"All that is necessary for the triumph of evil is that good men do nothing . . ."
— EDMUND BURKE.

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COVID-19 CAPITALISM, NEOLIBERAL DEBT & THE NEED FOR SOVEREIGN MONEY

Commentary by Tim Di Muzio - *reposted from socred.org*
Associate Professor of International Relations and Political Economy
University of Wollongong, Australia, April 1, 2020

This is a similar tale to the one experienced by British engineer Major C.H. Douglas just before the outbreak of World War I. Douglas was working on the London tube when his superiors announced that there was no more public money for any further construction. The budget had been reached and construction would have to halt. Douglas thought this strange since the materials, the know-how and the manpower were all present. The only thing lacking was money – but why? Then on the 28th of July, 1914, the Great War began and suddenly there was money available for everything the war effort required. This set the engineer on a quest to discover more about the nature of money and capitalist accounting. WWI was Douglas' 'teaching moment' just as COVID-19 is our teaching moment. It will teach us many things: about our friends, family, colleagues, neighbours and communities. It will have lessons to impart regarding the way we think about work, about our health, education and child care systems, and the very standards to which we hold our own governments to account. But it will also teach us about our money, who controls it and what we can do to promote healthy and prosperous communities in a time when our faith in our political leaders and financial systems is being urgently and critically tested.

As COVID-19 spreads around the world threatening the 'normal' operations of global capitalism, governments on the centre, left and right have been issuing large stimulus packages in efforts to stabilise the financial haemorrhaging as businesses shut and unemployment soars. This crisis is made worse by the mountains of corporate and consumer debt that have accumulated over time to keep businesses turning over and households afloat. As I argued with Richard H. Robbins in our *Debt as Power,* the world is indeed awash in debt.

Surprisingly for some, against all prior devout belief in 'fiscal discipline' and so-called balanced budgets, public officials all over the world have quickly and collectively announced spending in the trillions. When it comes to preserving and freezing in place the economic relations that structure our society - worker and employer, renter and landlord, debtor and creditor - it seems that money truly is no object. At present, no one knows the sum tally of the new spending, though it is certain to far exceed the bailouts witnessed during the Global Financial Crisis of 2007-8. Indeed, the *Financial Times* dubbed this extravagance 'the biggest borrowing spree in history' - and the party is just getting started. As the pandemic deepens and the economic turmoil continues to unravel, it is highly likely that we will continue to see such policy action over the weeks and months to come. As liberal economist and capitalist cheerleader Milton Friedman once reluctantly declared in the midst of an earlier economic crisis in the 1970s: 'we are all Keynesians now'. To recall, Keynes argued that government should spend in an economic downturn – particularly a depression – and increase taxes and build surpluses to service debt when the economy was heating up. This seemed to be the only solution to Keynes and his later acolytes. This thinking was based on the simple idea that businesses do not hire more workers, nor increase or expand production during a depression due to less market demand for goods and services. The only entity that can spend during a depression to get the economy going again and alleviate the misery of workers is the state itself. As we have found out in capitalist crisis after crisis, the government truly is the last resort.

Though it is too early to foresee an economic depression, we do know that the world has not witnessed such a level of government bailouts since the GFC of 2007-8. At that time, the lion's share of the spending went to businesses and the financial markets rather than to the working class who continued to struggle, often working two or more jobs and increasing their debt load to sustain a basic standard of living. Hence the arrested revolt of the 99% on the back of the GFC which fizzled out globally almost as quickly as it arrived on the scene. Around that time Naomi Klein (see her *The Shock Doctrine*) was fond of citing another one of Freidman's observations that: 'only a crisis - actual or perceived - produces real change. When that crisis occurs, the actions that are taken depend on the ideas that are lying around. That, I believe, is our basic function: to develop alternatives to existing policies, to keep them alive and available until the politically impossible becomes the politically inevitable.' After the crisis of the 1970s in the very heartland of capitalism and the Third World debt crisis of the 1980s, governments eschewed Keynesianism for more neoliberal or market friendly policies as the global bond market and credit rating agencies feared excessive government deficits and rising national debt to GDP ratios. This became known as the *fiscal crisis of the state.*

