

## Social Credit Summarized

THE Social Credit Plan is based upon the belief that "private finance, operating together with a monopolistic system of capital, causes poverty and depression by constantly increasing prices." This effect is superinduced by the bankers' practice of giving overdrafts—that is, by making loans beyond what is justified by the assets of the borrower. Now, the borrower pays his laborers and creditors and stockholders (who pay *their* laborers, etc.) with this credit, which will then, in the form of money, come into the market for consumers' goods. But as the consumer's goods, which must be the ultimate result of the borrower's efforts, are not yet in the market, there is an increase of consumers' credits (money) without a corresponding increase of goods. Then prices must rise for the demand for goods in terms of money (credits) will increase. Thus is the consumer's dollar continually lessened in purchasing power.

Of course, we would eventually get the goods to the consumer, but could hardly lower prices thereby, since the desire of the banker for interest leads him to issue overdrafts with continuous abandon, thus generating an always rising rate of flow of credit. The flow, and the rate of it, are given considerable attention by Douglas, who says that credit flows out from the bank and back into it, via the monopolistic producer, who, having borrowed from the bank, and distributed his borrowings to his laborers and creditors, fixes his price to get back, in addition to a profit for himself, the amount of his loan, plus interest, for the banker. This goes back into the bank and then out again, swollen by overdrafts. Such is the flow of credit, and the rate of flow (rapidity of circulation of currency to the vulgar) is continually increasing faster than the production of goods.

So wages, salaries, and dividends, which Douglas speaks of as the forms of consumers' credits, are continually being weakened in purchasing power by the rise of prices. They cannot ever expand in purchasing power by the lowering of prices because even if no overdrafts were issued, capitalists would still fix prices to get back all the credits which they had paid out. And the normal increase in production to be expected in a progressive society would merely enhance the flow of credit controlled by the banker, for, Douglas says, a modern factory produces credit as really as it does tangible goods.

This last is a very interesting point. It is common in metaphysics, when philosophers make arguments with undemonstrable premises, to give such premises greater validity by first offering proofs of a sort, and then by declaring very vigorously that they are *real*—that is, that people should have the same faith in their existence as I have in the existence of the chair on which I sit. Such a belief is the one of Plato that only mind is real—that the chair is the result of an idea in the mind,

rather than what most people find obvious, that the idea results from the sight and feel of the chair. To convey a sense of reality in ideas apparently unreal, great vigor and frequency of declaration are necessary, and Douglas does not spare himself in this when he confers upon what he calls Real Credit (the capitals are his) the dignity of an equal actuality with tangible wealth. It functions, he thinks, at least coordinately with, if not more importantly than the actual production of goods.

Real Credit (as distinguished from ordinary financial credit) is defined as a correct estimate of a nation's ability to produce during a given period. It is based on all the factors of production as they exist in that nation. If this is done by experts of publicly owned "People's Banks" who will issue financial credits in accordance with the limits of this estimate, controlling the rate of flow of credit for the people's good, then we can abolish poverty and depression, and create prosperity.

The method which these experts will follow is most intriguing. They will not only fix prices for the producer, but will require him to *sell below cost*, so that he will have to come to them to get the difference between the actually selling price and the price authorized by the bank. This plan is designed to give the bank complete control over the producer, whom its experts can punish by withholding the difference.

The People's Banks, one to each industry, are to be controlled in matters of broad policy, though not in detail, by the people themselves. Each worker will have an equal vote as to what purposes increases in production shall be devoted—whether to capital, expansion, or for consumption goods for themselves. The experts will determine how much to lower or raise prices to secure the desired effect. If the people wish to heighten their standard of living, for example, prices should be lowered on consumption goods, and the experts will have to juggle prices until consumption goods are cheaper. Douglas thinks that this system will make for real democracy, for he believes that the people cannot judge of the technical questions with which politicians now merely confuse them, but that they are capable of determining what they want in their economic lives, if the issues are broad and simple enough.

The price-fixing is not to be according to the arbitrary opinion of the experts, but is to be based upon a definite formula—the ratio of consumption credit to Real Credit. A proper fraction is supposed to always result, since Real Credit (the correct estimate of production in the future) will always outrun the consumption credit issued on present production, inasmuch as men working in social cooperation get an increasingly greater "unearned increment" (everything above what a single person could get entirely by himself), from the division of labor and the use of capital. Next year's production will always be greater than this year's—if rising prices do not prevent



the people from buying the goods which now pile up into surpluses.

