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Contact Information:

Zagros Madjd-Sadjadi  
 Lecturer in Economics  
 The University of the West Indies, Mona  
 Kingston 7, Jamaica  
 E-Mail: zagros.majdsadjadi@uwimona.edu.jm

## Major Douglas in the Witness Box: Sparse Reflections on the Heresies of Social Credit

**Guido Giacomo Preparata**

*University of Washington, Tacoma, USA.*

### Abstract

*Major Douglas and his proposals of social credit belong to a family of phantasms that inhabit recondite library stacks. They owe oblivion to the verdict of history and to their own nature—often, an uncouth admixture of unerring hunches and fallacious patching; yet, because of the recrudescence of ills they sought to redress, such cranks and their bags of reforms have been capable, in the course of two generations, to resist an overwhelming tide of triumphant forecast on the part of capitalist apology, and haunt posterity in the midst of unsolved issues, such as that of money, and the just ways to effect its distribution in a cohesive community. The purpose of the present study is to canvass the monetary tenets of Social Credit, as they were formulated by Douglas and his following before WWII, with a view to inquiring anew into the nature of the medium of exchange, and the fashion in which it shapes economic life.*

## 1. Introduction

[His Majesty] was still at a loss how a kingdom could run out of its estate like a private person. He asked me, who were our creditors? And, where we found money to pay them?  
Jonathan Swift, *Gulliver's Travels*.

Said Paterson in his manifesto to prospective shareholders [of the Bank of England], "the bank hath benefit of the interest of all moneys which it creates out of nothing."  
Ezra Pound, *A Visiting Card*.

Particularly in regard to finance, which may be termed the nerve system of distribution, most people hold, with some persistence, ideas which are both incorrect and misleading, and are supported in their disinclination to change these views by sectional interests of great ability in the attainment of their objectives, which superficially seem well served by the prevailing ignorance.  
C. H. Douglas, *The Monopoly of Credit*.

In the reformatory ferment of the nineteen twenties, while the German-speaking pessimists had found in the prophet of perishable-money Silvio Gesell "the incarnated theory of interest,"<sup>1</sup> the English-speaking deprecators could claim an economic avatar of their own in the figure of Major Douglas. The man is enshrouded in mystery. His curriculum vitae is misty and torn by lacunae, which, ever since Douglas's rise to public acclaim, begged for suture, but never received it. Like one of those irresistible Bogomile heretics, he, no longer youngest, sprouted one day in humus of chaos, and made converts in the span of a fortnight. A doctor Young, a favored pupil of Jung, once met Douglas and averred that his was "the walk of a paranoid." He, like Gottfried Feder—the economic tutor of Adolf Hitler—,

<sup>1</sup> For an exposition of the ideas of Gesell see Preparata & Elliott (2000; 2004).

was an engineer by profession. After a rather anonymous beginning lost amid peripheral participation in a number of large projects (including an irrigation plan in India), the Great War changed his fortune. In 1916, he "was taken on strength at the Royal Aircraft Establishment, Farnborough, and quickly promoted to major" (Finlay 1972, 92). While stationed at Farnborough, he busied himself with the costing of the Establishment. At a friend's instigation, he got some tabulating machines and began to question the ciphers of accounting synopses. And "one day," he chanced upon something. As in those tales of magic, wherein a rambling soldier with a heavy conscience inadvertently stumbles upon what he later discovers to be the bowsprit of a buried galleon, Douglas had come across a sooty splinter of truth.

One day it struck him, with regard to the figures on those cards, that the wages and salaries did not represent at the weekend the value or the price of those goods produced (Finlay 1972, 98).

Douglas was about forty years of age. Thenceforth, he began to write and diffuse published material about the "things" he had intuited. He experienced instant success and made a number of precious, as well as vocal, conquests, the most notable of which was poet Ezra Pound. In his pantheon of revolt against the modern world, Pound lodged the icon of Douglas next to that of Silvio Gesell, whom he also deeply admired – a fact spurned by other "social creditors," who saw in the *Natural Economic Order* of Gesell, a scheme totalitarian in nature, and, most displeasing, a reform in competition with theirs.

In spite of the reformer's popular appeal, Douglas's social credit ran afoul of political jealousies and suffered the rejection of the Labour Party—a shock to Douglas,

which he took in with difficulty. As time went by, the enthusiasm and popular esteem surrounding the major gradually waned. Because they have led battles for this worldly world, all heretics seem to be fated to departing with a sacrifice consummated with a symbolic vengeance upon their *flesh*. Morosity gripped a leg of the late Douglas and had to be amputated. He died in 1952, “a lonely and embittered man.” Throughout his reformer’s career, he wrote several books, and his followers, no less mysterious, recycled the selfsame ideas in innumerable variants. These works all contain an impassioned call to awake the layman and make him advert the working of money in the financial sway of the machine age. The quality of the discourse is a mirror image of the authors. It is the amateurish cry of a sect and its leader, who, once, at forty, already punctured by doubt, *saw* in the recesses of the Farnborough hangars *something*, and wanted thereafter to warn every one of the existence of this “something.”

## 2. In the Witness Box

That he had caught sight of an important phenomenon, however imperfectly, could not have found a more patent confirmation than in the resented incapacity on the part of the oligarchy to give this crank the silent treatment. The British establishment decided to size up the opponent, and by giving the major a hearing before the Macmillan Committee, on May 1<sup>st</sup>, 1930, it publicly acknowledged the threat represented by the pamphlets of social credit. McKenna, chairman of the famed Midland Bank, and Keynes himself were among the “interrogators.”

4485

*Question:* If you once raise the volume of credit to whatever level may be required by your profit in

relation to the volume of production you have only to go on increasing it in proportion as production increases?

*Answer:* No; there are all sorts of questions that would still arise. The question of turnover, depreciation and the fact that the purchasing power of credit, or whatever you like to call it, which has been transformed into price values of fixed assets in the industrial system would in existing circumstances have to enter into the costs of the goods – and cost items of that type would always raise the price of the articles above the amount of purchasing power.

4486

*Question:* And if in the interval you had to have new machines to replace the old ones you would have to have individuals to produce them. How does that differ from any other form of consumption?

*Answer:* Because you are not starting from zero. You are starting from the world as it is.

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*Question:* How does that bear on the matter?

*Answer:* It bears on the matter that you have a tremendous amount of real capital which at the present time is creating prices and which has not contributed anything like that amount of purchasing power.

4488

*Question:* Do you mean that the receipts of capital are greater than the amount it pays out in dividends?

*Answer:* Yes; that is an obvious state of fact; the accounts of any company will show that.

4489 (Professor Gregory)

*Question:* what happens to the difference?

*Answer:* It is represented by the fixed assets in the company which it cannot distribute in the form of money.

4490

*Question:* It does not distribute it to its shareholders, but if a company earns £100,000 in one year and puts £50,000 towards increasing its plant does not that £50,000 flow out in additional wage payments?

*Answer:* No, that does not happen at all. What really happens is, that during a given year's working it is necessary to create a number of things like tools, or jigs, or something of that sort, which must be charged in the cost of the product to the consumer. The same result is obtained if profits are invested in new tools.

4491

*Question:* that is perfectly true. What I am asking you is this: when a motor-car company makes new patterns, and so on, it has to pay for other things; consequently it does not flow back to the consumer?

*Answer:* No, it does not flow back if it is charged to its fixed capital. A company at the end of the year shows a profit of, say, £10,000. We all know perfectly well that probably £8,000 of that is in fixed assets. It distributes of that product £2,000 in the form of dividends; it is quite obviously only distributing £2,000 out of £10,000 which appeared in prices.

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*Question:* what happens to the £8,000, which it does not distribute?

*Answer:* That is in the form of fixed assets, which it is incapable of distributing except by getting a creation of credit to distribute them.[...]

4494

*Question:* It has made £10,000 of profits?

*Answer:* Of course it has made 10,000 assets. This is jumping from the money to the goods all the time: it has made certain prices, things to which you attach prices and which are valued in assets at let us say £8,000. But the money portion of those assets does not amount to £10,000, and it has already recovered the cost of them from the consumer. It is exactly the same thing as going to a man who has had 30,000 acres of land left him by will and saying "That is £1 an acre; now you have got to pay £10,000 in death duties." The man has not got £30,000. He has got 30,000 acres of land which has a price of £1 an acre. He has not got £30,000.[...]

4498

*Answer:*...If the [workmen] carry on the business on orthodox business lines the cost of [their product] will consist of at least three items: (i) wages, (ii) raw materials, (iii) rent of factory...We will suppose for the moment that they get their raw materials for nothing and that the "rent" of the [factory] is nothing but an appropriation of money of such amount that when the [factory] eventually falls down they will have got back their [a given Pound Sterling amount]. it is technically called "depreciation." Since the public get [the product of the factory], clearly they ought to pay "depreciation." Notice, therefore, that neither interest - i.e., "usury" - nor dividends, nor land monopoly are imported into the question. But the simple and vital fact remains that the wages paid during [production] are less than the price of the [product] by an amount, large or small, which is added to the cost of the [product] before the [product is] sold, representing, at least, "depreciation." This amount which is added to the

cost of the [product] represents overhead charges in their simplest form, and in many modern productions overhead charges are between 200 and 300 percent of the direct cost of the product. It is *not* profit.

4499 (Mr. Keynes)

*Question:* By whom are the overhead charges paid?

*Answer:* They are put into the cost of the product. They are not paid to anybody. They have in previous cycles of production appeared in the cost of the factory.[...]

4409

*Question:* I understood you to say that credit would be supplied to the manufacturer, and then you said that there would be no inflation on account of the fresh bank credit created, because the price would be less. I assumed he must get his credit free, in order to produce at no greater price; in fact at a less price.

*Answer:* The credit which he would get would be to make up the difference between what he would normally charge for his article at the present time, and which, by hypothesis, is too high a price for the consumer to pay, and the lower price which he would be able to pay.

4410

*Question:* I see; but does he not get it free? If nobody pays for it he must get it free.

*Answer:* I am not clear as to exactly what the point is. He is really getting his present price, which he arrives at by ordinary cost accounting methods, from two sources instead of one. At the present time he gets the whole of that price from the public – the consumer. The suggestion is that he now gets his price from two sources, one of which

is the credit source, and the other is the public – the cash source.[...]

4545 (Chairman)

We are much obliged to you, Major Douglas, for coming this afternoon.

*Answer:* I am very glad, sir.

(Hiskett, 1935, 38-39; 63-78).

What Major Douglas had seen was the systematic discrepancy between purchasing power – the people's incomes – and the value of production – i.e., the price of all wares multiplied by the respective quantities. The former seemed to trail permanently behind the latter. The discrepancy was to his eyes a purely monetary one, for prices are fixed according to the linear patterns of accounting. One has to consider the difference between what flows into the workers' pockets and what is asked of them by producers through the selling price. In the costing and accounting offices of the great combines, the Major argued, it is plain for everyone to witness the formation of an article's price: to the direct cost of production, such as wages, are added up components that allegedly are sheer numerary additions that correspond to no distributed income whatever *in the relevant production-sale period*. This intuition came to be defined as the *A+B Theorem*.

