MAJOR DOUGLAS AND THE BANKS

J. M. Pullen and G. O. Smith

March 1994

UNE Working Papers in Economics No. 6

Editor John Pullen

Department of Economics
University of New England
Armidale
New South Wales 2351
Australia

ISBN: 1 86389 164 1

MAJOR DOUGLAS AND THE BANKS

by

J.M. Pullen and G.O. Smith

Clifford Hugh Douglas (1879-1952), more commonly known as Major Douglas, is not regarded highly by most economists. Although he was given half a column in *The New Palgrave* (Clark 1987a), the standard texts in the history of economics usually either ignore him completely, or give him only a passing mention (often critical and condescending), or dismiss him as a crank, a "funny money" man, a monetary heretic, or "a religious rather than a scientific reformer" (Gaitskell 1933, p.375). There was a time, however, when Douglas's ideas were actively discussed and enjoyed widespread popular support. His theories were propagated through his many books and articles, by his public lectures in various countries (including Australia in 1934), by his submissions to government enquiries in Canada, New Zealand and England, and by the activities of his followers in the Social Credit Movement. If Douglas is remembered at all by academic economists today, it is probably because he received two brief mentions from Keynes in the *General Theory*.

The purpose of this paper is to investigate whether Douglas's ideas are merely a curious aberration in the history of economics and deserve to be ignored, or whether they might have some relevance to the economic problems of today.

I. Douglas Social Credit

Effective Demand

When Keynes invested Major Douglas with the rank of private in his "brave army of heretics", he did so because the Major "is entitled to claim, as against some of his orthodox adversaries, that he at least has not been wholly oblivious of the outstanding problem of our economic system" - "The great puzzle of Effective Demand" (Keynes 1936, pp.371, 32). But if Douglas were to be judged solely on his awareness of the role of effective demand, the following sample quotations suggest that Keynes was less than generous in according him the lowly rank of private:

> Alberta, one of the richest provinces in the [Canadian] Dominion could produce abundance for her people... the only reason why Alberta's people were living in poverty was the lack of purchasing power. (Douglas 1942, p.31)
>
> the demand of the consumer "is the source of all <u>economic</u> production" (Douglas 1922a, p.12).
>
> the common disease [is] the lack of ... purchasing power (Douglas 1934, p.10).
>
> It is not physical poverty which is affecting us: it is lack of purchasing power which is preventing us from getting the physical riches which are waiting to our hands (Douglas 1934a, p.10).
>
> the real trouble lies ... in the effective demand system, the purchasing power ... [not] in the actual process of production nor in the ... administration of production (Douglas 1934a, p.21).
>
> the root factor in the whole industrial crisis and problem is lack of effective demand (Douglas 1922d, p.3).
>
> The wealth of a community is increased by spending, not by saving (Douglas 1922d, p.10).
>
> Since fact and logic both demonstrate that we are rich, while the financial system says that we are poor, it seems beyond dispute that it is purchasing power which is lacking. (Douglas 1933, p.10).

The Keynesian character of these quotations is remarkable. There were, of course, differences. Douglas did not use the concepts of marginal propensity to consume and marginal efficiency of capital to explain the inadequacy of effective demand; Keynes did not base his underconsumption on Douglas's A+B theorem, and did not adopt Douglas's view on the role of the banks. But if the two are compared solely on the emphasis they accorded to effective demand, Douglas deserves as high a rank as Keynes in "the brave army of heretics". Although differing on the causes of underconsumption, Douglas as much as Keynes saw the importance of maintaining effective demand at an adequate level.

The A+B Theorem

The basic theme of Douglas Social Credit was that the total amount of purchasing power in the hands of consumers is not, and cannot be, equal to the total value of the goods available for sale. This underconsumptionist thesis was based on Douglas's "A+B theorem". Douglas divided payments made in the course of production into two categories, viz. "Group A - All payments made to individuals (wages, salaries, and dividends", and "Group B - All payments made to other organizations (raw materials, bank charges, and other external costs"). (Douglas 1920, p.21). The prices charged to consumers for goods currently coming onto the market have to recover both A and B payments, but, according to Douglas, the purchasing power in the hands of individual consumers will be equal to only the A payments:

> ... 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. (Douglas 1920, p.22).

Douglas thus concluded that, "since A will not purchase A+B" (Douglas 1920, p.22), a deficiency of purchasing power must be an inevitable characteristic of the capitalist system. He was in effect asserting in common with Malthus and other underconsumptionists over the years, but for his own peculiar reasons, that supply does not create its own demand. This "A+B theorem" was repeated many times, in one form or another, throughout Douglas's writings, and has become identified in the minds of most commentators with the Douglas Social Credit scheme.