The banks will make the profits (the present owners of businesses after paying all credits into the banks of their particular industries, will get only a flat rate of interest on an assessed valuation of their properties) as well as direct the industry, re-investing such profits in the industry. These capitalizations of profits will be represented by interest bearing shares which the bank will hold on account for the workers, equally dividing the interest among them. Eventually, with the increase of the unearned increment, efficiency of production will rise to the point where a few workers will be able to supply all the desires of the people. By that time the constantly re-invested profits will supply the technologically unemployed population with the necessary purchasing power to keep the system running. Major Douglas expects that this happy consummation would come about not long after the adoption of his plan, for he thinks it probable that the potential productive power of modern society, if allowed to operate efficiently, is already equal to the full supply of men's wants with little labor. Moreover, it would not be possible under his system, to hold back invention for the purpose of saving private vested interests when everything would be controlled in the private interest. And men and money would be eagerly devoted to developing the direct use of solar energy when society would have the means to purchase its project, and evidently considers its success of prime importance to social economy.

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I hope that all of the above is clear to the reader, but I doubt that he will easily master the subject from this brief summary. It is more likely that it will master him if he tries to grapple with it seriously. The author himself barely emerged from the study of it with his sanity, and his head is bald from tearing out his hair in a fine frenzy of confusion over the difficulties of "Credit Power and Democracy," Douglas' magnum opus. However, he has pulled through with sufficient strength to present the reader with the main elements of the Social Credit Plan of Douglas. If that reader is still uncertain what those main elements are, I will leave him with this final word: Douglas has had some popular success because he attacks a real and notorious evil, though a minor one, in the practice of bankers of issuing credit on false values, and because he promises something for nothing with a vengeance. His finer-spun theories are not at all understood by most of his followers, who are content with a Devil and a Paradise.

—DAVID J. CHODOROV.

I DO not like the English landed system, with its absence of peasants and its predominance of squires.

CHESTERTON.

## "First the Blade—Then the Ear"

SOME of the students of the Henry George School of Social Science have lately been interested to discover in an old number of the *SINGLE TAX REVIEW*, what was undoubtedly the germ idea of the School as it is developing, in a paper by Oscar Geiger, read at a Conference in Buffalo, September, 1914. Their idea is to present this paper in full, and then show, by comments on its contents, why they see it so clearly to be the H. G. S. of S. S. in embryo.

(The points especially commented on in the article have been italicized and are taken up in order.)

### READING CIRCLES

BY OSCAR GEIGER

Fundamental Social Betterment, to be lasting, must come in response to a demand from the people, and the people must understand before they can demand. If we are ever to get the Single Tax on the statute books so that it will stay there, we must first get it into the minds of the people. We must get the people to want it and to get them to want it we must first get them to know it.

It is proper for us to try to get whatever measure of justice we can by such legal enactments as with the present state of the public mind we are able to obtain, but we must not delude ourselves into believing that merely direct effort toward legislation in the people's state of mind will secure fundamental justice, or if by chance it does, that it could be maintained. The people themselves would soon undo or sanction the undoing, passively if not actively, of any law, however just or right it may be, which they did not understand. Vested interest would soon proclaim the sacredness of contract, the inviolability of predatory and time-honored institutions, and successfully show how their sacred rights were being violated.

The people are not proof against resounding phrases, against the wiles and cunning of the political boss and the corporation hireling. They must be educated. There is no enduring short cut to freedom. The path of democracy lies through education.

This accepted, there remains only the selection of effective methods of educating the people. There are many ways, most are expensive, while many are fraught with the requirement of undue effort, and therefore wasted energy. Most methods of educating the people are a sort of hit and miss affair, more often missing than hitting.

This wasted energy we should try to overcome, and I believe the method I am about to propose in great measure does this. I hope you will give it your consideration.

Our propaganda should be separated into two component parts. First, publicity, by which the Single Tax is brought to public attention sufficiently to stimulate the curiosity and the interest of the individual to want to know something about it; and, secondly, educating that aroused interest.