Decades later, the global financial crisis bored a hole in the neoliberal fabric and corporate *laissez-faire* but it did not sufficiently discredit the neoliberal policy suite as many predicted. To be sure, governments continued to spend more than they took in as revenue, but all under the watchful and potentially punitive eye of the *credit rating agencies* and the bond market. Instead, using the excuse of the national debt as a weapon, populations fell victim to various policies of *neoliberal austerity.* Today, the huge challenges of COVID-19 offer us another teachable moment about progressive 'ideas that are lying around' and I believe it would be worthwhile to discuss them, however briefly, in a clear fashion in this short commentary.

To do so, we must begin by recognizing that governments are, to some extent, straightjacketed when it comes to producing new money because they do not exercise sovereignty over money creation. First, while governments have some control and benefit from the creation of notes and coins, they are not in charge of expanding the money supply. This role, by and large, belongs to commercial banks when they issue loans to willing borrowers. This is *the* primary source of new money in advanced economies and it is created as debt owed to commercial banks. This power to issue loans is capitalized with banks making their earnings from interest and fees on the money they lend. This ultimately benefits the owners of commercial banks who profit by rising share prices and dividends. As *Motivaction International and the Sustainable Finance Lab* have found in a study, most people are unaware of this fact. Here we have to recall that well over 90% of money in advanced capitalist economies is *digital,* – money existing as numbers on computer screens, and debt and credit are managed by the principles of double entry bookkeeping. Unlike Keynes and many others have suggested, no savings have to take place before loans are made. *Loans create deposits, not the other way around.* More borrowing by individuals, businesses and governments creates new money in the economy, and if not invested in the financial markets typically boosts nominal GDP from production and consumption. For instance, if the government of any country gave everyone a $1000 credit in their bank accounts and everyone went out and bought shares in companies this would inflate the value of financial assets while not contributing a single dime to GDP. Put simply, such actions would *not* increase production and consumption because no one is spending the money on production and consumption. *Modern Monetary Theory* explains this but as its proponents often take pains to point out, it is first and foremost a *descriptive* theory of money, and has less to say regarding the power processes (some might say class struggle) that have led to our fiscal-monetary arrangement, or better alternatives to the current system (see Huber's *Sovereign Money*). As a historical and human creation, not one handed down by an omniscient god with the public's best interest at heart, this is something we have the power to change. We will discuss this in more detail further down but for now:

Lesson 1

If no one borrowed, our capitalist economies would go into severe contraction because the vast majority of our money is created as debt. This is why financial elites were rattled during the global financial crisis: they feared credit would dry up and *credit is the lifeblood of global capitalism.* But the fact that our democratic governments are not in control of producing the vast majority of new money leads to *perverse outcomes* for the majority of society, an inherent contradiction brought in to stark relief during crises such as COVID-19. Suddenly, as if in a worldwide war, there is money for just about everything when just months before the pandemic our leaders bowed down to the gods of fiscal discipline and balanced budgets – or at least paid lip service to these concepts.The major problem with the current fiscal–monetary arrangement is that stimulus spending results in ballooning government deficits and mounting national debt, which is then used as a weapon to further neoliberalize the economy when the immediate crisis is over. This means a return to the mantra of fiscal discipline and balanced budgets and more privatizations of public assets and greater cuts to social spending among other potentially harmful social policies. Richard H. Robbins and I termed this the 'debt-neoliberalism nexus' in *Debt as Power.*

The adverse effects on society result because the present fiscal-monetary system dictates: if governments want to spend more money than is earned via revenue from taxes, fines, fees, and the privatization of public assets, they are *forced* to borrow from an outside source (typically the 1% - see the work of Sandy Hager as reported in the *Financial Times*).

So what are the outside sources?

