COSTLESS CREDIT

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COSTLESS CREDIT.

Since the publication of the Report of the Royal Commission appointed by the Federal Government to inquire into the Monetary and Banking Systems in operation in Australia, the advocates of Social Credit have been insistent in their demands that Social Credit shall be used for the financing of public works, and at present they are contending it is the source from which "a payable price for wheat" should be obtained. Advocates of the Social Credit idea—many of whom probably have never read the Report of the Banking Commission—refer glibly to Section 504, and claim that in this clause the Commission has made it clear that credit can be made available without cost to the community. In view of the persistence of this claim, and the requests received for information on the point, it is advisable to give consideration to it and thus ascertain if the claim will stand logical investigation.

Sections 503 and 504

The concluding paragraph in section 503 reads: "Within the limits prescribed by law, it (the Commonwealth Bank) has the power to print and issue notes as legal tender money, and every obligation undertaken by the Commonwealth Bank is backed by this power of creating the money with which to discharge it."

Section 504 goes on to state: "Because of this power, the Commonwealth Bank is able to increase the cash of the trading banks in the ways we have pointed out above. Because of this power, too, the Commonwealth Bank can increase the cash reserves of the trading banks; for example, it can buy securities or other property, it can lend to the Governments or to others in a variety of ways, and it can even **make money available to Governments or to others free of any charge.**"

The words printed in heavy type form the groundwork of the Social Creditors' claim for costless credit. They imagine that by reason of this assertion unlimited advances can be made by the Commonwealth Bank, without any interest charge. A glance at Section 6 shows how erroneous is such a claim. It is therein stated: "On the other hand, the power of the Commonwealtth Bank to increase the cash reserves of the trading banks is **not unlimited.** The Bank is bound to pay in legal tender money whenever called upon. So long as its power to issue notes is restricted by law, its power to purchase securities or other property, and to lend or grant money to Governments, or others, **is limited.** Apart from the legal limitation, there is a **practical limit to the note issue,** in that the Bank has to consider how far it is in the general interest of the community to expand credit." This should make it abundantly clear that the Commissioners did NOT hold the idea that unlimited credit could be made available to Governments, free of interest. Support for this contention is found in a reply to a query to Mr. W. T. Harris, who acted as Secretary to the Commission. There had been a discussion on credit expansion in "The Argus," Melbourne, and a suggestion was made that the Commission should be called upon to make clear just what Section 504 meant. One correspondent wrote the Commission for information on the point, and Mr. Harris replied:

"The statement in the paragraph mentioned is to the effect that, **as a matter of power,** the Commonwealth Bank can make moneys available to Governments or to others on such terms as it chooses, even by way of a loan without interest, or even without requiring either interest or repayment of principal.

"However, apart from the limitations shown in the Report to the exercise of this power, it will be seen from a study of the Report that, in the opinion of the Commission, the Commonwealth Bank **cannot, in the interest of the community, make moneys available to Governments or to others except on the conditions generally governing the business of banking.**"

This statement, coming from the Secretary to the Commission, should prove conclusively that a wrong interpretation has been placed upon Section 504 by advocates of Social Credit.

Misrepresentation of Mr. Reginald McKenna

Prior to the publication of the Banking Commission's Report, Mr. Reginald McKenna was the favorite authority quoted by Social Credit advocates in support of their costless credit ideas. Mr. McKenna had said: "The banks create and destroy money. Every bank loan and 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." This statement, which was a general one applying to the banking system as a whole, was taken by Major Douglas as referring to an individual bank, and his followers did not hesitate to claim the noted banker as one who approved their fallacious theory to be correct. In his book, "Post-War Banking Policy," McKenna explodes that contention. He there writes: "Traders sometimes assume that banks have an **unlimited** power of making advances. They forget that every advance made by a bank comes out of the bank's cash reserve. . . . There is a distinct limit to the justifiable creation of **even productive credits.** As soon as there is sufficient money to carry the full volume of production of which a nation is capable, **no more should be created,** and the repayment of past loans should balance the extension of the new ones. But this expansion of credit (for production) is indispensable to the proper functioning of our commercial system, and is imperatively needed when trade is depressed and unemployment general."

