F.A.C.S. REPORT
FOUNDATION for the ADVANCEMENT of CHRISTIAN STUDIES
P.O. Box 241 Engadine NSW 2233
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Vol. 12, No. 12 December, 1993

FOOLS RUSH IN

SOCIAL CREDIT and the NORTH-SOUTH DEBATE

by Ian Hodge

In the early part of this century, a British engineer by the name of C.H. Douglas began to expound his ideas for economic reform. These concepts have become known as Social Credit. For a number of very good reasons they have never become accepted by the economics profession nor the public.

Social Credit is offered as the Christian form of economic theory, although its followers say it is much more than just economic theory. It is, they argue, "the policy of a philosophy." Thus, Social Credit has been defended in the name of Christianity.

In a number of issues of our newsletter *Christian Economics* I undertook a theological analysis of the writings of the Social Crediters. In a four-part series I quoted extensively from their writings to show they had, at best, a very defective theological position.

Now, in a new book, *Salvation Through Inflation: The Economics of Social Credit,*[1] Dr. Gary North has provided us with an economist's critique of the writings of C. H. Douglas. The book was written in response to an earlier publication by Australian Social Crediter Chas Pinwill, who attempted to respond to Dr. North's biblical arguments in a book entitled *The North-South Dialogue.* It is not my purpose here to review Dr North's book. It is my purpose, however, to lend weight to the economist's argument that Social Credit does not, and cannot, provide a proper analytical framework for economic theory. Not only does it have a defective theology undergirding it, but it also has a superficial view of economic theory and issues that arise from the study of economics.

The response by the Social Credit movement to Dr. North's book is interesting. Until Social Crediters provide a response to their critics, they can hardly expect people to change their views and agree with them. Public debate is needed in order for each side to clearly present its case. Then, the person who wishes to know the truth can study the arguments from both sides and make up his own mind which side offers the most comprehensive analysis of both theology and economics.

The title for this essay was prompted by a 1986 article by Social Crediter Jeremy Lee who, replying to an article of mine on the socialist tendencies in Social Credit theory entitled his response "Where Angels Fear to Tread." Unfortunately, I am not an angel, so I have again ventured forth on the topic of Social Credit.

I am occasionally asked why I publish articles against Social Credit. I do so for two reasons. First, I get more requests for such articles than I do any other topic. People don't read lengthy books on economic theory today. They could find all they need about Social Credit in some of the better economic text books that are available. Since they don't read these, I hope they will read these shorter essays. My second reason for writing against Social Credit is theological. Too many Christians have adopted Social Credit without exploring the depths of its teaching or its underlying theological assumptions. On both accounts Social Credit is wrong. It is the incorrect theology and the incorrect economic assumptions I wish to expose. For there will be no clear call for a Christian response to the economic problems of this country until Christians are united on what Christian economics really is. That will involve debate, discussion, and much searching by those looking for the answers. It is my prayer that the articles I have produced on this topic over the years will benefit readers in helping them understand the issues. While I don't expect to convince hardcore Social Crediters of the error of their ways, a number of people on the fringes have taken the time to think through the issues raised. They know that the Social Crediters have no response, for many of them have sought responses from the Social Credit movement in Australia to no avail. They will wait a very long time for a response. In this essay I look at the heart of Social Credit teaching the A + B Theorem which is supposed to provide proof of Social Credit theory. Keep reading and decide if you're willing to accept C.H. Douglas's illogical proof of his theory.

Fools Rush In

At the heart of Social Credit teaching is the A + B Theorem. To summarise the Theorem, Douglas argued that A is equal to the wages paid out in any given period. B payments are those which are not wages, salaries and dividends and which constitute the remaining total costs of production. Selling prices must include the costs of production (i.e. A + B) plus profit for the entrepreneur. Prices, therefore, cannot be less than A + B. However,

1. Tyler, TX: Institute for Christian Economics, 1993. Available from F.A.C.S. for $18.25 (plus postage).

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since income received in the nominated period (A payments) is less than the selling prices of goods brought to market in the same period, there must be goods which remain unsold for lack of money to buy them.[2] Remember, Major Douglas was developing these ideas early this century when the Great Depression was looming world wide. Unsold goods and unemployment were common, and explanations of the phenomena were demanded. That is, explanations other than those which the majority of economists at that time would have understood: inflation eventually leads to depression. And the inflations which paid for World War I were taking effect by the end of the second decade of this century.[3]

There are several points of disagreement in this theorem, not the least of which is that there is no proof provided by Mr Douglas that this should be the governing principle for economic theory. He *assumed* this position, for although the theorem is an interesting piece of arithmetic, there is no evidence that mathematics should be the regulating principle of economic theory. Since the theorem is arithmetic, dealing with measurable quantities, it is not economics, and Social Crediters are begging the question by insisting that we permit its entry into the economic debate. Why should we? The theorem itself presents no reason *why* it should not only be permitted into economic debate but, according to the Social Credit theorists, become the governing principle in economic theory. We are simply told it has "proven" something. It is the thing it is supposed to have proved, however, that provides our second point of disagreement with Social Credit theory.