There are three major sources but only two of these three options result is new money entering the economy as government debt. First, the government can borrow from commercial banks by offering securities (for instance, the United States finances its deficits through Treasury notes, bills and bonds) but this is limited by how much government debt a commercial bank wants to hold. Since these investments typically yield lower returns than alternative investments in normal times, bank chiefs limit the amount of government debt in their portfolios. So while loans to governments by commercial banks create new money (an asset for the bank and a debt for the government) there are limits to how much money can be created this way, since it depends upon how much government debt commercial banks agree to hold on their balance sheets and how creditworthy they deem the state.

Another way governments can borrow is to sell their securities to the capital markets or institutional investors like pension, hedge, sovereign and mutual funds. They can also sell to individuals and businesses (but these last two actors are generally less important). But while these institutional investors can buy government debt securities and this can swell government coffers this action *does not* create any new money, it merely redistributes it from people who have already saved to the government. The government can then spend this money into the economy in some way. The limitations of borrowing from commercial banks and institutional investors is why there is a third way new money can come into existence and this appears to be the major policy choice during severe financial and economic crises: the central bank can buy the government's debt.

While the first two options are limited, theoretically, relying on the central bank to purchase government debt is not. While most central banks are supposed to be independent from the government and tasked with setting interest rates and monitoring inflation, during periods of crisis such as our present one, the central bank can buy up as much government debt as is required to bolster the economy. This is essentially a *digital balance sheet operation.* We have an old idea that the central banks just 'print money' (and this can lead to considerable confusion among the public) but the vast majority of new money creation is digital - no printing press is required and we should cease all talk of 'turning on the printing press' – it is largely a vestige of the past. All the central bank has to do is accept the government's IOUs in return for depositing money in the government's account, typically held at the central bank because of the balance sheet operation that needs to take place. The central bank will of course want to continue to monitor inflation as governments spend the newly created money, while the strategy of distributing this fresh money is determined by the state's public policy.

But the two ways of new money creation – that of lending by commercial and central banks to governments and the redistributed money entering the economy in the case of institutional investors lead to mounting debt, virtually guaranteeing commensurate government austerity down the track: higher taxes, cuts in public spending, and the privatization of public assets, not to mention limited imaginations for how government can be an effective democratic force for good in the lives of its people. So:

Lesson 2

As stated above, the current way of organizing a government's finances is neither natural nor inevitable. During the course of nation-state formation, no wise Good Samaritan with the public interest at heart designed and imposed this fiscal-monetary system. It is the product of *historical power struggles* and therefore as a historical product, it can be changed – and this is lesson two – the present fiscal system was not handed down by god, there are real and practical alternatives to mounting fiscal deficits that will only contribute to further policies detrimental to the health of our economy and our society.

So what is the alternative?

If we want to avoid a return to neoliberal austerity after the crisis we must mobilize around a coherent idea. For all its benefits, the Occupy Wall Street movement failed to introduce any substantive change because it was, in essence, a cacophony of confused voices with no clear policy agenda. The movement asked – what is our one demand? A consensus for effective change was not forthcoming. Power loves oppositional fragmentation.

In our present crisis, I would argue that those of us who want to see a better world for our families and future generations should consult *the* most progressive idea 'lying around': sovereign money – an idea it should be said, that was never broached by Keynesians or free marketeers. Though the technicalities regarding how to achieve this project, as well as the institutional and accounting arrangements for establishing such a system can be debated, in general *sovereign money* is the idea that democratic governments should be in control of new money creation and that new money should be issued as a *public credit or dividend* based on the productivity of the economy. Outside of the environmental emergency and the COVID-19 pandemic, the biggest challenges of today are the dearth of public money, the creation of private money as debt, and the need to bring forth an economic system that works in the interests of all, not just the 1% and their obsession with their differential *rates of return*.

There are additional problems with capitalist accounting that must also be addressed but I've written about them elsewhere with Leonie Noble as The Coming Revolution and with Richard H. Robbins in *Debt as Power* and *An Anthropology of Money*.

