ENDS.

Still another substitution in the example is the substitution of a *morally defensible objective* for one *morally suspect*, namely, resistance to the inroads of "rapacious anti-social medical men" for the associating individuals' advantage.

We are not strictly concerned with the question *why* these substitutions are effected, although it is of importance to know *where* they are effected. In regard to the first question, each substitution which is successfully carried out increases the efficiency of government, and it may broadly be said to be related to the belief current in the community that government is a necessity, each particular instance of government being accepted for lack of a better. The belief itself is derived from ideal philosophy. The Greeks were wont to refer to the simple, happy life of people at the dawn of civilisation, "when men were not worn by toil, and war and disease were unknown" as the "Golden Age". Recent enquiry does not entirely support the view that the existence of such an age was mythical, and in any case the proper handling of combative traits, if they are inherent in the human community, is at once a problem affecting the Social Credit and one for solution in an environment affording a sufficiency of freedom for its *right* solution.

Many subordinate arts, involving the use of psychological knowledge, particularly knowledge concerning the tendencies towards particular kinds of behaviour on the part of people either as individuals or in groups, are practised in support of the major governmental arts. All of them are *favoured by possession of effective demand for means of practising them*. The last great Art of Government to be mentioned here, therefore, is the Art of conserving effective demand for means. This, as the individual may test for himself, consists in the possession of MONEY.

XII

" . . . without the disposition to truck, barter, and exchange, every man must have procured to himself every necessary and convenience of life which he wanted. All must have had the same duties to perform, and the same work to do, and there could have been no such difference of employment as could alone give occasion to any great difference of talents". . . .

ADAM SMITH (Wealth of Nations).

There is no need to comment upon this passage, although the last clause conceals the assumption that specialisation of individual aptitude can ONLY—"alone give occasion"—be made possible through division of labour and the resulting exchange of commodities. Adam Smith did not envisage the possibility of increased leisure as a consequence of the introduction of power-driven machinery. Aptitude is made fruitful in facility and skill by practice, regardless of the economic conditions in which the facility and skill are exercised. An artist (or a surgeon) is not more skilful BECAUSE he is not permitted to consume goods without an initial demonstration of his skill. The permission can be dissociated from the condition. Then skill would be developed (by practice) in some other condition. The only NECESSARY condition is *practice associated with aptitude and opportunity*. An artist with a sufficient income not derived from the practice of his art *could* develop skill in painting without trading his pictures for boots and ham sandwiches. It may be that Adam Smith thought that only the inducement of economic necessity sufficed to make the acquisition of skill desirable to the individual who acquired it. The universal interest in play contradicts this. The luxurious people who invented the hammock were not above decorating it or themselves. (A very idle West Indian people whose sole known contribution to the arts is this invention).

Compare—C.H.D.

"There is absolutely no concrete difference between work and play unless it be in favour of the former. No one would contend that it is inherently more interesting or pleasurable to endeavour to place a small ball in an inadequate hole with inappropriate instruments, than to assist in the construction of a Quebec Bridge, or the harnessing of Niagara."

Adam Smith recognised barter as a consequence of functional specialisation in production, and asserted that *variety* of talents could only arise from the division of labour and the consequent exchange of goods. Several creatures besides Man have established conditions in which leisure is possible without division of labour (apart from sexual division of labour). They lack Man's cultural heritage and his power to make use of it. The physical requirements of variety of aptitude and skill are:—

- (1) Mental and muscular variability.

- (2) Variability of motive (which the cultural heritage provides lavishly).
- (3) TIME.

PHYSICALLY, a man COULD (whether he would or not) provide for his own needs and his family's and still have TIME to discover in himself some special aptitude and to develop skill in the use of it. The identification of some natural means of labour-saving and the application of it would increase this time as well as providing new opportunities for its use. If such an individual were free from arbitrary control he might choose one interest before another, or choose not to exert himself unnecessarily. Those who at present are planning "work for all" envisage a mode of association in which the use to which these physical possibilities are put (with great resources of non-human power available) is subject to regulation (*i.e.* control by someone in accordance with some ideal standard).

For us, as students of Social Credit, the natural effects of exchange are what we have to examine in the first place. Aptitude and skill are not direct consequences of trade. By favouring the life and reproduction of particularly "economical" men, trading customs may tend to standardise men, may inhibit the appearance of new aptitudes among them, may inhibit the development of aptitudes which exist or may appear, or they may promote natural circumstances in which new aptitudes appear or are developed. (Follow this illustration to its conclusion:—Biologically regarded, every individual is the product of the union of two germ cells—that is to say, two particular individual germ cells, which can arise ONLY in particular individuals and in them probably, only once. This is only to say, besides giving a technical explanation of the fact, that every individual is *individualised* and is in some respect or respects different from all other individuals. Even "identical" twins differ from each other. It follows that all the descendants of a particular union (of germ cells, not only of individuals) are different from all the descendants of another union. Any circumstances, therefore, which, tending to act uniformly, alter the movements and frustrate the actions of individuals—*e.g.*, the movements of men about the country in search of work—will tend to substitute a population composed of one set of individuals for a population composed of another set. If the Income Tax had been five shillings in the pound in 1831, it is unlikely that any Englishman now living in England would be living at all: the population of 1937 would consist of other individuals, perhaps with the same or similar general features as the present population, perhaps not. While there is some evidence for the persistence of particular racial qualities, even in environments which tend to render them ineffective, and even when masked under exceptional external features (*e.g.*, domestic breeds of dogs), the cumulative effect of apparently small matters increasing or diminishing the hardship of men's lives, absorbing their energies and affecting

their interests, is by no means negligible. Evidence does not suffice, however, to assess its value.

We must confine our attention then, for the present, to the direct consequences of a particular custom,—barter—*i.e.*, the inescapable, natural consequences, remembering that the *effect* upon individuals of such consequences is not necessarily incapable of correction or adjustment, if the appropriate associations are established to secure this end.

- (1) Since exchange of goods is superfluous unless the bartering individual has excess of the commodity bartered, the first necessity of barter is the existence of more than one individual in possession collectively of more than one commodity, and these commodities must be in excess of the need of their possessors to consume them or to use them.

e.g.—A prehistoric hunter has an assortment of flint arrowheads which he has made, but no food. Another has broken his last weapon in killing an animal for food. Arrowheads are bartered for meat.

The example is worthy of analysis, and provides information along several lines:—

- (a) The division of labour (production of capital goods and production and consumption of goods) develops its characteristic increment of association in increased production and enhanced skill in both killing and flint-chipping. It is also time-saving.
- (b) Cave bears and flints are not found together, nor is the environment of flint-chipping the best suited to successful hunting: flint-chipping was a localised industry. Distance factors enter; food must be carried to the flint-chipper and flints to the hunter. Physically, carrying (transport) entails work (consumption of energy-liberating substances) and lapse of time.
- (c) The real cost of food plus arrowheads *plus* transport is a part or the whole of the food, the arrowheads being capital goods. The transport is service and possibly capital goods as well, if these goods are only a bag for the arrowheads. This statement holds, even if, let us say, the flint-chipper and the hunter shared the labour of transportation.

What natural circumstances govern the RATE OF EXCHANGE? *i.e.*, the exchange of flints for food? Broadly we may say POLICY *not equity*, for notions of equity could only be supported by arguments drawn from policy. Assuming that the individuals associate voluntarily and that their policy (objective) is that consumable goods should be forthcoming with the minimum of trouble to themselves, the OPTIMUM rate of exchange, food for flints, is that rate (which may well vary from time to time) which is related to the highest yield from their association.

Note that strictly speaking every exchange of goods that is effected is unique, and that while in a complex society many exchanges can sometimes be repeated at the same rate, this uniformity arises from their acceptability in the circumstances in which they are offered.

Suppose now that instead of effecting the exchange of food for flints directly an acknowledgment of indebtedness is handed to the hunter for flints and to the flint-chipper for food, a set of instruments would have been created entitling someone to food and flints to the amount stated, and it is not until the explicit nature of the demand on the face of each certificate is merged in a single "unit" that any confusion arises. This "unit" is in itself fictitious. It is MONEY, which has been defined by Professor Walker in his *Money, Trade and Industry* as "any medium which has reached such a degree of acceptability that no matter what it is made of, and no matter why people want it, no one will refuse it in exchange for his product".

Consider, in the place of the food and flints of pre-history, a more extended list of exchangeable commodities to the number, say, of ten; it is reasonable to suppose that these may be exchanged on the basis that the individual accepting one of them, at an agreed rate, may have done so in the expectation that he will more readily be able to provide himself with a commodity which he desires to consume by exchanging it than he could have done by exchanging his original possession. And the like may be true of other traders, so that some time elapses before all the commodities have reached the individual who desires to consume them. Note that here each commodity is accepted in consideration of the expectation of the recipient concerning what he may get by exchanging it and as the process of exchanging proceeds, so individual estimations act to restore the first commodity to be offered for exchange to its original owner for less than he received for it in the first place. This result is not peculiar, then, to the use of money. Note, however, that such "gains" do not alter the quantity of commodities in existence. Only production of fresh goods or consumption of existing goods can do this.

Barter is concerned with the distribution of goods, and any increment of association arising from it must be distinguished from the increments arising from other associations which are associated with its practice. An increase in the *variety* of products accessible to the individual arises from the practice of exchanging products.

We have already stated that the rate of exchange is related to policy. Exchange effects distribution, and if money is used to expedite these exchanges, its use is related to policy in the same way as the exchanges. Its function is to distribute goods. A large part of Douglas's published work is taken up by demonstrations of this point. The student should read "Social Credit", pp. 130-1 and pp. 61, 62 and 63: "Warning Democracy", pp. 15, 128-9, 133: "The Control and Distribution of Production", pp. 9-10: "These Present Discontents and the

Labour Party", pp. 8-9: "Economic Democracy", p. 28, and "The Monopoly of Credit", p. 23. Passages from the pages cited are as follows:—

SOCIAL CREDIT, pp. 130-1.

"There is extant in the world a common if somewhat nebulous idea that whoever, for instance, grows a ton of potatoes grows thereby in some mysterious way the purchasing power equivalent to a ton of potatoes . . . If I grow a ton of potatoes and exchange those potatoes for five currency notes of one pound each, held at the moment by my neighbour next door, all that has happened is that I have five pounds which he had before. My ton of potatoes has not increased the number of pounds, although it *may* have, but probably has not, increased the purchasing power of each pound. If we imagine this five pounds to be the only five pounds in existence, and money to be the only effective demand for goods, no one will be able to exchange any goods until I part with, at any rate, a portion of my five pounds."

pp. 61-63.

"Reams of paper and many valuable years have been expended endeavouring to define and standardise this thing called "Value", and with it the methods of relating goods and services to the standard when obtained. The line of thought which is usually followed is something after this fashion: "Money is a standard or measure of value. The first requisite of a standard or measure is that it shall be invariable. The money system is not giving satisfaction, money is not invariable, therefore the problem is to standardise the unit of money." As a consequence of this line of argument, a dazed world is confronted with proposals for compensated dollars varying from time to time in the amount of gold they contain in accordance with the price index, or even with card money out of which holes are punched to represent its adjustment to the physical realities of economics. Nor is the misdirection of thought confined to professional economists. Almost the first idea which seems to present itself to physical scientists whose attention is directed to this problem is in the nature of a search for some adaptation to finance of the centimetre-gramme-second system of units. Yet perhaps the most important fundamental idea which can be conveyed at this time, in regard to the money problem—an idea on the validity of which certainly stands or falls anything I have to say on the subject—is that it is not a problem of value-measurement. The proper function of a money system is to furnish the information necessary to direct the production and distribution of goods and services. It is, or should be, an "order" system, not a "reward" system. It is essentially a mechanism of administration, subservient to policy, and it is because it is superior to all other mechanisms of administration that the money control of the world is so immensely important . . . It is every whit as sensible to argue that because there may only happen to be one hundred tickets from London to Edinburgh in existence, therefore no more than one hundred passengers may travel, as it is to argue that because the units of money happen at the moment to be insufficient (whether they are "invariable" or not), therefore desirable things cannot be done, irrespective of the presence of the men and the materials necessary to do them. The argument only assumes validity if a deficiency of tickets is a reflection of a real deficiency in transport and not *vice versa*."

SOCIAL CREDIT, p. 60.

"There are few people who would claim that the money systems of the world are perfect, and the number of such persons is decreasing daily. But when asked to define the various defects in the money system, it is remarkable to notice with what monotonous regularity these ideas of "justice" and "value" are paraded. It is claimed that money is defective because it is not an accurate measure of value, or that it results in an unjust "reward"

for labour, but when such critics are asked to suggest a method by which the relative value of a sunset, and say, the Venus di Milo might be assessed, on the one hand, or, on the other hand, what is the "just" return for a given amount or variety of labour, their answers are not usually helpful from a practical point of view."

SOCIAL CREDIT, p. 131.

"The distinguishing feature of the modern co-operative production system, depending for its efficiency on the principle of the division of labour, is that the production of the individual is in itself of decreasing value to him, as the subdivision of labour and process is extended. A man who works on a small farm can live (at a very low standard of comfort and civilisation) by consuming the actual products of his own industry. But the highly trained mechanic, producing some one portion of an intricate mechanism, can only live by casting his product into the common stock, and drawing from that common stock a portion of the combined product through the agency of money."

CONTROL AND DISTRIBUTION OF PRODUCTION, p. 1.

"Money is only a mechanism by means of which we deal with things—it has no properties except those we choose to give to it."

THESE PRESENT DISCONTENTS AND THE LABOUR PARTY, pp. 8-9.

"In order to meet the primal necessities, men work for money, having always at the back of their mind that so much money represents so much satisfaction of primal needs. It should be particularly observed that it is this faith, this credit, which gives money its value, and it is therefore true to say that all money is, or is fundamentally dependent upon, credit."

WARNING DEMOCRACY, p. 129.

"The simplest and most satisfactory conception of money is that it is simply a ticket which enables the holder to obtain goods and services upon demand."

WARNING DEMOCRACY, p. 128.

"You do not make money by making goods."

MONOPOLY OF CREDIT, p. 23.

"Purchasing power is not, as might be gathered from the current discussions on the subject, an emanation from the production of real commodities or services, much like the scent from a rose."

XIII

While it is not practicable to treat money comprehensively in a single lecture, the study of money from an objective point of view reveals facts of such importance at the outset as to suggest that the vast literature of Money largely ignored matters which are most material.