Dealing with the creation and cancellation of credit, Mr. McKenna states: "It conjures up a picture of an autocratic and irresponsible body which by some black art of its own contriving can increase or diminish wealth, and presumably make a great deal of profit in the process. But I need hardly say nothing of the sort happens. A bank loan creates a deposit and therefore it creates money. But the deposit is a **liability** to the bank against which a debt is due to it, and the bank merely stands as an **intermediary** between the depositor and borrower. . . . All that is done by the banks when they create money is to increase the amount of debts due to and from themselves." Mr. McKenna goes on to say: "The power of the banks to increase or diminish the actual volume of money arises from the fact that when a bank makes a loan or discounts a bill or buys a security, a deposit is created; and when the loan is paid off or the bill met or the security sold, the deposit is cancelled. It will be found however on examination that the exercise of this power is **in practice strictly limited.** In the regular conduct of business banks maintain a definite proportion between their holdings of cash and the amount of their deposits. . . . Now, although a bank loan increases the aggregate of bank deposits, it does not increase the aggregate of bank cash, and it follows that, so long as each bank adheres to its conventional cash ratio, the power of the banks to create money is **limited by their power to obtain additional cash.**"

These extracts from the book by the eminent banker prove conclusively that his statement has been taken from its context and made to appear altogether different from what the full statement conveys.

The Credit Base

No consideration of this subject is complete without reference to the base upon which CREDIT rests. Authorities differ on this point, one section contending that the liquid resources of banks constitute the base, the other asserting the base consists of the goods which are produced with the assistance of credit. The liquid resources of banks may be set down as "legal tender money, gold bullion, balances held by the trading banks with the Central Bank, liquid funds held abroad by the trading banks, and treasury bills." The other school of thought asserts that: "Credit arises from an exchange of . . . goods; with an increase of saleable goods there becomes an increase of credit; . . . That is, credit changes in volume with the volume of goods and with the transactions of goods." This latter definition implies that the real credit base which justifies a bank advance "consists of those goods that are not in existence at the time the loan is granted, but which may be profitably produced and sold with the assistance of the bank credit." It is well known that according to established banking practice a person seeking credit is asked for security for the loan granted. It has been stated that the security is "merely a side issue," The banker grants the advance because he feels certain that the loan granted will be put to profitable use. However, he insists that some security shall be available for realisation in the event of the borrower being unable to pay. If the security has to be realised it is evidence that the banker has made an error in granting the loan. The practice of requiring security is due to the fact that it is to be regarded as having a restraining influence upon borrowers and prevents them embarking upon doubtful enterprises.

It is true that a bank can foreclose on its security, but such foreclosure is not desired by bankers as it tends to increase the "frozen assets," tie up funds, and thus decrease the ability of the bank to continue lending. The general tendency associated with foreclosures is to destroy that confidence which plays such an important part in credit. A further point that cannot be overlooked is that if foreclosures were made on a large scale, and the bank attempted to realise on the securities, the ultimate effect would be depreciation through a glutted market, and the bank would make a loss instead of a profit on the transaction.

Although there is a popular delusion abroad that banks can make money, and thus give unlimited advances to Governments, it cannot be overlooked that no bank has been able to lend money until it first collected capital from its shareholders, or deposits from its clients. All the banks in Australia had to get their capital and some deposits before they could make advances, and this applies to the Commonwealth Bank as well as to the trading banks.

The advocates of Social Credit who point to the Commonwealth Bank as an institution which made a success without having Capital when it started need to remember certain important facts. It must not be forgotten that on the first day the Commonwealth Bank opened for business, £2,327,500 out of £2,368,126 deposited was lodged by the Commonwealth Government. During the war huge deposits were held on account of the Government (at one time as much as £40,000,000) for which no interest was paid. In the course of time State Governments and semi-governmental bodies lodged their deposits with the Commonwealth Bank, and it was the holding of these accounts that provided the necessary working capital and thus rendered unnecessary the raising of capital by public subscription. The bank was also in the fortunate position of **not having to pay taxation the same as trading banks.**

These facts should cause advocates of Social Credit to pause before making wild statements regarding unlimited and costless credit. In the last analysis, Credit rests upon production, therefore it is undesirable to expand credit indefinitely, even if it were possible to do so, for the simple reason that it is not possible to expand production in general indefinitely, and find a profitable market for the product.

The Alleged Shortage of Money

One of the main reasons advanced in favor of the illusory costless credit scheme is that it is necessary to overcome the existing shortage of money. Dealing with this point, Henry George, in "The Science of Political Economy," says: "In common parlance we say that 'buyers have no money,' or that 'money is becoming scarce,' but in talking in this way we ignore the fact that money is but the medium of exchange. What the would-be buyers really lack is not money, but commodities which they can turn into money—what is really becoming scarcer is produce of some sort. The diminution of the effective demand of consumers is therefore but a result of the diminution of production."