Social Crediters argue there are continuing cases of "market failure," as defined by a consistent Social Credit economic theory of proper performance. The economy operates in terms of a circular flow of money, and whenever this flow is interrupted, this interference cannot be corrected rapidly and effectively by market pressures. Social Credit theory is capable of identifying these interruptions using statistical indicators by applying the A + B Theorem. Social Credit theory is also capable of supplying State action (or action by the bankers, as the case may be) that will ensure that sufficient purchasing power is available to buy all goods and services accessible at today's prices.

Major Douglas, in apparent scientific manner, is not simply content to state his theorem without providing some kind of proof for it. He is at least aware that any engineering model requires a working example to show how engineering principles are put to work. But we are not so sure that the example he provides proves his case. Since "the economic system may be said to depend upon this matter" (i.e. the A + B Theorem)[4] an analysis of the illustration Major Douglas uses — an illustration which is designed to convince us of his theory — is necessary. Mr. Douglas's illustration of his theorem is so incredible I am going to quote it at length. Read carefully:

> Let us imagine a capitalist to own a certain piece of land, on which is a house, and a building containing the necessary machinery for preparing, spinning, and weaving linen, and that the land is capable of growing in addition to flax, all the food necessary to maintain a man. Let us further imagine that the capitalist in the first place allows a man to live free of all payment in the house and to have the use of all the foodstuffs that he grows on condition that he also grows, spins, and weaves a certain amount of linen for the capitalist. Let us further imagine that after a time this arrangement is altered by the payment to the man of £1 a week for the work on the linen business, but that this £1 is taken back each week as rent for the house and payment for the foodstuffs.

Radical Humanism

by R.J. Rushdoony

Over the years, I have, on several occasions, talked with some evangelists, and members of "revival teams." The experience has been uniformly the same. Their position has been one of a lowest common denominator theology. They have been vague and general on doctrines such as the sovereignty of God, His eternal decree, creationism, and much more. Moreover, the more concern I showed for Biblical knowledge, the more irritable they became. The discussion was usually terminated by their objection to "fine points of doctrine," and a charge that I lacked "a passion for souls." My feeling in return was that they lacked any concern or passion for God and His word. The important thing for them was *man*, the conversion of man and the cause of man.

Their position was and is *humanism*. Because of their concern for men, and for "saving" men, they are to that degree unconcerned about God and His word as far as priority is concerned.

The roots of this humanism go deep in every branch of the church. Pietism in the 18th century was humanistic to the core. Its concern was religious experience, the personal experience of the believer rather than God's order and His word. Pietists like Madame Guyon placed their feelings ahead of all godly authority.

In Protestant circles, humanism led to revivalism, to an insistence that true faith was identical with a form of man's experience rather than a God-given grace which led to an assent to God's word and authority.

The end result of this humanism in religion is a radical erosion of standards and law and a progressive insistence that the true test of religion is not the word of God but service to man. One radio priest has declared that God must be identified with our neighbor. At one Protestant Bible Conference in the summer of 1969, high school youth were taught songs of civil revolution in the name of evangelism. The goal of Christian activity, according to one chorus, was human unity, and the test of Christianity, "love," all men walking together. In France, Father Cardonnel has written, "From now on, God exists only in downtrodden people; that is what God's

2. The "authoritative exposition" of the A + B Theorem is set forth in C.H. Douglas, *The Monopoly of Credit* (Sudbury: Bloomfield Books [1931] 1979), especially chapter 4.
3. See Murray Rothbard, *America's Great Depression* (Kansas City, KS: Sheed & Ward, [1963] 1975). Historian Paul Johnson also covers this period in his important study, *A History of the Modern World From 1917 to the 1980s* (London: Weidenfeld & Nicolson, 1983.)
4. C.H. Douglas, *The Monopoly of Credit*, p. 39.

Let us now imagine that from the time the flax is picked to the time that the linen is delivered to the capitalist, a period of six weeks elapses. Obviously the cost of the linen must be £6, and this will be the price, plus profit, which the capitalist would place upon it. Quite obviously only one-sixth of the purchasing power necessary to buy the linen is now available, although "at some time or other" all the £6 has been distributed. It should also be noticed that the arrangement is a perfectly equitable arrangement. The employee obtains definite return for his services in the form of bed, board, and clothes, which quite probably he might not have been able to obtain had not the knowledge and organisation of the capitalist brought together housing, flax, food, and machinery. In other words, the problem disclosed is not a moral problem, it is an arithmetical problem.

Let us now imagine that half of the employee's time is devoted to making a machine which will do all the work of preparing and manufacturing linen, and that the manufacture of this machine takes twelve weeks. We may therefore say that the machine costs £6, the total value of the production of machine and flax being still £1 per week. At the end of this period the machine is substituted for the man, the machine being driven, we suppose, by the burning of the food which was previously consumed by the man, and the machine being housed in the house previously occupied by the man, and being automatic. The capitalist will be justified in saying that the cost of the operation of the machine is £1 per week as before, and if there is any wear, he will also be justified in allocating the cost of this wear to the cost of the linen. It should be noticed, however, that he will now not distribute any money at all, since it is obviously no use offering a £1 note a week to a machine. He will merely allocate this cost, and once again the allocation will be perfectly fair and proper, but no one will be able to pay the price, because no one has received any money.[5]

The salient points of the illustration are this:

1. This is a two-person model of the economy. Everything revolves around the capitalist and the worker.

2. The capitalist owns land and buildings.

3. The capitalist permits a man to live "free of all payment" on the land.

4. The tenant (whom Mr. Douglas refers to as an employee), however, must grow, spin and weave a certain amount of linen for the owner.