Payments may be divided into two groups: Group A – all payments made to individuals (wages, salaries and dividends). Group B – All payments made to other organizations (raw materials, bank charges, and other external costs.) Now the rate of flow of purchasing power to individuals is represented by A, but since all payments go into prices the rate of flow of prices cannot be less

than  $A + B$ . The product of any factory may be considered as something which the public ought to be able to buy, although in many cases it is an intermediate product of no use to individuals, but only to a subsequent manufacture; but since A will not purchase  $A + B$ , a proportion of the product at least equivalent to B must be distributed by some form of purchasing power which is not comprised in the descriptions grouped under A. It will be necessary at a later stage to show that this additional purchasing power is provided by loan credits (bank overdrafts) or export credit (Douglas 1935, 68).

When this rudimentary theorem was first enunciated in his second book, *Credit-Power and Democracy*, it was immediately questioned upon the precise nature and definition of these phantom 'B payments'. Weren't these payments made to a party at some point in time, and wasn't purchasing power thereby adding up, still, to the square amount necessary to buy the entire production? As one unsympathetic heterodox thinker suggested, this view of the 'screders' was but a confused recrimination, couched in pseudo-scientific form, against a distribution of income strongly skewed in favor of financial interests, which received all the so-called "bank charges" – purportedly, the bulk of the B payments (Soddy 1933, 75). Only this much could be conceded to the Douglasites; as to the concrete "vanishing" of a sizable quota of purchasing power, there was no question – that was the double-vision of incompetence.

Douglas and his associates immediately circulated a defense against this recurrent attack.

It is true that B payments (raw materials, bank charges, external costs) represent payments of wages, salaries and dividends, but it is untrue that

this purchasing power is still in existence. A closer scrutiny reveals that these B payments only *represent*, they do not *constitute* wage, salaries, and dividends. Except for the profit of traders immediately receiving them, they consist wholly of replacement credits which merely transfer goods and debt and pay off and replace older credits outstanding. They are not fresh disbursements of income to anybody (H.M.M. 1935, 10).

This addition to the theorem was then called, with a modicum of supererogation, the theory of "the rate-of-flow." Drawing analogies from elementary calculus, Douglas laid stress upon the dynamic nature of industrial processes and remarked how remittances made against services (the simplest case being that of wages) during a lengthy productive process, may not be available, in the form of fresh spendable (purchase) money, when products finally leave the assembly line and are offered for sale to the consumers. A wage payment is a flux; it is akin to a derivative – an amount per instantaneous unit of time. The actual price, instead, is the integral sum of all such flow payments over the duration of the process. When goods were completed, so ran the argument, the current flow was obviously unable to match the sum, which included past accretions in the form of original investments. Douglas labored the point with several examples. Here is one instance:

If we consider the case of a workman earning, let us say, £ 5 per week, who saves £1 of this and at the end of a hundred weeks subscribes for shares in a new manufacturing company, the effect is not hard to trace. The original £ 5 per week was wages paid to the workman, and these wages were, by the orthodox costing system, debited to the cost of the articles produced by his employer.

Eventually, due to his saving, these articles cannot be sold, as a simple arithmetical proposition shows, since he has taken 20 per cent of the necessary purchasing power off the market. His investment of this 20 per cent we may assume results in the manufacture of machinery in which his £ 100 again reappears as wages. Assuming that no physical deterioration has taken place..., the 20 per cent deficiency in the first cycle has now been restored, and the original goods could be bought. But the machinery which has been made in the second cycle of production is now a charge on further production for which no purchasing power exists. This proposition may be generalized as follows: *Where any payment in money appears twice or more in a series production, then the ultimate price of the product is increased by the amount of that payment multiplied by the number of times of its appearance, without any equivalent increase of purchasing power* (Douglas 1933, 34-35).

This illustration is a restatement of the declarations made before the Macmillan Committee, *sub* entries 4486 and 4487 (see above). Thus, from the Major's hearing and the previous quotes, it appears that Douglas has three, tightly connected, monetary phenomena in mind, when he speaks of B payments. These would be: 1) the charges stemming from saving and loaning; 2) interest payments, and 3) depreciation allowances.

### 3. Saving and the A+B Theorem

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 receives a loan in the form of

wages, which loan is repaid by him in the form of prices (Douglas, 1935, p. 26).

If the foregoing statement by Douglas is true, then it appears that money has not been circulated "properly." A belated equilibration of savings and investment –that is, commuting the one hundred pounds saved by the laborer into shares (or any form of **loan**) would, according to Douglas, achieve two things: 1) it would, *assuming that the goods do not depreciate in the second period* (machinery is being built), enable the manufacturer to sell the whole of his production and thus repay *his* loan (to the bank) in full, and 2) it would create a new loan (the banking system, entrusted by the laborers with their savings, brokers the money to a second manufacturer), which, however, cannot be reimbursed *at once* for all the cash that circulated in the economy found its way back to the bank after the initial loan (of £500) had been repaid. In other words, the goods produced with the £100 investment (in this example, machinery) will, after a number of periods, be available for consumption, without there being any *cash* in the public's pocket to purchase them. For that amount of money has indeed flowed in the second period, say, as wages paid to some entrepreneur, who used it to purchase the unsold portion of goods: when the entrepreneur will have completed the machine, the £100 he had received have already flown back to the bank, via the original manufacturer that was indebted to it. The sole traces of *thrift* in the system are the savers' *securities*, which are *not* cash, but only a paper evidence of debt. The swelling portfolio of such securities act as a 'counter', that is, an accounting record, of every "round" of exchange completed by the original cash issue extended by the banking industry.

The mill will never grind with the water that has passed, and unless it can be shown, which it

certainly cannot be shown, that all these sums distributed in respect of the production of intermediate products are actually saved up, not in the form of securities, but in the form of actual purchasing power, we are obliged to assume that the rate of flow of purchasing power derived from the normal and theoretical operation of the existing price system is always less than the generation of prices within the same period of time (Douglas, 1935, p. 70).

Let us assume that the £100 investment was laid in to produce some form of consumptible more elaborate than the goods saved to make the undertaking possible (that is, food and rent for the workmen) –this would be the case of money set aside for, say, the weaving of linen, which Douglas proceeds to analyze next (the illustration will be quoted in full below).

If linen is produced, the overall cycle of exchange may be completed only if 1) the savers *liquidate*, i.e., sell their £100 loan (or shares) to the bank (i.e., the money market), or 2) apply for a loan on the security of such debentures, in exchange for cash, wherewith they purchase the linen; the entrepreneur then re-channels this cash back to the bank to honor the obligation (now in the hands of the bank) and thereby, so to speak, ‘close the circle’. The cash issued to ‘close the circle’ is always created ‘out of nothing’: by mortgaging either 1) the future production of industry, or 2) the securities held in custody by the bank (should the savers not be keen on eating their capital and/or the money markets be illiquid), as in the first and second round of the above example, respectively.

As a manufacturer of imperishable cash notes circulating in a privately controlled network of exclusive accessibility, the bank is capable of exacting a toll for the

“lease” of its product (i.e., money) to the community, which insinuates itself between incomes and prices.

Douglas erred by ascribing such a gap (the *B*-deficit) mostly to an untimely withdrawal of cash from the assembly line; *time* is indeed the crux of the problem, but, only, as we shall argue, as it cumbers repayment in the form of accumulated interest charges. Such piling up of financial charges Douglas set down under the summary rubric of “overhead,” without, however, making it the chief factor responsible for the observed “price gap.”

Two distorting patterns are wrought into this process of mass production.

First, it appears that the money sunk in the operation is not being sunk therein at all: had the linen manufacturer saved, say, 20%, of his wages –the saved £100—, he would have further delayed the repayment of the original £500 loan. In the meantime, the clock ticks, interest matures on the securities of the savers, and even superior interest is being yielded by the original £500 loan extended by the banking system at time 0. And manufacturers, positioned at every juncture of the mass productive process, will *discharge any such accretion on their prices*. But, again, the cash is not at hand: the public only has securities, and the cash, when it is most needed, has already flown back to the source (the bank). Securities need to be liquidated, and money markets may not always be liquid –then, a loan is the alternative. But the margin of risk entailed by such remedial liquidation (final dis-saving) is no more than a loose joint in the capitalist articulation, and not, as Douglas contended, its chief structural defect. The origin of all such difficulties lies elsewhere.

Douglas expects to find fresh cash escorting every newly produced good in the market, but it appears that the money originally issued by banks fails to mirror the life of the wares it was meant to accompany: it is not



synchronized with the diverse phases of production. How is the synchronization to be achieved?

The Major recognized that the money should have been staggered in accordance with the several phases of production —which are indeed, all phases of *consumption* (intermediate goods and semi-manufactures that await transformation), even if it is assumed that the particular wares in question do not depreciate (or do so slowly), *their consumption must fall out within a given period of time*. It is precisely for this given period of time —which may vary according to the nature of the manufacturing phase— that a special issue of cash ought to be printed. When the round of exchanges is completed (that is, when the £100 have been spent and the machinery produced), the last notes spent to effect the purchase, *expire*, so to speak; it is then returned to the bank, which will deal out a second, fresh, issue of notes (against the newly crafted piece of equipment).

In the example of Douglas, a single issue of cash, *which never expires*, is utilized to finance an endless sequence of production, and, as a result, leaves in its wake a string of interest-yielding claims that gradually wedge their way in between prices and incomes. In such a world, according to the Major, *only a catch-up process of “bridging loans” extended by the banking sector to the economy at large could remedy the mismatch*.

What causes the discrepancy between income and prices? It is caused by every deflationary act of the banks which brings about a premature cancellation of consumer credit, and a cancellation of consumer credit occurs when the money or credit distributed as the wages, salaries, and dividends which bring goods into existence is

recalled and cancelled before the goods it relates to have all passed to final consumers; or, if the goods in question happen to be such things as plant and machinery, if it is recalled at a *faster rate* than that at which the plant and machinery depreciate (H.M.M., 1935, p. 14).

In the traditional money system, money is not issued to reflect a particular chain of production; in other words we are not given a £1 note to pay the butcher, so as the latter may repay the farmer that sold him the cattle, and the farmer may ultimately repay the bank (Douglas, 1935, p. 71). In the economic reality, it is most often the case, as the annual clearings of checks show, that the baker will use our £1 note not to pay the farmer, but, instead, to convey the money into other avenues of purchase, say, to the baker, and thus break the chain of repayment that would have allowed the timely liquidation of all costs. This comes to pass because traditional bank money is imperishable and available in limited supply: it is made to circulate an indefinite amount of times, irrespective of any natural cycle of production, which would, in truth, requires for any note in circulation a birth and an expiration.

Though he had exposed the “innumerable rounds” made by traditional, imperishable bank money, to this time-notion of money Douglas was inadvertent. He clearly understood the urge of depreciation, but wished, as will be shown, to effect it administratively rather than render it inherent in the means of exchange itself.

The second distorting pattern revealed by the above example is the effect of the large-scale investment by *private* interests in the fashioning of the factors of production. An orderly financing scheme should be devoid of any wasteful asymmetry between production

and consumption: when the note has allowed the exchange to take place, it has terminated its task, it expires; traditional money stays in the economy instead of departing, and thus initiates an inverse process: it exacts a charge, **interest**, for “working” any additional period past its otherwise natural expiration date. It is an economic perversion.

