PART II

THE FINANCIAL SYSTEM

The Gold Standard

The difficulty in dealing with the subject of the Gold Standard arises largely from the fact that it has never at any time been what it pretends to be. Originally gold itself was supposed to represent the only true and universally accepted claim for goods. Previously to 1914 the gold sovereign circulated freely in Great Britain, and the illusion of a gold currency was fairly successful.. Within two days of the outbreak of war in 1914, however, the available stocks of gold sovereigns had been withdrawn from the banks by depositors who imagined that in this way they were safeguarding their possessions, with a result that it was necessary to declare a moratorium, during the progress of which, Treasury Notes of a face value of £1 and 10s.were printed in large numbers and handed over to the banks for issue to their depositors. The fact that the Gold Standard was a fraudulent standard was demonstrated in twenty-four hours *(The Monopoly of Credit 50-51)*

The theory of the Gold Standard £ is that it represents 113 grains of fine gold, or conversely that gold will always be bought by the Bank of England at 84s. an ounce. Since, e.g. a United States dollar also represents a fixed quantity of gold (about 23 grains) the value of one gold currency in terms of another is assumed to be approximately stable. To prevent the possibility of gold being acquired to any extent by other than financial institutions, the statute by which Great Britain was restored to a gold basis of currency enacted that not less than a standard gold bar worth about £1,700 would be delivered on demand. In order that the exchange may theoretically indicate the balance of trade, the limits at which a Central Bank must buy or sell gold are laid down. 'Standard' gold (eleven-twelfths fine) has a minimum and maximum price of £3 17s.9d and £3 17s.10 1/2d. respectively. The actual point at which it pays to buy gold for shipment obviously varies with shipment rates, insurance and interest.
(The Monopoly of Credit 55-6)

24
Effects of the Gold Standard

Owing to the immense pyramid of purchasing power erected on a small gold base, exports of gold produce money stringency of a violent character out of all proportion to the amount exported, and bearing no relation either to productive capacity or physical demand.
The result of the reversion to the Gold Standard in Great Britain is a matter of common knowledge, but certain aspects of it can be grasped conveniently from the curves on page 31. *(The Monopoly of Credit 57)*

It has been pointed out, by Mr Arthur Kitson and others, that since this credit structure is based on gold, which bears no conceivable relation in quantity to any human requirement for goods and services, gold production exercises a totally disproportionate effect on the mechanism of prices and credit. But the difficulty goes much deeper than that. Not only does the gold basis of the present financial system shift, but the ratio of the credits erected on it also shifts – sometimes violently. This is, of course, due to the vital fact that *the public even under a gold basis of credit could utterly destroy the whole credit structure by demanding gold in payment of their cheques on the banks*, because the basis of present cash credits is that they are convertible into currency on demand, and there is, of course, not a tithe of the gold necessary to cash them. *(Credit Power and Democracy 104-105)*

Effects of Departure from the Gold Standard

But although the gold basis has gone, the simulacrum of it still lingers in the shape of a credit system based on an unregulated paper currency, with the result that a sort of Druid's dance of credit-issue, rising prices, currency stringency, currency issue, more credit based on more currency, goes on, the only possible redeeming feature of which is to take the whole cycle right away from the fetish of gold. Apart from this one point, everyone suffers except those whose business it is, in the most literal sense of the words, to make money. So much for the conditions brought about by a financial system which attempts to base its *credits* on the *currency*, and yet allows its prices to rise with both *(Credit Power and Democracy 105-106)*

25
The Gold Exchange Standard

The theory, if theory it may be called, of a gold exchange standard is that if two articles A and B, have prices attached to them in different currencies, those prices will vary inversely as the amount of gold which the currencies in question will buy, varies. That is to say, if the price of gold in English currency is £4 per ounce, the price of gold in American currency is $20 per ounce, and the price of two articles, a and B, in the respective countries is £1 and $5, a rise in the price of gold in Great Britain to £5 per ounce would mean a fall in the price of article A, if bought by United States currency, by 25 per cent, and a rise in the price of article B, if bought in British currency, by a similar amount. That is the theory, although it is very far from being what actually happens. *(Warning Democracy 45-46)*

The national currency depends for its validity on the fact that, if tendered inside the country of origin, goods will be delivered in exchange for it. Gold, in the post-War world, has been artificially elevated into a super-credit system of a peculiar kind. For the individual, gold is an effective demand for currency of any country at the gold exchange rage. For the banking institution, however, gold is not merely an effective demand for currency at the gold exchange rage, it is an effective demand for international credit to the amount of several times the face value of the gold. *(Warning Democracy 46)*

An ounce of gold in the hands of John Smith is worth only £5, but in the hands of the Bank of England it is probably worth £50 – a situation which obviously cannot fail to keep John Smith where he belongs, from the point of view of the Bank of England.
(Warning Democracy 47)

26

THE FUNCTION OF THE BANKS

There exists in civilized society in all countries today an institution whose business it is to issue money. This institution is called a bank. The banking business is in many respects the exact opposite of the Social Reform business – it is immensely powerful, talks very little, acts quickly, knows what it wants, chooses its employees wisely in its own interests. *(The Control and Distribution of Production 46)*

The fundamental proposition of the modern Banking system is that the basis of credit is currency. *(The Monopoly of Credit 49)*

Now the vital thing done by a bank in its financing aspect is to mobilize effective demand.
The effective demand is that of the public, based on the money of the public, and the willingness of producers to respond to economic orders; but the paramount policy which directs the mobilization is anti-public, because it aims at depriving, with the greatest possible rapidity, the public of the means to make its demands effective; through the agency of prices. (The Control and Distribution of Production 47)

Just as the manufacturer only receives a loan from the bank, which has to be repaid, so also does the workman, who is paid by this manufacturer, only receive a loan in the form of wages, which loan is repaid by him in the form of prices. *(The Breakdown of Employment System 9)*

It would appear indisputable that all but an insignificant amount of effective demand is dependent for its financial component on bank loans in various forms. It will be hardly necessary to remark that the only value of these bank credits is contingent on the willingness of the industrial community to produce and supply goods and services in exchange for them. While it is conceivable that an industrial system might operate without money, it is inconceivable that a money system could operate without an industrial system. *(Macmillan Report)*