The inductive method reveals features which are unexpected, at all events by most people, in respect of all its aspects, *e.g.*, in respect of the true cost of its production, the factors governing the quantity of its production, the materials of which it is made, its origin and use in Society, the history of its development—*i.e.*, the changes in practice concerning it—its inherent properties, the necessary consequences of its use, the arbitrary consequences of chosen methods of using it, and so on.

On all these points what is commonly asserted and widely believed is so demonstrably wrong as to make it a matter of difficulty to decide in what order to state the results of even a superficial survey in practical life of the common facts of experience concerning money and the uses of money.

Since the current definitions of money tend, in many cases, to endow it with properties which objective study shows to be erroneous or gratuitous, it is plainly a use of the deductive method tending to error to refer any matter to such definitions. It is to be noted that even concerning Professor Walker's definition, Douglas remarks that "so long as this definition *holds good*—" *etc.*, suggesting that there is no necessity for its holding good; and Douglas's own definitions are, in general, broad statements having the effect of deprecating fixed views of the nature of money in favour of clear and objective definitions of events associated with its use or which may be associated with its use. Since money "is only a mechanism by means of which we deal with things", in regard to the efficiency of society to "deal with things" as those in association desire, it is of supreme importance if it is invariable; but of no importance at all if it is variable at will.

A man sells a cow for what are called ten pounds, and buys a watch with what he calls "the money". This is a transaction with which we might meet fairly often if we set out to watch the trading habits of people. Three people; a man with a cow, a man with what they call "ten pounds" and the man with a watch. Call the men A, B, and C. If we timed the events we are observing, we might find them to be correctly recorded as follows (note there are five times, even if these are not evenly separated one from another):

			Cow	Ten pounds	Watch	Nothing
July 4	11.2	a.m.	A	B	C	
"	11.2 $\frac{1}{2}$	a.m.	B	B	C	A
"	11.2 $\frac{3}{4}$	a.m.	B	A	C	
"	3.5	p.m.	B	A	A	C
"	3.5 $\frac{1}{4}$	p.m.	B	C	A	

In this simple case the interval of time during which the original owner of the cow and the original owner of the watch have nothing is fifteen seconds. In practice it is often a negligible fraction of a second in such simple cases; but it is by no means negligible in some business transactions, and during this time, short or long, the owner of a commodity is said to be in debt for "the money" and the man who has nothing, in credit for "the money". If the cow and the watch were the only commodities in the world, and if at the end of July 4, neither B nor A were willing to sell, C would have what he called ten pounds which would only acquire some meaning for him if something "Came on the market" to be bought. The "money" passes through three hands (giving rise to the phrase "the circulation of money") and the cow passes from A to B, and the watch from C to A. In the illustration, therefore, the ten pounds represents a hypothetical buyer of a hypothetical product which might be accepted either for a cow or a watch in so far as its acceptability goes. It represents a third term in barter—that is to say a commodity and has no meaning apart from this. If, then, money has no power to buy goods, it has no meaning. This is to state more correctly than usual the fact that the meaning which money has for its possessor lapses during a period of time during which there are no goods for it to buy. This is important because one of its alleged uses is to "save up for a rainy day". If by a rainy day is meant a day of scarcity, it cannot be spent on such a day, but only on a day when there are goods to buy. Money, clearly, enters into that complex of varying estimations of exchangeability leading to the possibility, *e.g.*, that in a particular transaction £10 may become the equivalent of £9. This in itself suffices to contradict the view that the monetary unit measures anything besides its chosen monetary equivalent, *e.g.*, 20/- = £1, 1/- = 12d. These evaluations are wholly arbitrary and are alterable by common agreement (adoption of standards). All they do is to facilitate closer approximation to the maintenance of the same rate of payment in money for varying amounts of a commodity sold at the same time *e.g.*, 20 cigarettes for 1s.0d. or 10 for 6d., 30 for 1s. 6d.* This is merely disguised arithmetic. Money is not a measure of "value"—whatever that may be. Money is effective demand for goods, if goods are available in the hands of someone wishing to barter in the belief that there are still other goods available which he desires to obtain.

MONEY CAN BE MADE THE ONLY EFFECTIVE DEMAND FOR GOODS by taxing every vendor (*i.e.*, holder of goods to exchange) in money on every sale. Here tax does not mean only a fine for selling the goods paid to some "authority", *e.g.*, any retail tax, but all payments in money imposed upon a vendor in virtue of his power to offer the goods for sale. These form not merely an element but indeed the whole of "price" which we shall discuss next week.

* It is salutary to remember the pre-war price which was even then built up of distributed and undistributed costs with a heavy addition of "tax."

To the extent that money is the only effective demand for goods, B in the illustration must initially be in possession of money. If we extended the list of transactions, which we might do indefinitely, this necessity is unaffected, and to say the ten pounds has done "more work" (it has done no work) is merely to say that more concealed bartering has been done, while someone began with ten pounds and someone else ends up with ten pounds. The money neither increases nor decreases in total amount and originates outside of the illustration.

Suppose, however, that the individuals in the illustration who held nothing for a short time were issued with a certificate expressing their condition—*e.g.*, that they were in credit for ten pounds—such a certificate may have the acceptability of money. Such a credit instrument is a Bill of Exchange, which, with limits assigned to it by law and custom, increases money by performing its functions without the actual transmission of money. A Bill of Exchange is in the form of an order by the *Drawer* to pay to the *payee* (who may have no existence) money by the *drawee*. If he, or anyone else, agrees to pay, the bill is "accepted" and is negotiable, unless transference is prohibited. Note that there are now (for a time at any rate) £30 in existence so far as the use of credit instruments is concerned in the illustration, instead of £10. A cheque is a bill of exchange drawn on a banker payable on demand. Actually a more obvious form of money than a bill of exchange, cheques are not intended for circulation, whereas bills are. Obviously the extended use of cheques obviates the actual use of currency, which is the name given to the forms of money in which legal payment of debts may be demanded—*e.g.*, coins and forms of promissory notes legalised for this purpose, *e.g.*, Treasury Notes or Bank Notes. There are other instruments which have the effect of money while actually being orders to pay money, and while the most common form of British money is a promise to pay an indefinable "pound" (see Midland Bank *Monthly Review*, February—March, 1934), the exact meaning of monetization must be blurred.

Observe that money has no meaning in the absence of goods and that the absence of money in the presence of a rule that all or most goods must pay a tax in money is restrictive.

The student should notice that money (whatever it is) is really something intangible, and the moment that something tangible is widely distributed in a community with the statement attached to it "This is money" the intangible nature of money is disguised by practices associated with its distribution. This has operated almost completely to disguise from those most concerned with the employment of money the true nature of money, and it may be a long time before the student is able to detect all of these disguises and to see, as it were, the true image of money underneath. He should not be satisfied that his quest for a true understanding of money has come to an end, until he perfectly understands what Douglas means by the simple statement that money is a ratio. Money is a rate—not in the sense of a rate which is "levied"

by, e.g., a municipality, but in the pure sense; the rate at which something is done. The student has to discover what this something is, and why "money" is the correct name for it. This will take a little time.

Students should revise this lecture repeatedly and add to it notes from reliable sources.

In the meantime they should study the following passages which Douglas has written:—

WARNING DEMOCRACY, p. 128.

"Having it firmly fixed in your minds that while to the ordinary man there is no wealth without money, and yet that there exists either actually, or still more potentially, enormous quantities of wealth, for which there is no equivalent amount of money, I should like to bring to your attention another simple, apparently obvious, but very frequently overlooked fact, that is that you do not make money by making goods. In other words, the industrial system, which makes goods, is not to blame for poverty—it is the financial system."

MONOPOLY OF CREDIT, p. 23.

"Purchasing power is not, as might be gathered from the current discussions on the subject, an emanation from the production of real commodities or services much like the scent from a rose, but on the contrary, is produced by an entirely distinct process, that is to say, the banking system."

SOCIAL CREDIT, pp. 130/131.

"There is extant in the world a common, if somewhat nebulous idea, that whoever for instance grows a ton of potatoes grows thereby, in some mysterious way, the purchasing power equivalent to a ton of potatoes . . . If I grow a ton of potatoes and exchange those potatoes for five currency notes of one pound each, held at the moment by my neighbour next door, all that has happened is that I have five pounds which he had before. My ton of potatoes has not increased the number of pounds, although it *may* have, but probably has not, increased the purchasing power of each pound. If we imagine this five pounds to be the only five pounds in existence and money to be the only effective demand for goods, no one will be able to exchange any goods until I part with, at any rate, a portion of my five pounds."

p. 63.

"The measurement of productive capacity takes place, or should take place, in regions other than those occupied by the ticket office, or its financial equivalent, the bank; and the proper business of the ticket department and the bank is to facilitate the distribution of the product in accordance with the desires of the public and to transmit the indication of those desires to those operating the industrial organisation, to whom is committed the task of meeting them. They have no valid right to any voice in deciding either the qualifications of travellers, or the conditions under which they travel.

CONTROL AND DISTRIBUTION OF PRODUCTION, p. 1.

"Money is only a mechanism by means of which we deal with things—it has no properties except those we choose to give to it. A phrase such as "There is no money in the country with which to do such and so" means simply nothing, unless we are also saying "The goods and services required to do this thing do not exist and cannot be produced, therefore it is useless to create money equivalent of them". For instance, it is simply childish to say that a country has no money for social betterment, or for any other purpose, when it has the skill, the men and the material and plant to create that betterment. The banks or the Treasury can create the money in five minutes, and are doing it every day, and have been doing it for centuries."

p. 2.

"*Real credit* is a correct estimate of the rate, or dynamic capacity, at which a community can deliver goods and services as demanded. *Financial credit* is ostensibly a device by which this capacity can be drawn upon. It is, however, actually a measure of the rate at which an organisation or individual can deliver money. The money may or may not represent goods and services."

ECONOMIC DEMOCRACY, p. 121.

"Now it cannot be too clearly emphasised that *real credit* is a measure of the reserve of energy belonging to a community and in consequence drafts on this reserve **SHOULD BE ACCOUNTED FOR BY A FINANCIAL SYSTEM WHICH REFLECTS THAT FACT.**"

CREDIT POWER AND DEMOCRACY, pp. 106-107.

". . . the only possible basis of *real credit* is a belief amounting to knowledge in the correctness of the credit estimate of a society, with all its resources, to deliver goods and services at a certain rate . . . *The business of a modern and effective financial system is to issue credit to the consumer, up to the limit of the productive capacity of the producer, so that either the consumer's real demand is satiated, or the producer's capacity is exhausted, whichever happens first.*"

WARNING DEMOCRACY, p. 31.

"The simplest method of obtaining a physical conception of the situation is to regard the money system and the price system as a double-entry system of book-keeping. Every article which is produced has a price attached to it, and somewhere on the opposite side of the account there should be a sum of money capable of moving each and every article out of the production system into the consuming system. Since money is the mechanism by which the consumer gives orders; no money, no order; no order, no delivery; and ultimately, no delivery, no production. Having this conception firmly fixed in your minds, you will see at once that if the total amount of money available on one side of the account is less than the total amount of prices on the other side of the account there must be something remaining unsold always."

XIV

The phrase "Cost-price" shows how closely the ideas of cost and price are related in the popular mind.

Cost, when there is any, is something actual. Price, on the other hand, is an arbitrary statement in financial terms concerning the amount of money which must change hands to effect a sale. Cost and price have, therefore, *not necessarily* anything to do with one another. They may be brought into relationship by evaluating cost financially, while, at the same time enforcing obedience to a system of rules, which would be correctly described as "The rules to be obeyed in accounting for costs and prices"—or, briefly, "The rules of Accountancy". Alternative rules could, of course, be devised. In their broad outline the rules which have been adopted and which are now being obeyed (more or less) have become sufficiently invariable to make it *appear* to those who obey them (that is, all of us) that they are not arbitrary but natural. The illusion is thus created that there is a natural relationship between cost and prices. This is an illusion.

In an earlier lecture we saw that the practice of measuring costs in terms of a monetary unit disguised the fact that in certain circumstances the true cost (or real cost) of producing anything was only a fraction of itself. Since cost and price are in practice related through the use of this monetary unit the disguise affecting cost will affect price as well. We must gain some precise notion of price.

The idea of price is often confused with that of cost, with which it has not necessarily anything to do. True cost is a natural penalty which must be paid to secure production involving human agency. The cost of production is consumption. Price, on the other hand, although the word is often used to express what we may call the buyer's view of cost *plus* profit, cost being the vendor's view of price *minus* profit, is merely an evaluation in monetary units. The only way to express prices is "in plain figures," and such figures express the number of monetary units in the particular price. We have handed back to us, in our enquiry, therefore, our old friend the monetary unit from a new angle, and it is imperative that we should understand again that this unit does not measure anything but itself, and that the numbers (pure numbers, figures) used measure only the size of a monetary quantity in terms of this monetary unit. The "price", to the user of the inductive method, is what a particular individual has to pay in money (so many units of money) in order to possess himself of something he wants (*e.g.*, freedom from confinement, discomfort and underfeeding about to be imposed upon him by authority, or goods or services). Such an individual may haggle about the price, may be induced to pay too high a price, may induce the offer of sale at a lower price, or may call the deal "off", but if the deal takes place the figure

denoting the number of monetary units paid, or to be paid, or to be owed, is the price. There is nothing vague about the notion of price. In regard to the notion itself, there is no need to depart from the plain experience of the man in the street that the price of a bottle of ink is a penny or sixpence or a shilling and the price of a house £1,450 reduced to £1,200 ("inclusive"), "at which PRICE the deal was closed". In all these cases, the price, either asked or accepted, is a sum of money.

This conclusion, though elementary, is of great importance, because, in emphasising the purely monetary character of price it throws some light upon the meaning of the statement that a monetary unit does not measure anything but itself. This point is difficult to grasp, but important. Money does not measure value. The unit of money is, in Britain, a pound, divisible into shillings and pence at an agreed rate, while the unit of value would be, let us say, the amount of enjoyment, or of wealth, received by a boy of seven years, of chosen weight, height, colour and other physical characters, of defined mental characters as well, who after eight hours of perfect rest, eats an apple of standard colour and sweetness immediately on waking. Such a unit, after all the trouble we have taken to define it, would be impossible to fix. It is purely subjective. One could only know it of one's self for one's self. No one could say what it was of anyone else for anyone else; and no-one could apply the unit strictly to the measurement of a second or subsequent experience like the first. Value is immeasurable. In these days of over-emphasis on the Relative, on "Relativity", it may not be pointless to suggest that value is, although immeasurable, an Absolute.