In the modern machine age, labor and material resources are hypothecated (i.e., mortgaged) by banking consortia through the issuance of jumbo loans to enterprising individuals. These individuals incorporate means, men and resources in a limited-liability-industrial combine sanctioned by law and proceed to assemble imposing machinery, which come to form the sinews of the industrial sector at large –they become the purveyors of the means of production, which in business parlance are referred to as *capital*.

If the end result of the £100 investment is indeed massive equipment, which generally does not figure in the public’s shopping list, then, the only way to allow the acquisition of such a piece of machinery is for a third business party to elicit from the banking sector a £100 loan, *secured on the machine*, which this borrower shall have to repay by installments. This last transaction implies that a business concern –the third party (call it X)— is loaned £100, which he then remits in full to the manufacturer of industrial equipment (call it Y), and Y, in turn, repays his investors (the savers). Therefore, the cash mobilized by the bank in this case, flows back to the savers, to whom Y was indebted (they subscribed the shares or endorsed the bonds of his concern); and the outcome is now reduced to X’s liability vis-à-vis the bank. And the process repeats itself : the investors may sink their cash into the shares of yet another concern (Z); Z will purchase X’s end-product to transform it further; X will repay his debt to the bank, etc. This rolling over of the debt for manufacturing purposes may last as

many periods as there are phases of production: in the end, when goods will be available for consumption, their final sale price will be so burdened with overhead (financial) charges as to make their acquisition arithmetically impossible (See § n.4 below). There is no dearth of *B*-payments: only a deepening discrepancy dug by bank overhead between the consuming public and the financial establishment.

By acting thus, financial and industrial interests achieves two objectives: 1) they arrogate, through the privileged pooling of the community’s wealth, the direction and, through eventual foreclosure, the ownership of the means of production, and 2) as detailed in the example of Douglas, by way of successive financial charges added on to the price level of the output, they make the public, after *it* has created and assembled the factors of production, pay a toll for their use: capital, as it is financed by interest-yielding money, must itself *fructify*. And it will when its supply is limited to the possession of a few legal owners.

Money, which is distributed in respect of articles which do not come into the buying range of the persons to whom the money is distributed, is not real money –it is simply inflation of currency so far as those persons are concerned. The public does not buy machinery, industrial buildings, etc., for personal consumption at all. But it pays the price of them without acquiring control, since they form an overhead cost added to the price of ultimate products (Douglas, 1920, 63).

Monopolistic appropriation, through which banks manage money, is identically practiced by the industrial consortia under the banks’ tutelage over materials and human labor. American pamphleteers of the Great Depression conducted analyses of the capitalist system

kindred to that of Douglas and denounced such an appropriation as an affront to the welfare of the collectivity, which, indeed, should own *socially* the 'tools of productions'. One Edmund Betts, of Pasadena, California, wrote in 1932 that:

Only a few produce tools in order that there shall be only a sufficient quantity produced to secure their greatest possible advantage...[The] ownership [of the tools of production] is acquired by a few individuals on the basis of production cost. Their advantage, however,...is many times their production cost. They are the result of a plan in distributing time and effort in production and are in no way the result of so-called "saved money." The monopolistic advantage is a social value which is sacrificed in allowing them to be transferred to individual ownership through private investment (Betts, 1932, pp. 94-95).

As will be illustrated in the final section, Douglas sought the remedy in the establishment of a communal credit institution, freed from *private* pecuniary interests, which would be deputed to supplying the missing quota, the deficient *B* payment, free of charge. However, the advocated measure remains remedial, a 'patching-up' of sorts, as it were: in Douglas's mind it is understood that such a mismatch between savings and investment, even if shorn of the usurious meddling of the banks, is an unavoidable feature of the machine age —and it is not; *the imposition of interest by banks for the employment of imperishable money is the only true source of the accounting rift between prices and incomes.*

Therefore he could not conceive any remodeling of the institutions beyond the mere substitution of an oligarchic for a benevolent banking institute. In this respect, he, like

orthodoxy, would not part with the idea of money as it is traditionally apprehended.

Yet, as hinted earlier, it seems that the question does indeed revolve around the true nature of the means of payment.

In Douglas's example, **depreciation** was deliberately ignored for the sake of simplicity. Let us re-introduce that variable in the reasoning: when the worker saves 20% of his earnings, this means that he partly forgoes to exercise his right to consume the products for sale on the market. Now, goods of all kinds decay; they decay with varying rates of depreciation (for instance, lettuce and edifices do not die on the same day, of course), but that they perish is beyond dispute. Thus, what is traditionally intended as *saving* signifies, in truth, "irresponsible abstention from consumption": as £100 worth of imperishable money is withdrawn from the market through saving, and thus channeled back to the banks' checking accounts (idle cash balances), the goods originally offered for sale against those £100 are laid to waste, and by the time the shares are subscribed to launch a new enterprise, fewer of those goods will still be utilizable for transformation (and productive consumption). New money will have to be issued to buy new goods, but prices will reflect the old as well as the new issue of money (the saved £100) —and the incorporation of the former issue in the average price level is an excrescence, which represents a claim on supplies depleted or no longer in existence.

In this case, a belated equilibration of savings and investments does not restore consumption and thereby impedes the economy to dispose of its whole output: at best, it will dispose of only part of the unsold wares; any improvident delay is cause for dissipation —the longer the

lag, the greater the waste.<sup>2</sup> When the 'overdue' £100 are handed over to an entrepreneur or corporation for investment the money will exert pressure on the average price of forthcoming output by bidding it up (same nominal amount exerting pressure over a reduced stock of goods). Thus the original difficulty caused by saving is **compounded** by the further recourse to bank credit to bridge the expanding discrepancy between prices and incomes. In spite of his rather impressionistic, if not partly flawed, depiction of the investment process, such an accounting accretion, —the charge on future consumption— Douglas did not fail to notice.

Any saving of wages, salaries, and dividends means that a proportion of the goods in the prices of which they would appear as costs, must remain unsold within the credit area in which they are produced and are therefore, in the economic sense, wasted. The investment of the funds so saved means the reappearance of the same sum in a fresh set of prices, so that on each occasion that a given sum of money is invested, a fresh set of prices is created without the creation of fresh purchase power (Douglas, 1935, p. 73).

A way, unbeknownst to Douglas and orthodoxy, to outflank the mire of traditional saving, is that of effecting the synchronization of goods and money. In other words, money ought to mirror the life-cycle of the goods it accompanies along the chain of production. So, we ask again: how is the "coupling" achieved? *By giving money an age*. By making it die, by giving it a life, that is, a depreciation rate as close as possible to that of the corresponding goods. Thus, at the inception of a new

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<sup>2</sup> We shall return to this problem in the section devoted to "depreciation."

cycle, an issue of perishable money reflecting the average rate of depreciation of the available output should be printed and distributed. All wares, more or less longevous, must be consumed within their given, natural and fixed, life endowment. In such a system, it appears obvious *that the only sensible way to save is indeed to consume*, yet to consume in a particular fashion. We may cite at this juncture a few additional observations by Betts:

The whole conception of saving at present is false. The only method of saving values is through a scientific apportionment of effort between the creation of consumable values, more or less perishable, and non-consumable values such as tools of production and experimentation, and values, the consumption of which requires that a portion shall be non-consumable in any average period of value replacement. Such values are houses, ships and others of like character. There is non need for self-denial to procure paved highways...(Betts, 1932, p. 111).

Values are saved if they are consumed, not if money is diverted away from the necessary exchange. An individual that forfeits his privilege to consume suffers the penalty of cancellation. "Under the present money system, this penalty can be avoided by the holder, who has justly incurred it, by shifting it to others<sup>3</sup>.

In a just system managed by perishable money, any accumulation of surpluses (i.e., saved money to be entrusted to private entrepreneurship for remuneration) would signal a malfunction: in such a system, saving is the *idea* that lays hold of the available goods, not the act

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<sup>3</sup> With loans and/or the subscription of shares.

of amassing, which, in itself is nugatory, for it only leads to waste.

Individuals would be enabled to save by consuming in every period a given amount of labor, services and materials, which will go toward the edification of a durable good; future enjoyment will, of necessity, be punctuated by periodic depreciation payments (that is, maintenance for ordinary wear and tear).

Money serves only as a simplified method of bookkeeping in serving as a record of value. The dollars are only warehouse receipts serving as evidence that values have been deposited. The receipts are evidence that the bearer is entitled to select values to the amount of the face of the receipts...Money is required only to exchange present consumable values. It is required in the same amount whether or not any new project or enterprise is carried out...No money is needed in advance and no money is advanced in *financing*. Only consumable values are needed. Money is required not to project or build anything but only to exchange values (Betts, 1932, 109; 126; 127).

Therefore, “saving” money to build, say, a house, signifies the *disbursement* over a lapse of time of a number of sums (sustenance for the workers and materials) devoted to the progressive edification of the buildings. If the “saver” does not wish to occupy or use the premises immediately after the completion of the abode, but postpone, instead, the consumption thereof — that is, should he decide to “save” it for the future—, he may let the structure for rental, and, ignoring the issue of inflated land value, may thus recover from the tenant the entire cost of the edifice through rental payments, which truly represent depreciation. The rate of depreciation (i.e. the rent charged) should vary according to the type of

building that has been erected (high for industrial and low for residential use) (Gesell, 1920, p. 255).

To corroborate this point, another illustration, a variation on the same theme of savings devoted to capital formation taken from Douglas’s *The Monopoly of Credit*, which further elucidates the link between wanting purchasing power and the pressure of decay, may be considered.

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 of the man of £1 a week for the work of the linen business, but that this £1 is taken back each week as rent for the house and payment for the foodstuffs. Let us now imagine that from the time the flax is picked to the time 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 has been distributed, although “at some time or other all the £6 has been distributed (Douglas, 1979, 33-34).

In this case, as far as his economic function is considered, the capitalist in question is none but the entrepreneur that, in the previous example, was entrusted with the saved £100 (here it is £6). The instance may be confusing if it is not borne in mind that Douglas seems unaware that that the linen venture is *indeed launched with "saved money" (i.e. the surplus of the community)* –the food and rent devoted to the sustenance of the weaver.

In fact, every week the capitalist's employee receives £1, which he then remits to the employer, and the capitalist, at the end of each week, repays the £1, which, flows back to the bank, as an installment of what is, in truth, an original £6 loan, though Douglas fails to consider in the illustration this fundamental premise.<sup>4</sup> When the linen is ready, it justly costs £6, but that amount has, after having reached the source point –the bank—, *become extinct*. The money that was to accompany this venture should have been geared to the goods and services involved in the undertaking, namely, food and maintenance. Once these purchases are complete the notes should have been destroyed, but they were not: they were kept in the bank vaults, ready to be re-circulated, at a price, were they to be, again, "in demand." The only claim against the linen is £6 worth of securities in the hands of savers.

But in a wholesome monetary arrangement it is only once the linen is woven that an issue of money can be printed against it –an issue (as with any type of good) that mirrors the lifetime of the linen itself. Because, even if, as Douglas averred, the *A* payments (wages, salaries,

<sup>4</sup> It may return directly to the bank if we consider the manufacturing system as a whole, or it may flow back to the source via another manufacturer that provided the linen capitalist with food and rent for the latter's employees. In Douglas's linen example these two stages of production coincide (the linen capitalist is *also* the farmer and landlord of the economy).

and dividends) "were exactly sufficient to buy the new production, the sale *between consumers* (as distinguished from sales to producer to consumer) of these [goods] would be impossible –they would have no money, since at the moment of transfer of the goods from the producing to the consuming system their money value would have disappeared on its journey back to the bank, to finance a fresh cycle of production. Sales *between consumers* are an important though frequently overlooked factor in distribution and require that the money value of 'second hand' goods shall be in existence until the goods have physically disappeared" (Douglas, 1979, 38).