The A+B theorem has met with almost universal rejection from academic economists, on the grounds that, although B payments may be made initially to "other organizations", they will also find their way into the hands of individuals and will be available as purchasing power along with the A payments. Even if the B payments are received and spent before the finished product is available for purchase, current purchasing power will be boosted by B payments received in the current production of other goods which will be available for purchase in the future.

Keynes said that the A+B theorem "includes much mere mystification". He seemed to give qualified support to the argument in the case of "financial provisions" (depreciation allowances? sinking funds?):

> If Major Douglas had limited his B-items to the financial provisions made by entrepreneurs to which no current expenditure on replacements and renewals corresponds, he would be nearer the truth.

but found the "financial provisions" argument unconvincing:

> ... even in that case it is necessary to allow for the possibility of these provisions being offset by new new investment in other directions as well as by increased expenditure on consumption. (Keynes 1936, p.371; a similar criticism was made by Gaitskell 1933, pp.365-6).

Douglas argued that, despite this alleged endemic flaw, the capitalist system survives because the purchasing power gap is filled by either exports or bank credit. These sources of extra purchasing power supplement the A payments and enable producers to cover their total payments, thus permitting continuity of production. Exports cannot provide a permanent and universal solution for every country, and the closing of the purchasing- power gap must therefore rely, according to Douglas, on bank credit.

Bank Credit and the Power of the Banks

Douglas emphasised that banks create credit out of nothing, and do not merely act as intermediaries or pawnbrokers (Douglas 1922d, p.9), transferring funds from depositor to borrower. He cited numerous authorities in support of the credit-creation concept.

Most frequently cited were the words of the Right Honourable Reginald McKenna, Chairman of the Midland Bank, who said "every bank loan creates a deposit" (see for example, Douglas 1935, p.3). Other authorities included the article on Banking in the *Encyclopedia Britannica*: "bankers create the means of payment out of nothing" (Douglas 1935); and "Banks lend by creating the means of payment" (see Douglas 1934a, p.14);

and Sir Edward Holden, Managing Director of the London City and Midland Bank: "Bank loans create bank deposits" (see Douglas 1922d, p.7).

He reiterated this credit-creation theme time and time again throughout his writings: Thus, for example,

> the banking system is a mechanism for actually creating purchasing power (Douglas 1934a, p.14).
>
> No bank ever paid a dividend in the last hundred years on the process of merely lending that which it took in. There is no possible doubt at all about this thing. I sometimes wonder why it is that certain protagonists - certain defenders of the present banking system - go on arguing about this matter. There is no possible doubt about it. (Douglas 1934a, p.14).
>
> ... banks are the only institutions claiming the legal right to monetise the credit of the People to such an extent that they create and issue monetary credits many times in excess of the legal tender money they hold. (Douglas 1942, p.32).

He believed that the fact that banks create credit could be demonstrated by the following "simple mathematical proof which would appear to put the matter outside the range of discussion":

> If Deposits = D, Loans = L, Cash in Hand = C, and Capital = K, then since Assets = Liabilities, $L + C = D + K$. Differentiating with respect to time, and assuming K and C are constant, $dL/dt = dD/dt$, or the rate of increase of loans equals the rate of increase of deposits". (Douglas 1931, pp.102-3).

This credit creating power of the banks is expressed very succinctly in Douglas's expression that credit is created by "the stroke of the banker's pen", which has Henry George-type overtones. It is frequently asserted that, in the rezoning of land for a higher use or in the granting of planning permission, enormous increases in land value (or "betterment") can be created by "the magic of the town planner's pen". Douglas marvelled at the peculiar power society has given to banks by allowing them to create credit. Henry George pointed to the peculiar power society has given to land owners.

Douglas maintained that this credit-creating power which has been granted to the banks, or which the banks have arrogated to themselves with the acquiescence of the rest of the community, has provided the banks with tremendous wealth and power. He argued that, because business depends so heavily upon bank credit for its very survival, "there is much to suggest that bankers have a concealed lien on nearly all property" (Douglas 1945, p.65). He compared the power enjoyed by banks over their customers to that of slave owners over their slaves, quoting in evidence the words of a letter attributed to the American Bankers' Association:

> Chattel slavery will be abolished by the war... We can achieve the same result by controlling the money. (Cited in Douglas 1945, p.67).

He predicted that, because of the banks' role in creating credit to fill the endemic purchasing-power deficit

> ultimately the whole of every country - its industries, its loans, its institutions - (I am endeavouring to use the most conservative phrases) - must mathematically go into the control of the financial institutions. (Douglas 1935, p.10).