The question arises, does price measure anything? It is a measure of what the buyer has to pay in money. Different buyers at the same time and the same buyer at different times have to pay different prices for the same or similar goods and we are within our province in asking therefore what factors operate to determine price. In seeking information on this point, we may leave out of consideration such contributory circumstances as the folly or cupidity of individuals, since it cannot be sustained that either operates unduly or to a controlling degree. We may also leave out scarcity, because nothing that is naturally very scarce is necessary, and, in proportion as it is unnecessary it does not enter largely into the associations into which individuals enter. (Scarcity can, of course, be experienced over a shorter or longer period). Let us take two standard commodities neither of which is in short supply in the sense that increased production of them is inherently difficult or impossible, while both are widely desired and their prices are widely different—a loaf of bread and a motor car. A very wide range of other commodities resemble these in practically everything but the wealth they yield to particular individuals, and we may check our results by considering some of these if we wish. Suppose

now, we go to the nearest person who is likely to be in a position to give us correct information, the baker, in the case of bread, or the dealer in the case of the car. The baker's price is 9d. and the dealer's £240. Let us ask, "Why is your price 9d. instead of 8½d. or 9½d.? Why is your car £240, and not £230 or £250?" In each case we shall receive a definite answer, and many of us are near enough to being bakers or car dealers to know that broadly it is a true and right answer, "Because of the way in which the price is built up."

How is it built up? "By the addition of the financial costs of production and the superaddition of the financial cost of my livelihood." Proceeding further in our enquiries, we shall find that the dealer and the baker are themselves responsible for only a small part of the price, compounded of the financial cost of conducting their own businesses and a proportion of their own livelihood. They are price-fixers upon whom price-fixing in this sense is an enforced function, their prices being in their turn compounded of their financial costs and the allocation to themselves of as much as they can without rendering their produce unsaleable, for their own maintenance. So the enquiry goes through the shop to the factory, and through the factory to the "field", which is the source ultimately of all materials. At the same time we shall find that our enquiries begin to concern events which happened a long time ago. The selling price, then, of the loaf and the car is a sum compounded of smaller items, and just as in production there is a gradual bringing together of a large number of elements in association in or regarding the finished product, so there is a corresponding accumulating price which must be paid unless someone is to suffer a bad debt in money. Standing at the shop-door, there is a flow of commodities towards the would-be consumer, and, standing at the counter or sales desk, there is a corresponding flow of prices towards him which he has to discharge. The name given to this point at which we suppose ourselves to be is THE CONSUMPTION MARKET. It is to be observed that at no point before this in time or antecedent to it in production is there any possibility of wealth accruing to the consumer. All prices in the long train of partial prices are prices paid not for consumption but to be handed on towards the consumer, until ultimately they reach him. He has then to discharge them all as they were fixed and agreed to by various individuals each constrained to at least recover his own financial costs. The fairness or otherwise of each partial cost stated in financial terms need not necessarily confuse us, therefore, for it is self-evident that there is an irreducible charge (whether increased unduly in presenting it to the public or not) which must be made to consumers. The addition of some monetary quantity to this is not a question of equity, because the individuals concerned at each stage of production could not continue their existence unless they added to the price of their partial product an amount at least equal to their cost of living at subsistence level. Practically speaking, everyone in the modern community has to buy some priced articles, priced in accordance with the principles

just outlined, and the entire commodity income of most families, with trivial exceptions, is priced in this way, and if consumption is to take place the price must be paid by the consumer in money at the stipulated rate. It is at least clear that a PRICED stream of commodities is all the time flowing to the feet of the consumers in the community (*i.e.*, everybody) and that to consume these commodities payments in money must be made.

It is common knowledge that consumers as a class have not in their possession a vast store of money from which to discharge the financial obligation imposed upon them if they are to live successfully, and it is a material question to consider how they obtain the means of payment individually and collectively and what connexion exists, if any, between their coming into possession of the means of payment, and the other monetary transactions which, so far as we have seen, consist merely in the making of monetary payments.

This relationship is very close. We may not like to think that we are all borrowing money all the time, and living entirely on borrowed money. Yet we are, for the simple reason that there is no other money but borrowed money. While, then, the consumer does not call it borrowing when he receives his wages envelope or his quarterly cheque, this is what he is doing. As Douglas puts it: "Just as the manufacturer only receives a loan from the bank, which has to be repaid, so also the workman, who is paid by this manufacturer, only receives a loan in the form of wages, which loan is repaid by him in the form of prices" (*Breakdown of the Employment System*).

Wages, salaries and dividends, then, provide the means of payment, and all wages, salaries and dividends are bank loans redistributed so long as the original borrowers (collectively) are permitted to retain them. Money is never lent by bankers to facilitate consumption. If now we enquire concerning the destination of the money paid out in the course of production we shall find that it is divisible into the following parts chiefly:—

Payment to individuals, who may thus use them for the purchase of goods in the consumption market, or save them (hoard them), or "invest them" —*i.e.*, purchase the means of production with them, or pay tax charges with them or take them straight back to the bank in repayment of debt individually acknowledged to the bank (overdraft).

Payments to other organisations. The obligation to pay some of these is, be it noticed, sometimes old-standing and we might wonder how these organisations have carried on without paying their own workers, and suppliers, *etc.*, if we did not know that they borrowed the money (which was not for consumption purposes) and are now waiting to pay off the debt.

These points cover the answer to the question, "How do consumers get money?" They do not answer the question whether the money they receive in these ways week by week and month by month, suffices to cover either the total prices accumulating against them in the same

time or even the lowest possible price to cover the costs in industry. Our present knowledge does not suffice to answer these questions; but it should suffice to make clear the following passages from *Credit Power and Democracy* and *Control and Distribution of Production*.

CONTROL AND DISTRIBUTION OF PRODUCTION, p. 38.

“ . . . credit-issue and price-making are the positive and negative aspects of the same thing, and we can only control the economic situation by controlling both of them—not one at a time, but both together, and in order to do this it is necessary to transfer the basis of the credit system entirely away from *currency*, on which it now rests, to *useful productive capacity*. The issue of credit instruments will then not result in an expansion of money for the same or a diminishing amount of goods, which is inflation, but an expansion of goods for the same or a diminishing amount of money, which is deflation.”

CREDIT POWER AND DEMOCRACY, pp. 131-3.

“ It will, of course, be understood that no *absolute* unit of measure of value is either possible or needful; it is, however, the popular delusion that a gold or other standard is an absolute measure of value which has obscured the economic problem for so long. The only possible standard which can be applied with accuracy to the measurement of economic value is that of ratio, a standard which does not require that we postulate anything at all about the unit used to establish the ratio except that it is the same unit. To readers who are familiar with the mathematical hypotheses known as the Theory of Relativity, the basis of which may be quite simply expressed in the statement that it is impossible by means of physical measurements to determine the absolute velocity of a body through space, certain analogies will no doubt present themselves. For the average person, not particularly interested in such matters, no difficulty arises in grasping what is meant by ‘ten miles an hour’, even though he cannot conceive of ‘a mile’ as distinct from ‘a mile long’.

When, therefore, we say that:—

$$\text{True price (in £)} = \text{Cost in £} \times \frac{\text{Cost of ultimate products consumed (£)} + \text{depreciation of real capital in £}}{\text{Credit created (in £)} + \text{cost of total production (£)}}$$

we do not require to know anything about the properties of the pound sterling; we do not, for instance, require to know what is the absolute quantity of labour for which it is a “just” remuneration, and still less is it a matter of the slightest interest how much gold it represents.

“ We are simply saying in effect: ‘Credit, convertible into money, is a correct estimate of the capacity of society with its plant, culture, organisation, and moral, to deliver goods and services desired by individuals. Whatever unit we adopt for it, the number of these units held by the individuals who collectively compose society must be such that by surrendering these units they will receive in exchange all the goods and services which society can possibly deliver. As society’s *capacity* to deliver goods and services is increased by the use of plant and still more by scientific progress, and decreased by the production, maintenance or depreciation of it, we can issue credit, in *costs*, at a greater rate than the rate at which we take it back through *prices* of ultimate products, if *capacity* to supply individuals exceeds desire. This it can always be made to do, by ensuring that the production of capital goods is secondary to a sufficient production of ultimate products, and their delivery to individuals.”

XV

BOOK-KEEPING CONVENTIONS.

Specimen.

A. B. & COMPANY LTD. Half Year to December 31, 1936

PROFIT AND LOSS ACCOUNT

(The letters indicate grouping of items referred to in the Lecture).

	£	£
(a) By Sales		58,000
(a) To Cost of Goods Sold—		
Stock as at 1st July, 1936	9,000	
Add Purchases	32,500	
	41,500	
Less Stock as at 31st December, 1936	8,500	
	33,000	
(b) „ Wages	5,000	
(c) „ Fuel	1,000	
	39,000	
„ Balance—Gross Profit	19,000	
	£58,000	£58,000
By Balance—Gross Profit	£	£
„ Interest received		19,000
		500
(c) To Rent, Rates, Insurances, Heat, Light, etc.	700	
(b) „ Staff Salaries	1,600	
(c) „ Repairs and Renewals	1,600	
(c) „ Bad Debts	300	
(c) „ Delivery Charges	2,400	
(c) „ Other Expenses	1,700	
(b) „ Director’s Salaries	1,700	
(c) „ Income Tax	1,500	
(d) „ Depreciation	2,000	
(e) „ General Reserve	2,000	
(f) „ Dividends	3,500	
„ Profit carried to Balance Sheet	500	
	£19,500	£19,500

A. B. & COMPANY LTD. As at 31st December, 1936
BALANCE SHEET.
CAPITAL AND LIABILITIES.

I.	CAPITAL	£	£
	80,000 Shares of £1 each		80,000
II.	GENERAL RESEVE		
	As at 1st July, 1936	1,500	
	Added during year	2,000	
			3,500
III.	ACCOUNTS PAYABLE		12,700
IV.	UNDISTRIBUTED PROFIT		
	Balance forward	1,800	
	Balance of Profit and Loss A/c.	500	
			2,300
			<u>£98,500</u>
	ASSETS.		
I.	GOODWILL		10,000
II.	BUILDINGS AND LAND		23,300
III.	PLANT AND MACHINERY		
	As at 1st January, 1936	23,800	
	Less Depreciation	2,000	
			21,800
IV.	DELIVERY VANS		1,050
V.	STOCKS ON HAND		8,500
VI.	SUNDRY DEBTORS		25,200
VII.	INVESTMENTS, BANK BALANCES, CASH, &c.		8,650
			<u>£98,500</u>

“The basis of accountancy depends upon the Balance Sheet principle of the modern double entry system. There are two parties, real or imagined, to every transaction—the receiver and the payer—or, in common parlance, the debtor and the creditor. Whenever money changes hands, only one sum may be concerned, but two parties. The effects on these two parties are, of course, equal and opposite, and the book-keeping entries made to record them share the same characteristic.”

The above is a quotation which, although not by a recognised authority, will serve the purpose of introduction.

The ledger accounts in which such debit or credit entries are made are divided into two main groups—personal accounts and impersonal accounts.

Example :— The business A. B. & Company (Builders), buys timber from a Mr. X. (Timber Merchant). In A. B. & Co's books Purchases Account is debited and X's account credited with the purchase price. When, at a later date, a cheque is passed in payment, then in A. B. & Co's books X's account is debited and Bank Account is credited.

This illustration is given to show distinction between personal and impersonal accounts. Broadly speaking, impersonal accounts relate to sub-divisions of A. B. & Co's own business, such as purchases,

sales, different kinds of expenses, etc. Personal accounts relate to other firms outside of the business. In the above example, the double entry convention holds that, in the first case, Purchases Account was the debtor and X. the creditor and on payment that X. was the debtor and Bank Account the creditor.

At the same time, these two elementary transactions are being recorded in X's books as follows :—

A. B. & Co's account, Dr., Sales Account, Cr., and on receipt of payment at a later date, Bank Account, Dr., A. B. & Co's Account, Cr.

All accounts, as we have seen, fall into two groups—personal accounts and impersonal accounts. The impersonal accounts of any business are further divided into two main groups which we might call the Balance Sheet group and the Profit and Loss group. It will be seen that the convention of debtor and creditor causes a credit entry to be made for every transaction as well as a debit entry. When, for example, a firm sells goods, Sales Account is credited and the Purchaser is debited. If, the moment after this transaction had taken place, the firm's books were brought to a balance, there would be a debit balance on the Purchaser's account corresponding to a proportionate part of the credit balance on Sales Account. The one, obviously, does not wipe out the other.

At the moment before the transaction took place, the firm or company had a certain stock of goods. After the transaction has taken place, the firm's stock of goods is reduced by the amount of goods sold, and the man who has bought the goods is now due to pay the firm money in settlement. Therefore, in arriving at the balance of the firm after the transaction, the Sales Account falls into the Profit and Loss group and the reflection of it, in the form of the Debt due by the person to whom it was sold, falls into the Balance Sheet group. By this method, book-keeping convention succeeds in reflecting the position correctly from an individualistic point of view.

The Trading or Profit and Loss group gathers together all accounts dealing with the buying and selling of material and the annual expenses involved in running the business. In the Balance Sheet group are gathered together all accounts relating to the cash position—money borrowed or lent, money received from shareholders, ground, buildings, plant, etc., on which at some time money has been spent, but which items, convention says, are not used up in one year but persist as fixed or working capital.

When a firm makes up its annual Accounts, the impersonal accounts relating to the Profit and Loss group are all brought in to form the Profit and Loss Account, and the impersonal accounts relating to the Balance Sheet group are, together with the personal accounts, dealt with separately to form the Balance Sheet. The Profit and Loss Account

can be pictured as containing the following main groups of items :—

- (a) Purchases and Sales with valuations of stocks at the beginning and the end of the period.
- (b) Wages, Salaries, etc.
- (c) Overhead Expenses.
- (d) Allocations for Depreciation, Sinking Funds etc.
- (e) Amounts added to reserves.
- (f) Charge for profits to be distributed.

Items under (d) and (e) groups are created by means of what is called a journal entry which debits the Profit and Loss Account with a sum and credits a similar amount in the Balance Sheet group. A credit to the Balance Sheet group may take the form of a separate entry in the Balance Sheet on the Liabilities side, or it may take the form of a deduction from an Asset on the Asset side. For instance, Depreciation might be shown on the Liability side as a Depreciation Reserve Fund, or it might be deducted from the value of the Building or Machinery on the Asset side. Similarly, a reserve might be shown openly on the Liability side, or concealed by deduction from an item on the Asset side.