In other words, Henry George makes its clear that demand by consumers is not based on the possession of money but on their ability to produce some commodity which will enable them to go into the social service market and exchange it for other commodities or services which they desire. Owing to our faulty economic system many people are shut out from access to natural opportunities and thus denied the right to produce, hence they have no purchasing power. Another section of the community who have produced have so much of the product of their labor taken from them by direct and indirect taxation that their purchasing power is also restricted. Making costless credit available and giving people money who have not contributed to production will not solve the problem. At best that would simply mean taking from one section of the community to give to another, and it leaves the fundamental cause of the trouble untouched. The real remedy is to open natural opportunities to all by **collecting the rent of land for public purposes, thus taking revenue from its natural source and enabling all taxes now levied upon industry to be abolished.** A policy of this nature would enable everyone to produce and exchange wealth under free conditions, and under such a procedure we would hear nothing about a faulty monetary system.

Some thoughts on Money

There is at the present time a great diversity of opinion as to what is and what is not money. Money and credit are frequently used as interchangeable terms. It is desirable, therefore, to get a clear understanding as to what money really is. Henry George in "The Science of Political Economy," a book that should be in the possession of all students, says: "Money is the common measure of value, the common representative and exchanger of wealth. Unless we have clear ideas of the meaning of value and the nature of wealth, it is manifest therefore that we cannot form clear ideas as to the nature and functions of money." He goes on to show "the use of money, no matter of what it is composed, is not directly to satisfy desire, but indirectly to satisfy desire through exchange for other things. We do not eat money nor drink money nor wear money. We pass it. That is to say we buy other things for it. We esteem money and seek it, not for itself, but for what we may obtain by parting with it, and for the purpose of parting with it." Manifestly, if we desire money for the purpose of parting with it for commodities, then it logically follows that to issue money free to any individual who has not engaged in production is to give to that person a claim on labor products when he has not produced anything of a tangible nature to exchange for such products. When this fact is realised it will be seen how unjust is the proposal of those Social Creditors who advocate the payment of a "National Dividend" irrespective as to whether a person is engaged in production or not.

Money and Credit

To illustrate the difference between money and other things having a purchasing power, Henry George cites the case of men travelling in a country where they have no personal acquaintances. One carries gold and silver bullion, another tobacco and tea, one a cheque book, one a horse, and another current money. He shows the difficulty most of them would have to get the things they need, notwithstanding the fact they have some purchasing power in the form of commodities with them. Even the man with the cheque book strikes trouble, and this should be of interest to Social Creditors who imagine that a cheque is MONEY. George writes: "As for the man with the cheque book, or cheque or bill of exchange, he would find himself the worst off of all. He could make no more use of them where he was not known than of so much blank paper, unless he found someone who could testify to his good credit or who would go to the expense of telegraphing to learn it. To repeat this at every stopping place, as would be necessary if his trip were to be carried through as it had begun, would be too much for the patience and endurance of an ordinary man.

"But the man with the money would find no difficulty from first to last. Every one who had any commodity to exchange or service to render would take his money gladly, and probably say "Thank you" on receiving it. He alone could make the journey he set out to make, without delay or annoyance or loss on the score of exchanges."

Henry George goes on to show that what is money in one country is not money in another, and there is no universal money and never yet has been. But in different times and places all sorts of things capable of more or less easy transfer have been used as money. He asks: "Shall we say then that they are right who contend that a true definition of money must include everything that can be used in exchange to the avoidance of barter? Clearly, we cannot say this, without ignoring a real and very important distinction—the distinction between MONEY and CREDIT. For a little consideration will show that the cheques, drafts, negotiable notes and other transferable orders and obligations which so largely economize the use of money in the commercial world today, do so only when accompanied by something else, which money itself does not require. That something else is trust or credit. This is the essential element of all devices and instruments for dispensing with the mediumship of money without resort to barter. It is only by virtue of it that they can take the place of the money which in form they are promises to pay. When I give money for what I have bought, I pay my debt. The transaction is complete. But I do not pay my debt when I give a cheque for the amount. The transaction is not complete. I merely give an order on some one else to pay in my place. If he does not I am still responsible in morals and in law. As a matter of fact no one will take a cheque of mine unless he trusts or credits me. . . . Thus there is a quality attaching to money, in common apprehension, which clearly distinquishes it from all forms of credit. It is, so far as the giver of money is concerned, a final closing of the transaction. The man who gives a cheque or bill of exchange must guarantee its payment, and is liable if it is not paid; while the drawer on the other hand retains the power at any time of stopping payment before that has actually been made. . . . To define money: **Whatever in any time and place is used as the common medium of exchange is money in that time and place.**"