5. After a while, the capitalist begins to pay the employee £1 per week for the linen.

6. The owner recovers this monetary payment by charging the tenant £1 per week rent.

7. Production cycle for the linen is six weeks.

8. Since the "cost" of production is six weeks at £1 per week, the minimum cost of the linen must be £6, plus the capitalist's profit.

9. The worker, having paid out his monetary reward each week for rent, does not have enough money at the end of the six week production cycle to buy the linen.

10. The tenant employs half his time building a machine which will eventually replace his efforts at producing linen.

11. The capitalist eventually replaces the man with the machine.

12. Since the capitalist is no longer paying out money in wages, no one has any money to buy the linen produced by the machine.

13. Conclusion: unsold goods in the marketplace.

This is the fantastic illustration given to us to irrefutably "prove" the accuracy of the A + B Theorem. What is even more amazing is that people, sensible in other matters, have fallen for such outrageous reasoning. Does this example prove the theorem? We think not, and for good reasons. There are so many unwarranted assumptions in this illustration that it is hard to know whether Major Douglas is being serious or trying out a great prank. "The jokes on you folks. If you can't see through my fallacies, then you deserve everything you get."

Kinds of Rental Payments

First, notice Mr. Douglas asserts that the man rents the house "free of all payment." The monetary rent of £1 per week is added later in the relationship between the land owner and the tenant. Yet we must disagree with

5. *Ibid.*, pp. 39-41.

transcendence amounts to." For Father Maillard, a French Franciscan and director of *Freres de Monde,* revolution is an absolute value in itself. He has declared, "If I noticed that my faith separated me by however little from other men and diminished my revolutionary violence, I would not hesitate to sacrifice my faith." In the U.S., at Notre Dame, a non-Christian layman, Bayard Rustin, has been added to the board of trustees.

The Protestant churches have extensively identified true Christianity with the love of man, and the true Christian tradition with revolution. The church, according to a National Council study guide of 1966 must overcome all "dividing walls" between men in order to create a truly human community. "The church does not exist for itself. It exists for the world, as the part for the whole." But, according to Scripture, the church exists for Christ, *not* the world. The gospel presented by one Protestant church after another is the gospel of the Kingdom of Man, not the Kingdom of God.

Radical humanism commands every area of the church today. Man is so important, that the supreme offense is any kind of resistance or opposition to man. Jacques Ellul says of America, "Why, in the face of the black violence they provoked, do they not seek peace *at any price?"* He calls for a humanistic "love that is total, without defense, without reservation," as the answer (Jacques Ellul, *Violence,* p. 174). For Ellul, the Christian is not God's man, but man's spokesman: "The Christian must be the spokesman for those who are really poor and forgotten" (p. 153). And why not? For Ellul, "Values have no meaning except as they are lived by man! We always come back to man. Everything depends on how man relates to man" (p. 113).

Humanism is the basic revolutionary force of our age. It is not surprising at all that the average European, Canadian, and American is indifferent to the Marxist threat. By his humanism, amoralism, and implicit anti-Christianity, the average man is only removed from Marxism by degree, but alien in kind to Christianity. To condemn Marxism, he must condemn himself. Marxism makes man the absolute; so does humanistic man today. Marxism is environmentalistic; it believes that evil is in the environment, in society, not in man. Again, most people today would agree. Marxism believes that a new politically ordered arrangement of society is the answer to all man's problems. This is precisely the faith of most people today. Marxism looks to man for salvation, and again most people agree. Is it any wonder that they refuse to see this claim made by Major Douglas that the worker lives rent free on the capitalist's property, and the reasons for our disagreement are contained in Mr. Douglas's own version of the story. The man doesn't live on the property rent free. The capitalist charges him rent. The production of linen is the payment to the capitalist as rent for his property. The fact that there is a "condition" in the arrangement is ample evidence that the tenant is under obligation to "pay" for the use of the property by providing the capitalist with part of the goods he produces on that property.

Now the Social Crediters cannot escape this fact by arguing that the capitalist charges no *monetary* rent in the first instance. What is the capitalist going to do with the goods he receives from the tenant? In the real world he could probably sell them to other people and thereby convert the goods to money. If the capitalist were to do this, he would have received *money* as rent for the property. In this instance, however, his monetary reward would have been an *indirect* monetary rent for his property. While it is true that initially the tenant hands over no monetary rent, it would be incorrect to assume that the land owner receives *no* money as rent.

To be fair to Mr Douglas, however, it must be pointed out that there can be no sale of the goods by the landowner to a third party in this example. The reason for this is that Mr. Douglas has given us a *two-person* model of the economy. Time and time again, his conclusions — which I'll say more about later — are based on the fact that there are only two people in the economy. Provided we are willing to accept Mr. Douglas's proposition that the economy is made up of only two people, and since therefore the capitalist is unable to sell the goods he receives as rent, it is true *within the bounds of these imposed limitations* that the capitalist receives no monetary rent for his property. Keep in mind this qualification because it will have additional importance as we continue this analysis of Mr. Douglas's proof for his theorem.