The Balance Sheet is a statement of what are called Assets and Liabilities ; debit balances are put on the Asset side and credit balances on the Liabilities side. The main groupings on the Liabilities side will be as follows :—

- (a) Capital Account (in the case of Limited Companies a fixed amount).
- (b) Borrowed Money (Debentures, Mortgages, Bank Overdrafts, etc.).
- (c) Trading Liabilities, (ordinary business Accounts due).
- (d) Reserve Funds.
- (e) Balance of Profit and Loss Account (undistributed or unallocated profits).

The main groupings on the Assets side will be as follows :—

- (a) Intangible Assets (Goodwill, etc.).
- (b) Tangible Assets fixed (Land, Buildings, Plant, Machinery).
- (c) Fluctuating Assets (Stock, Loose Tools, etc.).
- (d) Liquid Assets (Accounts due by customers, Cash on hand or in Bank, Investments, Loans, etc.).

The difficulty in dealing with these groupings is that there is nothing definite about the names or about the groups that the various Assets or Liabilities should be included in, and if the above are conventions, then possibly they are more often established by the breach than by the observance.

Let us now consider the Assets and Liabilities of the ordinary Balance Sheet from a different point of view. Taking the Assets first, they all have, of course, relation to sums of money put out either directly or indirectly in times past, but they can be looked at according to their ability to produce cash in the future and according to the number of stages, as it were, which they are away from actual cash. There is, of course, no doubt about the cash value of cash in the safe, and convention says that cash in the Bank is just as good as cash in the safe. In other words, it is an assumption of all businesses that no Bank in this country ever fails. Nevertheless, cash in Bank is a stage further away than cash on hand. The next stage will be such Assets as investments, loans, trading accounts due to the business, etc. If all goes well, these will, in time, be met, cheques will be received in settlement, and the Company's Bank Account will be enriched by the proceeds of these Assets. The dangers which have to be met before these Assets become cash are, for example, a drop in the market quotation of the investment, failure to pay the loan, or bad debts. A still further stage away from cash is represented by trading stocks, etc. These have to be worked and sold when they become accounts due, and so reach a stage nearer cash. Still another stage back are Assets such as Plant and Machinery which are not normally for sale but are used in production and their use charged into the price of things made and so into stock and from stock into accounts due. The same applies to a lesser extent to Assets still further back in the stage such as Buildings, Land, etc. The furthest back Assets such as Goodwill are in a somewhat similar position, and the minimum charge that must be included in price must be at least sufficient to cover interest on such an Asset at the rate at which it is hoped to pay dividends. Thus we see how price is arrived at.

Referring back to the groupings in the Profit and Loss Account, what is needed is to price the sales so that the total shall cover the various charges indicated. It is at least necessary to cover *a*, *b*, and *c* groups if business is to be continued for any time, but over and above that in the long run it is necessary to include in price a charge to cover *d*, *e*, and *f*.

Turning now to the Liabilities side of the Balance Sheet, the various liabilities can be looked upon with regard to the time when they are payable. Accounts due to other firms for goods supplied are almost immediately payable. A stage further back than that might be Bank Loans or other loans payable in a short time. Further back still might be notes or debentures bearing fixed interest and with a fixed date of redemption. Further back still are Reserve Funds which are merely nominal Liabilities and not actually payable to anybody outside of the business. Further back still might be Share Capital which is non-repayable.

One often sees reference to working capital and permanent capital—for instance it is said it is not the duty of Banks to provide permanent capital for business. Consideration of the foregoing notes on Assets and Liabilities will show that if the Liabilities immediately payable exceed the Assets immediately realisable in cash, then the firm is said to be deficient in working capital, and the cure for the situation is an increase of permanent capital.

Similarly, a prosperous firm might accumulate a surplus of working capital which might be used either to pay large dividends or in certain circumstances to reduce the permanent capital, but in practice is usually got rid of by extensions or an increase in semi-permanent investments.

We will now consider the question of the inclusion of Cash and Bank balances on the same side of the Balance Sheet as fixed Assets.

To the individual business, cash held in the form of coin or notes and cash at call in the firm's Bank Account is undoubtedly an Asset just as Buildings, Plant, *etc.*, is an asset. The firm could use its cash to exchange for further Buildings or Plant and the firm could sell its Buildings and Plant to increase its cash. This latter statement, of course, does not mean that the firm would receive in cash for its Buildings and Plant the figures shown against these Assets in the Balance Sheet. Looking at the Assets of a firm from the particular firm's point of view is, however, quite a different thing from looking at them from a point of view outside of the firm. From that outside point of view, the Assets of the firm are the Liabilities of all parties outside of the firm. If the firm is to continue in business, it has to get from some source outside of itself money in exchange for its Assets at a rate dependent on the type of the Assets concerned. From this point of view, therefore, the Assets of one business constitute a demand for money against all other businesses and the nation generally.

Similarly, the Liabilities of one firm are the Assets of other firms. For instance, a firm's ordinary Trade Liabilities appear in other firm's books as debts due, or a firm's Bank Overdraft appears in the Bank's books as an advance. Reserve Funds and Capital Accounts of firms are, as has been explained, not liable to be paid and they are represented by Share Certificates, which the holders look on as their Personal Assets, or in private firms (as opposed to public companies), the Capital Account is a business liability to the proprietor and from the proprietor's point of view is a Personal Asset.

The convention of book-keeping then works in that way, constantly piling up and up debits and credits which have their reflection in opposite credits and debits somewhere else, a kind of double double entry. If it was carried to its conclusion consumers would also keep a set of books, in which they would credit their salary and debit their living expenses and so on. The matter, however, is not carried to that length.

Looking at the whole system from what might be called a realistic point of view, book-keeping figures have been piled up and up and they come to mean very little except relatively to each other.

If one proceeded to reverse the process and cancel one debit against another credit account, the whole book-keeping structure would be liquidated. Money values on Assets would disappear and all cash would disappear, leaving only metal coins. We would then have a position where the whole nation's inventory could be made up showing material Assets described in material terms, and there would be then no Liabilities at all unless foreign indebtedness, which might be expressed as necessity to export. As against that, we might have foreign Assets which might be expressed as a power to import.

This is coming near the picture drawn by Major Douglas in the "*Monopoly of Credit*".

A.H.M.

XVI

Scientific procedure does not discountenance the use of ANY instrument, however fantastic or even unintelligible, to assist the individual to state his questions in a FORM CAPABLE OF RECEIVING A NATURAL ANSWER. At its best, scientific procedure is to accept correction from natural events before correction from intellect, or intelligence, or logic, which are only means to ends. It is important to recognise this *instrumental* character of ways in which we behave (*e.g.*, reasonably, intelligently, logically). They are so important that, intuitively we are apt to look upon them more in the light of masters than of servants. They are, in a sense, just 'habits' and while they may attain the rank of 'good' habits there is nothing in them which entitles them to more respect than the events which ought always to be a check upon them. It is particularly important to understand the place which logic has—or would have—for all scientific people; it is merely, for them, a TRICK of representing natural events in a more or less USEFUL fashion. Nothing can be made to happen just by representing it in a way which we are pleased to call a "correct" way: nothing happens to a barrel containing 209 apples just because one writes "209" on a sheet of paper, or remembers the number 209 for a week, or multiplies 209 correctly to make 418. In simple cases this seems quite obvious; but there is nevertheless a strong temptation in most people to think that things are going wrong if they happen "illogically".

Scientific procedure does not discard or condemn the use of any instrument. Argument from "analogy" is not discountenanced; but when this method (or instrument) is used it is borne in mind that in any case "Nature is going to have the last word"—not the arguer.

(The notes for Lecture 10 should be reread before considering what is about to be said.)

In the physical world of experience, a very large number of different measurable quantities are found, when they are measured, to be proportional to the square roots of the same number of other different measurable quantities. This similarity has nothing to do with analogy, which, in logic, is the drawing of the inference, not necessarily true, that because one thing is like another in one respect it is like it in another respect also.

(Definition): TWO SYSTEMS ARE SAID TO BE DYNAMICALLY (OR MECHANICALLY) SIMILAR WHEN THE NUMERICAL DATA WHICH DEFINE ONE SYSTEM CAN, BY TRANSFORMATION OF FUNDAMENTAL UNITS, BE TRANSFORMED INTO CORRESPONDING DATA DEFINING THE OTHER SYSTEM.

The distance from London to Edinburgh is twenty times a twentieth of the distance from London to Edinburgh; and the distance from

London to Birmingham is twenty times a twentieth of the distance from London to Birmingham. If we call these twentieths, in the first case "Edinburgh Distance Units" and in the second case "Birmingham Distance Units", we can use the SAME figures to describe the duration of both journeys and the speed of both trains, provided we alter our time units so that "Edinburgh" time units have the same *ratio* to "Birmingham" time units as the London-Edinburgh distance has to the Birmingham-London distance. A train would then (assuming the London-Edinburgh distance to be the longer) take the same time to reach Edinburgh as it would to reach Birmingham and travel at the same rate to do so. Travelling is travelling; and travelling to Edinburgh is "like" travelling to Birmingham. We may suppose that Birmingham, twenty Birmingham units of distance from London, is reached in two time units, at a speed of ten distance units a time unit; while Edinburgh, twenty Edinburgh distance units from London, is also reached in two time units at a speed of ten distance units a time unit. The *results* are *different results*. The two sets of units are different; yet the SPEED may be the same. In much the same way, all dynamically similar systems may give rise to great differences in their results.

We are touching upon an aspect of knowledge which is of the greatest practical interest in physics, and of great importance in the study of human associations. It is also a matter of great difficulty and complexity. Put very broadly, without reference to mathematics, which we may find distasteful, the problem is concerned with the *circumstances*, physical or otherwise, in which some things (results) may remain the same, even when, apparently, everything concerned is altered; and, on the other hand, something may alter (in the result) even when, apparently, all the circumstances remain the same, or similar. In engineering, it is a frequent experience that a model apparatus will work perfectly; but the utilisable industrial product, constructed accurately to scale, will not work at all. This is often due to carelessness in applying the Principle of Dynamical (or Mechanical) Similitude. In nature a growing tree adds to its strength to withstand wind pressure up to a point. If it reaches that point, we may predict that, strong as it is, it will be blown down. The thin envelope of water enclosing a drop of water contracts and makes the drop spherical, presses on the water contained within the drop, and affords a surface upon which water vapour can condense; but, if the radius of the spherical drop is reduced below a certain dimension, measured in length units, the internal pressure becomes inconsistent with the continued existence of the drop as a drop.* A drop has thus a *minimum size*. The internal pressure in a drop is proportional to the CURVATURE of the surface, and the curvature is INCREASED (not diminished) by *diminishing* the radius of the drop. The problem involves the changes which alteration of

*This remark gives a clue to the nature of the problem.

one element in an association necessarily imposes upon other elements. We undertook the duty, in regard to the study of the efficiency of society (as measured in terms of human satisfaction) of identifying as many elements which enter into associations as we could. The engineer who showed a Commission of enquiry into mining accidents a model device for arresting the fall of a cage, after the winding rope had broken, had not identified one of the elements in association. The model worked; but the device in question would have wrecked the guides of a real shaft.

Although the relationship is not obvious, the old puzzle propounded by Zeno is of interest to us in this connexion. Zeno admitted that Achilles ran faster than a tortoise; but he said that, if the tortoise started first Achilles could never overtake it, because, assuming the tortoise to be capable of covering one tenth the distance Achilles could cover in the same time, by the time Achilles had covered the distance which separated him from the tortoise, the tortoise would have covered one tenth that distance, and would thus be still ahead. When Achilles had again covered the distance which now separated the two, the tortoise would have covered again one tenth of it, and although the distance between them would be less, the tortoise would still be ahead. And again, when Achilles had moved up to the new starting point of the tortoise, the tortoise would again have covered one tenth the distance and would thus still be ahead; and so, travelling one tenth the distance which always separated the two in the time Achilles covered the whole of it, however small this one tenth might become, it would always separate the two runners. The Greeks knew that Achilles could outstrip a tortoise, but they had no means of handling a problem of this kind properly, *i.e.*, by finding the *limit* which nature set to their arithmetic. (It is said that one must be a follower of Zeno if one wishes to be elected to a Chair of Economics).

The most important application of what we have been saying is, at the moment, related to the study of events in the community, preventable in themselves, which most of its members do not desire to happen, yet, cannot prevent. Douglas has used the phrases "Social Momentum" and "Applied Force" in connexion with such matters. Momentum in the case of material bodies is the product of the quantity of matter in the moving body and the velocity at which it is moving: the Momentum of a mass M , moving with velocity, v , (expressed in distance units *per* time unit) is $M \times v$, or Mv . Such a moving system can *do work*. Its capacity for doing work is its "Kinetic energy" and is $\frac{1}{2}M \times v \times v$ or $\frac{1}{2}Mv^2$.

Let us quote Douglas (THE FIG TREE, September, 1936):—

"The traditional success of British Governments in dealing with various situations that may confront them (which from one point of view has provoked the criticism so universal on the Continent, that we have no policy other than expediency) is due, I think, to our concentration upon problems of momentum,

rather than upon problems of original forces. When such momentum is comparatively small, as is the case where communications are slow, agriculture and small industry are primitive, the dissemination of news and propaganda is comparatively restricted, and in general the conditions are those which existed up to the beginning of the present century—the brake is a more effective and simpler mechanism than are the engine controls. When it is necessary to affect the judgment of only a small number of comparatively well-educated people, constantly in touch with each other and familiar with the practice and technique of governmental action, a change of policy is easy and can be comparatively rapid. But such is not the case today. Political propaganda has reached dimensions previously unknown, by means of syndicated newspapers, broadcasting, motion pictures, and so forth, whilst the submission of large populations to a uniform economic system based upon finance, and producing parallel problems everywhere, has generated mass emotion on a scale which is reflected in the wars and revolutions contemporaneous with it.

"If the situation is looked at in this light, it must evoke even some sympathy for the unfortunate statesmen who are supposedly responsible. If we regard them as free agents with the best intentions, which is, in most cases, much to assume, they are faced with the necessity for action along two distinct lines, both of them full of difficulty. In the first place there is the reduction of the momentum towards disaster which has assumed such formidable proportions; and the difficulties which surround effective action of this nature—even the dangers of a directly opposite result to that which is desired—are exemplified by the breakdown of efforts at disarmament. But with the magnitude of modern social forces it is not much use applying the brake if the vehicle is still hell-bent to destruction on full throttle. The forces which make for destruction in the world today, which have produced the situation which is now so menacing, are more powerful than they were twenty-five years ago, and there seems to be little more prospect that their direction will be diverted.