27
Quantity of Money depends upon Bank Policy

Ultimately the amount of money in the community depends not on the action of producers, but on the policy of the banking system, and leaving for the moment aside all questions of high politics, the banker, being essentially a dealer in a commodity called money, is fundamentally concerned to make that commodity as valuable as possible. He is normally a deflationist, since low prices mean a high value for the monetary unit, and facilitate not only the internal business of the banks, but their foreign exchange operations which are regarded by them as of greater importance. *(The Monopoly of Credit 47-8)*

A Vital Function in Production

When a bank allows a manufacturer an overdraft for the purpose of carrying out a contract or a production programme, it performs an absolutely vital function, without which production would stop. If you doubt this, consider for a moment the result of a rise in the bank rate of interest on loans and you will see that the power to choke off producers by taxing them at will is essentially similar to that exercised by governments on consumers by orthodox taxation, with the vital difference that in the first case a purely sectional interest is operating uncontrolled by society, whereas in the second case the power undoubtedly exists, though ineffective because misunderstood, to control it in the general interest. *(The Control and Distribution of Production 46-7)*

Banks Create and Destroy Money

As the situation stands at present, the banker is in a unique position. He is probably the only known instance of the possibility of lending something without parting with anything, and making a profit on the transaction, obtaining in the first instance his commodity free. *(The Breakdown of the Employment System 8)*

'Every bank loan creates a deposit and the repayment of every bank loan destroys a deposit.'* Since, rather surprisingly, 28 there are certain orthodox economists, who are not prepared to admit this statement, I attach a simple mathematical proof which would appear to put the matter outside the range of discussion.

Let Deposits	$= D$
Let Loans	$= L$
Let Cash in Hand	$= C$
Let Capital	$= K$

Then:

Assets	$= L + C$
Liabilities	$= D + K$

So that:

$$L + C = D + K$$

Differentiating with respect to time we have:

$$\frac{dL}{dt} + \frac{Cd}{dt} = \frac{dD}{dt}, \text{ K being fixed } \frac{dK}{dt} = 0$$

Assuming cash to be kept fixed $\frac{dC}{dt} = 0$

Therefore $\frac{dL}{dt} = \frac{dD}{dt}$

It would, perhaps, be misleading to describe this ingenious process as wholesale counterfeiting, as since the Bank Act of 1928 the State has resigned its sovereign rights over Finance in favour of the international private organization know as the Bank of England *(Macmillan Report)*

*Mr McKenna, Chairman of the Midland Bank, has put the matter shortly in his annual addresses to the shareholders of that institution by remarking that 'every bank loan and every purchase of securities by a bank creates a deposit, and the withdrawal of every bank loan, and the sale of securities by a bank, destroys a deposit'. It may be noted in passing, that this is the same thing as saying that a bank acquires securities for nothing, in the same way that a Central Bank, such as the Bank of England, may be said to acquire gold for nothing. In each case, of course, the institution concerned writes a draft upon itself for the sum involved, and the general public honours the draft by being willing to provide goods and services in exchange for it. (The Monopoly of Credit 15)

29

Recent Development and Abuse of Banking

An examination of the lesser financial crises which have been a feature of the twentieth century strengthens the impression that there is something in the banking system and its operation, which produces a constitutional inability to look at the industrial system as anything other than the basis of a financial system. To the banker, the satisfactory conditions of industry at any time are those which make the banking system

work most smoothly. If it cannot be made to work smoothly, it must be made to work, even though in the process every other interest is sacrificed.
(The Monopoly of Credit 74)

Deflationary Policy

Since 1920 the policy pursued in Great Britain under the leadership of the Bank of England has been continuously restrictive, that is to say directed to the reduction of the amount of money available to back orders. This policy has been termed 'deflationary', but it is open to considerable doubt whether the term is justified. It is applicable, correctly, to a situation in which prices and money are decreased in such a manner that the purchasing power of the unit of money rises in the same proportion that its total quantity is decreased. This condition has not been fulfilled, as the amount of money in the hands of the public has been decreased by taxation and by other methods at considerably greater rate than prices have fallen. While the upper limit of prices follows approximately the quantity theory of money, the lower limit is governed by cost of production. The outcome of this set of circumstances has been to restrict production, to force down the price of real property, and to enrich the moneylenders and insurance companies at the expense of the individual and the producer. *(The Macmillan Report)*

Effects of post-war finance

Since for every seller there must be a buyer, the situation which has been created by the numerous and increasing number of bankruptcies and forced sales merits some attention. The momentum of business induces business undertakings to carry on to a point considerably beyond that justified by their unmortgaged liquid resources, even assuming that their transactions 30 have been financed normally in this way. As a result of this, and as indeed might be expected from the control over the money system acquired by the banking institutions, it is probably true to say that in Great Britain, 90 per cent of trade and business has in ten years come into the possession or control of banking interest. Such a tremendous transfer of ownership has probably never occurred in recorded history. (*The Monopoly of Credit 57-58)*