Second, ask yourself this question: Why would the land owner introduce a monetary payment for the linen at a later date? Was the first arrangement they struck not good enough for either person? If so, which one of the two men suffered in the arrangement? After all, we assume that both the capitalist and the employee *voluntarily agreed* that the initial arrangement was fair to both of them. Why, then, was the arrangement inadequate? We are not told.

While we note that the capitalist now pays the worker £1 per week for the linen, our curiosity is aroused even more by the fact that the capitalist then charges the employee monetary rent exactly equal to the amount he is paying for the linen. According to this illustration, the worker doesn't get to keep the money anyway, since he returns it in rent. Why both of them should indulge in this charade of swapping the £1 note each week is not told to us. There is no change in circumstances for either in this case, since the money payments are equal. There is *no net benefit* to either the capitalist or the worker in making this monetary transaction back and forth each week. The only advantage is that it adds, in some illogical manner, to Major Douglas's theorem. Remember, this illustration is designed to convince us of its accuracy.

It is indicative of the dating of Mr. Douglas's writing that his illustration omits the effects of income tax on the money which is exchanging hands. If the worker was paying tax on his £1 per week, he would not have the full amount to hand back. And if the land owner was also eligible to pay income tax, he would receive less again when the tenant paid him the £1 rent charge. Since income tax was not payable in the 1920's when Major Douglas was developing his theorem, we should merely note the fact and remember that the theorem, if it has any application at all, may only be applicable to a non-income tax paying society.

Economists, though, have pointed out for decades that in a two-person economy money is unnecessary. Money is a product of an economy that exhibits the division of labour. Only as money is introduced into an economy can people escape the severe limitation that is imposed upon them by the necessity to make exchanges in terms of all goods and services rather than a single commodity which is used as money. There is simply no reason — especially evident in the example Major Douglas provides — why two people would ever need to develop money. And there is even less reason why two people alone in society would ever need to swap the exact monetary amounts each week.

What you need to understand, therefore, is that Mr. Douglas provides us with an example of an economy which doesn't exist. This is an example he has made up. He has made it up to "prove" his theorem. Yet there is not one real-life example of an economy which operates in the manner of Mr.

Marxism as a threat? To condemn Marxism, most people must then logically condemn themselves. Instead, they join the humanistic revolution. Billy Graham has said "Amen" to revolutionary oriented evangelism, and why not? His basic humanism requires that he move in the direction of a more systematic humanism.

Humanism today governs virtually every country, and it is triumphant in virtually every church. Only small pockets of resistance to humanism remain in Christendom. The triumph of humanism seems virtually complete.

But humanism can no more bring about a successful social order than suicide can offer a better life. Humanism is suicidal. It erodes every form of social and religious tie and creates an atomistic man. This atomistic man boasts of his god-like status and yet lives in radical alienation from all other men. "Communication," the most elementary and basic reality of every normal society, becomes a major problem when humanism infects a people. Men lose the ability to communicate, because they have nothing to communicate. In my study of *Intellectual Schizophrenia,* I cited the witness of Georges Simenon's novel, *The Man Who Watched the Trains Go By* (1946). Simenon portrays an empty man in an empty world of meaningless men and events, where "Nobody obeys the laws if he can help it." The main figure, Kees Popinga, tries to explain the series of events which lands him in trouble, to tell the *truth* about himself. He begins writing an explanation, "The Truth about the Kees Popinga Case," but he can write nothing, because, in a meaningless world, nothing has a truth which can be communicated. Humanism can only corrode and destroy; it is a disintegrating force. Some humanists even boast of it. I have heard some point to the radical disorders of our time as proud evidence that humanism is on the march. An old rabbinic saying stated, "Without law, civilization perishes." Without God's law, civilization dissolves into anarchism.

In the face of all these things, the command of St. Paul remains, "Rejoice evermore" (I Thess. 5:16). This seems like a strange word from a persecuted saint, but it rests on a basic premise that, "in all these things we are more than conquerors through him that loved us " (Rom. 8:37). Since God is on the throne, the inescapable victory is our's in Christ. Life is indeed a battlefield, but a triumphant one for the believer. The faith set forth in all Scripture is a victorious one. Again, an old rabbinic proverb sums up this aspect of Scripture: "The world is a wedding," i.e. a place of rejoicing. Because Jesus Christ is the Bridegroom, all friends of the Bridegroom rejoice (John 3:29), be-

Douglas's example.

Now we have two choices when we develop economic theory. We can either base our theories on observation of the world and how it works, or we can make up the theories and then try to get the real world to somehow "fit" the theory. This is what Social Crediters have done with the A + B Theorem.

Distribution of Money

Third, this leads us to our major disagreement with Mr. Douglas's illustration. The Social Crediters are hung up on the distribution of money. Unless someone receives money they cannot purchase goods and services. In other words, they want us to believe that two people (the only two people according to Mr. Douglas's example) cannot exchange the things that they possess unless they have money.