"Without pressing material analogies too far, it may be observed that the stored energy of matter in motion is proportional to Mv^2 . If we have a flywheel one ton in weight turning 100 revolutions per minute, it takes a great deal more to stop it if it is all in one piece than if it is split up into 20 flywheels weighing one cwt., and of correspondingly less diameter. The analogy is crude, but it is suggestive of what I am convinced is the truth, that dictatorships representing the power of many millions of people must be disastrous if the dictators are in control of *policy*."

(All the items in this passage which present the case as it is to-day are deserving of extended treatment from the point of view of this lecture, and students should attempt this for themselves as an exercise).

A question of the greatest significance is stated in the quotation. It is suggested that the EFFECTIVE policy (the objective which will more or less inevitably be reached) is at variance with the real policy of the majority of persons associating to produce it. *Social Dynamics is the study of all relevant factors determining the adjustment of such a paradox.*

XVII

In the course of these lectures, it has been asserted that :—

- (1) The true policy of a community can only be known in action in conditions which afford a sufficiency of freedom for individual action.
- (2) That, nevertheless, it lies within our province to observe the frequency with which effective causes for which natural authority is claimed require the assistance of human agency before they operate.
- (3) A distinction must be drawn between culpability and responsibility, and it is within our province as students to assess effects, not to apportion blame. Frustration of the will of individuals generates emotion, and a grasp tending to completeness of the associations producing undesired increments is inhibited in an emotional atmosphere. (Notice how will and intelligence—action and thought—tend to be dissociated).

At the close of the last lecture it was stated that EFFECTIVE POLICY was the objective which will more or less inevitably be reached (in consequence of present action) and it was suggested that this constantly-being-reached goal was at variance with the real policy of the majority of persons associating to produce it. The effort, sometimes very great, put forward by people, reinforced by the active individual will, often leads to a result contrary to the intended result. While this fact of experience is often disguised in proportion as the individual believes that failure is determined by the natural difficulties of his course, failure as JUDGED BY THE RESULT is nevertheless a fact of common experience, and it is a melancholy business to take a sheet of paper and to write down in cold blood a statement of the objectives of large numbers of the people of any country, actively associating for their attainment over a relatively brief period of historical time, and to write by the side of each hoped-for end the ACTUAL ATTAINMENT—that is to say, not what the people who worked and strove themselves gained, but the actual state of the community in regard to the OBJECTIVE of their striving. The long list of recorded "victories", measured in terms of human satisfaction, has a disappointing "sum".

Propaganda is the dissemination of opinions, and while in its most familiar and obvious forms it is dependent upon the more or less clear formulation of the opinions disseminated in the minds of a minority of "propagandists" who disseminate them by various means, a more satisfactory way of treating it is to regard it as independent of means, methods and conscious intention. We might, thus, ascribe all opinions to propaganda, being very careful, nevertheless, to distinguish between knowledge and opinions. This is often a fine point, and entails great difficulty. Without attempting too precise a definition, we may regard

opinion as something short of actual knowledge upon which individuals are often required to act, knowledge being, in the nature of the case, impossible although preferable, (*e.g.*, a general's opinion concerning the intentions of the enemy whose movements he has responsibility for resisting or against whom he has to move. The general would prefer to KNOW; but he has to put up with the best opinion he can formulate, often with undesirable results to himself or his troops).

The illustration must not hide from our minds the fact that while doubtless one objective of "enemy propaganda" will naturally be directed to leading our general into entertaining an erroneous opinion, this is not the only instance of propaganda with which the general is concerned. His opinion will be determined to a corresponding degree by what we may call "home propaganda"—*e.g.*, his training in the traditional moral qualities of good generals, the data he assumes concerning the psychology of the enemy's general, and even matters far more subtly unobtrusive may enter into the formation of his opinion, and these will be matters of the propaganda to which he has been subjected throughout his life; although, at home, he is likely to be judged by results, even if propaganda leads to the wide dissemination of an erroneous opinion as to what these were.

We saw, in an earlier lecture, that perhaps the chief "art" of government relied for its effectiveness upon substitution—broadly, the substitution of a false for a true objective. Propaganda is a technique of the Art of Government (the art of getting people to do what they do not want to do: the art of getting them to entertain an objective they do not truly entertain). And, as with the art of government, so with propaganda, an important item in technique will be found, on inspection, to be substitution of opinion for knowledge. Everything which induces the acceptance of opinion in place of knowledge is likely to be seen, on inspection, to be a part of propaganda. The opinion, widely current, that money measures something besides itself (which we have unmasked) enters into this complex, for all propaganda ORIGINATED IN THE PRESENT OR MAINTAINED BY ACTIVE MEANS IN THE PRESENT has to be paid for in money. See Douglas: "*Monopoly of Credit*", pp. 2-3:

"Finance, *i.e.*, money, is the starting-point of every action which requires either the co-operation of the community or the use of its assets. If it be realised that control of its mechanism gives, to a major extent, control of both personal and organised activity, it is easy to see that education, publicity and organised Intelligence (in the sense in which the word "Intelligence" is used in military circles) can be controlled, first to minimise the likelihood of criticism arising, and should it arise, depriving it of all the normal facilities for effective action. Finance can, and does, control policy, and as has been well said by an American writer, Charles Ferguson, control of credit and control of the news are concentric."

We have no need to go further, if our sole object is to define the limits of effect of Propaganda upon the Social Credit. Its effect is concentric

with that of finance. Assessment of the effect of the financial system objectively is reserved as the topic of the next lecture, and we must not anticipate our methodical analysis to go further than saying what has been said, namely, that whatever the influence of finance upon the Social Credit, the effect of propaganda—all active propaganda generated in the present—must TEND the same way. The word ALL here is inclusive ; if some part of current propaganda has a different objective from that of finance, it will TEND to be submerged, deprived “of all the normal facilities for effective action”. This concentricity of propaganda and finance is an important result, although as students we should analyse, as thoroughly as we can, as many examples as we can, in order to gain familiarity with the varying techniques employed. “The end of life (which includes the life of studies) is action, not thought”. Great help can be derived from a slow, careful reading of Douglas, and the student, whenever possible, should consult at the same time contemporary documents. (In the middle of the discussion concerning the contemplated abdication of King Edward VIII, *The Times* printed in its chief correspondence column a letter reporting a conversation overheard in a public vehicle between a young man and a young woman : “What’s a constitutional crisis?”—“That’s just what I was going to ask you!” *The Times* did not then admit to knowing whether there was or was not a constitutional crisis).

“I can imagine”, says Douglas (*Warning Democracy*, p. 54), “someone saying ‘This is another Hidden Hand theory’. Every theory of events which has any soundness must at the present time be a ‘Hidden Hand’ theory, because events are not controlled by Voting or Parliamentary Debate, but by Finance. A theory is neither more nor less likely to be true because it appears to be romantic, nor does it necessarily involve conscious turpitude on the part of, e.g., statesmen. If you train a man from youth, you can make him honestly believe anything, and I can assure you that there are very few ‘accidents’ in the rise to power of public men. If you consider the influence of such men as the late Sir Ernest Cassel on the London School of Economics, and the care taken to see that high permanent officials have an orthodox training, you will see how subtle this influence may be”.

Consider always—before the moral obliquity of individuals—the “ineffectiveness of the unseen”. Great as is the discouragement of experienced press writers to submit unsuitable matter, the waste-paper basket of every newspaper office would provide a different newspaper to the one actually submitted to the public gaze. Now that a biologist has been appointed to the direction of the London School of Economics (1937), the genetics associated with the inheritance of servility are not necessarily likely to replace the rapidly developing routinist studies of this “science”. The rise into prominence of new scientific studies is not fortuitous. Money and propaganda (financed with money) combine to launch them. “Educational and Scientific purposes” figure in national budgets. “Policy” influences committees of the Privy Council entrusted with the spending of money, which, they claim, is too little for the purposes intended. New and better sciences could be constructed out of the “waste paper basket”. Apply realism to every event! e.g.,

“The busmen have won!”—What have they won? If the Social Credit may be measured by the fraction p/P —actual production / potential production (which is so small a fraction as not to differ materially from the more “socially creditable” C/P —Consumption / potential production), the social “discredit” may be measured by the *ratio*, the unseen/the seen. This ratio is determined largely by propaganda.

Douglas writes :

“The results of this state of affairs can be seen somewhat sharply defined in the case of professional economists, necessarily in the direct or indirect employ of banks or insurance companies. It would, of course, be improper and probably unfair to attribute anything but intellectual honesty to these gentlemen. Moreover, such an assumption would deny due appreciation to the ability of their patrons. Their failure to make any noticeable contribution to the solution of the problems within their special field can, I think, be explained by the incompatibility of any effective solution with the credit monopoly which is at once their employer and critic”. (*Monopoly of Credit*, p. 3).

We should be a long time exhausting the present tendencies to the formation of opinion which COST MONEY. They constitute a “major” control. “Money is the starting-point of every action which requires the co-operation of the community or the use of its assets.” Does propaganda (the formation of public opinion) operate outside of this field? Unquestionably there is that part of the cultural heritage which never receives the sanction of productive trial, the vast inheritance of error and superstition. In some cases little “co-operation” or “use of the community’s assets” SEEMS to be entailed in the maintenance of the vitality of this stream of influence. But in many cases (and those not the least effective) this is not found upon examination to be so.

XVIII

In Lecture 16 it was shown that in accordance with accepted book-keeping conventions, every asset is a liability and every liability an asset, and that if the book-keeping system were carried to its logical conclusion even consumers would keep books, and the representation in figures of the whole process of production, distribution and consumption in society would be complete. Assets and liabilities would balance, and might be cancelled, item for item, one against another. "The whole book-keeping structure would be liquidated." Of the monetary superstructure—financial evaluations of all assets and liabilities—only metal coins would be left.

"It is fair to say that almost any explanation which is not a full and accurate explanation of the working of the financial system has the curious result of playing directly into the hands of the upholders of that system". (*Social Credit*, pp. 90-91). Let us, therefore, postpone explanations until we are quite certain of the objective facts. Among the chief are :

- (1) That the process of cancellation of assets against liabilities suggested in the first paragraph can, in practice, only be carried out by agreed transactions involving the use of money in one or other of its forms—*i.e.*, "debts" are in practice cancelled when they are "paid". Such payments involve not the virtual but the actual possession of money in most cases.
- (2) If by "virtual" possession of money is meant possession by somebody (it does not matter by whom) of two assets (which are also liabilities) represented by the same monetary symbols, actual possession is merely possession of power to provide the necessary symbols.
- (3) This power is physically trivial—*i.e.*, the exercise of it is as easy of performance as, *e.g.*, punching a cow-hide disc to represent a claim to a cow, or writing a certificate of cost to represent a claim to a pair of boots. (On this point, and its bearing on modern financial practice, the student should read the Ashridge Address of Major Douglas, paying particular attention to the points (a) that the origin of money was bound up with the recognition of the right of the vendor to issue his own money (not to 'borrow it'—equivalent to "*borrowing*" a right), and, (b) the relationship of the *custodian* to both owner and producer in regard to the claim to the right to issue monetary certificates.
- (4) In a social complex imposing payment in money as a condition for any course of action, ability to pay is a condition of individual freedom.

- (5) Material "borrowing" (except by one individual, or group of individuals within the community of another individual or group of individuals) is a physical impossibility : *e.g.*, the farmer must wait for the next wheat-crop, and the building industry for next month's window frames. The phrase "oxygen-debt" which has been introduced into the science of physiology, is actual *storage* of chemicals awaiting oxidation, and this misleading introduction of a conception alien to physical science is "propaganda". Hence, a nation's inventory CAN "be made up showing material assets described in material terms" against which the sole liability "might be expressed as a necessity to export", *i.e.*, *social production* is "self-liquidating".
- (6) Financial borrowing is the sole means (the nominal right of the Crown to mint coin does not invalidate this statement) of monetary creation, and the financial system is *not* self-liquidating—*i.e.*, finance does not correctly reflect the material facts of the production-consumption system. The proof of this assertion is not complex or difficult, although a grasp of the matters involved can be made difficult in the same way as a recital of Zeno's paradox may be used to confuse and confound the grasp of the matters involved in a man's overtaking a tortoise. The proof is objective : the world would gladly pay its financial debts if it were provided with the means of payment. (Hawtreys : "Banks create the means of payment"—*Encyclopaedia Britannica*). It does not do so because the means of payment are not created. Debt increases faster than real assets accumulate with financial evaluations attached to them. 1943 is the year about which the whole real and personal property of the United States, monetised on terms of equity, will become insufficient to pay the tax and interest charges against the American community. (See *Social Credit*, p. 148).

Before proceeding to an explanation of the mode of working of the financial system and its effect on the Social Credit, mention must be made again of the fact that the community's money is (a) borrowed, and therefore a debt against it ; (b) created by lending ; (c) inconstant in amount ; (d) determinative of financial values—*e.g.*, if the community's total money (bank deposits if desired) were £1,000, the total real wealth of the community could not "fetch" more than £1,000 ; (e) regarded as the property of its creators.

The proof that money is created lies in the fact, which no one denies, that it is variable in amount. If at any given time there is in existence more money than at some earlier time, the additional money must have had an origin : *ex nihilo, nihil fit*. Similarly a fall in the community's money implies destruction of money. The statement that credit is only issued in accordance with certain rules is an admission of credit-creation ;

not a denial. Bankers make the rules. As an essay in the inductive method, students may test the consequences of making their own rules, or of attempting to induce the banker to depart from or otherwise modify his rules. A recent authoritative statement is that of the Midland Bank (*Midland Bank Monthly Review*, February—March, 1934):

“If now, we examine a bank balance sheet, we shall see that bank deposits are like notes in that they are supported by debts due to the banks. True, the banks hold some currency, that is, authorised pieces of paper and coin, to meet immediate demands; but we have already seen that currency is nothing more than debt . . . Finally, the debts of the banks are supported by entries in their books representing debts owed to them in respect of direct borrowings by their customers. Many of these are “secured”, that is to say, the borrower has pledged or mortgaged to the bank some assets he possesses and on the ownership and estimated value of which he borrows. The assets may be houses or land, or other physical things, but the proportion of bank accommodation secured in this way is small, so that it is true to describe the debts of the banks as supported almost entirely by debts owing to the banks by public authorities, business undertakings and individual customers.