This was the point of attack for advocates of perishable money, such as Rudolf Steiner (Steiner, 1993, Chapt. XII) and Silvio Gesell (Gesell, 1920), for recommending that perishable notes be issued against the goods produced through a process of thrift, which, indeed, as argued here repeatedly, consists of a stream of periodical short-term disbursements of available short-lived resources thereby transformed into long-lived ones.

Thus, in the following period of production, the community will have linen in its shops, and, say, a hundred-month (as a hypothetical "expiration date" for linen) note of £6 will be issued by a 'communal clearing-house' upon proof of production. In such "time-stamped notes" the savers will then have the liberty to convert their savings – the bank ought to preserve the savings for its clients at face value by entrusting the corresponding resources to entrepreneurship, whose role is indeed that of transforming, processing and fighting depreciation for the community of savers at large<sup>5</sup>. Should a number of savers decide to postpone

<sup>5</sup> This is Gesell's advocacy for a class of entrepreneurs deputed, as it were, to restore the nominal value of the capital they are borrowing – thus "fighting depreciation" on behalf of its legitimate owners, who, without such enterprising types would see these accumulated

consumption at this stage, the bank will convey the linen-notes to another enterprise, which will employ the linen in an undertaking whose final product may be at last consumed by those that have put their consumption off until this point. This extension of “saving,” compatibly with the physical duration of the wares involved, signifies an increasing sophistication of the overall sequence of production. The businesses involved in this chain of transformation will repay their loans, if any, in concomitance with the several maturity dates of the amounts of money, whose use they have contracted with the banks.

Bank lending of the traditional sort features a travesty of money’s natural cycle of birth and death: imperishable means of payment (bank money or cash), sold for interest on the banking network, mimic the aging process as they undergo the conversion into securities (as money sunk in longer-dated undertakings). Yet, indeed, imperishable currency does not await death in that form (when the work is expended and the resources are consumed), but redemption at maturity, and a time-rated fee (interest), linked to the duration of the simulation. When a bond expires, money ‘sheds the disguise’, so to speak: it becomes liquidity anew. It has witnessed the death of the very resources it has accompanied for a certain time span, and pretended to perish with them; it finally dispels the pretense as it takes leave of the investment effort *augmented*, rather than diminished, if not exhausted altogether, as it should be.

According to the wholesome process, the maturity marks the death of the resources hired to carry out a project, and signals their transformation into something qualitatively different. The expiration date thus calls for a rebirth of symbolic media that betoken the novel

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possessions (i.e., the capital), as they lay idle, progressively depreciate.

properties of the new good in existence. With traditional money, time and expiration work the inverse effect: they accompany the same creation development, but demand a specious remuneration therefor: every single interest remittance is a fee for money’s renewed defiance of death –the more it denies decay, the more it insists to be paid. This unjustified demand is taken by the common man as a matter of economic course, ever since money has been turned into a commodity, appropriated and employed at the expense of the world community at large. This is the problem of all problems.

Incidentally, the provision of **social insurance** presents no opposition to, but may indeed be easily lodged within this scheme, for it is based “on an exchange of values in which the second stage of exchange [of necessarily perishable goods] is deferred. A producer feeds a child and a retired individual. When the children mature they repay the value in part to the other children and in part to the former producer who is then retired. Social insurance is merely an exchange of equal values in which the surrender of a value takes place in one period and its equal is received in another. It is entirely different from saving to provide future security. It is based on a mutually fair and advantageous plan of exchanging values” (Betts, 1932, p. 121).

#### 4. Depreciation

When Douglas broaches the issue of *depreciation* in the exchange with Keynes (*vide supra*, Macmillan Committee, *sub.* 4498-99), the contours of the problem become more discernible.

The original difficulty in the investment process of the machine age arises with the initial monetary maneuver that is enacted to finance the acquisition of giant factories and imposing machinery. It all begins with a loan, a loan extended by the merchants – the money

owners (see, for instance, Unwin, 1940, pp. 230 and ff.). To enable him to *purchase equipment that has already been built*, these money owners will charge the entrepreneur an initial amount, the capital sum of  $X$ , repayable after  $n$  years, and will, as the routine of usufruct prescribes, live off the interest on the loan for those  $n$  years. *On the basis of the preceding argumentation, it is understood that the money that is been loaned by bankers is indeed the “savings” of the community, which the savers shall have to liquidate periodically, i.e., spend, so as to enable the entrepreneur to sell the output obtained with the newly acquired tools of production.*

For a while, the community prospers on the products crafted under the impulse of the new machinery, and by means of a fairly smooth circulation of rents from the workers and entrepreneurs to the savers, who, as the popular apothegm instructs, ‘made the great investment possible, because they are thrifty’. All is well (this standard description generally assumes ‘reasonable’ interest rates during the thriving period), until the repayment date of the loan comes in sight, and at this juncture the adepts of workmanship take heed of the first serious imbalance of their particular monetary system. For instance, a 10-year loan of \$100 to be repaid at 10% consists, according to the standard amortization reimbursement plan, to 10 payments of \$16.27 (total interest would then be, after ten years, \$62.70, the principal is \$100, and so the total cost of the loan is \$162.70); but if the **depreciation rate** of the machine to be acquired is, say, 10% (i.e., it loses through obsolescence, and wear and tear, ten percent of its value every year: the life of the equipment matches, by assumption, the duration of the loan), ten payments of \$10 per annum should allow the entrepreneur to ‘repay’ his initial investment: after the tenth year, *the machine is ready to be scrapped*. However, at that time, by force of

the contractual obligation, he still owes the capitalist \$62.70, when he only received \$100 (in this example one ought to consider the entrepreneur as representing industry as a whole, and his banker, the banking sector as a whole; there is no third ‘party’ from which to recoup the missing interest-component – a closed system is here hypothesized). Only six annual payments of \$16.27 ( $\approx$ \$100) re-convey to the point of origin, the bank, *the entire amount of cash that was loaned out on the first day of the agreement*: this is what Douglas means when he accuses bank of recalling the cash at a **faster rate** than that with which the goods funded therewith depreciate.

The community, finding itself bereft of cash, can either destroy its acquired standard of living by suffering the exacting curtailment of purchase money, enjoined by the deflationary exigencies of the savers and their banks, or deliberate that it is to its advantage to traverse the road of technological advance and submit to a second wave of construction, innovation, and further rents. The difficulty is immediately obviated by renewing the loan and tolerating a second stratum of interest charges. Douglas provides the list of palliatives traditionally resorted when the  $B$  payments have made the squaring of the macro-economic identity impossible:

The main forms in which assistance is given to the defective purchasing power of the population (although that assistance is much less than required to enable the production system fully to be drawn upon) are the redistribution of money through the social services of the so-called dole, the use of money received from the sale of exports, from foreign investments and from invisible exports such as shipping, re-distributed through the method of taxation, the distribution of bank loans (advanced on mortgages, debentures,



etc.) in wages for excessive capital production, and the selling below cost through the agency of bankruptcies, forced sales and actual destruction...The existing financial system increasingly mortgages the future in order to sell goods existing at present, the most recent and most obvious form of this practice being the installment system of purchase (Douglas, 1979, 39, 126).

The “catching-up” process of “chained loans” depicted by Douglas, is the result of this initial overhead charge (through the loans and the accompanying interest) imposed on the system, as it lays hold of mass production and machine-driven assembly lines. The loan was the first decisive outlay: than going to see the banker, no other avenues are open to those seeking to muster the large sums that are needed to acquire expensive machinery. The particular repayment plan causes the continuous overflow of the initial charge on each successive cycle of industrial transformation: periodic recourse to “emergency loans” conceived *ex nihilo* (that is, granted solely on the surety of the legal titles of debt, which are drawn by the wide class of savers on the community) within the banking system is then necessary to bridge the gap.

To return to the case of a loan accompanying the purchase of a piece of equipment, since the borrower is fully aware that he has to pay an interest component, which may be conspicuous, as a business routine, he has no alternative but to try to cover the overhead through the price he is going to charge to the public. On the microeconomic level, the practice amounts to no more than competitive compulsion, to be directed against rival concerns and the public at large; considered from the macroeconomic perspective, the sum of such price raids upon the community to garner

the available (and deficient) purchasing power inevitably fails on account of the said discrepancy: barring foreign trade, if banks injected \$100 in the economy and expect to be repaid \$162.70, only they can supply the missing interest quota of \$62.70. In a second cycle of production, were the same \$100 machine to be built, total debt — with aggregate savings equal to zero—would amount to \$162.70 (\$100 for a new machine in addition to the previous interest charge of \$62.70, left unpaid), which, to be reimbursed at 10% in ten years, costs, according to the same amortization plan, \$ 264.8 (the principal being \$162.7, and interest \$102.1), and so on.

In a hypothetical zero-percent-interest lending frame, where savers would content themselves with the mere restoration of their initial capital (whereby the users of the capital “fight depreciation” in their stead), the accumulation of overhead would not occur.

“Since the public get [the product of the factory],” Douglas affirms, “clearly they ought to pay ‘depreciation’.” The Major continues: “But the simple and vital fact remains that the wages paid during [production] are less than the price of the [product] by an amount, large or small, which is added to the cost of the [product] before the [product is] sold, representing, at least, ‘depreciation’.” Keynes asks, perplexed: “By whom are the overhead charges paid?” *Answer*: “They are put into the cost of the product. They are not paid to anybody. They have in previous cycles of production appeared in the cost of the factory.”

What appeared “in the previous cycles of production” was the initial allotment X, devoted to the acquisition of the facility; in order to repay that amount (if the bank recalls it), or the additional interest charges (if the loan is renewed), the producer (excluding other types of overhead charges, which will be *also* included in the final price) will disburden the amortization quotas (that is, the annual depreciation payments required to purchase a

new machine, or building, after  $n$  years) upon the selling price (in the previous example of a \$100 loan to be repaid in ten years at 10%, the annual installment is \$16.27 –\$10 of which is to be set aside as depreciation—, and the difference, \$6.27, is pure interest). Verily, what the producer seeks to recuperate from the consumer is the sum of depreciation **and** interest, yet the wedge driving prices and income apart is the latter rather than the former. By fusing the two elements, however, Douglas obfuscates his own argumentation.

Following Douglas, it cannot be maintained that overhead is “not paid to anybody.” Indeed, it is evidence of debt that accumulates in the accounts of savers: it is “something for nothing,” an unearned income, for sure, but an income nevertheless. The imposition of overhead effects the swelling of prices, whose task it is, in turn, to “defend” the going distribution of financial claims; “replacement credits” intervene to fix temporary gaps in the flow of sales, further swell the price indices, and resurface anew to mend the effects of deficient purchasing power.<sup>6</sup> And these figures cannot suffer to be redeemed into purchase money *in full*, for the outcome would be galloping *inflation*, and the consequent meltdown of the currency and the whole financial apparatus. Again, overhead is the price of imperishable money, the anchor and source of the imbalance.