Such a claim, however, is simply untrue. Most of us, at one time or another, have made exchanges without the use of money. As a boy, this writer spent most Saturday afternoons at the local picture theatre where we valiantly cheered a host of "good guys" as they upheld law and order in the wild, wild west or the jungles of Africa. Many of us at the theatre, however, were also loaded with an armful of comic books which we swapped (exchanged) with one another. We had no money, and we didn't need it in the circumstances. We were able to get what we wanted — other comic books — without the use of additional money by exchanging with other theatre attendees. As an adult, this writer has again made similar swaps (exchanges) for goods and services which have involved no money.

In case you haven't noticed, the illustration under discussion also proves the point, that you don't need money to make an exchange. Recall that Mr. Douglas informs us that in the initial stages of the relationship between the land owner and the worker, the worker gets the use of the property provided he pays the landowner in flax. This is a non-monetary exchange if ever there was one, and it is ample proof that money is not necessary in order to buy (exchange) or sell (exchange) goods and services.

The point I'm trying to make here is that while money *facilitates* exchange in a complex economy, it is not *essential* for an exchange to take place. People do buy and sell, exchange, or "swap" goods and services directly without money. Again, this is evidence of the superficial claims made by Social Credit theory which endeavours to have us believe that unless there is money available no exchange is possible.

It should be observed that in this illustration which Mr. Douglas provides us with, there was *no money distributed* with which to buy the linen anyway, since the capitalist received all his money back when the rent was paid. The only person with any money in this illustration, is the capitalist. If this is the case, to whom will he sell his linen? And what will he ask in exchange for it? Why would the capitalist want money? Why does anyone want money? For one reason only: to buy goods and services. But if no one has any money, why doesn't the capitalist exchange his linen for other goods and services through simple barter? Unfortunately, we're not given the answers to questions such as these by Mr. Douglas. And so far, in the ongoing debate over the A + B Theorem, neither has any Social Crediter advanced answers to these questions.

Starving to Death

Fourth, why would the labourer invent a machine which, apparently, he *gives* to the capitalist? It seems fair to assume that the worker did *give* the machine to the capitalist, otherwise he would have money to buy the capitalist's linen. Again, Major Douglas avoids discussing this possibility, that the worker did have money which he obtained from the sale of his machine to the land owner. Maybe this question didn't occur to him. Yet it is a question which we think is fair under the circumstances. For if the worker had money from the sale of the machine then it is entirely possible that he could still purchase the linen which the land owner produced.

As usual, however, it is the conclusions drawn from this artificial example which we find questionable. According to Major Douglas, "no one will be able to pay the price [of the capitalist's linen], because no one has received any money." Remember that we are dealing here with a two-person economy, the capitalist and the employee. Since no money has changed hands, according to Mr. Douglas there can be no "sale" of the capitalist's linen. This is nonsense. What is there to stop the capitalist and the tenant exchanging the capitalist's linen in return for services of some kind from the employee? After all, this is what they were doing with the use of the landlord's property and the goods produced by the tenant.

Fifth, where did the worker obtain the materials with which to make his machine? Did he need any tools (e.g. spanner, hammer, rivets, metal-bend-

cause they hear His voice.

We are summoned by Scripture to join in God's laughter. The ungodly nations conspire and take counsel together against God and His anointed; their world-wide conspiracy seeks to overthrow God's law-order. But "He that sitteth in the heavens shall laugh: the Lord shall have them in derision" (Ps. 2:4). The triumphant laughter of God resounds over the fall of Babel, Assyria, Babylon, Rome, and all other empires of the past, and it shall resound over the humanistic tyrannies of today.

We live therefore in the last days of humanism. Its suicidal nature brings it to ruin as a result of its very triumph. Our problem today is not the strength of the humanists, for they are weak. It is the absence, laziness, and weakness of Christians.

Meanwhile, God's calling remains. Man was called by God to exercise dominion and to subdue the earth (Gen. 1:26-28). Man fell from his calling in his sin. He was restored into the image of God and his calling by the saving power of Jesus Christ. It is therefore man's duty now as ever to exercise dominion. The duty of godly reconstruction is an inescapable one. Nothing else can be a substitute for it.

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Financing Government

by Ian Hodge

Government finances have never been worse. New revenue measures are necessary to finance decades of deficit financing.

In a provocative article entitled "Highway Robbery" (*The Independent*, October 1993), journalist John O'Neill looked at changes in law enforcement. He found some interesting statistics.

For example, revenue from traffic fines jumped from $75.8 million to $173.4 million between 1985-86 and 1992-93. Other states fared little better. In South Australia the number of fines jumped from 3,545 in 1971-72 to 217,333 in 1991-92; Queensland more than doubled in the decade to 1991-92, from $125,500 to $300,000. Other states showed similar increases in revenue raised from traffic offences.

Naturally, speed cameras have accelerated the revenue stakes. In just one year, revenue from this source in NSW rose from $160,000 to $6.8 milers, etc.) to make this machine? If so, where did he get them? Did he buy them from someone else? If so, where did he get the money from? Did he make everything himself? Highly unlikely, but this is the only choice left if we don't admit he purchased materials for his machine from others.