These thoughts on the money question show that the advocates of monetary reform have very hazy ideas as to what money really is. Money and credit are spoken of as if they were one and the same thing, whereas it has been shown they are entirely different. Until people have a correct understanding of the terms which they use they cannot arrive at sound conclusions in regard to monetary policy.

Alleged Costless Credit

Advocates of Social Credit ideas assert that as credit is "costless" all public works could and should be financed from this mysterious source. In support of their demand they refer to the celebrated Guernsey Market, and claim that an issue of "notes" is all that is necessary to provide all essential services. What are the facts in regard to Guernsey? It is a small island of 25 square miles. The people on it were in need of a market place. It was alleged there was some difficulty in finding the money. A proposal was made that "notes" be issued for the purpose of financing the proposal, but it met with considerable opposition. This was in 1811. In the course of time the opposition was overcome and in 1819 authority was given for the issue of "notes" to the value of £4,500. These were known as "Market" notes, and were to be redeemed in 10 years by the annual rent from the butchers' shops in the Market (estimated to return £150 per annum) and by means of a customs duty of 1/- per gallon on wines and spirits, the return from this being £300 per annum.

It will be noted the "notes" were to be backed by the rent from market shops and by means of taxes levied upon wines and spirits. If this is "costless credit" it would be interesting to know the views of those who paid the rent and taxes on this point.

It is interesting to note that although the "notes" were to be redeemed in 10 years, they were not fully liquidated until 1894. The market was opened October, 1822, so it took 72 years to redeem the notes.

It is claimed by advocates of "costless credit" that just as these "Market" notes were issued to pay for the Market, so in like manner it would be possible to issue "costless credit" to provide all our public utilities, give a payable price for wheat, and even pay the basic wage to the unemployed. These enthusiasts evidently overlook the fact that the "Market" notes were redeemed from rents received and from taxation. They do not suggest any backing for their proposed note issue, nor any redemption scheme. They imagine the notes can be printed and circulated and that no person is called upon to suffer as a result of the issue. They conveniently overlook the fact that it is not possible to "get something for nothing." Although the community might not pay directly by taxation, they must inevitably pay in the increased prices of commodities which would be the result of such an inflation of the note issue.

The Trans-Australian Railway

Another "star" item in the programme of allegations made by "costless credit" advocates is the contention that the Kalgoorlie to Port Augusta Railway provides an excellent illustration of what can be done by means of a note issue. It is alleged that this line was constructed and financed from the Note Issue Fund, that no interest was paid, and the demand is for all works to be financed in a similar manner. In our January issue we dealt briefly with this contention, and now give further details which we trust will be sufficient to expose the erroneous ideas which have been placed before the public over a long period of time.

The facts are the Kalgoorlie to Port Augusta Railway was constructed under Act No. 7 of 1911. Clause 20 of that Act provided: "All moneys necessary for the payment of the cost of construction of the railway up to and including the time of the opening of the railway for traffic shall be payable out of the Consolidated Revenue Fund or out of any moneys standing to the credit of the Loan Fund, according to appropriations made by Parliament for that purpose." The total cost of the railway was £8,470,000. Of this amount £1,286,000 was taken from revenue, and £6,644,000 from the Works Loan Fund. Of the amount provided from the Works Loan Fund, approximately £5,300,000 was borrowed from the Australian Notes Fund, the balance being borrowed partly from Commonwealth Funds and partly from the public. The greater portion of the Notes Fund loaned to the Treasurer for this purpose represented profits derived from interest on investments.

