PART 1

THE NATURE AND ORIGIN OF MONEY

Distribution of Cooperative Production

The distinguishing feature of the modern cooperative 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 use to him, as the sub-division of labour and process is extended. A man who lives on a small farm, can live (at a very low standard of comfort and civilization) by consuming the actual products of his own industry. But a 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. *(Social Credit 131)*

Looked at from this point of view, money is simply a ticket. A railway ticket is, in the truest sense, a limited form of money and differs from any other sort of money in that the owner of it only believes, and is only justified in believing, that he will receive in return for it a particular form of service, i.e. transportation. *(Warning Democracy 15)*

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 the 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. *(Control and Distribution of Production 9-10)*

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. *(These Present Discontents and the Labour Party and Social Credit 8-9)*

Definition of Money

Money in its various forms of cash and financial credit, so far as they are convertible, 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. So long as this definition holds good, it is obvious that the possession of money, or financial credit convertible into money, establishes an absolute lien on the services of others in direct proportion to the fraction of the whole stock controlled, and further that the whole stock of financial wealth inclusive of credit, in the world, should by the definition be sufficient to balance the aggregate book price of the world’s material assets and prospective production. *(Economic Democracy 28)*

Wealth and Money Independently Produced

Having got it firmly fixed in your minds that while to the ordinary man there is no wealth without money, and yet that there exist 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, and 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. *(Warning Democracy 128)*

Purchasing power is not, as might be gathered from the current discussion 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. *(Monopoly of Credit 23)*

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. *(Social Credit 130-131)*

If you will bear this simple but very important idea in your mind you will rapidly get a much clearer idea of the real nature of money, and I think that for ordinary purposes 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 129)*

Money not a Measure of Value

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 quite remarkable to notice with what monotonous regularity the ideas of 'justice' and 'value' are paraded. It is claimed that money is defective because iit 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 de 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 very helpful from a practical point of view. *(Social Credit 60)*

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 whichcertainly 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 control and 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. *(Social Credit 61-62)*

Money is properly the agent of Distribution

The analogy of the 'Limited' railway ticket is for all practical purposes exact, a railway ticket being a limited form of money. The fact that a railway ticket has money-value attached to it is entirely subsidiary and irrelevant to its main function, which is to distribute transportation. A demand for a railway ticket furnishes to the railway management a perfect indication (subject, at present, to financial limitations) of the transportation which is required. It enables the programme of transportation to be drawn up, and the availability of a ticket issued in relation to this programme enables the railway traveller to make his plans, in the knowledge that the transportation that he desires will probably be forthcoming. *(Social Credit 62)*

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. *(Social Credit 62)*

The Remedy for Shortage of Money

We have to realise that there exists, and is being exercised for anti-social purposes, a monopoly of the ticket supply, without which distribution cannot be carried on. That monopoly has to be broken. How it is to be broken is a very serious problem, a problem which has got to be faced and solved, or the civilisation with which we are acquainted will shortly cease to exist. *(The Breakdown of the Employment System 9-10)*

You will no doubt be anxious to know the remedy for this situation. There is such a remedy. It is not the easy one which might at first occur to you of merely printing more bank notes, since unfortunately that is a method which defeats its own end. The method is a technical one. It consists in a simple adjustment, by the use of the technique of credit, of the relation between the average price level and the available purchasing power; and this, under existing conditions, the responsibility for making this adjustment most undoubtedly rests with the banking system. *(Warning Democracy 133)*

MONEY AND CREDIT

The Quantity of Money

It is necessary to be clear as to the origin of what passes for money, and to understand the remarkable powers which are vested in the banking system and the financier. Consider first, legal tender, which, in this country, consists of gold, silver and copper coinage, and Treasury Notes, to the approximate value of, say, £400,000,000. It may be noticed, in passing, that this money has only value by the consent of the community of individuals we call the nation; that is to say, by their willingness to accept it in return for goods and services. It will at once be obvious, from a superficial examination of the accounts of the banks, that there is a good deal more money in the country than there is legal tender. The deposits of the "Big Five" banks and their affiliations alone represent about 2,000,000,000, and overdrafts and bills discounted represent about £1,000,000,000 more. For practical purposes, all this money is homogeneous—the average individual would draw no vital distinction between ten pounds in his pocket-book and ten pounds in the current account with one of the great banks. But it must also be obvious, on a little consideration, that something curious must have happened to enable, say, £400,000,000 of legal tender to become at least £3,000,000,000 of money, for as far as can be seen on a cursory examination of the phenomenon, however much £400,000,000 changes hands in the course of trade, it still remains £400,000,000. Something curious does happen—it is the creation of new money, which ranks equally with legal tender as purchasing power, by banks and financial institutions. *(The Breakdown of the Employment System 6-7)*