### 5. Overhead and Watered Stock

The analysis of social credit is further complicated by Douglas’s reference to the division of a company’s

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<sup>6</sup> A deflation, brought about by a business liquidation, would “reset” the monetary equation of the system at a “depressed” level of prices, without affecting the debit and credit proportions among the involved parties. After the claims have satisfied, the described process would start anew.

profits into fixed assets and immediate liquidity (see above, the evidence before the Macmillan committee, *sub* entries n. 4488-92, 4494). This is a coincidental allusion to the particular use of loan credit inaugurated by modern business principles. As Thorstein Veblen had extensively argued, modern business is run on the basis of “watered” stock, whose rated value consists in the capitalized gains, expressed in monetary units, to be expected from all kinds of monopoly (Veblen, 1978, chaps. V and VI, 1964, chapt. XII). As money demands a reward (overhead) for being extended to the interested combines, these vie against one another for the credit allowances, by securing various kinds of advantages (monopolistic control of a market, secret patents, goodwill, strategic curtailment of production in vital nodes of the market, aggressive marketing promotion, and every other conceivable form of quasi-rent) and presenting them to the banks in order to demonstrate their “financial viability” –that is to say, their capacity to sustain the payment of overhead by virtue of still higher profits to be derived through the art of, as Veblen put it, “chicane.” The bulk of a concern’s capitalization does not consist of articles of material serviceability (as the buildings and plants), whose monetary counterpart is liquid, or nearly liquid money (cash), but of capital values (namely, financial “air”), which are legal reifications of the monopolistic prerogatives conquered by business. The quasi-rents take the form of common stock, and these securities may serve, when hopes run high, as *collateral* for further extensions of bank credit.

*This is, at a second remove from the physical sphere, the known inflationary process carried out by the banks in extending ready money they do not have at hand (credit), via the leverage of the deposit multiplier, against (physical) collateral.*

If one individual owns land that pays a yearly income of \$1000 and another owns stocks that pay the same income, will it matter to either if they are not permitted the use of money to exchange them?...The only reason for exchanging capitalized value is to secure an unfair advantage...These capitalized values are those which cause most of the speculation. This is only natural as they are wholly *guess values*. The entire exchange activity in these values is pointless and tremendously injurious. It calls for *the so-called elastic* currency. This uncontrollable animal is the cause of inflation and the bellow-like activity of the value of the dollar. Confusion results when an attempt is made to provide a money system for *exchanging consumable values* based on capitalized values which themselves do not require exchange...[Capitalized values] are fabricated mathematically on future social income...Individual ownership and trading in them causes unnatural and unjust results (Betts, 1032, pp20, 21, 22).

“*Question*: what happens to the £8,000, which it does not distribute?”

*Answer*: That is in the form of fixed assets, which it is incapable of distributing except by getting a creation of credit to distribute them.”

By driving industrial production on the wheels of successive credit inflation-jolts, absentee owners manage to create a “margin of reshuffle” —a watering of monetary figures (akin to printing new decks of cards, and dealing the cards to the concerns deemed profitable, thereby slanting purchasing power in their favor)—, in which ownership is nominally redistributed according to the new capitalization of the different

combines. Subsequently, once the parties engage in economic competition proper, the market is relied upon to determine which concern had reason to bank confidently on the privileged tenancy it had wished to exploit, and for the sake of which it had been granted copious lines of credit.

All this “watered” stock —the “bubble” as it is commonly alluded to in the jargon *boursier*— is the derivative product of the original overhead charges (the interest payments) that had entered the scene to launch the original venture. This is profit “made in fixed assets,” alternatively defined as “paper profit” (capital gains, speculative *hausses*, which are, by nature, purely virtual) —it figures in the books, and only a slight percentage thereof flows to the goods sector in the form of cash through the payment of dividends (two out of ten thousands pounds in the example of Douglas before the Committee). This amassing of banking charges in the hands of a few has led to the situation in which the dollar value of all financial instruments in existence is many times greater than the aggregate value of production. Not only is the distribution of such claims to wealth skewed (the so-called “national debt” is mostly in the hands of banks and capitalists, not of labor, and only an inconspicuous percentage of households holds savings in the shape of stocks), but the price of output produced by corporations will be so ballasted with overhead as to make its absorption by wage-earners a matter of accounting impossibility.

As Douglas testified, owning \$X worth of property does not literally signify that such land tenure confers to the proprietor an equivalent amount of cash. X is a mere virtual sum created by financial speculation: to *mobilize* that wealth, the owner needs to mortgage it as collateral with his banker. As they automatically mature on the ledgers of the financial network, bank charges are included into production costs, but purchase power can

only be circulated by bank credit, which comes at a cost, i. e., interest. And the accretion widens the gap between incomes and prices.

The claim that Douglas's argument appears to be confused finds substance in the fact that he includes these overhead charges in the B payments (cost components incorporated in the selling price not matched by corresponding disbursement of purchase money –cash) for *two* orders of motives: first, they are savings that will follow, in the shape of securities, the same itinerary of the worker's thrift (i.e., they will constitute an unmatched claim in the successive wave of investment, which is generally true, but not for the reasons the Major favored; see § 3, above); second, they signify the financial swelling of figures engineered by banks through various leveraged operations: this is the "financial bubble," which does not burst so long as only an exiguous fraction of all money denominations (bills, commercial paper, debentures, stock market capitalizations, and paper of a like character) is allowed to be redeemed, as a trickle, into purchase money – hence the impossibility of a 0% inflation scenario in a modern capitalist system.

In essence, the deficiency of purchasing power owes its incumbency to the exponential accumulation of compound interest. The interest paid on a capital investment sum is an *actuarial addition* to the economic accounts of the parties involved: it is generated out of nothing. At maturity, capital yields an "extra" on the accounts of the savers and its usufruct is sanctioned by law. To this effect is added the inflation caused by *capital gains*, namely, artificial value increases of stock, engineered by syndicates of investment bankers.

But no fresh cash accompanies the transaction contemporaneously with the interest invoice. Only successively can the discrepancy be remedied with the "replacement credits" mentioned by the Douglasites, or,

at gloomier junctures, by means of the impromptu "pumping-in" –much a feature of the modern era following the second world conflict— of emergency funds by central banks, acting as blameless stewards of undisciplined lending.

Again, the overhead flowing from industrial securities is classed by Douglas among the B payments: 1) because, like any type of "saved money" that is converted into a loan, it burdens consecutive cycles of sales with a fresh equivalent claim not matched by existing purchase money, *and* 2) because such a kind of financial instrument has the dominant tendency to escort savings into the *impairing* (acquisition of paper representing property already in existence for speculative purposes) rather than the productive form of investment – a course dictated by the constraints of money-interest upon the industrial dynamics and the attending financial capitalization. Thus the price of any product issuing from the capitalist system will incorporate all such financial charges, without there being a matching amount of **cash** in the hands of the consumers sufficient to equate sale and purchase.

## 6. The Cure

Unlike Silvio Gesell, Douglas did not embrace the reform of **stamped scrip** (money losing value through the affixing of stamps, which functioned as a community-sponsored initiative to discourage hoarding) and his remedial policies bear the mark of his adherence to traditional money. The first article of communal and monetary health, in the reformed world according to Douglas, should ensure that the citizenry and the ruling institutions abide by the proper recognition of *social credit*, namely, "The estimated value of the only real capital...The estimate of the *potential capacity under a given set of conditions, including plant, etc., of a society*

to do work” (Douglas, 1920, p. 111). Such a new state of collective apprehension would prompt, as its most immediate and necessary effect, the determination on the part of the community to dispossess the banking interests of the power to coin all forms of wealth into means of payment –the action proper that marks the appropriation of the community’s “potential to do work.”

This power, instead, should reside in a Treasury Bank of the People that would distribute credit not with a view to securing the most advantageous rent out of the yearly income of the nation, but according to directives attuned to needs of commerce and the exigencies of the masses. To attend to the allocation, the Treasury would use as its chief monetary gauge the ratio (Consumption/Production).

Payment for goods will be made in the ordinary way (to ‘registered’ businesses), either by cheque or by currency. The purchaser will lodge his receipted account for goods bought with his bank in the same way that he now pays in cheques, and the discount percentage of the amount of such account will be credited to the consumer’s banking account...The total of the sums credited by banks to private depositors in respect of these discounts will be reimbursed to them by [the] Treasury. The capital account will be “depreciated” by such sums, and “appreciated” by all capital developments. Banks collect a fee (Douglas, 1920, pp. 209-210).

Douglas contends that at all times *two* prices prevail in the economy: the financial price and the *true*, or *Just Price* (Douglas, 1920, pp. 121-123). The former is the accounting summation of all the monetary charges punctuating the formation of any product: it is the sum of the *A* (wages, salaries and dividends) and *B* payments,

that is, the “payments to other organisations” (erroneously believed by Douglas to cause the withdrawal of the cash from circulation by returning it to the banks). The financial price is simply equal to the cost of producing the item. The true price, instead, is given the following formula:

$$\text{True\_price} = \text{Cost} * \left( \frac{\text{Consumption} + \text{Depreciation}}{\text{Capital\_production}} \right)$$

Such a price is contrived by Douglas in order to bring output into the buying range of the public: the cost of production (the overall financial cost), if multiplied by the consumption/production ratio (aggregate depreciation of all consumption over a given period of time, including plant depreciation, divided by aggregate production itself over the same time interval) yields, by construction, the difference by which the wage-earners’ incomes allegedly trail behind prices. If, say, 100 pairs of boots costing \$100 each have been produced in one cycle, the financial cost of output is \$10.000. Douglas would then interject that \$10.000 have flowed in the economy over a certain length of time, but that at the time of their delivery, the entire amount is not at hand among the population; only a fraction is (represented by their latest paycheck, which can only afford a exiguous portion of the output for sale).

...The purchasing power released externally in these transactions is that represents by wages, salaries and a commission [entrepreneurial profit] on them, and that no goods have yet been released to consumers against this purchasing

power. These sums thus distributed will be largely expended by the recipients in various form of consumption...Douglas, 1920, 121; 123).

Douglas derives his Just Price from the fallacious assumption that the *A* payments vanish systematically in the strongboxes of the bank never to reappear, (which they certainly may do in times of foreclosure), when in fact, they do accumulate in the form of saved money (in the savings accounts of the community). Of this development the Major was cognizant, though he systematically neglected the fact that most of the *A* payments, whose flow he detailed, are the fruit, as was said earlier, of thrift from earlier periods. As such, these payments—the food and clothes that fed and clad the workers— can only purchase these workers' product, if at maturity they are converted into notes with an expiration date reflecting the longevity of the newly manufactured ware. Douglas held on to the traditional notion of money and, instead of resorting to making decay inherent in the means of payment itself, sought to deduct depreciation from the notes issued by his hypothetical communal clearing-bank in a one-off accounting defrayment, which would have needed to be engineered by some centralized organ of business & finance supervision. To return to the example of the boots, his reasoning went as follows: if one were to assume that depreciation in the above formula is 40% (a fact that would be known to the economic authorities), which means that "of the total work of the community for one month 60 per cent remains for use during a subsequent period," the Just Price of a pair of boots would be equal to 40 % of \$10.000 divided by the pair of boots distributed (not produced), or  $\frac{2}{5}$  of the *commercial* (or financial) *price*. At this *real* price the consumer will obtain the commodity. "The real cost of

anything is the amount of energy and material used up or consumed in the making of it." (Colbourne 1933, 256).