It is also worth mentioning that there are many people debating the possibility of a Green New Deal. Now that we know that somehow new money can be found by the government during a major crisis (and we are in a climate emergency too – no doubt about it), the GND'ers should understand that spending on such a program within the current fiscal arrangement will lead us into more debt and therefore more future austerity. That is why all those who want to fight back against the climate emergency should also be advocates of sovereign money. In the wake of the pandemic and the associated responses by governments, some commentators have suggested (with varying degrees of tongue in cheek) that "we're all MMTers now." Certainly the empirical evidence continues to mount in the theory's favour. However, just as Friedman's declaration of Keynesianism's victory preceded its hollowing out by neoliberalism, the current dominant paradigm, and those it benefits most, will not cede power just because its critics are "right". It is not enough to be momentarily vindicated by the actions of governments in the present if the end result is yet another spiral into the debt-neoliberalism nexus.

If we continue on the current path, we are likely to see an intensification of neoliberal austerity post-crisis with more needless suffering and social deprivation, particularly acute for the most vulnerable of our communities. I, for one, don't wish to live in such a world when there are feasible alternatives to the present fiscal-monetary system. The time for sovereign money is now and I will fight alongside anyone who is willing to 'take arms against a sea of troubles, and by opposing, end them.' ***

BIO

Tim Di Muzio is an Associate Professor in International Relations and Political Economy at the University of Wollongong and Associate at the Center for Advanced International Relations Theory, University of Sussex. His research examines economic inequality, energy policy and most recently global debt and money. He is the author of *The 1% and the Rest of Us, Carbon Capitalism: Energy Social Reproduction and World Order, The Tragedy of Human Development* and with Richard H. Robbins, *Debt as Power and An Anthropology of Money* among other works. He can be reached at tdimuzio@uow.edu.au

IS IT TIME FOR SOME 'DEBT-FREE' FINANCING FOR AUSTRALIA?

By M. Oliver Heydorn Ph.D *reposted from socred.org*

As part of its response to the coronavirus pandemic, the Australian government has promised, and is in the process of implementing, a complicated stimulus package that apparently totals 320 billion dollars when all is said and done. A large part of this package involves a 130 billion dollar JobKeeper programme. This will be added to an enhanced NewStart programme for the unemployed (which will be renamed JobSeeker and include a fortnightly 'coronavirus supplement'), amongst other stimuli. Together, the already unemployed, the newly unemployed, those working less, those on pensions, those receiving other benefits, sole traders, small businesses, and medium size businesses will all receive financial support over the next few months to help get them through this rough patch.

So far so good, however … as many fiscal conservatives everywhere will be asking themselves: "but where is the money to come from?" Within the context of conventional finance, it would appear that the money will have to come from some form of borrowing, either via the commercial banks directly or via the Central or Reserve Bank through the purchase of government securities. The money spent will thus be added to the National Debt of Australia and those debts (plus associated interest) will have to be redeemed from future taxation (which will no doubt be raised to accommodate the increases) as they come due, or else they will have to be refinanced. Besides the anticipated tax burden, ballooning financial debt and the requirements of servicing it may have inflationary effects in the form of cost-push inflation. The way in which global bond markets and credit rating agencies could react to rising National Debt to GDP ratios may also be of concern. Finally, as Tim Di Muzio has argued in a recent paper, there is the danger that what is seen as profligate government spending may only lay the groundwork for a future wave of neo-liberal austerity, the selling of public assets, and so forth.

But what if there is another way by means of which Australia could fund the stimulus package without driving up the National Debt? What if the stimulus money, something which both the economy as a whole and individual consumers desperately need, could be issued not as a debt, but as a 'debt-free' credit, or, in other words, as money that never needs to be repaid by its recipients to the issuer, in this case, to the government via future taxes? This would obviously provide the benefit without imposing the disadvantages associated with increased debt.

Some might respond that any such debt-free stimulus would be inherently inflationary and thus best avoided. But is that true? According to the Social Credit analysis of the famous British Engineer C.H. Douglas (1879-1952), it is possible to inject additional money as a 'debt-free' credit into consumers' pockets without automatically engendering demand-pull inflation.