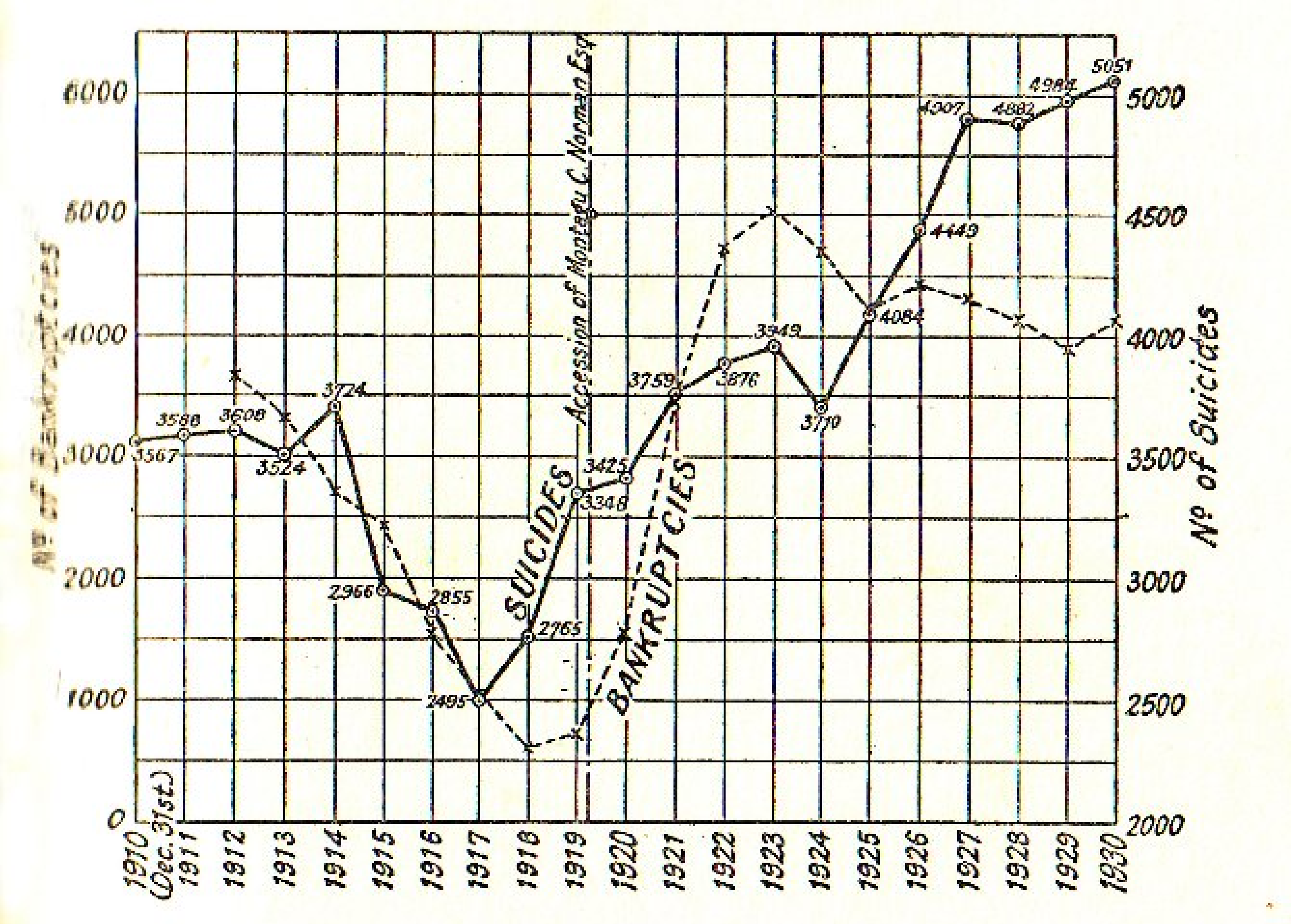
I would particularly ask you to note that there is no suggestion the *bankers*, as human beings, are in the main actuated by any anti-social policy – the system is such that they simply cannot help the result. (*The Control and Distribution of Production 47)*

The banker *per se* has not, in general, technical knowledge outside the routine of banking. On two notable occasions the heads of large banking institutions, one in Canada (Sir Frederick Williams-Taylor of the Bank of Montreal) and the other in England (Mr Montagu Norman of the Bank of England) have replied to questions regarding the results to be expected from current banking policy in almost identical terms, to the effect that they were bankers, not economists, a contention which, viewed in the light of events, seems to be true. (*The Monopoly of Credit 58)*

Bank-ownership of industry

The bankers' immediate reaction to the day-by-day acquisition of large businesses has been to put them under the control of chartered accountants, with the result that a financial result rather than a physical result has been aimed at. Plant has been broken up, since its operation could not be justified by the profits to be expected under existing circumstances (even though its physical product was urgently required), buildings, with the exception of those erected for the use of financial institutions, have been cut down both in quality and design with disastrous results to the amenities of the country at large, agricultural properties have deteriorated, and technical enterprise has been stifled. (*The Monopoly of Credit 59)* **31**

Diagram follows below



The curves marked 'Exhibit A', attached to this section, indicate the business and psychological effect in Great Britain of the policy which has been pursued. During the period covered by the curve, in which the bankruptcies have risen from about 900 per annum to nearly 7,000 per annum, and the suicides have increased over the whole of the kingdom by 67 per cent per annum, and in Scotland by 100 per cent, every large bank in Great Britain has maintained or increased its dividend, has enormously expanded its premises, and placed large sums to its visible reserve, and created still larger invisible reserves, and this in spite of the enormous losses alleged to have been made in respect of loans to industry. *(Macmillan Report)*

Immunity of banks from the depression

It cannot have escaped notice that every bank composing the charmed Circle of Five has pulled down its barns to build larger. The London City and Midland, to take one instance only, now has fifteen hundred branches, of which, at a guess 32 at least one half have been opened since 1914 in buildings of a solid magnificence appropriate to the temples of a great faith. Perhaps one of our readers with a taste for statistics will compile a table showing the percentage of corner sites occupied by banks as compared with those occupied by other undertakings. Has anyone during this time of industrial depression and labour distress noticed any bank premises for sale? Is there any possible room for doubt, not merely who did best out of the War, but is doing well out of the peace? (*The Control and Distribution of Production 147-8)*

It may be asked why banks only pay a dividend of 25 per cent or so. The answer is simple.
Their real earnings are measured by the control over industry which they acquire – earnings so rapid that in a few years the control will be absolute, if not checked. The amount distributed in dividends is, or could be, any desired dividend on this capital control. (*Social Credit 164)*

TAXATION AND THE BALANCED BUDGET

A fundamental axiom of national finance as at present conducted, is that budgets must be balanced, by which is meant that all Governmental expenditure must normally be recovered from the individuals in the country by means of taxation. *(The Monopoly of Credit 41)*

In the case of a nation, as at present situated, all the alleged services which it renders to the public composing it are supposed to be paid for eventually by taxes, and the objective of every orthodox government is to balance its budget and to repay its 'borrowings'. That is to say, to make its receipts in taxation equal or exceed its expenditure, and in addition to have as large a surplus as possible with which to pay the interest on loans created by the financial hierarchy and to 'sustain the nation's credit' in view of future loans. (*Social Credit 47)*