Thus, the true price amounts to a *rebate* offered to the buying public. On the other hand, the producer needs to be compensated (by Douglas's hypothetical Treasury Bank): he would obtain "his price from two sources, one of which is the credit source, and the other is the public—the cash source" (evidence before the Macmillan Committee, entry # 4410). Credits and loans within the consecutive stages of mass production would be handled by a reformed banking system, which would charge a 'reasonable' fee for the service (which is thus no longer that of exacting interest), until, once the process reaches the final step—the retailer—the goods are sold to consumers through the expedient of the "rebate." The retailer has borrowed from the banks a sum, say, of  $X$  to buy the product of industry, and instead of offering the commodity to the public for  $X+x$  ( $x$ , being his share), he will sell it at a *fraction* of that amount, for in the guiding ratio of (Consumption/Production), the denominator is always greatly superior to the numerator. The consumer pays what he *can* pay, i.e., the available cash remitted to him as wages. This is the public source of the total price. Manufacturers and retailers have produced wares worth  $X+x$ , and have sold them for  $[(X+x)/y]$ , where  $y$  denotes the "capital appreciation" (the physical throughput) of the economy. The Treasury provisions the missing portion of the financial cost in the face of industrial abundance and decreasing prices. This further means that, relieved though they are of the traditional banking overhead, *B* payments, in the form of depreciation and repayment of principal, would be still form an integral part of the amount credited by the central institute to the individual accounts of producers and merchants at their local banks.

The rebate is the *ad hoc* token or manufactured quota of purchasing power, printed by the Treasury in order to sustain the “financial cost” of production under the pressure of abundance. The legitimacy of the issue has its grounds in the social credit of the community, namely in those evidences of debt that were once in the hands of the Vested Interests, and should be now in those of Philosopher Kings conversant with Douglasism.

4531 (Sir Thomas Allen)

*Question:* You advocate the creation of communal credit against bank credit?

*Answer:* Yes

(Hiskett, 1935, p. 275).

As detailed previously, wresting the evidences of social credit away from the banking and financial establishments would, if one were to interpret Douglas correctly, erase interest charges, but, in itself, would not solve either the untoward question of the principal's repayment in a customary loan, or the problem of depreciation. The Major seems to be willing to let money, as it circulates, spread the sedimentation of the *B* payments, and subsequently lop them off the price of products shortly before delivery, in the office of the hypothetical bank of the people, with administered “reductions.”

Of the three strains of *B* payments that have been identified, namely: 1) savings, investment and repayment of principal; 2) banking charges and impairing investment; and 3) depreciation (2 and 3 falling under the caption of ‘overhead’), only the second would be cured (or at least palliated) by the effacement of traditional money business. In the formula of the just price, the two other components of *B* outlays would be still accounted for in the “Cost” variable.

The difficulties that arise in endeavoring to assess Douglas's scheme are rooted in the loose partitions of the *A + B* Theorem and its corollary of the “rate-of-flow.” His categorization proceeds along and across two main argumentative directions, without discernible distinction. These are an unalloyed concern for economic justness, which found its chief vent in the undisguised hostility toward the international brethren of financiers and their alleged usurpation of social credit; and the claim to the presumed ‘scientific’ discovery that money manifests the seeming proclivity to lag behind the ordinary stages of investment. The preconized measures follow at once: re-appropriate social credit and make it the province of the treasury bank of the people. That achieved, have the Bank ‘fill in the gaps’ of purchasing power with that remedial contrivance of credits and rebates.

Any authority competent to take over the control and regulate the conduct of the community's industry with a view to maximum output as counted by weight and tale, rather than by net aggregate price-income over price-cost, can readily effect an appreciable increase in the effectual productive capacity; but it can be done only by violating that democratic order of things within which business enterprise runs (Veblen, 1919, 174).

The final stroke of Douglas's draft for an improved monetary system was the so-called “national dividend.” (Douglas 1933, 186). This, too, would be a consequence of the dethronement of high finance. Given the abundance of goods producible with modern technique, the competent authorities --now the appointed custodians of communal social credit-- would apportion the excess of (physical) appreciation over depreciation with a flat issue of purchasing power (the dividend) to

the entitled recipients (households, elderly citizens, etc.) – paper to be given away and exchanged for the largesse of the machine throughput.

This is the inescapable necessity of the *gift*.

Every economic system, without exception, features the gift as the closing link of every cycle of production. In one of the pregnant discussions on the act of giving, Austrian mystic Rudolf Steiner isolates this deed as the culminating moment of all economic activity, for by means of it, the arteries of distribution are prevented from being obtruded; the rich de-cumulate, and as the surplus returns to the needy, but most importantly, to the arts and sciences –the pre-eminent consumers of the gift—, the sense of solidarity and peace is cemented within the community. The “money of gift,” nearing its expiration, abandons the traditional channels of land and manufacture, and by flowing to the craftsmen of intellectual and spiritual art, stems any inflationary pressure on the productive realms of the economy (Steiner, 1993, pp. 77 and ff, 100). Seldom has a heretic failed to pay attention to the powers of this often neglected rite of consumption, whose consummation reveals, while shaping them, the nature and appetites of the community under investigation. That Douglas did not omit a reference to the gift is further proof that, in spite of the confusion, the indignation, and the vanity, he had not tilted at windmills.

## 7. The Alberta Experiment

But the social credit episode, plagued from the outset by all such well-meaning fallacies, did not depart from the economic stage so soon as one would have surmised. Quaintly, it managed, in spite of everything, to provoke Finance for the length of four extraordinary years (1935-1939) in the distant western Canadian province of Alberta. This most improbable ‘revolt’ took

shape in the dreariest years of the Depression. Around 1932, the forces of protest, embodied in the sturdy build of one William Aberhart—a schoolteacher and popular master of evangelical broadcast—were looking for some hard and fast etiology of the crisis, which could be translated into immediate political action and relief. Alberta was then a thinly populated region that relied on agriculture for its means of sustenance. When grain prices dropped savagely in the early ‘thirties, and farmers’ incomes decreased by 94%, toleration of the system’s abuses (dearth, hunger, despair and foreclosure) on the part of the common Albertan had reached its limit. The movement had gathered momentum and awaited leadership. From England, where Social Credit’s pamphlets were circulating widely, though to no practical effect, easily rebutted as they were by the stony indifference of the City’s invincible armies, a primer of Douglasism drafted by British actor Maurice Colbourne eventually reached Aberhart.

Aberhart sat up with the book the rest of the night. When the morning sun finally splashed over the sleepy campus (or so the story goes), Aberhart snapped the book shut, convinced at last of Douglas’s theory. Thus began the most spectacular political crusade in the history of the Canadian West (Barr, 1974, p. 49).

Douglas’s social credit seemed to provide all the catch-phrases and buzzwords that could give some hook to middle-of-the-road agitprop: missing purchasing power, just price, national dividend, cultural heritage, financial conspiracy, the promise of a bondholder society, and state vouchers. In the ‘epic years’ of Canadian social credit (1932-1935), Aberhart drafted from the ranks of his Prophetic Bible Institute squadrons of followers, who, along with their deacon, went on proselytizing and



agitating against the incumbent forces of conservatism (the appendices and western branches of the vastly ramified network of the Eastern corporate and financial combines of Canada), as well as those of opposition, by targeting the alleged inefficacy of the U.F.A.'s (United Farmers of Alberta) brand of socialism. 'Prairie fire': the thundering oratory of Aberhart, and the devout pieties of northwestern rural folk won Alberta social credit an instant success.

That Aberhart, as he himself candidly owned, did not truly grasp the 'intricacies'—or 'tangles', one should say—of Douglas's social credit comes as no surprise. He confessed to his profane and shallow apprehension of matters, which, he averred, only experts, such as the Major, could implement and 'fix'. He thus demanded an act of faith on the part of Albertans, who shared his acrimony, and confided in the purity of his novel alternative. The plea was to work: what was proposed was neither fascism, nor socialism, but rather a governmental stewardship of private initiative and equitable distribution—a reiteration of Douglas's exhortations. Large-scale projects were not contemplated, for the hoards necessary to launch them, Aberhart said, could only come absentee from ownership—and absentee ownership, in principle at least, was the declared enemy. These proclamations could not shake the loose panoply of allegiances of a god-fearing fold, and did soothe the believers' screaming wish for equanimity. In truth, no one among the hordes of the disgruntled, and Aberhart least of all, had the courage to follow the proof of the *A+B* theorem (nothing less than Douglasism's 'theoretical foundation') to its unsettling conclusions, for to have to reject thereafter the assumptions amounted to smothering the rebellion in the cradle: after all, people's incomes *did* fall short of the total dollar amount offered for sale, prices were unjust, and banks did operate according to a logic as perverse

as it was obscure. For the first time, the common man was witnessing a form of dissent that was not calling for daunting feats of sedition and collective appropriation to be conducted in the name of arcane conceptual artifacts, such as 'scientific materialism'. This time, the revolt was prompted by a simple and human desire for emancipation. The heretics wanted the heads of bankers: the indecency of industrial wages and factory conditions, the collapse of world markets and the ensuing strife, were all effects, they said, of money's tyrannical regime of monopoly ownership. There lay the contaminated source. The critique was original, the indignation sincere, the prognosis on target, and the diagnosis flawed. That was good enough. Now was the time for revenge.

Then, after the talk, one had to get down to business. National dividend: Aberhart promised a bonus of \$25 per month; that should have taken care of clothing, housing and sustenance. An irresistible offer, it was said. Individuals, trusting in this chiliastic annunciation, began quitting and changing jobs, expectant (Barr, 1974, 85). In truth, the gift would never materialize, not even when Aberhart, a few ineffectual years later, would downgrade the promise to an amount between 5 and 10 dollars. But most important, the provincial debt: Alberta, because of agriculture's bankruptcy, was heavily beholden to Canadian absentee ownership. Aberhart issued a yellow pamphlet in which he advanced the idea that, in exchange for special issues of Alberta bonds, all those in command of Canadian cash should relinquish possession thereof to the province, which would have proceeded in turn to cancel the debt therewith. "Even real estate holdings, industrial plants, and the stores might be transferred to the state in return for bonds" (Hesketh 1997, 57). The chambers of commerce and the private interests protested vehemently against the plan, likening it to dictatorial expropriation. From England,

even Douglas invited Canadian socreders to use some restraint. Aberhart backed off, and recanted. But the torment of indebtedness, of course, kept festering.

In fact, Aberhart's endeavor to fashion a competing financial arrangement presents no deviation from the standard praxis of monetary uprising, which, in its essentials, simply consists in a more or less refined plan designed to bypass altogether the capillary mass of the banking network, by duplicating it on a regional basis. The alternative network of the province must be controlled by a state credit house, which would circulate its own money, and, to outflank the federal prohibition to coin rival means of payment, call it 'credit'—such 'credit' certificates would be good for paying salaries and settle imposts. In attempting financial secession, the first thing to do is sever the umbilical cord with traditional banking by discharging the community's obligations that are due to it. Hence the appeal to convert Canadian cash into Alberta 'social credit'. As for the 'people', but to appeal to their trust, nothing else could be hoped at this initial stage. The quasi-confiscatory measure put forth in the yellow pamphlet, however, was immature, for only the vested interests (the higher strata of the collectivity) could dispose of cash during the Great Depression; the masses had nothing. It was as if Spartacus, before instigating the slaves against their masters, had demanded the Roman landlords' armies to depose their gladii. Wherefore should the centurions heed the request? This was an insurrection, was it not?