Douglas' confidence is based fundamentally on the observation that there is, on account of current financial and cost accountancy conventions, an underlying lack or deficiency of consumer buying power in the form of incomes relative to the costs and prices that are being generated by the same productive cycle. In a word, there is a gap between the flow of costs/prices and the flow of incomes which emerges from the regular operation of the economy under existing financial conventions. So long as one does not overshoot that gap in attempting to fill it with too many new 'debt-free' credits, and so long as the banks' power to monetize the gap by creating new money for consumer loans is duly regulated, any such injection would not result in demand-pull inflation or 'too much money chasing too few goods'. Furthermore, when the additional consumer income is spent on goods and services by consumers, the money will be destroyed in the repayment of producer loans to the banking system or be used to restock the working capital of recipient firms (from whose accounts it could only ever be issued alongside a new set of costs). There is no danger that it might 'pile up'.

There are a number of ways in which the associated accounting might be managed. One approach, in line with Douglas' recognition of the existence of an underlying price-income gap, would be to regard the unsold or rather unsellable inventories as assets against which no consumer income has been automatically distributed. These assets could appear in a National Profit and Loss Account and against those assets additional money could be created as liabilities by the Reserve Bank. The distribution of these liabilities for the sake, for example, of financing a Coronavirus Stimulus package could then be undertaken … without incurring any additional debt to the nation. Any compensatory monies that might be left over could then be used to fund an initial National Dividend, or a direct payment to each citizen independently of employment status (kind of like a universal basic income). This would constitute a recognition that all Australians are shareholders in the national economy and are entitled, as by right, to an individual share in the collective 'profit' as measured in a National Profit & Loss Account (i.e., the surplus of goods and services that are being made available over and against the incomes simultaneously being distributed as wages, salaries, and business profits). As the National Profit and Loss is a dynamic thing, the costs/prices tally and the newly created money that must be made available to balance the accounts would have to be periodically updated.

The only other precaution about funding a stimulus package in this manner would be that the capacity of the banks to create new money for consumption loans (and perhaps even for excessive production or investment purposes when things get back to 'normal') would have to be monitored, regulated, and probably eventually eliminated (especially if a monetary as opposed to a fiscal UBI, aka, a National Dividend, should become the new normal). This would be to ensure that the 'debt-free' credits do not provide an additional incentive for the banks to create what could easily become superfluous consumer debt-money against them. Any such excess of private money or debt-money once the supplementary debt-free consumer credits have been issued could contribute to demand-pull inflation, especially in a locked down Coronavirus economy which is not firing its productive capacity 'on all cylinders', as it were. Under this set up, one of the most important tasks of the Reserve Bank would be to ensure, through its money creation powers, that consumers are, as an aggregate, sufficiently enfranchised with real income in every economic period to clear the markets of the available flow of desired goods and services (and without, therefore, having to incur any additional debts to the banking system).

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IS SOCIAL CREDIT CHRISTIAN? By Geoffrey Dobbs *(condensed by A. Luks)*

OLD TESTAMENT

All through the old Testament there is that spirit, that policy, which murdered the prophets and then ended by crucifying Christ, and all through the Old Testament there is that golden thread of the prophets themselves, which culminates in Christ; but if you just open it at random I think you will find that the vindictive and murderous spirit has an even bigger place than the other.

Douglas did not ignore the Old Testament, but he told us that much of it must be taken as a warning rather than something to be followed. He did not deny that golden thread which, seen in the light of the New Testament, can be seen to be Christian. Witness the fact that his quarterly journal was called THE FIG TREE, every issue carrying the quotation from Micah: "They shall sit every man under his vine and under his fig tree, and none shall make them afraid." That is Old Testament, not New, and Douglas chose it, but a Christian, that is, a follower of Christ, interprets the Old Testament in the light of the New.

In recent years someone — and it is certainly not the ordinary Christian — has started calling our religion 'Judaeo-Christianity'. There never was such a religion before, and it has led many people to interpret the New Testament in the light of the Old, which cuts them off from the tremendous new message of the New Testament. That is why it is called "The New".

This can have terrible results. Take, for instance, the story of Abraham's sacrifice — or willingness to sacrifice — his son, Isaac, at the command of God. If the Crucifixion of Christ is seen as merely a version of that, on a cosmic scale, so to speak, the whole thing is degraded. If you look at Abraham's willingness to sacrifice Isaac in the light of the Crucifixion, yes we can see it as a brutal, primitive, distorted forerunner, which, nevertheless, demonstrates the priority of the First Commandment, to love God first.