When one hears advocates of Social Credit stating that no loan funds were used in connection with the building of this railway, it is well to direct their attention to the fact that in no less than six Loan Bills passed during the period from 1911 to 1917, amounts were specifically mentioned as to be used in connection with the Kalgoorlie to Port Augusta Railway. The amounts were as under:

Act 24 of 1911	£1,000,000
Act 22 of 1912	304,581
Act 24 of 1913	1,400,000
Act 30 of 1914	2,000,000
Act 23 of 1915	1,500,000
Act 30 of 1917	622,000
	£6,826,581

Further information is available that this sum was not "costless credit." An examination of the official records of the Commonwealth Government reveals that interest and sinking fund was paid out of the revenue from the railway, the amounts being as shown below:

Year	Amount Interest Paid	Amount Sinking Fund
1920-21	—	11,677
1921-22	—	11,677
1922-23	102,099	13,201
1923-24	103,397	11,605
1924-25	108,044	11,804
1925-26	113,380	12,213
1926-27	117,547	12,722
1927-28	119,152	13,034
1928-29	122,453	13,195
1929-30	126,898	13,690
1930-31	127,830	12,647
1931-32	126,033	14,534
1932-33	114,438	15,261
1933-34	104,439	16,025
1934-35	101,134	16,826
1935-36	103,982	18,455
1936-37	112,517	20,760
1937-38	110,863	21,904
1938-39	116,290	22,999
Totals ..	£1,930,496	£284,229

With great respect we ask our "costless credit" friends whether it is usual to have interest payments and sinking fund associated with "costless credit"? To those of us who have not yet grasped the intricacies of this modern school of finance we must confess that it comes as something in the nature of a surprise to find that such payments are made.

It will be noted that, covering a period of nineteen years, the sum of £1,930,496 was paid as interest and £284,229 set aside as sinking fund to redeem the borrowed funds. The payment of this sum in interest represents no less than 22.79 per cent. of the original cost of the railway. If this is "costless credit" it appears similar to ordinary methods of financing works, condemned as unsound by Social Creditors.

Admitting that it would be possible to pay for some public works out of the profit made on the Note Issue, we desire to stress the fact that such payment must necessarily be very limited. It must not be overlooked that the Note Issue cannot be expanded at will, since if an excess of notes is printed in the ordinary way, the notes will find their way back to the Commonwealth Bank, if they ever leave there, and they will not earn interest. Not only would they not earn interest, but any attempt to place in circulation a greater number of notes than were required to facilitate the exchange of commodities would mean inflation, with the inevitable depreciation in value as a purchasing medium which always follows such action. It will thus be apparent to all who take the trouble to think, that there are no means by which merely printing millions of pound notes, social services can be provided without cost to the community. Getting the money "out of the inkpot" is merely the hallucination of superficial thinkers.

An Interesting Report

In support of this contention we direct attention to a Report on Monetary Standards, Currencies and Credits which in December, 1931, was presented to the Management Committee of the General Federation of Trades Unions, London. The following extract will prove of interest, particularly to those in the Labor movement, when there is so much talk about "controlling the People's Bank to permit of the use of the People's Credit."

"The essence of credit is the voluntary action of the contracting parties, the lender and the borrower. It may be restricted by folly, or expanded by deception, but attempts to force it would destroy its foundations and dry up its source. It is one of the most delicate aids to production and exchange, and appears to be more susceptible to appreciatory or depreciatory influences than mercury to barometric pressure. Kept in controllable relation to its cases of commodities and character, it can assist in the production of real well-being. **Unintelligently handled and unduly expanded, it can, while conveying the appearance of enormous wealth, result in devastating catastrophe."**

That this statement is not a mere figment of the imagination has been demonstrated along the pages of history. In many countries inflation of the currency has brought ruin in its train, and Australia has not recovered from the inflation of the war period.

A Financial Fallacy

It is claimed by advocates of Social Credit that a bank is in the happy position of being able to loan nine times the amount of money it has. They state that when a man borrows £1,000 from the bank he at once deposits it with the institution. This enables the bank to loan the SAME £1,000 to another borrower, who in turn deposits it with the bank, thereby enabling a further loan of £1,000 to be made with the original £1,000. This financial jugglery goes on for nine times, so the bank is thus able to lend £9,000 although it has only £1,000 to start with. Is this assertion correct? The fact overlooked is that each of these loans constitute a separate transaction, and that each borrower has to deposit security for the advance made. Unless security is lodged for each advance the bank would soon face a crisis. It is a well-known fact that every customer with a current account has the right to present a cheque at any time during banking hours and demand the whole of the amount standing to his credit in legal tender money. The same right applies to every one with a fixed deposit account at the maturity date of the deposit. Every person who has been granted an overdraft can demand the undrawn portion of his loan whenever he cares to ask for it. It will thus be seen that every time a fresh loan is granted, or an overdraft permitted, it increases the obligation of the Bank to find cash; and it would be a serious thing for any bank that was not in a position to meet the demand for cash. This fact should indicate very clearly that there is a definite limit to the bank's capacity to lend. It should also prove that in the case cited, unless securities were deposited for each loan of £1,000, the advances would not be made. No bank would be so foolish as to allow its cash resources to be depleted by making advances to the extent of £9,000 on £1,000 of security.