Although some other bank critics (for example, Frederick Soddy and William Anderson) had compared the credit-creation and/or note-issuing activities of bankers to counterfeiting, deserving of the same penalties, Douglas refrained from so doing. In an address delivered in Oslo in February 1935 to an audience including the King of Norway, Douglas said there are three classes of people who make money: the Master of His Majesty's Mint, the counterfeiter, and the banker, with the last mentioned accounting for over 90 per cent of the money supply. He thus put bankers and counterfeiters in separate categories. Douglas argued that the State had granted to the privately-owned Bank of England the power to create credit:

> It would, perhaps, be misleading to describe this ingenious process [i.e. credit creation] as wholesale counterfeiting, as since the Bank Act of 1928 the State has resigned its sovereign rights over Finance in favour of the international private organisation known as the Bank of England. (Douglas 1931, p.103).

Thus, according to Douglas, the banks are acting within the law, and are playing the game according to the rules, even though their actions inflict so much misfortune on other players.

However, while not arguing that the bankers act illegally or unethically in creating credit - he frequently attested to their personal integrity - Douglas clearly thought that the institution of credit creation by private banks produced undesirable and inequitable results. This is particularly striking, he argued, in the case of the national debt, much of which was created by the banks out of nothing and lent to the government (Douglas 1935, p.9). The government (i.e. the taxpayer) must now pay interest to the banks and/or eventually repay the credit which cost the banks nothing to create. As will be discussed later, there is, according to Douglas, the added anomaly and inequity that the government could have provided itself with the required funds by issuing Social Credit instead of relying on privately-created bank credit, and could have lifted from future generations of taxpayers the enormous burden of debt servicing and repayment.

Douglas argued that this credit-creating power of the banks resulted in selfish and anti-social behaviour.

> banks and bankers can and do create financial credit, and by successful manipulation appropriate the power resident in the real credit of the community for purposes largely anti-social, as well as purely selfish. (Douglas 1922b, pp.30-1).

In other words, he was implying that the interests of the private banks are not necessarily in harmony with those of society; or that the invisible hand does not always operate in banking.

Douglas was of course not alone in recognising the power of the banks. Mr McKenna, Chairman of the Midland Bank and Chancellor of the Exchequer is reported to have said:

> They who control the credit of a nation direct the policy of governments and hold in the hollow of their hands the destiny of the people.

Lloyd George referring to the 1919 peace negotiations is reported to have said:

> The bankers swept statesmen, parliamentarians, jurists and journalists all on one side and issued their orders, with the imperiousness of absolute monarchs who knew that there was no appeal from their ruthless decrees.

And Meyer Rothschild, founder of the Rothschild chain of banks, is reported to have said:

> Permit me to issue the money of a nation and I care not who makes its law.

(The above three statements are quoted in May 1968, p.184 from the pamphlet *Labor's Banking Policy*.)

M. Blum, the French Premier, is reported to have said:

> The bankers beat me. They are so strongly entrenched that there is no hope for a Popular Front Government.

President Roosevelt is reported to have said:

> The opposition that is now working up against me is being engineered by big business interests, backed by the bankers.

Henry Ford is reported to have said:

> The financiers are trying to break the country so as to control all industry.

W.E. Gladstone is reported to have said:

> From the time I took office as Chancellor of the Exchequer I began to learn that, in the face of the Bank and the City, the State had an essentially false position as to finance ... The hinge of the whole situation was this: The Government itself was not to be a substantive power in matters of finance, but was to leave the Money Power supreme and unquestioned. In the conditions of that situation I was reluctant to acquiesce, and I began to fight against it, by financial self-assertion, from the first... I was tenaciously opposed by the Governor and the Deputy-Governor of the Bank, and I had the City for an antagonist on almost every occasion.

Thomas Jefferson is reported to have said:

> If the American people ever allow private banks to control the issuance of their currency, first by inflation and then by deflation, the corporation that will grow up around them will deprive the people of all their property, until their children will wake up homeless on the continent their fathers conquered.

(The previous five statements were quoted in Allen 1942, p.13).

And Abraham Lincoln is reported to have declared during the American Civil War:

> I have two great enemies; the Southern Army in front of me and the financial institutions in the rear. Of the two, the one in the rear is my greatest foe. (quoted in Barclay-Smith 1940?, p.23).

It would seem therefore that some prominent people have shared Douglas's fear of the banks.