If we admit he bought from others, however, then the worker must have had income from another source and used the money to buy these tools or else he exchanged more of the goods he produced on the capitalist's land in return for tools. To ask this question, however, is to again raise the issue of just how many people there are in this economic model. Mr. Douglas speaks as if there are only two, the landowner and the tenant. We have a suspicion, though, that while Mr. Douglas only refers to two people in an economy and makes his deductions from this limited model, he really has in mind an economy with many people. These additional people he conveniently omits from the discussion. Why? Because to admit their existence would force a change in his theories. Rather than change his theories to fit the real world, Mr. Douglas hopes that we won't ask too many questions — embarrassing questions which Social Credit theory is incapable of answering and which expose the deficiencies of the A + B Theorem.

Sixth, we are not told, but we assume, that since the worker was replaced by his machine, he was unemployed as a result of the fruits of his own labour. Since the capitalist housed the machine in the home which he initially rented to the employee, fed the machine the food which was produced, we can only assume that the worker must have remained on the property to produce the food, yet didn't get to eat any of it. (Maybe there was someone else there, another person not mentioned by Major Douglas, who produced the foodstuffs. But then we're talking about a three-person model of the economy, not the two-person model so necessary to Mr. Douglas's theorem.) In addition, the employee lost the roof over his head. The only conclusion we can come to is that the worker either starved to death, or caught pneumonia and died — in which case he didn't need to buy any linen. The alternative to this is to assume something which Major Douglas doesn't, that the worker left the property and did *something else.*[6] But if this is the case, why couldn't the capitalist sell his linen to the worker or the person who was there producing the food for the machine? Come to think of it, why didn't he simply sell the linen to someone else in the first place?

Seventh, we want to be fair to Major Douglas. He has given us a *two-person* model of the economy. We are led to believe that there was no one else with whom the capitalist might trade. This is why the capitalist can't sell his linen and the worker remains unemployed. But did the capitalist own *all* the land available? Why didn't the worker go and find a piece of land for himself and grow his own food? Perhaps the worker starved to death since he had nowhere to go, no job, and no land on which to grow his own food. How did the capitalist survive? Did he begin to grow his own food? Apparently so, for there was no one else to grow his food once the worker left his land (unless he's going to change his model to a more-than-two-persons model). Anyway, this dreaded machine, which has caused the real problem in the first place, is consuming all the food produced. So presumably the capitalist starved to death too! End of tale. End of discussion. End of useless theorem.

The Need for Money

Eighth, another problem emanating from this two person model is the existence of money. Why should the capitalist have money with which to pay the worker, only to have the worker pay it back again in rent. How did the worker purchase the linen which the capitalist produced? What did the worker use as money when he purchased the linen? (I assume Major Douglas wants us to believe that the worker was the person who was going to buy the linen. If not, then he's now changed it to a three-or-more-persons economic model without telling us.)

In a two-person economy there is no need for money. Exchange between the two people will be an exchange of the goods each has at his disposal. Simple barter is all that is necessary. Money not only facilitates exchange, it is necessary for the division of labour. In a two-person economy there is no need for money because the division of labour is so small that money is not required.[7]

Now Major Douglas seems to recognise that barter is all that is necessary because the capitalist rents his land in return for the worker's labor. They exchange goods and services. No money was needed. But Major Douglas is cheating. If there are more people in existence, why doesn't the capitalist sell his linen to them? This question is not answered, since the introduction of a third person would destroy the point he is trying to make, i.e. that once the machine took over and the land owner paid no wages, there was no way that anyone could buy the land owner's linen. This is plainly nonsense.

lion — from just 13 speed cameras! In Victoria, the increase for the same period was from $19.1 million to $55 million. Understandably, Victoria is in need of the money. But this steep increase should be of concern to all.

We are reminded of the argument of Edward A. Powell: "Fines, which are paid *to* the state for law violations, are pagan forms of revenue collecting and punishment. They are not Biblical. They are not because they pervert judgment and stem from a pagan view of man. They pervert judgment because the state will put more effort into the enforcement of those laws that bring the greatest amount of revenues to the state coffers than those that do not." (Edward A. Powell & R.J. Rushdoony, *Tithing and Dominion,* Vallecito, CA: Ross House Books, 1979, pp. 67-68). Evidence of this is found in O'Neill's claim that there are about 200 more police officers dedicated to traffic work than there are dedicated to criminal investigations in NSW.

Powell continues: "Those laws that have a low rate of monetary return per cost of enforcement will be less likely to be enforced than those that bring a high rate of return to the state. This is true because fines that are paid to the state stem from the pagan view that man is an economic creature. This view holds that man lives for material goods and not for his god. If this view, that man is an economic animal, is generally held by society, it can be expected that the state will also cling to this belief since it is composed of men. Hence, the state will be motivated primarily by economic concerns and will, therefore, tend to stress the enforcement of those laws that bring the highest rate of economic return. This wrests judgment in the enforcement of law. For this reason, Scripture *never* gives the state the power to impose fines nor to receive restitution for violations of God's Law. The state is to be free from favoritism, both toward itself and toward others. The levying of fines by the state for violations of law is ungodly and is, therefore, destructive to both man and his society" (*Ibid.,* p. 68).

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6. Frederic Bastiat, trans. Arthur Goddard, *Economic Sophisms* (Irvington-on-Hudson, NY: Foundation for Economic Education, 1968).
7. Ludwig von Mises, *The Theory of Money and Credit* (Irvington-on-Hudson, NY: Foundation for Economic Education, [1912] 1971), p. 29ff.