Mechanism of Credit Creation

Since the mechanism by which money is created by banks is not generally understood, and the subject is obviously of the highest importance, it may be as well to repeat here an explanation of the matter. Imagine a new bank to be started—its so-called capital is immaterial. Ten depositors each deposit £100 in Treasury Notes with this bank. Its liabilities to the public are now £1,000. These ten depositors have business with each other and find it more convenient in many cases to write notes (cheques) to the banker, instructing him to adjust their several accounts in accordance with these business transactions, rather than to draw out cash and pay it over personally. After a little while, the banker notes that only about 10 per cent of his business is done in cash (in England it is only 0.7 of 1 per cent), the rest being merely book-keeping. At this point depositor No. 10, who is a manufacturer, receives a large order for his product. Before he can deliver, he realizes that he will have to pay out, in wages, salaries, and other expenses, considerably more 'money' than he has at command. In this difficulty he consults his banker, who, having in mind the situation just outlined, agrees to allow him to draw from his account not merely his own £100, but an 'overdraft' of £100, making £200 in all, in consideration of repayment in say, three months, of £102. This overdraft of £100 is a credit to the account of depositor No. 10, who can now draw £200……

The Power of the Banker's Pen

The banker's liabilities to the public are now £1,100, none of the original depositors have had their credits of £100 each reduced by the transaction, nor were they consulted in regard to it, and it is absolutely correct to say that £100 of new money has been created by the stroke of the banker's pen.

Depositor No. 10 having happily obtained his overdraft, pays it out to his employees in wages and salaries. These wages and salaries, together with the banker's interest, all go into costs. All costs go into the price the public pays for its goods, and consequently, when depositor No. 10 repays his banker with £102 obtained from the public in exchange for his goods, and the banker, after placing £2, originally created by himself, to his profit and loss account, sets the £100 received against the phantom credit previously created, and cancels both of them, there are £100 worth more goods in the world which are immobilized—of which no one, not even the banker, except potentially, has the money equivalent. *(Monopoly of Credit 16-17)*

Definitions of Credit

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 organization or individual can deliver money. The money may or may not represent goods and services.
(The Control and Distribution of Production 10)

Financial credit is simply an estimate of the capacity to pay money—any sort of money which is legal or customary tender; it is not, for instance, an estimate of capital possessed; and its use as a driving-force through the creation of loan-credit is directly consequent on this definition. The British banking system, since the Banking Act of 1844, has based its operations on the ultimate liability to pay gold, but in actual fact the community, as a whole, has dethroned gold, and bases its acceptance of cheques and bills on its estimate of the bank credit of the individual or corporation issuing the document, and for practical purposes not at all on the likelihood that the bank will meet the document with gold. This bank credit simply consists of certain figures in a ledger combined with the willingness of the bank to manipulate those figures, and at call to convert them into legal tender. What, then, is likely to induce a bank to increase the credit by the creation of loans, etc., of an applicant for that favour? The answer is contained in the definition: the capacity to pay money; and the credit will be extended absolutely and solely as the officials concerned are satisfied that this condition will be met. *(The Control and Distribution of Production 52-53)*

Centralized *financial* credit is a technical possibility, but centralized *real* credit assumes that the desires and aspirations of humanity can be standardized, and ought to be standardized. Since financial credit derives its power from its nexus with real credit (a correct estimate or belief of the individual that something *desired* will be delivered), centralized financial credit-control will break up this civilization, since no man, or body of men, however elected, can represent the detailed desires of any other man, or body of men. *(Credit Power and Democracy 57-8)*

True Function of Credit in a Modern Economy

There is no doubt whatever that the first step towards dealing with the problem is the recognition of the fact that what is commonly called credit by the banker is administered by him primarily for the purpose of private profit, whereas it is most definitely communal property. In its essence it is the estimated value of the only real capital – it is the estimate of the *potential* capacity under a given set of conditions including plant, etc., of a society to do work. The banking system has been allowed to become the administrator of this credit and its financial derivatives with the result that the creative energy of mankind has been subjected to fetters which have no relation whatever to the real demands of existence….
Now it cannot be too clearly emphasized *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.*
(Economic Democracy 120-121)

We have already seen that 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. If we make this basis our *financial* basis, then the credit-structure erected on it can only be destroyed by social suicide – by the refusal of the community to function. Now, one of the components of the capacity of a society to *deliver* goods and services *is the existence of an effective demand* for those goods and services. It is not the very slightest use, under existing conditions, that there are thousands of most excellent houses vacant in this country, when the cost of living in them totally exceeds the effective financial demand of the individuals who would like to live in them. The houses are there, and the people are there, but the delivery does not take place. *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.* (Credit Power and Democracy 106-7)