Just to the extent that the conditions in the world have improved in the past few years – and it must be admitted that 33 this extent is quite limited – this improvement has been obtained by forcibly depriving those persons who, by adherence to the rules of the financial system, had acquired sufficient purchasing power to release them from the pressure of the control, for the partial benefit of those not so fortunate. In passing it may be noted how the power of taxation has grown into a form of oppression beside which the modest efforts of the robber barons of the Middle Ages must appear crude.
(*The Monopoly of Credit 72*)

Modern taxation is legalized robbery, and it is none the less robbery because it is effected through the medium of a political democracy which is made an accessory by giving it an insignificant share in the loot. But I do not think robbery is its primary object. I think policy is, much more than mere gain, its objective. I think it is most significant that every effort is made by economists of the type turned out by the London School of Economics to instil into the Labour Party that it is possible to obtain some sort of a millennium by accelerating the process of stealing. (*Warning Democracy 61)*

Taxation in Great Britain

The British population, men, women, and children, are at the present time (1933) taxed to the figure of sixteen pounds seven shillings per head (or about sixty-five pounds per family), which is nearly three times the taxation per head of any other country in the world. Large estates are subject to succession, and legacy duties which make it impossible for them to remain in private hands and force them into the market in which they are acquired by corporations having access to the methods of creating financial credit. These two forms of taxation, are concurrent, i.e. the enormous Capital Levy imposed by Succession and Legacy Duties, *so far from reducing general taxation, has been accompanied by a steady rise in such taxation.*
(Social Credit 148)

Taxation Decreases Purchasing Power

The result is to create a shortage of money in the hands of the general public, and in consequence to enhance its scarcity value. If we can conceive, what is in fact the case under the existing financial system, that money is a commodity in exactly the
34 same sense as is tea or sugar, and that there is a powerful, if unobtrusive business ring which deals in money as a commodity, it will be readily understood that the balancing of budgets and the repayment of loans by taxation is a prime interest of those interested in the commodity. Money dealers are normally deflationists. (*Social Credit 47-48)*

Taxation tends to Centralize Power

The portion of this taxation which is represented by interest on public debts, created more or less in the manner outlined in the previous chapter, is onerous in proportion as its destination is centralized. . . The chief owners of the bonded debt of Great Britain are the banks and financial houses. (*Social Credit 149)*

The main tendency of the process is to concentrate the control of credit in a potential form in great organizations, and notably in the hands of the great banks and insurance companies. (*Social Credit 150)*

Present-day finance and taxation is merely an ingenious system for concentrating financial power. No proposal to *redistribute the National Debt has ever received the slightest encouragement from Socialist leaders. (Social Credit 105)*

The business of dealing in money as a commodity is, as has already been pointed out, advantaged by anything which accentuates the scarcity of money, so that any attack on the business system, the constructive effect of which is to support increased taxation, can and does receive support from the inner circles of High Finance. Since the greater part of the real purchasing power of the world is in a potential form which is not represented by any figures anywhere, but can be materialized by those in possession of the secret of the process, as and when required, taxation of *visible* purchasing power is exactly what is most valuable in maintaining their power and supremacy. (*Social Credit 91)*

It is fair to say that almost any explanation which is not a full and accurate explanation of the working of the financial 35 system, has the curious result of playing directly into the hands of the upholders of that system. The simple labour-socialist criticism, which emphasizes the contrast between the rich and the poor, forms a perfect moral sanction for the imposition of taxes on any portion of the community which is above the starvation level, since to the man who has only two hundred a year, the man with six hundred a year is rich. And it is perfectly logical on the theory that purchasing power is merely maldistributed, that Mr J A Hobson should devote much of his attention also to taxation. *(Social Credit 90-91)*

The Balanced Budget is a Claim of Credit Monopoly

It will be clear that the demand for a balanced budget is another form of the claim that all money belongs to the banks, and so far from being a reflection of the physical facts of production, is unrelated to them. Every modern community, so far as physical facts are concerned, is becoming richer year by year and this increase of riches could in fact be greatly accelerated, a fact which is indicated by a large unemployed population, and a manufacturing system with a capacity which, although already greatly in excess of present possibilities of sale, is daily being improved. It is equally obvious that so long as this demand for a balanced national budget is admitted, there can be no economic security, since it involves continuous application to the financial authorities for permission to live. (*The Monopoly of Credit 46)*

Taking the situation as a whole, therefore, it seems indisputable that sooner or later this monopoly of money power has to be attacked; that for reasons already explained, it is not being attacked now, and that taxation, so far from attacking it, enormously strengthens and consolidates its power. (*Social Credit 176)*

The Right Basis of Taxation

It is well understood that taxation in its present form is an unnecessary, inefficient and vexatious method of attaining the ends for which it is ostensibly designed. But while this is so, there is, of course, a sense in which, while private enterprise and 36 public services exist side by side, taxation is inevitable. Public services require a provision both of goods and human service, and the mechanism by which these are transferred from private enterprise to the public service must in its essence be by a form of taxation.
Now just as there are two methods in theory by which the unearned increment of association, which we call public credit, can be distributed, these two methods being either a grant of 'money' or a general reduction of prices, and the choice between these two methods is one of practicability and not of principle, so there are two methods by which this transfer of goods and services from private to public use can be obtained, the direct and the indirect method, and it is curious that we have such a tendency to insist on the direct method, with its crudities, complications and inequities. It would be both simple and practical to abolish every tax in Great Britain, substituting therefore a simple sales tax on every description of article, and, apart from other considerations, such a policy would result in an economy of administration far in excess of anything conceivable within the limits of the existing financial system. (*Warning Democracy 175-6)*

LOANS AND THE NATIONAL DEBT

The taxation system is preferably considered in conjunction with the alternate method of providing money for public expenditure, which is by means of loans.
(*Macmillan Report)*

To a financier a country is simply something on which to base a mortgage. Just as a private estate which is not mortgaged is, to a moneylender, an excrescence on the landscape, so a country whose National Debt is not as large as is consistent with security is an object of solicitude to International Finance. (*Social Credit 149)*