One of the great deficiencies with Social Credit theory is that it sees everything in terms of money prices only, rather than seeing the economy functioning as an exchange of goods and services with money being the *medium of exchange*. This point Social Crediters will not concede, for to do so will ruin nearly every argument they've used to defend their theories. They have a defective monetary theory, because they cannot tell us how money developed historically. If they admit that money can develop historically, that is through the division of labour and the use of one commodity which functions as money, then their insistence that money must be what they say it is falls to the ground. They treat money as if they were tickets for a train ride, which is a partial understanding of *paper* money. Paper money, however, was originally warehouse receipts, a claim on real money, which historically has been gold and silver, though could be other items of economic value.[8]

Here we can understand why Major Douglas does not want to introduce a third person. He wants the reader to believe that because the worker received no monetary payment for his work, he cannot buy goods from the capitalist. This is nonsense. Why couldn't the worker have gone to work for *someone else* and spent his wages on the goods of his former employer? But where did this third person get the money from to pay the worker? See the problem Major Douglas has created for himself? Social Credit theory cannot explain this. Mr Douglas got himself in a tangle and makes no effort to extricate himself or his readers from the mess. Instead, we are told we should simply accept his theorem as being an illustration of the way the economy really works. This is not economic theory but faulty logic.

Essential Nonsense

It is necessary for us to completely understand this point about the two-person model which Mr. Douglas uses to "prove" his theory. This model is so absolutely essential to Social Credit theory that Bryan Monahan uses it in his book, *An Introduction to Social Credit.* Follow his logic carefully.

> Now let us see what actually happens to costs and incomes in the course of production. Let us consider any factory, and assume that it is engaged in the production of an article which takes, from start to finish, six weeks to complete. Let us assume that the raw material is obtained free, and that no charge is made for "overheads," so that the only costs are the wages and salaries paid to the workers. Now the greater part of these wages and salaries is spent week by week as received on meeting the cost of living, and at the end of six weeks very little of the money will have been saved. At the end of the six weeks, however, the cost of what has been produced (both finished and unfinished) will be the total of the six weeks' wages and salaries of all the workers concerned. To meet this cost, there is only available [note these words "only available" very carefully — I.H.] the money which has been saved, which is only a small proportion of the total cost. It is quite true, of course, that only a part of the total production is at that point available for sale — i.e. the finished production —; but the *cost* has been created, and clearly exceeds the purchasing power *left* to meet it. The firm is "out of pocket" to the extent of the six weeks wages and salaries. That "out-of-pocketness" represents the generation of prices. The costs, and hence prices, go forward all the time, whereas income is spent as received on meeting the cost of living.[9]

Note the logic of this argument is similar to that we've seen in the example by Mr. Douglas. The factory has paid its workers during the production cycle, but the workers have had to spend some of this money to keep themselves alive. The conclusion drawn from this by Mr. Monahan is that once the goods from the factory are completed for sale, there will not be enough money left *in the factory worker's hands* to buy the goods and we are left with a case of overproduction, that is, unsold goods.

This is plainly silly. Why is it that only the workers from the factory are expected to buy the goods? Do factory owners always expect their goods to be sold only back to their employees? If you answer "no" to this question, congratulations are in order. You've just seen one of the fallacies of the Social Credit argument. Could the factory sell to workers in other factories? Of course they can. Now you can anticipate the Social Credit argument: But then that other factory will have unsold goods, because its workers have spent their money elsewhere.

THE LAW

by Frederic Bastiat

Reviewed by Matthew Hodge

This book was originally written in 1850, as a pamphlet. The author, Frederic Bastiat, a French economist and statesman wrote most of his books just before and also after the Revolution of February 1848. This was a time when France was turning towards socialism. Mr. Bastiat wrote books and pamphlets explaining why socialism is wrong, and why it eventually would degenerate into communism. Unfortunately, many chose not to listen to this message, and even more unfortunately, Mr. Bastiat died of tuberculosis shortly after writing this book.

When reading this book (which incidentally is only 75 pages long, thereby making it easy to knock over in a week at the most), we are given a definition of what the Law is and what is its function. The law ". . . is the collective organization of the individual right to lawful defence." (p. 6)

I will try to explain, (to the best of my 15-year-old capability) what this means. Every individual has (or should have) the right to defend himself (or herself). In other words I should be allowed to defend myself if someone is about to steal my wallet, or if I'm about to be mugged, etc. Therefore the law is merely for enforcing everyone's right to lawful defence. This is the proper function of the law.

Far too often, though, the law is used for more than this. As Mr. Bastiat says, in this world there are people who would like to plunder from other people and use the law to help them do it. (For example, taxes are used for more than protecting the people. The government takes money from one group of people and give it to another group. One group plunders and the other suffers.)

The book states that when we are in this situation, we have only one of three choices. 1. We can take the law off these plunderers, and use it to plunder them back. 2. We can have universal plunder, where everybody plunders each other, or 3. we can put a stop to plunder all together and get back to the original system of the law being there for enforcing the right to lawful defence. As Christians (and if we have some common sense), there is only one option we can take. We cannot let the law do any more than defend our rights,

8. See Mark Skousen, *Economics of a Pure Gold Standard* (2nd ed., Auburn, Alabama: Praxeology Press, 1988).
9. Bryan W. Monahan, *An Introduction to Social Credit,* pp. 33,34, emphasis in original.