If further proof is needed that banks do not indulge in such an unsound and unbusinesslike practice, as alleged by Social Credit advocates, a reference to the banking statistics will show how erroneous is such an assertion. These statistics relate to the year ending December, 1939, and are as follows:

10 Trading Banks

		Deposits:	Advances:
Current	..	£127,788,868	
Fixed	..	200,268,824	£293,910,544
	Total,	£328,057,692	

Commonwealth Bank

		Deposits:	Advances:
Current	..	£20,308,494	
Fixed	..	41,430,931	£21,792,163
	Total,	£61,739,425	

These figures prove conclusively that the contention of the Social Creditors in regard to bank advances is wrong, and it is surprising that men who profess to have expert knowledge relating to banking practice should be guilty of such a ridiculous statement.

Costless Credit and the Commonwealth Bank

The generally accepted idea of those who believe in "costless credit" is that the Commonwealth Note Issue can be utilized to an unlimited extent to pay for social services, give guaranteed prices for all kinds of products, and even to pay a basic rate to those out of employment. It is, therefore, necessary to give some consideration to this question of the Note Issue. Can the trading banks get an unlimited supply of notes from the Commonwealth Bank? The facts are that the Note Issue Department is something distinct and separate from the ordinary trading operations of the Commonwealth Bank. Before the trading banks can secure notes from the Note Issue Department they must lodge either gold, sterling or securities. Naturally, as these securities earn interest it is not likely that a bank will give securities and forego the interest by taking more notes than are actually required for business purposes. A fact not generally known is that the Commonwealth Bank, like the trading banks, must lodge securities with the Note Issue Department before it can get the notes needed for trading purposes.

The Note Issue Department makes a profit on the securities lodged and also on sterling, as the latter can be invested in short-dated Treasury Bills and earn interest, although at a low rate.

The latest report of the Commonwealth Bank shows that for the year ended December 31, 1939, the profit made by the Note Issue Department was £835,057.

The Note Issue Department pays a commission to the General Bank. After paying this commission and the entire working expenses of the department, the balance is paid to the Federal Treasury. As stated, the amount going to the Treasury last year was £835,057, and it will thus be apparent that this sum represents the limit of that class of finance available for public works; and also exposes the fallacious contention of "costless credit" advocates that the Note Issue Fund is sufficient to pay the cost of all social services.

Inflation Means Increased Prices and Costs

It is frequently asserted by Social Creditors that just as money was made available in 1914 to finance the war, so in like manner it should be found to meet the ordinary needs of the community. In other words, an inflation of the Note Issue is demanded. An American economist is credited with the statement that "Inflation is the devil in disguise," and this definition is correct.

A well-known exponent of Social Credit, addressing a meeting recently in the rural areas, urging a payable price for wheat, is reported as saying: "Where, then, does money come from? The answer is—from the ink pot. The money we use is only entries in bank ledgers, and if all the money in Australia were brought into this hall it would amount to £665,000,000. . . . Money consists of two kinds—legal tender or cash (notes and coin). £5 notes cost two pence a dozen, £1,000 notes the same, and are purchased with paper of the same kind, all issued under the authority of the Commonwealth Bank." This is the slovenly thinking of an expert writer and lecturer on Social Credit, and the statement is as full of fallacies as a sieve is full of holes. This man has the audacity to pose as an authority on monetary and banking questions, yet his published utterances reveal the fact that he does not possess even a kindergarten knowledge of these subjects. If experts are guilty of such incorrect and misleading statements, what can we expect from the ordinary advocate of Social Credit?

Dealing first with the period of the great war, we are justified in asking: Should such an expansion of the Note Issue as then took place be continued indefinitely? Does such an issue really represent "costless credit?" Is it a means of getting something for nothing? The following table shows the expansion of the Note Issue during the war period.