Conspiracy

No statement of Douglas's views on credit creation and the power of the banks would be complete without some reference to his conspiratorial thesis. For some of his disciples, this is the most important and the most memorable aspect of his writings. For others however, it is an embarrassing and pathetic exhibition of an advanced case of paranoia.
In his later publications Douglas spoke less and less about A+B, and became increasingly obsessed with the idea of an international conspiracy of the major banks aiming to suppress the individual and establish "World Dominion". For example, in his 1942 publication *The Big Idea* he said:

> there is an attempt in operation, to impose a World Policy. That is to say, somewhere there is a body of men claiming to be a World Government (Douglas 1942, p.22).

and that this organisation for "World Dominion" was seeking to impose a common policy on the ultimate victors of World War II, whoever they might be. The essence of this common policy was the "centralised control of life" (Douglas 1942, p.24). It would establish conditions under which individuals are "wholly at the mercy of institutions", these institutions being "ultimately controlled by an international junta" (Douglas 1942, p.8). Douglas was well aware that others would ridicule his conspiratorial theory of world events. His response was to ridicule them as "Superior Persons":

> I do not want to waste the time of the Superior Persons who have long ago risen above what they describe as hidden hand theories (Douglas 1942, p.41).

In *The Big Idea* the participants in this conspiracy where variously identified as "international Finance", "the 'Labour' or Socialist Party", "the Masonic Lodges", "Germany", "Judaism", "Zion", "the Old Testament against the New Testament", "Anti-Christ against Christ" (pp.6-7), "an international gang of Plotters or Planners" (p.24), "the Secret Government" (p.30), "a gang of New York Jews" (p.39), "the Promoter" (p.40), "the big Operators" (p.43), "the Directors" (p.43), "the Hidden Promoters" (p.43),"irresistible World Police under the order of the Promoters" (p.44), "International Financiers, the richest body of men in the world" (p.49), "international Jew Financiers" (p.50), "Pan-Germanism" and "Pan-Americanism" (p.44), "Supernational Forces" (p.57), the "Ruling Race" (p.57), and "Jewish Socialism (which is State Capitalism with monopoly control by Finance)" (p.63). In his 1945 publication, *The Brief for the Prosecution*, the litany continued with: "the Money Power" (p.29); "the international-collectivist-financiers and their Trades Union Allies" (p.47); and "an inner ring of clear-sighted and immensely powerful men ... determined to impose ... universal serfdom ... on the world" (p.57).

Notable omissions from his list of conspirators were the Jesuits, the Mafia, the Triads and the Daleks.

Douglas saw in this conspiracy not only a move towards world domination but also a particular attack on the British people and British culture (Douglas 1942, p.49). He declared "the most dangerous enemy of the British people" to be "a group of German-American Jews", and named some of the leading families.

Douglas was convinced that the Second World War was deliberately fomented by these financial conspirators in order to increase their profits (through loans to the combatants) and to enlarge this power over the impoverished nations at the cessation of hostilities: "we are fighting Germany and Japan" he said "for the benefit of a third party, the Promoter" (Douglas 1942, p.40). He believed that, although Britain wanted peace, and could have maintained peace in Europe, it was pushed into World War II because of the "domination of the Government by international Finance and its tools; notably the 'Labour' or Socialist Party" (Douglas 1942, p.6). He described the British Labour Party as "the chosen tool of international Finance and intrigue" (Douglas 1942, p.7).

Douglas saw a close link between the "International Financiers" and "International Socialism". The latter (which he described as "simply world monopoly") is propagated by the former. The International Financiers promote the socialistic doctrine that "the poor are poor because the rich are rich" so that gullible voters will support progressive, redistributionist taxation. He argued, paradoxically, that progressive taxation would "prevent the rise of any considerable body of men with sufficient economic power to oppose international Financiers" (Douglas 1942, p.49), and that the international financiers would themselves not suffer under a high-taxing socialist government because

> There is, of course, no difficulty in paying taxes when you create the money with which to pay them (Douglas 1942, p.49).

He added:

> No Labour Government ever attacks International Finance (Douglas 1942, p.49).

He would probably have used as supporting evidence the recent deregulation of banking by the Australian Labor Government.

He believed that many pre-war German-Jewish "refugees" had joined the British Fabian Society; and he claimed to have evidence that many of them had "worked furiously for the war, and hardly troubled to conceal their belief that Germany would win it" (Douglas 1942, p.51). And he asserted that the Fabian Society or "any movement [whether Socialist, Henry Georgeite or Communist] which attacks the idea of private ownership in anything whatever, can be traced without difficulty, if not to Zionism, to Zionist bankers" (Douglas 1945, p.24).