“So long as the debts owed to the banks, together with the cash they hold, are at least equal to the debts they owe, the banks are “solvent” and so long as the debts owing to the banks can be converted into repayment of their liabilities to their customers, the position of the banks is “liquid” . . . the fact remains that debts from the banks are balanced by debts to the banks. Thus all the money is bank indebtedness, and it is this cardinal fact that gives to the banking system the power to expand or contract the quantity of money by increasing or diminishing the quantity of bank debts”.

There follows an account of what banks do and do not do. These are matters of *practice not of principle*. The article later quotes, with approval, the statement of Peel, “there is no contract, public or private—no engagement, national or individual, which is unaffected by the operation of the monetary system.”

Money is constantly being created and as constantly destroyed. As Mr. Reginald McKenna put it: “Every bank loan and every purchase of securities by a bank creates a deposit, and the withdrawal of every bank loan, and the sale of securities by a bank destroys a deposit” (*i.e.*, a bank acquires securities for nothing). It will not pass notice that these transactions into which banks enter with individuals, singly or collectively, in the community are conducted in circumstances in which (as may be inferred from Peel’s remark) the banks are the terms-makers as well as the credit-makers. Also of importance is it to recognise that this money business sets up quite a different (and a far more important) money stream than the “circulation” stream, which represents only the internal transactions of the community, and not the community’s transactions with its financial masters. There is a FLOW of money from the banks; and a FLOW of money back to the banks for cancellation. (This is not merely the depositing of money in banks). This may be pictured in similar terms to any other dynamic event of a like kind (a flow): a tank with an inflow and an outflow. At any level of the water within the tank, if the two streams are equal, the water level is constant; if the inflow is greater than the outflow, the level

will rise, per unit of time, by an *amount* equal to the difference between the two flows, or by a “height” proportionate to this difference: if the outflow is faster than the inflow, the level will fall by an amount equal to the difference between the two flows. How is a flow capable of being measured?—This is very important: by the *movement* of an *amount* in a *time*. In the case of water this involves measurements of length (how much water)—a cubic foot, or the weight of a cubic foot, and time. In the case of money, POUNDS PER SECOND or (since we are fundamentally concerned with something else that takes place AT THE SAME TIME):

£ (per PRICE UNIT IN £) IN THE SAME TIME.

By price *units in £* is meant the prices generated in production which the community has to meet before it is permitted to consume the priced goods.

The student should here satisfy himself before going further that it is a mathematical requirement of *saleability* of goods produced that goods and prices on the one hand and monetary tokens on the other hand should flow AT THE SAME RATE.

It may help him if he considers:

- (1) That we must keep the terms we use unaltered in considering the problem from its two aspects: *viz.*, the goods are for consumption. Only consumers consume, and all consumers are individuals. By the community is therefore meant individuals, not books.
- (2) That all money is debt to the banks and that it is a material matter to consider whether, having been once used to purchase goods, money can do the same again (in the sense of discharging THE INDEBTEDNESS TO THE FINANCIAL SYSTEM on account of these goods). The money is not left lying about when it has once been used for the purpose for which it was intended (*i.e.*, to buy goods).

The following passages should be studied:

WARNING DEMOCRACY, p. 31.

“The simplest method of obtaining a physical conception of the situation is to regard the money system and the price system as a double-entry system of book-keeping. Every article which is produced has a price attached to it, and somewhere on the opposite side of the account there should be a sum of money capable of moving each and every article out of the production system into the consuming system. Since money is the mechanism by which the consumer gives orders; no money, no order; no order, no delivery; and ultimately, no delivery, no production. Having this conception firmly fixed in your minds, you will see at once that if the total amount of money available on one side of the account is less than the total amount of prices on the other side of the account, there must be something remaining unsold always.”

MONOPOLY OF CREDIT, pp. 125-6.

“On the assumption that the delivery of goods and services is the objective of the industrial system, it is obvious that the rate of flow of purchasing power should be equal to the rate of generation of prices. The existing financial

arrangements make a crude effort to approximate this condition by issuing purchasing power to manufacturing organisations in the form of loans, which in turn the manufacturing organisations distribute in wages and salaries against future production. In other words, the existing financial system increasingly mortgages the future in order to sell the goods existing at present, the most recent and most obvious form of this practice being the instalment system of purchase."

SOCIAL CREDIT, pp. 83-85.

"... orthodox theory, then, assumes that the money, equivalent to the price of every article which is produced, is in the pocket or the bank pigeon-hole of somebody in the world. *In other words, it assumes that the collective sum of the wages, salaries and dividends distributed in respect of the articles for sale at any given moment, which represent collective price, are available as purchasing-power at one and the same moment.* Certain persons have more money in their pockets or bank pigeon-holes than they wish to spend on consumable goods. They do not spend it, they save it, as the phrase goes. By this abstinence from spending, they form a fund which enables capital goods, *i.e.*, tools, plant, factories, to be paid for, and therefore produced, and because of the process by which these are paid for the capital goods thus produced become the property of those persons who have thus saved.

"Now the first point to be grasped in regard to this argument as a whole is that, even supposing at any given moment it were true, one week afterwards it could no longer be true. If on a given day, there was extant in the world sufficient money to buy all the goods in the world at the prices it had cost to produce those goods, and any portion of that money were applied to form the payment for the production of new goods, then that money so applied forms the costs of the new goods, and immediately there is a disparity between the total costs, which are the minimum total *prices* of goods, and the amount of money in the world which would, *ex hypothesi*, be exactly the same as before. This would be true even if no one "saved" any *further* quantity of money. The persons who had saved the money would not have saved the goods which the original money represented, they would merely have transferred their claims from the original goods in existence to new goods, and could only "get their money back" by the sale of those goods; nor would there be any mechanism in existence by which the old goods could be bought. That surely must be self-evident.

"But the process does not stop there. From the investor's or "saver's" point of view, his only object in putting his money into capital goods is to get an increased amount of money back, and . . . he can only get this money back from the public in the form of prices. The condition then is, that there are more goods in the world at each successive interval of time, because of the financial saving, and its application to fresh production, while the interest, depreciation and obsolescence, on this financial saving, has to be carried forward into the prices of production during a succeeding period."

SOCIAL CREDIT, p.99.

"To put the matter in a form of words which will be useful in our further consideration of the subject, *the consumer cannot possibly obtain the advantage of improved process in the form of correspondingly lower prices, nor can he expect stable prices under stationary processes of production, nor can he obtain any control over the programme of production, unless he is provided with a supply of purchasing-power which is not included in the price of the goods produced. If the producer or distributor sells at a loss this loss forms such a supply of purchasing-power to the consumer, but if the producer and distributor are not to sell at a loss this supply of purchasing-power must be derived from some other source. There is only one source from which it can be derived and that is the same source which enables a bank to lend more money than it originally received. That is to say, the general credit.*"

The following, from *Credit Power and Democracy*, pp. 21-23, should be studied chiefly (at the present stage) in order that the point may be emphasised *where the money must get to* in order that its function of transferring goods may be properly discharged:

"A factory or other productive organisation has, besides its economic function as a producer of goods, a financial aspect—it may be regarded, on the one hand, as a device for the distribution of purchasing-power to individuals through the media of wages, salaries, and dividends, and on the other hand as a manufactory of prices—financial values. From this standpoint its payments may be divided into two groups:—

GROUP A—All payments made to individuals (wages, salaries and dividends).

GROUP B—All payments made to other organisations (raw materials, bank charges, and other external costs).

Now the rate of flow of purchasing-power to individuals is represented by A, but since all payments go into prices, the rate of flow of prices cannot be less than A plus B. The product of any factory may be considered as something which the public ought to be able to buy, although in many cases it is an intermediate product of no use to individuals but only to a subsequent manufacturer, but since A will not purchase A plus B, a proportion of the product at least equivalent to B must be distributed by a form of purchasing power which is not comprised in the descriptions grouped under A. It will be necessary at a later stage to show that this additional purchasing-power is provided by loan credit (bank over-drafts) or export credit."

As an exercise the student should attempt to write a commentary on Major Douglas's statement (*Social Credit*, p.105.) that "no proposal to redistribute the National Debt has ever received the slightest encouragement from Socialist leaders."

XIX

The subject matter of the present lecture is a general review of the power available to individuals to affect the Social Credit. During the development of the complex agreement associations, which, with the cultural heritage, give what we call "Society" its special effects upon the life of individuals, there has been a great enhancement of power at the community's disposal. At the time of the building of the Egyptian Pyramids (which, by the bye, have weathered the disruptive forces, social and natural, of historical times) the power available (*i.e.*, mechanical power—rate at which work may be done) was chiefly muscular human power, equal to about 1/10 of a horse power per man, and measured in horse power was, in Egypt and contributory territories, not very many thousands. It was a fraction of the number of the Egyptian people and those in contact with them. Now it is considerably more than the equivalent of the power of several *times* the earth's population *in addition to the power of the earth's population*. The results of this power, this rate of doing work, are, it is generally agreed (although its precise ascertainment awaits the advent of an environment which affords freedom of choice), not satisfactory; that is to say, they are not such as would be reached if all or most individuals had had, for some time past, and still had, freedom of choice, in other words, a just share in the determination of social policy.

We are students, and as such approach the matter in hand in an orderly fashion. In the first place, then, the power of individuals to affect the social credit is itself a PART of the SOCIAL CREDIT. This is a conclusion of great importance from the point of view of EVERY technical proposal which could be effective for increasing the social credit realisable at any particular moment. Put on a purely material basis, increased accessibility of material goods tends to increase at the same time the accessibility of freedom of choice, and enhances the ability of individuals to refuse what does not give satisfaction up to a point. Ultimately, that point is the margin of natural possibility. One cannot refuse natural death; but one can refuse starvation if there is free access to foodstuffs. From this point of view, consumption is in itself a form of capital, and just as a highly organised community might facilitate capital production on the ground that it is a facilitation of production for consumption, so it may facilitate consumption on the ground that it is a facilitation of satisfaction (or wealth, in the broadest sense). Payment for production is usually regarded merely as an inducement to produce: whereas we have seen that it has an altogether different function to perform, and is an indirect (and insufficient) inducement to consume. The real inducement to consume is one for which there is no need to invent inducements. The natural inducement suffices. It is satisfaction. We may go one step further than even Adam Smith and say that the end of production is not only consumption

but is satisfaction. In regard to inducement, the inducements of modern social organisation are not truly inducements to produce. Many of them are inducements not to produce. They are inducements to concur in some other policy than individual satisfaction.

We are back again, then, at this question of means and ends, and we see, or should see, that individuals may affect the social credit in two distinct ways: the way of METHOD and the way of ends: in a political way (as concerning the end or policy) and in a technical way (as concerning any or every association which yields an increment, positive or negative). The two fields are complementary in the sense that means and ends are complementary and also in the sense that what is done has repercussions upon how it is done. We cannot analyse these mutual dependencies: but the student will see, as he becomes more and more conversant with Douglas's practical proposals, that it is POSSIBLE to foster a natural *resolution* of such interacting forces through the operation of an *end point*, similar to the various end-points which we discussed when we were speaking about the use made by Douglas of the notion of sufficiency.

There are, then, two ways in which the individual can affect the social credit: the TECHNICAL and the POLITICAL. The following heads are useful:—

- (1) By discovering new increments of association (*a*) natural—*e.g.*, by discovery and invention leading to increased power in the hands of the community. This power is, according to the late G. F. Powell, enjoyed by all people, often unconsciously, and is exercised by them usually quite unconsciously. Even in machine production an operative USES his machine uniquely, with more or less than the usual effect, and observation of such involuntary departures from established practice are the basis of important improvements in practice. By doing a job "his way", the operative often reveals a "better way", frequently difficult to analyse. Often "his way" is not a "better way" and it is discouraged, while the "better ways" are carefully explained to everyone concerned, learnt and adopted. This tendency has the momentum of the cultural heritage; but also, it is subject to all the agencies of government (*i.e.*, control, financial and otherwise). Nevertheless, it has led to such an accumulation of power as we know, and is important. The student, however, must observe that, *practically*, the effect even of material increments on the power to produce goods and services as when and where they are required does not necessarily entail increased efficiency as measured in terms of human satisfaction. What such increments do entail, particularly over a considerable period of time, is a wider consciousness of socially distributed power, and the elaboration of more and more obvious devices to reverse or modify its effects. It leads to crises.

(2) By discovering new increments of association arising from the agreement associations, (b) in political, or (c) in industrial or (d) in financial organisation. To take these in order, (b) the student should give close attention to such of the documents as are available for public consumption published from time to time by the Social Credit Secretariat, (c) a standard work on Industrial Psychology is worth reading; but the subject matter is largely derived from suspect sources in regard to its principles at least, and a study of the internal organisation of industry at this stage is not the most important which a student can undertake unless, in these stirring times, he has more leisure than can be absorbed by increasing the social credit. (d) What has been made clear in this field is chiefly the work of Douglas, and while the whole of this course has been taken up with explaining its general nature, its special application lies in Douglas's detection of a series of relationships and their bearing upon one another. In Douglas's own words (*Control and Distribution of Production*, p. 49). . . "Credit-issue and price-making are the positive and negative aspects of the same thing, and we can only control the economic situation by controlling both of them—not one at a time, but both together, and in order to do this it is necessary to transfer the basis of the credit-system entirely away from CURRENCY, on which it now rests, to USEFUL PRODUCTIVE CAPACITY. The issue of credit instruments will not then result in an expansion of money for the same or a diminishing amount of goods, which is inflation, but in an expansion of goods for the same or a diminishing amount of money, which is deflation". And p. 72: "Now the CORE OF THIS PROBLEM IS THE FACT THAT MONEY WHICH IS DISTRIBUTED IN RESPECT OF ARTICLES WHICH DO NOT COME INTO BUYING RANGE OF THE PERSONS TO WHOM THE MONEY IS DISTRIBUTED IS NOT REAL MONEY—it is simply inflation of currency so far as those persons are concerned. The public does not buy machinery, industrial buildings, etc., for personal consumption at all. So that, as we have to distribute wages in respect of all these things, and we want to make these wages real money, we have to establish a relation between total production, represented by total wages, salaries, etc., and total ultimate consumption, so that whatever money a man receives it is real purchasing power. This relation is the ratio which total production of all descriptions bears to TOTAL consumption and depreciation."

The student may further study the following passages:

CREDIT POWER AND DEMOCRACY, p. 132-3.