In the meantime, Douglas, surveying the Canadian stirrings from England, was growing impatient. Here was a political movement of some magnitude, usurping, so to speak, his very ideas, which, however, seemed to have the impudence not to adopt the somewhat haphazard tactics he was wishing to see enacted forthwith: this wouldn't do. Instead of blaring out frightening platforms, the Major admonished, social credit was to prepare itself

for a true war, and employ against a most cunning and powerful foe, a strategy that was more subtle. He encouraged the Albertan followers to gear up for potential violent confrontation with the System's bailiffs and the henchmen of the Elders of Zion, and build up reserves of official Canadian currency—'foreign currency'—in view of an eventual unyoking of the province from the federal network. Aberhart, torn by law-abiding qualms and a halting grasp of the rules of financial engagement, vacillated. The preliminary maneuvers of Alberta social credit thus floundered confusedly, for, indeed,

Neither Aberhart nor anyone else in the Alberta part appeared to have understood what Douglas wanted (Hesketh 1997, 76).

In February 1934, the first rift ensued between the die-hard Douglasites of Canada—the stuck-up purists and bourgeois dissenters gathered in their New Age Club (the Canadian filiation of Great Britain's Social Credit Secretariat)—and the Christian staffers of Aberhart's crusade. In Britain, the custodians of Douglasism started a doctrinal fuss: it appeared to them that the sloppiness of the frontier *ingénus* was threatening to turn Social Credit's unique chance to strike at history into one grotesque flop. For the Douglasites, more than a mild embarrassment, Aberhart's self-avowed lack of technical expertise in monetary questions was becoming a liability: what he was now proclaiming to the public of Alberta, they maintained, was bearing less and less resemblance to Douglas's vintage pamphlets. To begin with, the British *confrères* thought that committing to a \$25 dividend was reckless (the amount was to be gauged in the light of numerous conditions pertaining to production, consumption, and the region's original resource endowment), but most important, they accused the

Canadians of not understanding the basics of distribution, for Aberhart kept intimating that he would recoup this bonus from a levy of sorts to be defalcated from sales, whereas Douglas conceived it as a fiat emolument of his providential Treasury Bank.

According to Manning [Aberhart's young assistant and future premier of Alberta], the cycle would commence with interest-free production loans to producers, followed by the actual production of goods and the computation of the just selling price. Purchasing power in the form of basic dividends would be created and distributed prior to this sale of goods so that the purchasing power in the hands of the consumer equated to the total value of consumable goods. Once the goods were sold, Aberhart explained, the various portions of the just selling price would be allocated to pay for raw materials, human and machine labour, depreciation on plant and equipment, insurance and overhead, and commissions on turnover, *while the unearned income levy would be returned to the government to equate the amount issued to the consumers in the form of basic dividends* (Hesketh 1997, 60, emphasis added).

Douglas intuited the economic necessity of the gift but could not wrap his mind around ways that would enable a natural, that is willful, distribution of it from its very creator, the collectivity—that is why he could only envisage the Treasury Bank mobilizing the surplus through a centralized and last-minute issuance of dividends, and arbitrarily dispense it thereby. In a system of perishable money à la Gesell/Steiner, instead, the gift travels on a twofold path: an income is provided to the political sphere by purchasing stamps therefrom with which to affix the scrip, and the sphere of the arts and

sciences is supported by affording it a portion of the surplus in the form of time-metered moneys left over from the customary requirements of agriculture and industry. Aberhart & Co., on the other hand, not having understood the misconception of the *A+B* theorem, could entertain of the government's revenues no idea other than the traditional one: taxes; in their unconscious desire to square the spiral, rather than the circle, of Douglas's theorem, they ended up forging an odd-shapen piece of thinking that neither rhymed nor reasoned with either Douglasism or orthodoxy (how can the government issue a dividend which it then must tax away from the self-same cycle of production to sustain itself?). This was heresy at its worst, and Finance looked on imperturbable.

Nor could the British author and his Albertan enthusiasts agree on the nature of the 'just price': Aberhart thought it signified a regulated threshold that would guarantee remuneration for farmers—possibly something shorn of middlemen's 'excessive profits' and overhead, and often mingled the notion of 'just' with that of 'compensating' price, whereby he sought to reconnect the prescription to Douglas's rebates (Barr 1974, 55-61). So much confusion, the English socreders argued, would only bring discredit upon the movement and thwart its electoral aspirations: Aberhart had to be removed. In February, The Secretariat sent Aberhart a letter from London informing him that it would no longer endorse Alberta Social Credit. Utterly despondent and wounded, Aberhart resigned. A Douglasite immediately took over. But doctrinaire squabbles could not sway the people, whose utter lack of concern for the logic perambulations of the *B* payments was only matched by their ravenous desire to cash in the dividend. The mob wants tribunes, not theoreticians. To conserve momentum, and vouch for the new leadership, the British headquarters resorted to earnest propaganda: the

Major himself was going to travel to Alberta and redirect the march of social credit.

Douglas's visit to the province had long been awaited, and his every word and move, upon arrival was amply chronicled in the province's newspapers. Yet his effect was anti-climactic. His manner of speech was stolid and unemotional and uninspiring; his speeches were utterly predictable, and devoid of concrete suggestions or new proposals. He said, roughly, what Aberhart has said over the past eighteen months, only less imaginatively...The average Albertan found him a cold fish...(Barr 1974, 63).

The elitist *fronde* of the Douglasites lasted ten weeks. The visit of the messiah from London had backfired, and by popular request, the lieutenants of social credit Central Council in Calgary, reclaimed for the movement the fervor of Aberhart. In May the Douglasites, incapable to exude a whiff of mass appeal, were subdued, and, for the most part, purged from the party. Douglas had sailed back to England; he would have had to think this whole affair over again—opportunistically, he did, but with abiding discomfort. He never was to return to Alberta.

Thereafter, followed months of passion on the hustings of Alberta. In the August 1935 provincial election, Social Credit's victory was complete: it captured 54% of the vote and 56 out of 63 seats in the legislature.

Aberhart held power...Arrayed against Alberta was the might and majesty of Canada's economic establishment, the banks, insurance companies, the large eastern corporations, the mortgage-holders and the trust companies. That, plus the political apparatus of economic

conservatism...His beachhead was surrounded by a ring of steel (Barr 1974, 83).

A month before what appeared an easy victory, the Major promptly muffled his resentment and gave the Canadians his blessings in a letter Aberhart circulated forthwith with vindicated satisfaction. Not yet ready to renounce his avatar-like powers of suggestion, Douglas drafted an *Interim Report*, in which he outlined the directives of Alberta Social Credit's offensive gambit. Therein he recommended, as he had done earlier, accumulation of 'foreign money'. Thereby he meant what Plato refers to as 'Greek money': namely gold, or its modern equivalent, bank accounts or cash. That is, a form of money that has currency outside the *polis*—in this case, the wishfully seceding region of Alberta. Within the precincts of the insubordinate region, the standard can be any form of ignoble metal, or other most inexpensive material. This Plato calls 'native currency': beyond the boundaries of the *polis*'s social credit, it is of no value (Plato 1992, 129). 'Native currency' and Alberta social credit are the same thing. The accumulation of 'Greek money' is, for Douglas a precautionary measure—it amounts to a provision of ammunition. To counter a run by the enemy (the financial interests of Eastern Canada) on the independent network that the rebels wish to set up, a community needs the means that allow interaction (trade) with the outside; the ultimate end of such hoards of 'Greek money' is the complete insulation of Alberta Social Credit from external threats. In fact, Plato recommends the storing of precious metals in view of military action, embassies, foreign trade, and exploration. Preoccupation with precious metals always stems from martial considerations. The question, of course, arises: how is the region going to procure the 'foreign currency'? It can only be acquired by trade. And Alberta had nothing to trade with. Hence the imperative

to industrialize: fast. But that was easier said than done—especially in times of depression. Notwithstanding, a call to increase goods ‘made in Alberta’, and the concomitant plea to ‘buy domestic’, became another insistent plank of the movement’s platform. Second, Douglas advised Albertans socreders to capture as many media of information, and elect as many federal MPs as possible, so as to assemble a constitutional division of sorts, which could then take on the loyalists in Ottawa in a successive deployment of the war. That much was evident, and to that aim Aberhart had been campaigning restlessly. In the October 1935 federal election, Social Credit captured 15 of 17 Albertan seats and two seats in Saskatchewan. As for the debt, Douglas suggested not to requisition the investors’ cash, but to offer to convert whatever stocks they possessed into Alberta bonds, which would pay 1% plus the interest yielded by those securities, and employ these as collateral to obtain from a chartered bank a loan wherewith the provincial debt was to be reduced. Alberta, Douglas enjoined, was to pay a one-time 1.5% fee for such a loan, in addition to administrative costs, the message being that money was to be created debt-free and banks are to be remunerated only for circulating the means of payment, not for dispensing it under proprietary clauses (Hesketh 1997, 101). This proposal was hardly more tactful than the yellow pamphlet of Aberhart, whose four-year calvary, shuttling frantically between Edmonton and Ottawa to beg the Interests for financial succor, loan extensions and moratoria, was about to begin. From the capital Aberhart would systematically receive much less than what he originally asked for, and on terms that were the usual ones: at interest. And Douglas without fail would expostulate, reprovingly: one could not defeat banking by imploring its very cooperation.

Everything was in a state of flux and no one was really sure what was going to happen or what should happen (Barr 1974, 87).

The first request of the new Alberta government was addressed, as usual, to mortgage-holders: socreders offered debt redemption at greatly reduced rates of interest. The investors responded with silence. Then came the first social credit budget: it boosted spending in a few areas (relief, tuberculosis care), but all in all it cut expenditure and increased taxation markedly. Douglas began to fume, again. In April 1936 came the first major default of the province on its bonds. The Major, in the course of a feverish correspondence with Aberhart, put forth another suggestion: Alberta was to implement at once the parallel network of social credit, and impose a conversion at face value of all provincial debentures in State Treasury credits at face value (augmented by a 15% bonus), wherewith the holders could purchase goods and services ‘made in Alberta’. Aberhart refused—to him this was unfeasible, overwhelming. In June, the excommunication: the London Stock Exchange barred Alberta bonds from its list. As everyone had expected, Finance’s stonewall had begun repulsing with determination the initial, and somewhat timid, broadsides of the insurgents. Social credit ratcheted up the offensive gear and proceeded to distribute ‘rival paper’. Drawing from the experience of the city of Raymond—whose municipal insolvency had forced it to issue scrip wherewith to pay teachers and civil employees, and absorb this particular ‘credit document’ via taxation—, and acting upon the technical advice of one E. S. Woodward, a Canadian follower of Gesellism, whom he hired for the task, Aberhart introduced the so-called ‘prosperity certificates’ (Hesketh 1997, 123-125). These were to form the lifeblood of the alternative Alberta monetary circuit. Merchants were to receive the scrip in

payment for wares, exchange it between themselves and the public, and establish thereby a reticulation of credit, managed by public credit houses, independent from the orthodox banking constituency. Accepting the certificates required yet another of those acts of faith, which Albertan socreders demanded ungrudgingly. Aberhart assured that such a measure was purely transitional: the certificates were indeed to be backed with Canadian currency (the 'Platonic' caution), and external transactions would continue to be dealt in 'Greek money', so to speak—and, indeed, it could not have been otherwise. The Gesellian artifice called for a stamp tax of 1% per week—in other words, one had to remit to the authorities 1% of the certificate's face value, every week, the objective of stamped scrip being twofold: 1) provide the state with an income, and 2) force the paper to circulate, for there is no incentive in hoarding depreciating paper money. The government revenue thus obtained would then be channeled towards debt reduction. Sanctions against recalcitrant dealers were threatened, but never enforced; no less of a bluff was the government's offer to liquidate a portion of cabinet members and MPs in scrip (it was later found that none did). The scheme was a failure. The System (banks, wholesalers), not surprisingly, boycotted the certificates; baring a disturbing fissure in the public fabric, even the province would refuse them in payment of taxes. The merchants took fright, and the people ran. To make things worse, the project itself was irremediably doomed by the very faults of social credit's dilettantism: a public revenue, through stamp vending, of 52% per annum is a near-absurdity, specially in times of distress (Gesell envisaged 12% at the most, in prosperity—i.e., 1% per month).