The inducement to subscribe to a loan consists in the interest paid on it, and in the varying terms of redemption. Taxation may properly be considered as being a forced non- 37 repayable, recurring 'loan', a portion of the proceeds of which are used to pay the inducement offered to a voluntary loan. It is of importance to note that while the physical effects of spending money raised by taxation are exactly similar to those of spending money raised by a loan, in the latter case a financial asset is created, whereas in case of taxation no financial asset is created. One result of this is that, for instance, in Great Britain, there is nothing corresponding to a capital account, its place being taken by the National Debt. *(Macmillan Report)*

War loan

The £8,000,000,000 in round numbers which have been subscribed for war purposes represents as to its major portion (apart from about £1,5000,000,000 re-lent) services which have been rendered and paid for, and in particular, the sums paid for munitions of all kinds, payment of troops and sums distributed in pensions and other doles. Now, the services have been rendered and the munitions expended, consequently, the loan represents a lieu with interest on the future activities of the community, in favour of the holders of the loan, that is to say, the community guarantees the holders to work for the without payment, for an indefinite period in return for services rendered by the subscribers to the Loan. What are those services?
Disregarding holdings under £1,000 and reinvestment of pre-War assets, the great bulk of the loan represents purchases by large industrial and financial undertakings *who obtained the money to buy by means of the creation and appropriation of credits at the expense of the community, through the agency of industrial accounting and bank finance.* (Economic Democracy 122-123)*

*An extended analysis and exposure of British War Finance for the Great War is to be found in Major Douglas's *Social Credit*, Chapter V.

It would be, I suppose admitted without much hesitation that Great Britain as a community was poorer by the amount of this debt. On the other hand, each holder of War Loan would regard himself as being richer by the amount of the War loan which he holds. Both of these statements are, of course, true, and if the Debt were held equally by individuals 38 it would simply represent a licence to work, using National real Capital. But the debt having been originally created by the same process which enables the banking system to create money, and so far as it is in the hands of the public, exchanging this debt so created for purchasing power already in existence, it is a transfer of purchasing power from the public to the Banks. It is probable that the amount of War Debt actually owned by individuals has never exceeded 20 per cent of the total debt created, the remaining 80 per cent being either in the actual ownership, or under lien to banks and insurance companies, the net result of the complete process being the transfer to the Financial System of four-fifths of the purchasing power represented by £8,000,000,000. *(The Monopoly of Credit 21-22)*

Ownership of war loan

It is probably true to say that 90 percent of the holdings of Government War Securities were under the ownership or complete lien of the banks and financial houses by about the middle of 1922. From this time on, a process of reselling these stocks to the public at enhanced prices began, fostered by the stagnation of trade, which forced any available money in the country into fixed interest-bearing securities. Owing to the comparatively small amount of money available for this purpose, and the fact that a large amount of Government Stock was acquired by the direct creation of bank credits on bank account, it is probable that even yet 75 per cent of the total issue of Government Securities is in the hands of the banks, or is held by them under lien; sufficient only being in individual hands to ensure the protection of the loan as a whole.
(Social Credit 142)

Let us now imagine a single adjustable tax applied to all production, of such magnitude as to bring prices from those fixed by a given method to the suitable international exchange level. In existing circumstances, without affecting present prices, such a tax would pay the interest on the War Loan many times over.
(Economic Democracy 138)

39
National debt a distributing agent

However the matter be considered, the National Debt as it stands is simply a statement that an indefinite amount of goods and services (indefinite because of the variable purchasing power of money) is to be rendered in the future to the holders of the loan – i.e. it is clearly a distributing agent.
Now, instead of the levy on capital, which is widely discussed, let it be recognized that credit is a communal, not a bankers', possession; let the loan be redistributed by the same methods suggested in respect of a capital levy, so that no holding of over £1,000 is permitted; to the end that, say 8,000,000 heads of families are credited with £50 per annum of additional purchasing power. (*Economic Democracy 124-125)*

FINANCE AND POLICY

It is common to assume, at any rate as a convention, that British Policy is the greatest common measure of what would be the policy of individual Britons. One of the first points I wish to make to you is that this is not true, that it probably never was true, that it is probably less true now than it ever was. (*Warning Democracy 52)*

The Defeat of Democracy

Democracy is frequently and falsely defined as the rule of the majority – a definition quite sufficient to account for its unpopularity with many persons whose opinion is not unworthy of consideration . . . Real democracy is something different, and is the expression of the *policy* of the majority, and, so far as that policy is concerned with economics, is the freedom of an increasing majority of individuals to make use of the facilities provided for them, in the first place, by a number of persons who will always be, as they have always been, in the minority.*(Credit Power and Democracy 7-8)*

On matters of policy, however, in sharp contradistinction to the methods by which that policy should be carried out, the majority may be trusted to be right, and the minority is 40 very frequently wrong. To submit questions of fiscal procedure, of foreign affairs, and other cognate matters to the judgement of an electorate is merely to submit matters which are essentially technical to a community which is essentially non-technical. On the contrary, broad and even philosophical issues, such as, for instance, whether the aim of the industrial system is to produce employment, or whether it is to produce and distribute goods, are matters of policy, and it is very noticeable that such matters are kept as far a possible from the purview and decision of the general public. In face, the aim of political wire-pullers is to submit to the decision of the electorate, *only methods of embodying the same policy.*
(Social Credit 125-6)

Assuming for the moment . . . that the will of the people, as expressed by their votes, must prevail, there is no doubt that the defeat of the power of political caucuses to draw up the agenda of an election is the immediate objective. The exact method by which to attain this end is immaterial so long as it is attained. The invalidation of an election, if less than 50 per cent of the electorate voted on the issues submitted to them, would be as good a method as any other. The recognition of the danger to the Hidden Government which is contained in some such procedure is no doubt responsible for the proposal (and in certain areas, the Law) constituting abstention from voting a penal offence. *(Social Credit 174)*