"We are simply saying in effect: 'Credit, convertible into money, is the correct estimate of the capacity of society with its plant, culture, organisation and

moral to deliver goods and services desired by individuals. Whatever unit we adopt for it, the number of these units held by the individuals who collectively compose society must be such that by surrendering these units they will receive in exchange all the goods and services which society can possibly deliver. As society's capacity to deliver goods and services is increased by the use of plant and still more by scientific progress, and decreased by the production, maintenance or depreciation of it, we can issue credit, in costs, at a greater rate than the rate at which we take it back through prices of ultimate products, if capacity to supply individuals exceeds desire. This it can always be made to do, by ensuring that the production of capital goods is secondary to a sufficient production of ultimate products, and their delivery to individuals."

CREDIT POWER AND DEMOCRACY, pp. 133-4.

"We have every type of information required to fix the ratio we require at our disposal at any moment. The loan credit accounts of the banks, plus the ways and means and note and bond issues of the Treasury, plus the increase in capitalization of productive organisations, roughly represent credit creation; cost of production is obtainable from the 'factory' cost accounts, including now agricultural production accounts; the quantity and consequently the collective cost of articles bought by (*i.e.*, delivered to) the public is available though such departments as the Ministry of Food, the Board of Inland Revenue, the Board of Trade, etc.

"In order to transform the measure of financial credit which these figures would give us into a measure of real credit, only two things are required: first, that control of credit-issue shall be in the hands of the consumer, so that production is moulded to his needs, and secondly that the number of credit units in the hands of the public shall be that necessary at any moment to buy the whole possible output of society, both of which premises are eventually met by the arrangements previously described. That they are not met by the existing economic system is self-evident on a consideration of, say, the relative amount of expenditure during the last ten years on factories, as compared with that on houses; and on the other hand, the utter insolvency of the British banking system during the few days immediately subsequent to the outbreak of war with Germany."

SOCIAL CREDIT, p. 193.

"It should be emphasised that the practical operation of a price factor of this character involves no difficulty and is, in fact, in various forms a commonplace of business operations at the present time. As compared with the complex system of discounts which are a feature of every business, and vary not merely from business to business, but from one department of the same business to another, the application of a uniform price factor for the purpose of reducing the general price level is a matter of elementary simplicity."

WARNING DEMOCRACY, pp. 105-7.

"Suppose that the large departmental stores, such as Messrs. Harrods, Messrs. Barkers, etc., were to agree, as they probably would, to restrict their net profit on turnover (not, be it noted, on capital) to ten per cent. Imagine them to issue with each sale to an individual consumer, an ordinary statement of sale, commonly called a bill, and imagine arrangements to be made with the banks that these bills, when turned over by the individual consumer to the bank, should be credited at twenty five per cent. of the face value to the individual consumer's account to which they refer. Such an arrangement would amount in effect to a reduction of price to the consumer of twenty five per cent., without any reduction in profit to either the producer or the retailer, and as the results of such an arrangement would be to increase effective demand, the turnover of both the retailer and the manufacturer would increase accordingly, and consequently their profit would increase. So that you will see that neither the retailer, the manufacturer nor the consumer would under such an arrange-

ment have any complaint to make. You will, of course, enquire where the bank will receive the necessary funds with which to credit the individual consumer with twenty five *per cent.* of his purchases. The answer to this is, that at stated intervals, of say one or three months, the banks would present an account of such credits to the Treasury, which would in turn pay to the banks a Treasury Draft equalling the amount, so that the banks would then be covered in the transaction.

“ The justification for the issue of the Treasury Draft is found in the increased real credit of the community, which accrues from the increased trade which is assured by the lowering of prices. I have, of course, used the figure of twenty five *per cent.* for purposes of illustration.”

XX

Since the money units per price unit distributed in unit time are not all available for the discharge of prices (*i.e.*, for the purchase of goods) some other form of money must be distributed to make good the deficiency if goods are to be sold (*i.e.*, distributed). To a limited extent, this money is distributed in the form of export credits and advances for capital production in one form or another *i.e.*, mortgages against future appearance on the market of saleable goods for consumption. Without being strictly a measure of it, the rate of increase of public and private indebtedness to the bank is an indication of this deficiency. All money is bank indebtedness. The community is therefore in debt for all its money, and all its money will not buy current production, let alone its existing property. The *just price* is the price at which the community as a whole can buy the community's production as a whole : and the price at which the community as a whole can buy its production is the *just price*. This is a fraction of financial cost, and bears the *ratio* to financial cost which consumption bears to production ; total national consumption including capital depreciation and exports, while total national production includes capital appreciation and imports. That is, the Just Price per ton = Cost per ton (Financial cost) \times (Cost value of total consumption) / (Money value of total production).

Providing this price-adjusting factor IS applied to every sale of goods, it does not matter HOW it is applied. This statement is of sufficient importance to justify a moment's examination. If a vendor of goods receives a rebate equivalent to the factor, his goods are not saleable unless he passes it on to the consumer. Unless he does so, THE FACTOR IS NOT APPLIED. It is not a *price-adjustment* unless it *adjusts* the price to the pocket of the consumer—that is to say the consumer in the large : potential consumers of potentially consumable goods. The requirement of saleability is that there shall be effective demand, and demand becomes effective by being backed by the money units of the price figures. The number of WAYS is probably very large in which a steady flow of purchasing power could be maintained of such volume as to make the flow of money through industry or otherwise to individuals the same as the flow of money prices. ALL money NOT lent but GIVEN to the community and NOT REPRESENTED as an increase of the community's debt to the banking system would *tend* to the equalisation of the price flow and the purchasing power flow. However spread out, a price inflation, however secured, might cancel the purchasing power of such a “ gift ”. Then it would not be a “ gift ” but merely a monetary illusion. Things cannot be done without doing them. And what we are speaking of here is the true *adjustment of prices*. Categorically, the necessary condition is the creation of NEW MONEY NOT REPRESENTED AS DEBT to the banking system or to any other system. The cases in which

such a creation would be in fact a mere pretence are legion. Money is only money when it is functioning as money. Anything, no matter what it is made of, that discharges prices is functioning as money. Here again, as so often, Douglas's effect is to concentrate the attention of the community upon events instead of upon appearances and representations and names. If, then, the fact is appreciated that there must be a multiplicity of WAYS of adjusting the power to purchase (which, again, is not the power NOT to purchase) to prices, it will be clear that one *particular* method can only be defended on some other ground than the necessities of price adjustment.

The particular method referred to is the proposal to distribute a part of the total money periodically required to adjust prices in the form of a *financial profit warrant*, or *dividend*. Regarded as real money, *i.e.*, money that buys goods—the only economic limitation to such a distribution is expediency, and it is not expedient to distribute money against absent goods—such “money” would not be real money. We have already shown that improvements of process lead constantly to a greater and greater volume of production with less and less application of human labour. The natural consequence is what is called the “unemployment problem”. The “problem”, of course, is not to discover why individuals are “unemployed”, but why their enforced work is as much as it is, and why the community as a whole, including the “unemployed”, do not enjoy the advantage which has been gained by work-saving in the form of increased leisure and wealth. If human association is for individual advantage, it is not fulfilling its purpose until all its members are satisfied to the extent at least that they would voluntarily continue to associate rather than to break their association if they could. Is there any ground for apportioning the new money necessary to equate consumption with potential production? Clearly there is from the fact that the individual is himself a source of wealth, if only to himself; and if his attachment to his productive system is not advantageous to it (*i.e.*, to himself and his fellows) his withdrawing of consumable goods from it cannot be a disadvantage to it (*i.e.*, to himself or his fellows) either. Otherwise we should find it hard to explain why his productive efforts would not benefit it (*i.e.*, himself and his fellows). As Douglas remarks, there is no need to attempt to prove that the cultural heritage belongs to everybody, since recognition of the fact rests on equity.

The total result of human association, which for convenience may be taken as the human association of any present political unit of mankind, receives contributions from two sources, the *effort* of living individuals applied to *instruments* which are largely the creation of past generations. We have an association between the present and the past yielding an increment which is *present*; and relatively to one another, the past is enormously the more effective element in this association. Only the freely operating decision of individuals would rightly determine

whether this *ratio* should be represented by the *ratio* between the “unearned” part and the rest of the purchasing power required to equate consumption with production. What should be emphasised here is that it is NOT within the province of a community which cannot choose one thing at a time. “Since the institution of a modified financial system of a suitable nature would rapidly increase the (what is called) material wealth of everyone, without detracting from the wealth of anyone, it would be imagined that when once agreement has been obtained as to the feasibility of such a readjustment opposition would cease. But this is far from being the case. The more important the individual with whom one is dealing in these matters, and the more able such a person may be to assist in the end desired, the more likely one is to find a very definite dissent, not as to the competency of the mechanism, but as to the desirability of the end. It is a curious feature of the average human being that he deems himself singular in the ability to make a right and proper use of wealth.” (*Warning Democracy*, pp. 5-6.)

The doctrine that if a man will not work, “neither shall he eat . . . completely denies all recognition to the social nature of the heritage of civilisation, and by its refusal of purchasing power, except on terms, arrogates to a few persons selected by the system, and not by humanity, the right to disinherit the indubitable heirs, the individuals who compose society.” (*Control and Distribution of Production*, p. 7.)

We may leave this point to consider a point which is not one of equity, nor of the propriety of forcibly reducing the population to dimensions imagined to be (though they would not be) more in consonance with the financial system.

Is there a means of *assessing* the *relative* value of the inherited part of the current power to produce goods and services? It may be doubtful whether this point will ever have more than academic interest; yet there is room for making it, if only to indicate the “dimensions” in which a solution would be stated. The “dividend”, assessed on the basis that it is even an approximate representation of heritage as distinct from present effort (work), would be surprisingly large, and a practical consequence of its strict application would be an immediate, probably a steep depression of all forms of “earned” income, offset by a considerable dividend distributed to all individuals tending rapidly to appreciate, without any great increase in employment. This forecast is not susceptible of proof, and if we take refuge in ascertained facts, widely varying estimations may be made of the heritage. On a purely mechanical (*i.e.*, energetic) basis, (energy-calculation basis) it is no more than indicated by taking the *ratio* of the power available per unit population expressed in man-power (1 man-power = 1/10 h.p.) to one man power. But this is an obvious under-estimate, since so much of the power to increase power is of “heritage” origin. An Englishman in 1495 could support himself and his family in comfort by working

15 weeks in the year (Thorold Rogers). This figure affords comparison with the present rates of potential disemployment, allowance being made for forms of waste (e.g., war production, advertising of goods for which there is no purchasing power, book-keeping, and so on). English industrialists (Lord Leverhulme) have said that they need not ask more than two weeks' work from each of their employees a year from which we might infer that whereas the individual capacity for work has not noticeably advanced, something else has advanced in the ratio of $7\frac{1}{2}$ to 1. If this figure were valid and were adopted, total incomes would be distributed in the proportions *fifteen millions* in dividends for every *two millions* in wages. The dimensions are not of merely academic interest ; the precise determination is.

The man-hours per unit of production, including transportation and distribution have probably decreased in the ratio of about 100 to 15 between 1913 and 1945. If prices were based on true cost, therefore, the 1946 pound would be worth about £6 12s. 0d. instead of 8s. 4d. "The difference represents conscious and calculated inflation by the Treasury and the Bank of England and is merely a concealed form of taxation additional to the taxes imposed by the various Finance Bills. Had the creation of monetary units which are necessary to represent improved process been applied, as they should have been, to a reduction of prices, the pound sterling would have stood at an immense premium to the dollar, and everyone in the country would be better off, while no one would be poorer." (*The Social Crediter*, February 23, 1946).

This is the concluding lecture of this short course. Social Credit has been too large a subject for merely twenty study periods ; but you may still be asked for a complete account of "Social Credit in a nutshell". Many students probably realise that the ordered approach to the greatest matter of present human interest—the life of man in association with other men—has received great assistance from Douglas ; and some are doubtless willing to believe that there is no aspect of human life and conduct, political, industrial, scientific, religious, artistic, moral, that may not be affected, in the future, by his genius. Simple as they are, Douglas's ideas have as far-reaching consequences as those of any of the great leaders of the past. What is there still for us to study ? All of them over again, from this angle and from that, gradually making them our own until they are "familiar as our garter". This is the most profitable thing we can do—for what we call Society and ourselves : namely, absorb the IDEAS, all of them, in all their bearings. Some students may be particularly interested in book-keeping. Let them by all means revive their interest and make it valid and real by the light of the help they receive from Douglas. Let them learn to see the life through the figures : to see how much and how little figures mean. Particularly they may take up the study of each of the causes enumerated by Douglas of deficiency in purchasing power.

"Categorically, there are at least the following five causes of a deficiency of purchasing power as compared with collective prices of goods for sale :—

- (1) Money profits collected from the public (interest is profit on an intangible).
- (2) Savings, *i.e.*, mere abstention from buying.
- (3) Investment of savings in new works, which create a new cost without fresh purchasing power.
- (4) Difference of circuit velocity between cost liquidation and price creation which results in charges being carried over into prices from a previous cost-accountancy cycle. Practically all plant charges are of this nature, and all payments for material brought in from a previous wage cycle are of the same nature.
- (5) Deflation, *i.e.*, sale of securities by banks and recall of loans.

There are other causes of, at the moment, less importance. (*The New and the Old Economics*).

Above all, let it be remembered that the failure of human association to achieve its purpose is ultimately the failure of all individuals collectively to achieve *their* purposes. Knowledge of Social Credit which does not increase the Social Credit is neither socially nor individually creditable. The Philosophy of Douglas is a philosophy of *action*.

NOTE ON COURSES.

Course A—(Associate).

Though primarily intended for students of the Study Course, the examination is open to all subscribers to *The Social Crediter* or to members of Associated Groups who agree to subscribe to *The Social Crediter* regularly in the proportion of at least one copy for every five members. The questions set will cover the general field of Social Credit, and will correspond in severity to the 'matriculation' examination in the degree system of universities, where that is still held as an initial test before entry upon a more advanced course of study. At the 1946 Examination, one question bore directly upon *The Brief for the Prosecution* by C. H. Douglas.

The following is a specimen Examination Paper (that set for the Associate Examination for Overseas Candidates—Canada—in June, 1945) :

The Candidate must attempt to answer all the questions.

Question One.

Provide brief definitions of the following :

- (a) Evolution, (b) Culture, (c) Policy, (d) Politics.

What adjustment, if any, has it been necessary for you to make in

your conceptions concerning these ideas (as defined), in consequence of your reading of Social Credit—*i.e.*, the body of doctrine so described?

Question Two.

Distinguish between (a) the strategical and (b) the ideological differences between Monetary Reform and Social Credit.

Question Three.

Compare and contrast the role of the Jews and the role of the Japanese in Canadian politics.

Question Four.