Accounting Paradox

It is because the Social Crediters have a defective understanding of economics that they have backed themselves into this impasse. If selling prices must always exceed the money wages paid out in a given period, then it logically follows there must be unsold goods. It sounds like a logical conclusion if you accept that accounting phenomena explain economic theory. This, of course, is our prime disagreement with Social Credit. It has not established the fact that accounting procedures are an explanation of economic theory.

What accounting procedures highlight, however, is an apparent paradox. This is caused, however, by the arbitrary classifications of accounting methods. For example, Mr. Douglas's theorem arbitrarily assumes two kinds of payments, A payments being wages and salaries, while B payments are for raw materials and other costs associated with a business. But it is precisely because Mr. Douglas excludes the B payments from the wages payments in the *current* period that he has this apparent problem.

In addition, Social Credit theory has no explanation for price theory in general, and wages theory in particular. We should remind ourselves that since wages cannot be paid until the goods produced are sold in the market place, the workers who do get paid before this happens will be forced to take a discount for receiving their wages early. Time, like any economic resource, commands a price. We are familiar with this when we save money and put it in a bank, for example, and obtain interest. Because we are deferring our expenditures from the present to sometime in the future, we expect some kind of compensation for the time involved. The same thing happens with wages. When an enterprise initially commences, the owners and the workers have to wait until goods are sold before there is money to pay wages. If the employees wish to be paid before goods are sold, however, then the employers who must put up this money before they can recoup it in sales will expect the staff to take a discount for early payment. The size of the discount will depend upon the amount of time between the receipt of the wages and when the sale of goods eventually occurs. But a discount will apply.

The discount for time (i.e. the interest rate) goes a long way toward explaining the "accounting paradox" which appears when accounting statistics are used improperly to explain economic theory. The greater the time period involved between early payments to workers and the times when the goods are sold, so the greater disparity between wages and prices will appear. Accounting procedures, because of their nature, do not tell us of this economic phenomenon of time discount. Economic theory does tell us, which is why it is a great mistake to use accounting statistics to explain economic theory.

Selling prices are made up of all prices during the production cycle, not just the current accounting period.[10] Thus, the Social Credit "accounting paradox" disappears as an economic problem when we apply economic theory, not accounting procedures to the problem. The arbitrary accounting procedures which divide costs of production into different classifications are irrelevant at this time. The economist is only interested in explaining how the world works from an economic viewpoint. To obscure economic reasoning with accounting requirements is one of the errors of Social Credit theory.

Conclusion

We need to ask ourselves is Social Credit theory a discussion of the real world or the world of Mr. Douglas's imagination? Is the real world only made up of two people? Is the real world such that when a person makes a machine to replace his labour he *gives* it away without some item in return? If the answer to this is "no," then we know that Social Credit theory is not a theory about the real world either. For it took an illustration of a make-believe world to show the apparent accuracy of the Douglas theory. All we need are illustrations from the *real* world to show the foolishness of Major Douglas's ideas. Is it true that factories only sell to their own employees? If the answer is "no," then Social Crediters have made a major error in their illustrations which are provided to "prove" their theory.

We are now in a position to ask some pertinent questions of the Social Crediters.

1. Why does their make-believe model have any necessary correlation to the real world?

2. Why should their model of a make-believe world be transferred to the real world?

3. Furthermore, if their theorem applies to a make-believe world, how do they know it fits the real world?

There are no inherent reasons in the theorem itself that tell us it should be applied to the real world. All we have are assurances from Social Crediters that their theory is true. On our part, we can find no reason to accept their assurances.

If Mr. Douglas's illustration is the kind of illogical nonsense needed to support the A + B Theorem, then Social Credit theory is in huge trouble. Major Douglas cannot think straight. So many unanswered details, and assumptions that are *not* warranted from real life, any one of which might have caused Major Douglas to develop his line of reasoning in other directions.

Moreover, when we do apply economic theory as opposed to the accounting statistics observed by Mr. Douglas, we find an adequate explanation for the phenomena observed. It is the refusal by Social Crediters to seriously apply economic theory that explains the fallacies of Social Credit theory.

otherwise it starts to plunder.

The problem with having a government that attempts to rule us as well as defend us (sometimes it doesn't even do that), is that all the laws are based on the opinions of lawmakers themselves. This means that what the lawmakers think is right is good for all of us. First of all, what they say is not always what is right for all of us. Could you say that what Hitler believed was what the German people really needed? Secondly, what is the logic in assuming that one person is so intelligent that he can tell what is right for everybody else? What makes his system of rules better than the old bloke on the corner's idea of how the country should be run?

The law is for our protection. Until we realise that this is not only logically, but also Biblically correct (Exodus 18), the country is not going to be any better off. Frederic Bastiat's book is over 100 years old, yet its truths are still applicable today. Our governments haven't learned.

10. The interested reader should consult Eugen von Böhm-Bawerk, *Capital and Interest*, Vol. 1, "History and Critique of Interest Theories" (South Holland, IL: Libertarian Press, [1884] 1959).