Governments under Financial Influence

The aims of national Governments are by no means the same things as the aims of the majority of individuals in the countries they are supposed to represent. Further, these Governments are far more responsive to influence from financial sources than they are to popular influence. We might almost go so far as to say that the modern Government is quite insensible to popular influence, and that no serious change of policy is effected by a change from one party to another. This is certainly true where the subject in which such influence might desire to be exercised conflicts with the interests of Finance. A consideration of the relative progress, during a period of
41 acute housing shortage, in the building of small houses on the one hand, and the building of branch banks on the other, will perhaps afford an example of what I mean.
(Warning Democracy 63)

To understand the trend of the present system from the standpoint of policy . . . we must notice that it results in keeping the majority of persons employed approximately eight hours per day either in producing, distributing, or safe-guarding, what is admittedly a deficient supply of ultimate commodities, and this in spite of the advancement of science and its application to Production. We see also that whatever the amount of these ultimate commodities produced, and however much cash the community earns, the aggregate prices of mere consumption goods can be made to equal the aggregate earnings in respect of the production of both capital goods and consumption goods, either by keeping the articles in short supply or making monopoly arrangements to set prices at a ‘suitable’ level; but, in any case, prices of capital goods plus prices of consumption goods are in excess of available cash demands because of the credit factor in the prices.
(Credit Power and Democracy 41-42)

Hence we see that the last word on *policy* is with finance, not with administration, and is concerned with the control of credit by the banks; and to democratise the *policy* of production we have to democratise the control of credit.

(*Credit Power and Democracy 7)*

Finance as it concerns questions such as national politics is often referred to as High Finance, and I would suggest to you as a definition of High Finance that it is the business, art, or science, of manipulating the money system to obtain political or economic results. (*Warning Democracy 50)*

The essence of the existing money system is that it creates an artificial scarcity of purchasing power on the one hand, and places the power to relieve this scarcity in the hands of an international organization on the other hand. *(Warning Democracy 51)*

42 The Theory of Scarcity

Since the time of Cromwell, excluding the short Restoration, the financial policy of the British Government has been based on a theory of scarcity. It has been the custom in this country to suggest that, figuratively speaking, the individual only clings on to economic life by his eyelids. As time passes, I am beginning to be more and more doubtful whether this was ever necessarily true, while I am quite certain that it is not necessarily true at the present time. But if you will cast your mind back over the known periods of economic distress in this country, you will find that they are definitely traceable to financial policy in some sense or other. For instance, a serious depression stretched from the time of the Crusades to the beginning of the Renaissance, and is explainable, I think, far better by the fact that the English nobles were all mortgaged to the Jews as a result of the Crusades, than in any other way. The Renaissance itself was specifically due to the opening up of the wealth of the West Indies, and the influx of gold and other treasure, as a result of the forays of Drake, Hawkins, and their confreres, combined with the isolation of British Finance from that of the Continent. The 'Hungry' Forties were no more due to the Napoleonic Wars than the present industrial distress in this country is due to the European War. They were due to the hold which financiers, such as the Rothschilds, obtained upon this country, and the consequent passing of the Bank Charter Act and other financial restrictive legislation; and coincided with the rise of the Joint Stock Banks and the absorption of the English private banks, and they were relieved by the discovery of gold in California in 1848. A similar period of prosperity followed the discovery of gold in South Africa. (*Warning Democracy 55)*

Work is the 'moral' Objective of Financial Government

Until recently, the statement that a large body of the public lived on the verge of starvation, *because* it was unemployed, and that, therefore, the problem of the modern world was the abolition of unemployment, received almost universal assent. It is fair to say that opinion is no longer so unanimous on this matter; and inconsequence,
43 from the position of being stated as an axiom, it may be observed that it is receding into the position of a proposition to be proved. (*Social Credit 109)*

Why, then, is there so great a misdirection of attention in a matter of such primary importance? There is, I think, only one general and comprehensive answer which can be given to this question: and that is, that whether consciously or not, there is a widespread feeling on the part of executives of all descriptions that the only method by which large masses of human being can be kept in agreement with dogmatic moral and social ideals, is by arranging that they shall be kept so hard at work that they have not the leisure or even the desire to think for themselves. (*Social Credit 115)*

It is of practical importance, as bearing on the difficulties of obtaining an alteration in the financial system itself, to note that the spokesmen of orthodox finance seem to assume the position of arbiters and protagonists of morals, both individual and international. *(Macmillan Report)*

For instance, Mr Snowden, the Socialist Chancellor of the Exchequer, in the *Banker* for May 1927, remarks of the Bank of England (an institution perhaps responsible for more economic misery than any which has ever existed) that it is 'perhaps the greatest moral authority in the world'. (*Warning Democracy 116)*

Socialism and Ultra-Capitalism agreed

To students of the psychology alike of industrial and of world movements (which is, in essence, identical) it requires an effort to avoid cynicism at the similarity in the real aims of orthodox Socialism and ultra-Capitalism. The idolater of the State say: 'I will make it impossible for you to live except you conform to my standard of conduct.' Lord Leverhulme, amongst others, says very little but, being more capable, obtains world control of

essential products, and lays down a policy both for his employees and those who must have his goods. Bismark understood the situation perfectly 44 when, in speaking of the German Socialist Party, he observed: 'We march separately, but we conquer together.'
(The Control and Distribution of Production 113)

It has already been suggested that the chief aim of persons who may be regarded as executives of the Classical Policy is to avoid as far as possible any discussion whatever on the policy itself and to direct public attention to a profitless wrangle in regard to methods. In Great Britain, Conservatives advocate the raising of prices by means of tariffs; Liberals advocate the lowering of purchasing power by means of increased Death Duties and Insurance Schemes; Labour, the strangulation of individual initiative by means of nationalization or a Capital Levy. The choice offered to the free and enlightened elector is between being hanged, boiled in oil, or being shot. In the United States every effort is made to rivet the attention of the public on tariffs or Prohibition, while prices rise with increasing velocity, and the mortgagee grips the land with ever greater tenacity. (*Social Credit 170)*