Year		Notes Issued
		£
1914	..	9,573,738
1915	..	32,128,302
1916	..	44,609,546
1917	..	47,201,564
1918	..	52,535,959
1919	..	55,567,423
1920	..	56,949,030

It is interesting to note what happened as a result of this inflation. The price level index for food, groceries and housing went from 1140 in 1914 to 1785 in 1920. In other words, the goods and shelter that could be purchased for 22/10 in 1914 cost 35/8 in 1920. Is this another example of "costless credit"? Did it not mean a heavy burden placed upon the people in increased cost of living? And can it be denied that the working man with a large family was the one to feel the worst effects of such an inflation? Yet an appeal is being made to support a further issue of the policy that brought disaster to them in the past. They are being deluded into believing that the remedy for their social ills is to have "a bigger dose of that dog that bit them."

How was this increase in the prices of commodities brought about? Simply through the operation of the much despised law of supply and demand. How does this law work? This simple explanation will suffice. During the great war approximately 400,000 men were taken from the production of consumable commodities, and their services were used for **destructive** purposes. The result was a shortage in the supply of commodities. At the same time as this falling off in the supply took place we had the inflation of the Note Issue, which created an INCREASED DEMAND at a time when there was a DECREASED SUPPLY. The inevitable result was a RISE IN PRICES. Because of that rise in prices producers had to forego a sufficient amount of the product of their labor to feed and clothe the soldiers and their dependants, and for the purpose of providing the munitions of war. It will thus be seen that actually the war was paid for out of the production that took place while it was being fought. From this it will be seen that if the Government had done its duty and called upon all to pay according to benefits received, by means of the public appropriation of ground rent, there would not be any war debt in existence at the present time.

The advocates of Social Credit appear not to have learned anything from the last war, but demand a repetition of the system that has placed a heavy burden upon the community by reason of the rise in the prices of commodities. The stern facts and realities of life should have convinced all thinking people that the mere juggling with money tokens cannot bring prosperity to a nation. Assuming that people could be made prosperous in this manner, the prosperity would be only of a temporary nature, as the whole of the benefits would ultimately be taken by the landlord class in increased rent for permission to use the earth.

Is there a Remedy for Social Ills?

The question naturally arises: "Is there a remedy for our present social maladjustments? Undoubtedly there is. But it is not to be found in further running counter to economic law, but by working in accord with that law. The present inequalities in the distribution of wealth are NOT due to a faulty monetary system, but to the adoption by Governments and people of an unsound economic policy. Penalties are placed upon wealth producers. We tax the tools and machines of production by unjust customs duties and sales tax. We take from producers by means of the income tax in proportion to the energy they display in production. We regard the producers of wealth as enemies to society and tax them according to their effort, meanwhile we allow the community-created land rent to go into the pockets of private individuals.

Such a policy enables a privileged few to dictate the terms upon which the many may employ their labor and capital in production, and gives them the opportunity to decide whether their fellow men shall work or remain idle. With such a policy in operation is it any wonder we hear about "restricted purchasing power" and "unemployment," with the resulting misery for the great mass of the people? How can a change in our monetary policy deal with such conditions? It can easily be proved we have to go deeper to find the cause of the trouble. Let us assume a state of society wherein there is no money used for the exchange of social services, but where there are FREE CONDITIONS for all. A man would then produce, say, 100 units of wealth, and thus would have 100 units of purchasing power. But instead of these free conditions our present day policy is applied. The man would then be compelled to hand over, say 15 units of wealth to the landlord for permission to use the earth. Under a policy of protection he would give 30 units of wealth and receive only 15 units in exchange. The Government by taxation would take another 15 units, and thus we find that whereas he started with 100 units of purchasing power he has only 55 units left when the landlord, the protected manufacturer and the Government have finished with him. It is important to note that this exploitation happened when there was NO MONEY USED in society; and this should prove to Social Creditors that we HAVE TO GO DEEPER THAN THE MONEY QUESTION IF WE ARE TO GET RELIEF.

There is only ONE practical way to deal with any problem, and that is to REMOVE THE CAUSE of the trouble. The taxation burden must be lifted from wealth producers. Trade must be freed from the tariffs, quotas, and control that now hamper the exchange of commodities. The rent of land which arises by reason of the presence of the community must be diverted from private pockets into the public treasury. When this is done the "costless credit" bogey will be relegated to that political obscurity from which it should never have emerged, and people will be glad to forget that at one time they thought it possible to get "something for nothing" merely by the waving of the magic financial wand.