The Social Creditors of Alberta committed...gross stupidities: the prescribed stamp was

impracticably small and provided with a very unadhesive gum (Pound 1960, 52).

The public did not trust the certificates and cashed them in at every opportunity...Perhaps unfairly, the prosperity certificates were designed to go down in history as Aberhart's 'funny money' scheme, as the quintessential evidence of Aberhart incompetence and failure to understand Douglas Social Credit (Hesketh 1997, 131).

Thereafter, in October 1936, came a second default. The Douglasites, impatient as they always were for radical overhauling, rebelled again. Aberhart weathered the storm of discontent and caulked the rift by compromising: he greeted two 'specialists', whom Douglas dispatched to Alberta from across the Atlantic. Over the next year and a half, he conducted a veritable tour de force to engineer an articulate blueprint for the duplicate network. Several acts were passed. One called for a covenant—a written pact of sorts between registered denizens and the authority, whereby the former were sworn into upholding the circulation of Alberta paper and facilitating the infant steps of the alternative network. Others sought to reduce interest on pending provincial debentures, establish associations of wholesalers within the links of a Douglasite banking system, and even muzzle the hostile mutterings of local newspapers affiliated with the Eastern absentees ('Press Gag Act', the critics called it). And the empire struck back: the federal Supreme Court disallowed all such acts, by declaring them *ultra vires* (beyond the constitutional powers of the province).

The final act of Alberta Social Credit's financial sedition was the issuance by the Treasury Branches of 'non-negotiable-transfer vouchers'. Any merchant conducting business through these Treasury accounts, who would

purchase at least one third of his wares from Albertan concerns would receive a three percent credit in the form of vouchers. These vouchers were redeemable in legal tender, and were meant, as the 'prosperity' scrip before them, to be used as alternative credit lines amongst traders and producers. Indeed, the vouchers represented nothing more than a mildly competitive prod for the rural banks, in that they brought some relief to depressed enclaves by affording them what amounted roughly to a modest 'dividend'. Again, the incumbent network managed to boycott the new instrument successfully and impeded any herd movement in their favor. "The vouchers were useless for doing business outside the province and once the war was on, the system collided with federal rationing policy, which was aimed at reducing consumption, not stimulating it. The system was finally abandoned in 1945" (Barr 1974, 113-115).

Before the curtain fell on this winter's tale, an exhausted Aberhart sought in 1938 to embark on his sinking ship a Los Angeles businessman, fronting for the prestigious Jewish-American banking house of Kuhn & Loeb (one of the pillars of the System), to secure some prized liquidity for the establishment of a chartered bank—Douglasism was all but disavowed. Kuhn & Loeb, before parting with their pieces of eight, hired Chicago economist Jacob Viner to assess the prospective profitability of the region. In what amounted to the play's final twist of irony, Viner, prefacing his survey of the Alberta economy with an alert to increase taxation by another million dollars, advised his employers not to invest (Hesketh, 1997, pp. 191-192).

In sum,

Stripped of his more sophisticated weapons by the courts and the federal government, Aberhart continued the debt fight with the only two

weapons he had left: moratoria and default...The best Social Credit had been able to do had been to prevent large-scale foreclosures and beat back the financiers for a while; that and provide the people with their most desperately desired commodity—hope (Barr 1974, 113; 116).

By 1939, it was clear that the war was lost. Douglas protested that all Alberta Social Credit had done was to draft soldiers, and lay the weapons down before the battle had ever begun. But when the world conflict broke out, the Major himself, had become, even in Alberta, a half-forgotten eccentric, about to be dragooned for all time into the ghost regiment of abortive monetary putschists. How little the socreders were revolutionary at heart was betrayed by Aberhart's fascination with British royalty and devotion to the British Empire. The visit of the King and Queen to Canada in 1939, and Aberhart's immediate public profession of devout patriotism and allegiance to the English Crown on the occasion, sealed, symbolically, the end of the adventure. Only free individuals can carry out social revolutions.

In 1943, fatigue turned into sleep, and sleep swiftly into death—Aberhart was no more; he was succeeded by the faithful Manning, who would rule the party for another twenty-five years. Then came the end of the depression, the wartime effort, victory and Keynesiansim. By 1947, Douglasism has been cast down the pit of oblivion for good. What emerged thereafter was a well-regulated mixed economy, blessed, eventually, not by the uncouth legacy of the *A+B* Theorem, but by the bountiful discovery of black gold in the fields of Leduc in 1947. It may be noted, in conclusion, that even though Manning shepherded Alberta back to the fold of absentee control, his 'wild years' nevertheless taught him something of the ways of the *gift*, which he could but turn to good use in his lasting role of administrator and steward.

Revenue from oil bids went into the province's current revenue fund on the theory that it did not represent the depletion of the resource; money from the royalties, which did represent depletion of a non-renewable resource, went into social capital (schools, roads, research, etc.) to replace the oil...From a predominately agricultural province, Alberta became a province in which, by 1961, nearly half of the work force was employed in industries involved in or related to oil (Barr 1974, 141).

At last, Alberta had 'Greek money' galore. This land of heretics appropriated the oil, sold it, and expressed thankfulness for the find by pouring a sizable portion of the proceeds into the sphere of the arts and sciences. But what if there had been no oil below the crust of the northwestern earth?

In 1971 Social Credit lost to the Conservatives and by the following election had begun their slide into dissolution. It was the end of a leading party of a western democracy, which had ruled under the appellation coined by a heretic, whose thought it had entirely repudiated for nearly thirty years.

## 8. Conclusion

The uncertain pace of his argumentation and the meagerness of his treatises, too flimsy for the scholarly mind and too misty for the common man, have sealed the fate of Douglas after WWII.

Beyond the vehemence of the attacks repeatedly launched against Finance's usurpation of the social credit of the people, the abuses of debt, unemployment, inflation and deflation, the denunciations of Douglas represent an abiding instance of that current of heretical

thought that sought to fashion the solution to the problem of *money*. Within academia, after Keynes closed the door on the episode by passing a humbling judgment of the Major in his *General Theory*, Douglas was never granted appeal—his analysis being ever since found by those few willing to unearth his pamphlets “wanting”<sup>7</sup> No further discussion is provided, the inference being that whatever success the Major garnered, he owed to charisma, not cogent cogitation.

Yet if cast amidst the observations of other heretical thinkers, such as Silvio Gesell, the attempts of Douglas reveal something of import. They reveal that no early 20th century non-socialist blueprint for the eventual reconstruction of the economy was conceived in any form other than as a comprehensive *monetary* renovation of society. Reform, rejuvenation of the institutions, freedom and equality, according to these heretics' viewpoint, could only be brought about through a radical correction of the ways and means of conceiving monetary exchange. And these thinkers made *depreciation* the touchstone of their analyses. It is of interest to note that, in the course of an altogether nugatory and perfunctory exchange between the heretic and his interrogators of the McMillan Committee, it was

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<sup>7</sup> “Since the war there has been a spate of heretical theories of under-consumption, of which those of Major Douglas are the most famous. The strength of major Douglas's advocacy has, of course, largely depended on orthodoxy having no valid reply to much of his destructive criticism. On the other hand, the detail of his diagnosis, in particular the so-called *A+B* theorem, includes much mere mystification. If Major Douglas had limited his *B*-items to the financial provisions to which no current expenditure on replacements and renewals corresponds, he would be nearer the truth. But even in that case it is necessary to allow for the possibility of these provisions being offset by new investment in other directions as well as by increased expenditure on consumption. Major Douglas is entitled to claim, as against some of his orthodox adversaries, that he at least has not been totally oblivious of the outstanding problem of our economic system” (Keynes 1973, 370-371).



upon touching the intricacies of depreciation, vis-à-vis Keynes, that Douglas's testimony ran aground, leaving him incommunicado when the time came to elaborate the idea of the Just Price.

The A+B Theorem, the National Dividend and the Just Price are to be set down as loose components of an unfinished system that sought to incorporate *decay* in financial channels of the economy, with a view to establishing a temperately competitive structure of commerce independent of either state or corporate usury.

In retrospective, Douglas's project could hardly be rated a success in any of its articulations, and least of all in its intention to absorb depreciation and make it a pivotal element of it. Nevertheless it has the merit of exhorting modern readership to advert the unavoidable distortions foisted by lending-at-interest upon all economic transactions, and stands out as a reminder that until the "pecuniary issue" is solved, the democratic West is fated to suffer from ills already diagnosed, which, however, owing to the passing of time and the concurrent abridgment of reaction-intervals in the diffusion of financial shocks, might fester anew with magnified virulence.

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Contact Information:

Guido Preparata

Assistant Professor of Political Economy

Interdisciplinary Arts and Sciences

University of Washington, Tacoma

1900 Commerce Street

Tacoma, WA 98402

[ggprep@u.washington.edu](mailto:ggprep@u.washington.edu)

## John Elliott's Contributions to an Understanding of the Inquiry into the "Wealth of Human Potential"

James Dulgeroff, Ph.D.

*San Bernardino Valley College*

The value inherent in the work of John Elliott lies in the overall sense that he was a social scientist concerned with being both a historical scientist and a revolutionary. A revolutionary because, for Elliott, the study of economics was practical, rooted in practice--the study of comparative economic systems. The importance of the empirical study of the distribution of income and patterns of property ownership were just as paramount as the efficiency questions presented in standard economics courses. Until he recently passed away, in 2001, he was the director of the Political Economy and Public Policy (PEPP) Program at the University of Southern California. He held a Masters in Political Science and a Ph.D. in Economics from Harvard University. As a historical scientist, Elliott believed that the history of economic ideas had a special significance. In fact, Elliott felt that history is an interpretation and expression of human nature. He attributed this idea to Marx. It is the study of human nature, what human beings do, and are capable of doing, that holds the solution to the global problems of this new century. Elliott is unique and his understanding of political economy, as communicated by his many publications, and his teaching, should not go unexamined.