Write short notes on the following :

- (a) Trade
- (b) Tradition
- (c) Majority Rule, and
- (d) 'The compensated price.'

Examiners :—Dr. Tudor Jones, Mr. Hewlett Edwards and Mr. H. R. Purchase.

Course B—(Fellowship).

No examination for the Fellowship of the Social Credit Secretariat was held until June, 1943, although there had been several examinations on the Associate standard at that time, conducted in England and overseas.

The initial Fellowship Examination was conducted on novel lines, a selected list of candidates being asked if they would submit themselves to examination on an exacting standard, set a question each, which they would not be permitted to answer, and assess in marks the value of the answers they received to their own question, anonymity being preserved by attaching to each candidate an Examination Number. There were two papers, one in Economics and one in Politics, Major C. H. Douglas setting one question in each paper. (Major Douglas was not, of course, a candidate). Seventeen candidates accepted the invitation extended to them, of whom five passed the test, Messrs. L. D. Byrne, Hewlett Edwards, and R. B. Gaudin, and Drs. Tudor Jones and Bryan W. Monahan.

The experimental stage having been passed, the following regulations were adopted for the conduct of future examinations and published in *The Social Crediter* :

- (1) Candidates who hold the Diploma of Associate may enter for the Fellowship examination following their receipt of the official notification of their having passed the required examination, or at any time later.
- (2) The Director of Lectures and Studies shall have discretion to admit, or to refuse to admit other candidates.

(3) Examiners will be appointed by the Director, whose choice is not limited to Fellows of the Social Credit Secretariat.

(4) The Examination for the Fellowship shall consist of two parts :
viz :

PART I. The presentation before an appointed date of a Thesis on a topic chosen by the candidate from a list announced annually not less than nine months before the date of Examination, or proposed by the candidate and accepted by the Director not less than nine months before the date of Examination. A note appended defines the requirements in regard to acceptable Theses.

PART II. An examination, conducted *viva voce*, at a time and place convenient to the Director and the candidate, on the subject matter of the Thesis presented and, at the discretion of the examiners, on relevant matters of economic and political theory and practice.

This examination will be held after reception of the candidate's Thesis and within six weeks of its reception.

(5) A fee of 10/6 will be payable by each candidate to cover the cost of his Examination.

The acceptable standard of Theses will be one approximating to that required by British Universities before 1945 from candidates for higher degrees.

Original and thorough research will be expected, and the standard of marking will be high. Citations from documents must quote originals, not compilations, *etc.*, and the objective should be the preparation of a publishable work of importance. Length is not prescribed and should be adequate for the due presentation of the candidate's work.

N.B.—In all cases, copyright will be vested in the Social Credit Secretariat, and each candidate will be asked to sign an agreement to this effect. If publication is undertaken by the Social Credit Secretariat a royalty will be paid at an agreed rate. If publication elsewhere is consented to, the candidate may make his own terms with the publisher of his choice. *This rule is solely for the purpose of safeguarding the interest of the Social Secretariat in impeding the attachment to itself of work which is unsound or otherwise objectionable.*

The following is the Note referred to above :

Note.

EXAMINATION DATE : 1945, February 28.

LAST DATE FOR ENTRY TO THE EXAMINATION : April 30, 1944.

THESIS SUBJECTS : The following will be Acceptable Theses* in accordance with the above Regulations. The list is not exclusive :—

The Financial Systems of Russia and Germany since 1928.

*Information concerning the acceptability of Theses for future dates may be obtained from the Director.

Cartels, with particular reference to bye-products of coal mining.

The breakdown of the Financial System, with particular reference to the maintenance of other controls and to its effect on the strategy of monetary reformers.

Monopoly. (*Candidates choosing this subject must define clearly the proposed scope of their investigation before their entry can be accepted.*)

An analysis of the strategy of the newspaper press from 1917 onwards, and of the B.B.C., with special reference to the production of situations whereby the policy of the political parties in England were determined in a manner favourable to the objectives of the German High Command.

The history of an institution supported by the proceeds of taxation, e.g., The London School of Economics, or The Royal Institute for International Affairs, with reference to personal responsibility for political effects.

POSTSCRIPT.

(July, 1946.)

Since January, 1937, when the Lectures contained in this volume began to be distributed, they have twice been subjected to minor revision. No revision was made during the war years, and, now that this trying period is replaced by at least a restoration of active control of human affairs to the hands of non-military agents, it might be assumed that the world's experiences would enforce some adjustment of the presentation of the Social Credit case, as it has adjusted the presentation of most arguments of a political character. This has not been found to be necessary, and scarcely more than a hundred words have been added to the Lectures, while fewer than fifty have been taken away.

Nevertheless, it was during this time of universal stress that Social Crediters generally became aware of the dimensions of the philosophy they had embraced. Whether gaining or losing influence, playing a larger or a smaller part in "The Tragedy of Human Effort"—the unforgettable title of one of the most memorable of Major Douglas's Public Addresses before the outbreak of Phase II of the World War—Social Crediters the world over have become conscious of their place in the perspective of history, and this process, which will continue, has enriched their thought. Some notion of the nature of this enrichment has to be added to the substance of the Lectures, and a postscript seems, in the circumstances the proper place for an attempt to do this. (The credit for effecting this expansion of understanding is due to Major Douglas himself, through the medium of *The Social Creditor* and otherwise. It is not the boundaries of the territory covered by Social Credit which have been enlarged. The root ideas of Social Credit are inherent in Douglas's earlier work—i.e., from 1918 to 1934.)

Frequent use is made in the Lectures of the term 'scientific' to define the point of view of the writer. The time may come—if the present drive towards the establishment of a 'closed' authoritarian system of control of effective policy by an oligarchy, open or concealed, continues, the time *will* come—when, if such a document as the present is permitted to gain any currency at all, the use of this term, in our context, may be deemed inexpedient. Such a correction will not, however, arise from any change in our opinions; and it will not be made until the term may have become so corrupted for all but the most scholarly and sequestered of readers as to be a vehicle of superstition rather than of true meaning, and that superstition perhaps the most monstrous that has ever gained ascendancy over the human mind. The drive towards this objective is already terrible in its strength and blind impetus. Modern science is fast becoming a cult. There is little that is Baconian about it, and few 'scientists' would not be shocked to read Bacon's own frank acknowledgment of their role, (*Novum Organum*, Book I, cxxii), "my way of discovering sciences goes far to level men's wits, and leaves but little to individual excellence; because it performs everything by the surest rules and demonstrations. And therefore attribute my part in all this, as I have often said, rather to good luck than to ability, and account it a birth of time rather than of wit." The 'Age of Science' is in large measure the Age of the ascendancy of such 'witless' agents, with whom it seems to be the objective of those who dangle the world's 'Ministries' of 'Education' like marionettes to populate the earth—a race of certificated proletarians each able and willing to effect nothing of any consequence in life but his allotted task, and his allotted part of his allotted task, which he understands only in the execution and not in the intention, and can adjust to his purposes, or modify, only if it is prescribed that he shall acquire this intention as the agent of a plan too vast for him to grasp, and too evil to be believed, if he should, rarely and ineffectually, gain some insight into its nature.

It is clear that Bacon perfectly understood the role of the Reason in human affairs, and that it is the role of an instrument—let us say, to use an industrial simile, that of a transformer rather than that of a generator, although even electrical 'generators' are themselves merely transformers, energy *convertors*, and what they 'generate' is but change in the form of energy and not energy itself. Whitehead, though less radically than Douglas, has stressed this point, *viz.*, ". . . the manipulation of the algebraical symbols does your reasoning for you, provided that you keep to the algebraical rules."* The vast and expensive propaganda in favour of 'science' during the past century tends to obscure this basic truth and to endow 'science' with 'rights' wholly inappropriate to its instrumental status, an instance of the determination of those who order the effective policies of the world

*A. N. Whitehead, *Symbolism*, Cambridge, 1928.

to elevate an abstraction to the rank of a conscious entity—doubtless with the greater assurance that their own anonymity will be preserved, their responsibility masked and their purposes served as though by a Law of Nature itself. Thus they evade responsibility.

It will not have escaped the notice of any critical reader that there has been, progressively, with the exploitation of mob judgment masquerading as the voice of the supreme wisdom in the community, a corresponding encouragement to all classes to recommend the pursuit of any chosen policy, however disastrous and detestable, with the assertion that it is 'scientific'. The term has a purely functional connotation; and to say that any course of action is 'right' because it is pursued scientifically is like saying that war is an inestimable blessing because it is conducted 'explosively'. Whitehead's warning is too limited in its incidence. We prefer Douglas: "The Reason, like a slide-rule, is incapable of furnishing anything more than the logical sum of the data provided. It is pure instrument, and can prove nothing."

To cite *The Social Crediter*, "It is clear that the Scientific Method on which the nineteenth century placed a reliance which is now seen to be a little pathetic, is itself subject to the Law of Diminishing Returns. The great discoveries which lend themselves to the operational test of validity, the steam engine, the galvanic battery, the dynamo, the Siemens-Martin and Bessemer steel processes, were the work of a mere handful of investigators. For each of these, working with crude apparatus and little or no financial backing, there are millions turned out by the Universities and technical schools of every country having at their disposal every device that ingenuity can suggest or money buy. The outcome, apart from logical development and refinement of the main basic discoveries, is a mass of abstract theories most of which are discarded a few years after they are announced as epoch-making. Probably, of all the mass of 'applied science' products with which the world has been deluged in the last thirty years, stainless steel cutlery, vacuum cleaners, and very doubtfully, wireless broadcasting, alone have much more than gadget value.

"Of course, this does not mean that the Scientific Method is not a beautiful instrument in the right hands. Far from it. It merely means that bad workmen do bad work with any tools, and, in addition, spoil good tools."

Another matter: Social Crediters account for the apparent failure to profit from life in society to an abuse, at all stages, of the principles which must underlie all successful association. If the student has used correctly the material presented, he will have seen that the tendency to break down as well as to build up associations, which is a feature of the present unsatisfactory state of society, would be as prominent a feature in a state of society functioning to better advantage. When divergence of policy shows itself, Social Crediters envisage the disruption

of the afflicted association, until there are as many associations as policies. It is a curious reflection of the state of mind of many critics that they at once picture the complete breakdown of all association—as though they were convinced that nothing but force could maintain in existence so universally unsatisfactory a method of human intercourse. At the same time they extol the indispensable benefits of Society. They can't have it both ways. What is it they want to preserve? What is their Policy? Society? Society is only a means to an end, not an end in itself.

The recognition of this fact is a cardinal feature of Social Credit. "Social Credit is the Policy of a Philosophy." Douglas has never tired of stressing the indissoluble connection between any and every policy and a philosophy, which, plain or obscure, occult, hidden, is its philosophy. Doubtless what led to the previous presentation of Social Credit as a Policy before any extensive treatment of its Philosophy (which is, nevertheless implicit in all that Douglas has written) was the belief, justifiable until 1918, that the traditional philosophy of at least the Christian nations (peoples) was still essentially whole, buried and misrepresented, perhaps, but not destroyed. The belief may be still justifiable. The existence of doubt concerning so vitally important a matter warns us that at least one matter which is assumed rather than explored in the Lectures should receive some attention.

The Policy of Social Credit is Liberty, or, in other words, "Life, and more abundantly." It is assumed that all men, free to choose, desire "Life more abundantly". If this assumption is false, Social Credit enjoins the right to contract-out, with no penalty for contracting out. In such circumstances the validity or otherwise of the individual's policy would be discovered. Social Credit is applied Christianity: it reflects in its actual structure the characteristic doctrines of the Christian Religion*. "Now the word 'religion', again going back to its etymological derivations, derives from a word meaning to bind back: it is related to the word ligament, and so forth, and sometimes it is defined as meaning to bind. Well, it obviously would have a slightly unpleasant flavour if you define it as being to bind, but I think that the agreed definition, its original meaning, was to bind back. In the sense that I am going to use it, and I think I will be using it correctly, the word religion has to do with a conception of reality. It is the binding back either of action, or of policy—particularly of policy in the sense that I was using the word policy—to reality. . . . It does not necessarily mean, for instance, that your conception of reality is a correct one, but it does mean that you are postulating that there is something which we refer to as real, and you are basing your policy upon that reality." (C. H. Douglas, June 26th, 1937).

*See several articles by Mrs. Best in *The Social Crediter* on and at intervals before June 15th, 1946.

Now, one has not to go far before one realises that there are current in all communities more or less well-defined concepts of law and of sanctions. Our community is particularly distinguished at the present time—or, perhaps, we might say particularly during the period between 1880 and 1938—by the currency of conceptions of a mechanical order, of the operation of the so-called laws of motion, and so on (which it is disastrously misusing), and all communities, however primitive in their customs, recognise limitations set upon human activities by weather, season, seed-time, harvest, and so on, as well as limitations which may or may not exist otherwise than in the minds of those who invoke them to explain the conduct of themselves or of other people. “Man does not live by bread alone,” although he cannot do without bread, using ‘bread’ as a term indicating his basic sustenance ; and it would be rare to find a human individual who would assert that the material interests of life exhaust its possibilities. As the interests of Life have expanded, so there has spread the recognition that Law operates on other planes than those which are the special interest of physicists and chemists, as such ; and that such Laws are as inviolable as any others. But it is as generally recognised, perhaps, that assessment, of the mode of operation of these Laws is difficult and uncertain in proportion as the individual lacks experience of their consequences, while their range and time of action outspans the lives of individuals, who are nevertheless subject to them. It may well be that the charting of this cumulative experience of mankind is subject to distorting agencies—that the social credit is, in this respect, falsified, as in so many other cases. But the very existence of a Social Credit movement is evidence that the effect of this distorting agency is not absolute.

It is not a matter of speculation but of fact that there have been relatively settled times in history, when men seemed to advance towards their dimly perceived but real goal, when Life was more abundant, when manners were inspired by a general if not an universal apprehension, or intuition, of the sources of satisfaction, when Faith (“the substance of things hoped for”) was wider spread, and “the evidence of things unseen” more credible.

We are not theologians ; but it is not outside the province of Social Crediters to enquire into the features which distinguish such times, to discover, if possible, the nature of the inspiration which guided them or made them possible, or what forces overturned their benign projects. A priest of one of the great Orders of the Church once enquired of Major Douglas what was the *policy* of Social Credit, and, being answered to his satisfaction, said : “You know, WE know that what men generally call the Sins of the world are not of much greater consequence than the pimples on a man’s face. But, behind all that there is a diabolical wickedness which it will take you all your time, and us all our time to surmount.” We know it.

There is not long, in our opinion, for the contest to continue.