The God who is revealed by Christ would never demand that a father murder his son, even if He let him off with a ram afterwards. What is missed, of course, is the whole significance of the Incarnation and the Trinity — that the Son who submitted to brutal murder on the Cross was also God Himself.

HOLY TRINITY

Evidently, Mr. Hodge has not studied Douglas enough to realise what a light he threw on the Holy Trinity: on its practical application in the modern world. Christianity is the religion of the Incarnation: that is, God made man, on this earth. Oh, yes, the man was a Jew, and that is quite important, but not of primary importance, as Peter was shown in his vision, the incarnation was for all men, not only for Jews.

Christianity is also the religion of the Holy Ghost, and thus of the Holy Trinity: of God Who is not only a unity but also comprises diversity; of Love that is not only love of Himself but love within the Godhead. That makes all the difference in the world; and, in that sense, Social Crediters strive to be Christians: to express that religion in practice in the current world.

I dare say we go wrong: we are very far from perfect; but that is what we are attempting to do, and even if we cut out the Old Testament altogether, that would be a deficiency, but nothing compared to the other way round — trying to interpret the New Testament in the light of the Old. The Incarnation and the Trinity are revelations about God. Therefore, they are enormously, almost infinitely more important than anything else, including the history of the Jews, without denying that the history of the Jews is of great importance...

… I was interested that, at one point, Mr. Hodge referred to the economics of Adam Smith and of von Mises as being nearer, in his view, to a scriptural economics. I do not entirely disagree with him. Perhaps he may be interested to know that I had an interesting contact with what is called nowadays 'the Austrian School'.

A few years ago as a Social Crediter and follower of Douglas, I was awarded a fellowship in California at the Institute of Humane Studies, paid for by the Liberty Fund. The official title of the award was rather embarrassing: "Distinguished Visiting Scholar"; but I have to admit I was taken down a peg when my time there overlapped with that of another Distinguished Visiting Scholar who really was distinguished. That was Professor Friedrich von Hayek, undoubtedly the leading proponent of the Austrian (or von Mises) school of economics. He was unfailingly courteous to me as a Social Crediter, which is more than I can say for some of his younger followers.

I can share Mr. Hodge's admiration for this school of thought, particularly for its main proponent, but there was one point in which we strongly disagreed, which they simply would not face.

How could they advocate a free market and ignore the fact that the proletariat had no part in it? What sort of a free bargain for his labour has a money-less man entirely dependent on employment for a livelihood for himself and his family? How can a market be 'free' when a considerable part of it consists, in fact, of slaves?

Previously many of these people were on the land, where they had their own livelihood, or they were small manufacturers in their own cottages — the word 'manufacturer' used to mean that — making by hand and at home. They were driven off that into the city, with no choice but to accept any sort of servitude for money that an employer offered. To call that a 'free market' is a farce!

Nowadays, of course, these people, if they cannot obtain employment, receive a handout, Social Security, taken away from the earnings of those who are working.

Now, on Mr. Hodge's own argument, where is the justice in that, according to his own religion of rewards and punishments? Why punish the worker to reward the non-worker? Yet when I put this up to the proponents of the Hayek and von Mises school they deliberately chose the socialistic handout taken from the worker rather than the dividend which represents the monetised surplus of production brought into existence by the growth of technology.

Though they will not admit it, yet when it comes to it, in a choice between socialism and Social Credit, the free marketeers do not approve of welfare Statism — the grab-from-the-worker-and-handout-to-the-idle state of affairs — but they simply will not face the fact that **if we can multiply a man's productivity by a hundred easily and in many ways, we have got to find an alternative to his wages to distribute the product.** The difference is that we would say that the surplus due to past invention is owing to everybody, not only to the wage-earner or investor, and your free marketeer refuses to face the fact that our potential for production, using fewer and fewer people, now grossly exceeds any possible sane and sensible need or desire for consumption.