So long as this condition of affairs remains . . . so long indeed as the financial system remains unmodified . . . statesmanship would thus appear to consist in attacking one section of the public after another, and steadily reducing the power of resistance of each while consolidating the position of the financial hierarchy. There can be no remedy for this state of affairs, so fatal to morale, until a statesman is in power who is prepared to face squarely the issue that either finance will rule the world and the statesman will become a species of bank clerk; or, on the other hand, a halt will be called to the aggression of the financier, sanctioned and assisted by the law, upon each section of society in turn, and he will be reminded of the warning given many hundreds of years ago' 'Ye take too much upon yourselves, ye sons of Levi.'
(Warning Democracy 154-155)

Fundamental Principles of a True Financial Policy

No discussion of the financial system can serve any useful purpose which does not recognize:
- *(a) That a works system must have a definite objective.*
- *(b)* 45 *That when that objective has been decided upon it is a technical matter to fit methods of human psychology and physical facts, so that that objective will be most easily obtained.*

In regard to *(a)* the policy of the world economic system amounts to a philosophy of life. There are really only three alternative policies in respect to a world economic organization:
The first is that it is the end in itself for which man exists.
The second is that while not an end in itself, it is the most powerful means of constraining the individual to do things he does not want to do; e.g. it is a system of government. This implies a fixed ideal of what the world ought to be.
And the third is that the economic activity is simply a functional activity of men and women in the world; that the end of man, while unknown, is something towards which most rapid progress is made by the free expansion of individuality, and that, therefore, economic organization is most efficient when it most easily and rapidly supplies economic wants without encroaching on other functional activities.
(Warning Democracy 37-38)

THE POWER OF FINANCE

I suppose that we are all familiar with such phrases as 'The Power of Money', and others to the same effect, but the Government by Money to which I wish to draw your attention is something much more concrete than that. Our thoughts of government usually range over such subjects as Houses of Parliaments, laws, and at the other end of the scale policemen. But you will at once agree, I think that this sort of government is largely negative, and is almost entirely concerned with telling you what you must not do. Even in these law-ridden days, after the long-suffering citizen has taken out about eighteen licences of various sorts to permit him to move about, to stay still, to listen-in, and so forth, he does not come very much in contact with the law. But from the moment that he arises in the morning to the moment that he goes to bed at night, or, more comprehensively, from the moment 46 that he draws breath to the moment of his death, and after, his activities are governed and limited by the money system. His clothes, his food, his house, his education, either in the more literal sense or in the broader sense of ability to travel and see the world, his avocation in life, and the rapidity with which he progresses in it, are largely matters of money, and very often nothing but money. *(Warning Democracy 93)*

The concentration of control over business firms, which is the accompaniment of the increasing dependence of the business world upon banking accommodation, is paralleled by the rapid elimination of a class of any considerable dimensions which can maintain its customary standard of life without commercial employment. Both commercial employee and commercial employed are therefore coming under an invisible control which is not subject to any criticism of its action in respect to the giving or withholding of this ‘employment’ without which civilized existence is becoming impossible. The obsolete system of chattel slavery had the vital defect that the slave could not fail to be conscious of his slavery, and consequently required guarding. But the more insidious subjection with which we are threatened, promises a condition of affairs in which servitude will only be granted as a privilege, and starvation following on degradation will be the alternative. (*Social Credit 153-154)*

Money Control of Intelligence and Culture

Finance, i.e. money, is the starting-point of every action which requires either the co-operation of the community or the use of its assets. If it be realized that control of its mechanism gives, to a major extent, control of both personal and organized activity, it is easy to see that education, publicity, and organized Intelligence (in the sense in which the word ‘Intelligence’ is used in military circles), can be controlled, first to minimize the likelihood of criticism arising, and should it arise, depriving it of all the normal facilities for effective action. Finance can, and does control policy, and as has been well said by an American writer, Charles Ferguson, ‘control of credit and control of the news are concentric. *(The Monopoly of Credit 2-3)*

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

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

Growing Discontent with Financial Government

The perfecting of the financial system of control . . . has been contemporaneous with a rising wave of discontent and disillusionment, and it is obvious enough that competent financial policy as operated by those in present control of the financial system aims not so much at removing this discontent, as at removing all mechanism by which it could be made effective. That is the objective of the disarmament propaganda in its various forms. So that we seem to be in possession of a certain amount of preliminary evidence 48 which would weigh against this centralized control of finance. A further examination, I am afraid, only strengthens this view.
(The Monopoly of Credit 73)

Finance on its Defence

So rapid was the progress made by these ideas* between 1919 and 1923, both in this country and abroad, and so constantly did ideas derived from them appear in the pages of the press, that the interests threatened by them became considerably alarmed, and took what were, on the whole, effective steps to curtail their publicity. In this country the Institute of Bankers allocated five million pounds to combat the subversive ideas of ourselves and other misguided people who wished to tinker with the financial system. The large Press Associations were expressly instructed that my own name should not be mentioned in the public press, and no metropolitan newspaper in this country or the United States was allowed to give publicity, either to correspondence or to contributions bearing upon the subject. In spite of this the Canadian Parliamentary Inquiry at which I was a witness managed to expose on the one hand the ignorance of even leading bankers of the fundamental problems with which they had to deal, and on the other hand the lengths to which the financial power was prepared to go to retain control of the situation.

(Warning Democracy 138)

As a result of the consideration of the care with which the financial and legal organization of the world has been perfected and has entrenched itself, it seems difficult to avoid the conclusion that when the milder methods and the ability to manipulate public opinion, no longer function, the mask will be thrown aside and stark compulsion will be ruthlessly invoked. That is already happening in portions of the Middle West of America, where strikes are indistinguishable from minor military engagements; and much the same phenomena are observable in Germany. The 'castor oil' methods of the Italian Fascisti are of course, similar. The British Government representative on the Board of our only aeroplane company is, by a curious coincidence, the President of the Bankers' Institute. All this is important in considering the 49 emphasis to be laid upon such questions as whether the attainment of reform by political, that is to say Parliamentary methods, or whether some variant of the 'Direct Action' principle is the only possible path to effective change. *(Social Credit 172-3)*

