The Distribution of the Community's Credit

Conventional schemes for financing a Universal Basic Income tend to take the existing financial system as a given and to assume that there is nothing fundamentally wrong with it. But what if that system is, in fact, deeply flawed? What if it does not operate in full service to the public good, in full service to the common good? What if, through the type of monetary reform known as Social Credit, the provision of an unconditional and basic level of income for every citizen could be secured without taxes and without increasing the public debt?

There are two key assumptions of the existing financial system, that is, of the existing banking, cost accountancy, and taxation systems, which need to be put into question.

The first is that it is normal, or appropriate, or good, for 95% or more of a nation's money supply to come into existence as a debt or a debt-equivalent to the private banking system.

Though the knowledge of this fact has been in the public domain for decades, it bears repeating: banks do not act as mere intermediaries between savers and borrowers; rather, they create the money that they lend out of nothing in the form of accounting entries, i.e., in the form of bank credit, whenever they lend, purchase a security, or otherwise spend money into the economy. In accordance with the principles of double-entry bookkeeping, the creation of credit generates both assets and liabilities on a bank's books. Credit that is held on deposit in a bank, regardless of its origin *via* a loan, investment, or bank operating expense, is accounted as a liability, while the loan, securities, or bank property, etc., are regarded as assets.

What we normally think of as money, i.e., notes and coins, are typically printed and minted by a government authority; but these merely constitute the economy's small change, as they represent 5% or less of the monetary aggregate at any given moment in time. For all intents and purposes, the creation and issuance of money in the form of credit is the prerogative of the private banks. This means that the private banks, or the private banking system as a whole, exercises a monopoly on credit and since credit constitutes most of the money supply, this bank monopoly is a near total 'money-monopoly'.

But where is it written that all money must come into existence and be injected into the economy in this manner? What if at least some of a nation's money supply could be created by another agency, let's say a government or state agency, and be delivered in another form, let us say in a form that is free of debt (or the necessity of repayment) and of any other costs, i.e., in the form of 'debt-free' credit?

The second common assumption that needs to be critically examined is the notion that the financial system is self-liquidating, i.e., that all costs that are incurred in the process of production are simultaneously distributable as incomes and that there is always enough income in consumer pockets to offset and to liquidate all of the corresponding costs, i.e., that costs and incomes are always in an automatic balance.

But what if this basic assumption, sometimes referred to as Say's law, no longer holds under modern, industrial conditions? What if some of the costs which producers must meet in order to be solvent are NOT distributable as concurrent income to consumers? What if the financial system is not self-liquidating, with the flow of costs and hence prices exceeding the flow of distributed incomes to owners, management, and workers, such that the income in people's pockets – regardless of its origin – is not automatically sufficient to offset and to liquidate the corresponding prices?.

Perhaps the easiest way to see that the existing financial system is NOT self-liquidating is to consider that if it were, money would be borrowed from the banks, thus registering a debt, would be distributed to owners, managers, and labour in virtue of their 'ownership' of the various factors of production in the form of profits and/or rents, salaries, and wages, and then that income would be used to purchase the goods and services that had been made available by industry. Industry, in turn, would take these consumer payments and pay off their production loans. The circular flow would be in a perfect state of equilibrium with money and debt dynamically cancelling each other out of existence, leaving behind a residual debt of nil.

But this is not what we observe. Instead, what we see is that the debts owed to private banks tend to increase exponentially over time, as governments, businesses, and consumers are forced to borrow more and more money into existence in order to make up for the lack of cost-liquidating consumer purchasing power or income that has been distributed in the normal course of production. The economy's circular flow can only attain equilibrium between the flow of consumer prices and the flow of consumer incomes by continually increasing society's collective 'mortgage', if you will, by borrowing additional money from the banks for the purposes of distributing more incomes and profits (*via* additional production) and of providing increased purchasing power in the form of consumer loans. Without the continual injection of new and additional debt-money the economy would collapse.

According to the proposals presented in the interwar years by the founder of the Social Credit movement, Major C.H. Douglas, the most effective, efficient, and just method of returning the financial system to a position of self-liquidation, wherein these massive debts are not allowed to pile up, would be to a) break the private banks' monopoly on money creation and issuance by b) establishing a National Credit Authority, an organ of the state, to calculate the volume of 'debt-free' credit that is needed to balance incomes with prices and to distribute that credit directly to, or indirectly on behalf of, the consumer. This would allow the producer to recover all the costs of production with a fresh flow of adequate cost-liquidating income, leaving no residual debt behind and hence contributing nothing to an ever-increasing mountain of societal debt, while ensuring the full and easy distribution of goods and services to consumers.

The direct payment of 'debt-free' credit to the consumer was referred to by C.H. Douglas as a 'National Dividend' and it bears certain remarkable similarities to a basic income. It would be a periodic, say monthly or biweekly, payment made to each citizen of a country, regardless of employment status. Under modern, industrial conditions, it was anticipated that such a

payment would at least be sufficient to meet one's basic needs for food, clothing, shelter and so forth.

The good news about the prospect of a dividend of this type, a dividend financed *via* monetary reform, is that it shows that it is not at all necessary to provide a basic income by means of redistributive taxation, i.e., by robbing Peter to pay Paul, or by means of increasing government debts.

If Say's law were correct and enough income was always automatically distributed to meet the demands of costs and prices, then yes, the only way to finance a basic income would be to take, by means of taxation, from those who have more to give to those who have less, or else for the government to borrow more money into existence to make up for the monies saved or invested by the 'rich'. But since Say's law does not hold, the problem with the financial system is not so much inequitable distribution – though unjust and even obscene inequities do exist – but rather insufficient income distribution. **We are not, as a community, paid enough to enable us to purchase in full what we as a community produce, while simultaneously liquidating all of the costs of production**. This is the greatest inequity with which all of us should be concerned before being preoccupied with any others.

Social Credit is designed to remedy the situation. For, the financial system can either serve the public interest, the community's common good, optimally, by enabling us to produce and deliver all of the goods and services that people need to survive and flourish, and doing this with the least amount of resource consumption and human labour, or it can serve private interests at the expense of the common good. To some significant extent, the existing system does the latter rather than the former, and until we get it to do the former, any and all talk of reform leaves the fundamental social inequity unresolved and is therefore tantamount to re-arranging deck chairs on the Titanic instead of altering the course of the ship in a safer and more constructive direction.