There is simply no need for an increasing proportion of people to be employed for any reason except to get money. If, therefore, everybody is still employed, an increasing proportion of them must be employed wastefully, producing what people do not want, or producing what they do want in the most wasteful and inefficient way possible, so as to keep earning wages.

SOCIAL CREDIT MEANS FREEDOM

Ultimately the only solution is war, because war alone has a destructive potential even greater than our productive one. Or another alternative is the total, bureaucratic State, in which a vast proportion of people are controlling and interfering and lowering the efficiency of the rest. I do not suppose the free marketeers want either of those, and if they will not face them they will be unemployed, and, contrary to their religion of rewards and punishments, the people who are actually doing the work will be punished by taxation to pay for those in enforced idleness. Where is the justice in that? Where is the free market in that?

That, in fact, is socialism, and the free marketeers, when it comes to it, prefer socialism and the welfare State — the handout which you must make if you are not allowed to put people to starve in face of great surplus — to the dividend which, indeed, is not merited by us personally, but which is an acceptance of the Grace of God which has enabled us to produce this enormous surplus of productivity.

Any other alternative involves desperate squandering of the earth's resources, wasting energy and materials producing what nobody wants and then wasting more forcing them to buy, by brainwashing. Is that what Mr. Hodge wants? I am sure it is not, but if he will look again, and more carefully, both at the New Testament and at Social Credit, he will see what Social Crediters are at least trying to put forward ideas which will distribute the unmerited but inherited Grace of God through technological production and will enable everybody to participate in the free market.

It will also even enable the just application of the Old Testament policy of rewards and punishments in so far as the worker will no longer be punished for no fault of his own, for the failure to distribute to all the great increase in productivity so that the unemployed will not starve, so the worker will receive a full reward for his work.

At the same time he will be properly punished if his work does not meet the demand of a free market, which, for the first time, will include everybody.

The transition from the bureaucratic grab and handout of the State to one in which every citizen had his independence, and, therefore, collectively could control the market, would have its dangers owing to the corruption in which we already live, hence the interim restrictions which Douglas suggested in his scheme for Scotland in 1924 merely to tide over, to prevent people trained in idleness and greed exploiting it until they had learned otherwise; but it surprises me that anyone who is both a Christian and a follower of Adam Smith and von Mises should prefer socialism to Social Credit, and I feel sure that if he would study it a bit deeper he would soon discover where the more truly Christian policy lies.

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LOOKING AT BASIC ECONOMICS – THE KISS (KEEP IT SIMPLE STUPID) METHOD By Ken Grundy

Let us consider a reasonably sized bakery which makes all the usual bread, pies, and cakes, *etcetera.* It is owned by a family company and has ten employees, some of whom have been very loyal for a number of years. In appreciation of their service, management has issued four of them some shares in the company. Remaining shares are owned by the family.

At the end of the week, the proceeds from sale of the goods are counted ready for banking. Now the amount of income depends on the prices listed on the various goods and the skill of the manager was needed to set the prices to account for the numerous costs of production. These would have included: flour, sugar, wrapping paper, rent, power and depreciation to name a few. In addition, there would be wages for staff. Also, to be included would have been an amount for profit, because, if no profit was due, the business would soon fail. The profit could be applied to dividends due to shareholders.

For the exercise I am going to call the group including the production costs, namely the flour, sugar, power, etc. as the Red Group and the other to be the Blue Group which would include the wages, salaries, and dividends. At the end of the week, we can imagine the baker had collected $14,000 to take to the bank. From this amount, the costs in Red and Blue could be met. Nobody would suggest the $14,000 was the baker's disposable income for him to spend at will. After the Red and Blue costs had been paid, the question is: how much purchasing power was available in the community to buy the baker's goods? It is a common belief that the answer is $14,000. But on closer examination, it is far less. It is not necessary to arrive at the specific amount — the crucial point is that the baking process for one week did not distribute enough money to buy its own production for that same period.

Why is it not $14,000?

The real purchasing power distributed has come from only the distribution of the Blue group, namely, the wages, salaries, and dividends.