Responsibility of the Financial Faculty

Now if we have an undertaking of which the directorate cannot be removed, however at variance with the desires of the proprietors may be its conduct, we can see that the outcome must be one of two things. Either the directors will, by superior adjustments of policy, produce such results as will in time remove cause of complaint, or alternatively, their policy being bad, the undertaking will go to shipwreck. Under these circumstances there is probably only one useful course of action, and that is, so far as possible, to make it clear to everyone concerned that in existing circumstances the directors cannot be removed, and that they alone are responsible for the outcome of their policy. *(The Monopoly of Credit 83)*

In order to fix responsibility for this policy it is, perhaps, only necessary to quote a recent speech by Mr Montagu Norman, Governor of the Bank of England, as reported in *The Times* of March 21st, 1930. A previous speaker, Mr Hargraves, had said: 'They held the hegemony, so far as this country was concerned, in finance, and he thought he might say, considering the way in which they were regarded in foreign countries, that they also held the hegemony of the world.' Mr Montagu Norman commented: 'He was glad to note what Mr Hargreaves said about the hegemony in one place and another. He believed it was largely true, so far as overseas were concerned, and if it was true, it was largely the result of work which the Bank had devoted, first of all to the stabilization of Europe, and secondly to the relationships between the central banks, which were originally advocated at Genoa.'
(Macmillan Report)

Finance and World Power

There have been many critics of this policy, not alone amongst specialists on the question of monetary science, but in the ranks of both 50 industry and banking itself. Parliamentary discussion, industrial protests, and technical criticism, however, have been alike without any apparent influence upon the policy pursued, which in the main has not even been defended. The effect of such criticism, if any, must be sought in the acceleration of the measures taken to increase the strength of banks organization against this and similar attacks, a major feature being the formation of twenty-four central banks in the past decade, culminating in the launching of the super-central bank known as the Bank for International Settlements . . .

Bank for International Settlements

This institution opened its doors in May 1920, ostensibly to deal with the transfer of the large sums of money involved in the International Debts and reparations, which are the legacy of the Peace Treaties. As frequently happens in connection with financial affairs, the ostensible objective of the bank, however, can be recognized as a cover for much larger activities. *(The Monopoly of Credit 60)*

The constitution of the Board of Directors . . .consists, first, of the governors of the central banks of Belgium, France, Germany, Great Britain, and Italy, with a nominee of the Bank of Japan, and a representative of United States banking. Added to this are seven additional directors nominated individually by the first seven, having the same nationalities as their nominators, and 'representative of finance, industry or commerce'. The central banks of France and Germany have the further power, during the period of the reparation payments, to appoint one more member each, which they have done. There being a maximum of only nine other seats on the Board, it is clear that the original central banks constituting the appointers of the first directors have permanent control over the policies of the bank. This control is further emphasized by a provision that voting rights at general meetings are in proportion to the number of shares *originally* allotted to those institutions having the power of nomination to the Board. *(The Monopoly of Credit 61-62)*

51 Effects of Centralized World Finance

Obviously the intention . . . was that the B.I.S. should be essentially the Central Bank of central banks, that it should hold reserves of gold as a basis of the cash reserves of the central banks, and that in consequence it should act as the supreme regulator of the world's money supplies. In other words, the relation, for instance, of the Bank of England to the B.I.S. would be similar to that of the Joint Stock Banks to the Bank of England, and thus it may be said that the B.I.S. places the final stone upon the pyramid of financial organization. *(The Monopoly of Credit 63)*

While no doubt the working banker would be tempted to deny it, it seems true beyond all reasonable doubt, to say that the system is directed to the constitution of a series of bottlenecks operating through the financial system to place both production and distribution under the control of financial interests. In the modern world, the considerable sums of purchasing power which are required to finance industrial undertakings cannot be obtained without access to the mechanism of public credit which has come under the control of this system. The Joint Stock Banks therefore may be said to be in control at this point. Their own adherence to the system in Great Britain is insured by their dependency upon the Bank of England for currency, and in other countries by somewhat similar arrangements in regard to the central banks. These central banks in turn are, by the costing system, forced to make provision for considerable transactions in the various national currencies, and these transactions as between nations are destined to come under the control of the Bank for International Settlements, which obviously places the power of veto on the interchange of industrial commodities, as between nations, with this latter institution.
(The Monopoly of Credit 64)

The possibility of manipulating the economic prosperity as between one country and another through an international financial organization, such as is growing up independent of effective national control, and having ends to serve which are 52 not those of the populations affected, is perhaps one of the most serious aspects of the annexation of financial credit. (*Macmillan Report)*

The Menace of Irresponsible Power

Only the exercise of a childlike faith, which the present generation seems unlikely to supply, would secure agreement with the proposition that a system which has produced undesirable results in cumulative measure as its power increases, would produce better results if its power became absolute. While grave criticism of the personnel of the banking system and its prostitution to politics of a peculiarly vicious character is becoming daily more common and seems in many cases to be justified, it is evident that the world is becoming daily less willing to trust *any* personnel with a system at once so powerful, irresponsible, and convulsive in its operation.
(The Monopoly of Credit 75)

Beyond question, the economic system which is dominated by the financial structure of banks and insurance companies is an unofficial and temporarily all-powerful government, neither elected, nor subject to effective criticism, the embodiment of the concept that externally imposed restraint is the first condition of a stable society.
(*The Monopoly of Credit 8)*

It seems difficult to doubt that the efforts of those in control of financial policy are primarily, if not entirely, concerned with making the world safe for bankers, rather than making the world safe. By one of those curious ironies which seem to be present in great crises, it happens, as one might say by a side-wind, that the world cannot be made safe without removing the banker, painlessly or otherwise, from the commanding position which he now occupies. The alternative is in fact clear, and nothing effective can be done to protect civilization from its major risks which is not an attack upon the power of finance. *(The Monopoly of Credit 83-84)*

The characteristic of orthodox Finance is the centralization of monopoly of Credit. I could, without much difficulty, 53 prove to you that such a policy synthesizes every anti-Christian principle. The distribution of Credit is its antithesis.
While the details of such a system of Finance are better left for discussion until such time as they might come into the region of practical politics, I do not think there is much doubt of the principles they would be obliged to

follow. In the first place they must provide a financial reflection of the physical facts of the producing, distributing and consuming systems, which the existing financial system signally fails to do.
(*Warning Democracy 73-74)*