All of the Red group costs were in fact payment for the end-product of another sector's effort. Let me explain. Just like the baker needed to do in establishing a viable sale price for his baked goods, so did the flour miller need to charge the baker a price which included his own Red and Blue costs. Hence just as the baker's $14,000 was not all available as purchasing power, neither was the payment for the flour miller's product completely distributed as purchasing power in the milling process.

Each production process has endured the same system. The grain merchant establishing a price for his grain sold to the miller. The miller establishing a price for the flour to the baker and, of course, the baker's price for his bread and pies sold to the supermarket. All sold their end-product into the community for a price which was greater than the amount of purchasing power distributed to buy their product. It is elementary that if prices amount to the sum of the Red and Blue costs and the amount available to meet those prices (i.e., to purchase the same goods) is only the Blue amount, there is a problem in the economy.

Consider when every product made within our economy bears a price tag greater than the distributed money to buy it! Is it any wonder why we see so many 'sales' and powerful advertising offering borrowed money to make a sale? After the hire purchase approach, unsold goods seek export markets as a way to clear the system. It comes as no surprise that finding an export market is not easy because every other country suffers from the same economic complaint and is attempting to reach the same customer.

This deficiency of purchasing power created in every production process is no new revelation. It was discovered almost 100 years ago by a clever Scottish engineer by the name of CH Douglas when he was assigned to examine costings in a factory. After detecting the problem, he then cross-checked with a number of other production processes and his findings were confirmed.

How the deficiency is met provides an interesting answer. To prevent increasing piles of unsold goods, the deficiency of available money is usually provided in the form of debt. People go into debt to buy the goods already produced, which means they are accessing a portion of their future wage packet. Add a little interest and the future wage packet will be even smaller, making it even harder to buy the goods from future production. Is there a better way? Certainly, there is and it involves the role of banking.

Banking.

Generally, our system of banking provides a great service in facilitating the exchange of goods and services. It beats the old barter system for its convenience alone.

There are some myths surrounding bank practice and the most difficult one to accept is the fact that banks do NOT lend the funds deposited with them. We have all grown up to believe the myth, but several authorities have set the record straight. The Bank of England's Quarterly Report 2014, the Deutsche Bundesbank of Germany, and former Governors of the Reserve Bank of Australia have confirmed that money is created. To confirm this matter, please check your own bank statement to see if it has ever shown where some of your deposits have been lent to a customer. The funds deposited in the banks are not loaned, but they do create a base amount upon which the banks can create new money.

The ratio can be a dozen or more times the amount held in reserves as notes, coins, and central bank reserves. Indeed, the bulk of our money is not notes and coins, but figures in the bank computers.

In essence, every loan increases the money supply and every repaid loan reduces the supply of money. Once we have a clear picture of the banking process where they create new money from nothing, it makes us wonder how some of this new money created without effort, could be used to advantage. Why, for instance, need it all be created as a debt to the banks?

When the Commonwealth Bank (CBA) was established just prior to WW1, it served the nation by actually providing funds as a credit. It was issued to fund the war and numerous developmental projects, like the building of the East-West Railway (which was completed free of debt). Why couldn't we use credit to our advantage again? The CBA was divided into the Reserve Bank and the Commonwealth Bank as a normal trading bank in the early 1990's.

Suggestions have been made to establish a National Credit Authority (NCA) which would be at arm's length from government — something like the Auditor General. The task before this body could be to analyse the production costs within Australia for a given period and compare that with the amount of disposable purchasing power for the same period. The NCA could then advise the Reserve Bank and Government of any deficiency which could be injected into the economy to balance the situation described in the first part of this article. It could take the form of a National Dividend delivered to every citizen and be funded as new credit which would immediately end the dog-chasing-tail spiral of costs now before us. Note, the amount of new money required as a credit would be the same as now sourced as debt and hence not inflationary.

In summary, there is a deficiency of purchasing power in every production cycle. It has worsened with robotic machinery replacing the worker and his wage. A balance is required to allow the economy to function properly and the current remedy of debt filling the gap is not solving the problem — in fact, it worsens it over time. Is it not time to use the antidote to debt, namely credit, to fill the gap?

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