He even believed that the British wartime law granting power of arrest and internment was "almost exclusively exercised against the political opponents of the Labour Party and its shadowy allies" (Douglas 1945, p.59).

Douglas's conspiratorialism extended even to alleging that teaching institutions, like the London School of Economics, are subsidised by the international financiers, and that their aim is

> to turn out quantities of 'intellectuals' with no practical knowledge of any economics other than the rules of the Gold Standard (Douglas 1942, p.49).

The establishment of University Chairs of Banking financed by banks would no doubt have confirmed him in this view.

He saw conspiracy not only in the London School of Economics but in the entire education system - which he believed to be staffed largely by socialists and communists, and which "has never included even a rudimentary commentary on the subject which controls the activities of its unfortunate victims from the cradle to the grave - the money system" (Douglas 1945, p.85).

He implicated English Freemasonary as agents in this plot of the international Jewish financiers; but he also added, somewhat contradictorily, that

> It must be remembered that the essence of Freemasonary is that 99 per cent. of Freemasons don't know what it is about, or what they are doing, if anything (Douglas 1942, p.50).

He also believed that Lloyd George had been brought to power by "international forces" in a deliberate plot to destroy Britain. The confiscatory land taxes of his 1910 Budget were designed by the international conspiracy to ruin British landowners - whom he described as "the backbone of the fighting strength of Great Britain (Douglas 1945, p.55), and at the same time to enrich the financial institutions who took over the land" (Douglas 1945, p.84).

He further believed that these forces had deliberately kept money in short supply in order to foment discontent and stir up, with "skilfully managed propaganda", agitation against every type of property "except the credit or money-creating mechanism", with the result that property had been transferred to "institutions governed from the shadows" (Douglas 1945, p.55).

The Great Depression was, of course, also deliberately engineered by the international conspirators:

> The economic phenomena of the great depression were the result of conscious intention on the part of those concerned to wreck society, and could have been avoided without any fundamental change (Douglas 1945, p.83).

A further, and even more fanciful, version of the grand conspiracy was suggested by the following passage:

> It must be obvious to anyone who will give the matter serious consideration that *the interests which control British publicity consciously worked to emasculate British military power and to build up that of Germany, and that they were assisted, whether consciously or not*, by certain carefully selected Trades Union leaders who moulded the policy of the Labour Party in accordance with the parallel policies of the German-speaking Jew-inspired Fabian Society (later, P.E.P.) and the Zionists. (Douglas 1945, p.40.)

The ordinary citizen who was "doped" with Hollywood films, monopoly broadcasting and defective education" (Douglas 1945, p.47) would not be aware of this movement towards World Dominion.

He argued that this conspiracy against the individual had succeeded in nullifying every advance made in productive capacity, and that as a result

> economic life is less secure, and, in relation to possibilities, less widely civilised, than it was five hundred years ago (Douglas 1942, p.9).

But perhaps the most extreme version of his conspiracy theory was his belief that, wherever scarcity exists, it is deliberately and artificially created by the junta:

> There is no genuine scarcity which is not consciously produced, and I am beginning to disbelieve in the idea that there ever was any genuine unavoidable scarcity (Douglas 1942, p.9).

Community-Based Credit

Applying the Lockean principle that labour is the basis of private property, Douglas noted that because bank credit is actually "manufactured by the banking system" it is "claimed by the banking system as its own property". The fact that the bank lends the credit is accepted as "sufficient proof of a claim to ownership" (Douglas 1935, p.3).

But he also made the legalistic point that although bank credit is the major component of the money supply, it is not strictly legal tender.

However, this legal tender argument was merely an aside. His main critique of the existing credit system was that credit is a social phenomenon, and that it should be owned not by private banks but by society. He said that the credit lent by a banker "is not his"; rather, it is "public property" (Douglas 1922d, p.8). Bankers may like to think of it and talk of it as if it were theirs, but it is, or should be, communal property.

> what is commonly called credit by the banker is administered by him primarily for the purpose of private profit, whereas it is most definitely communal property (Douglas 1920, p.120).

He referred to this socially-owned credit as "social credit", "national credit" (Douglas 1935, p.17), "public credit" (Douglas 1934a, p.17), and as "people ... using their own credit" (Douglas 1942, p.31).

Douglas supporters cite in their publications earlier prominent persons who put forward the idea that credit is, or should be, community based. Abraham Lincoln, for example, is quoted as saying:

> Money is the creature of law, and the creation of the original issue of money should be maintained as an exclusive monopoly of the National Government ... The Government should create, issue, and circulate all the currency and credit needed to satisfy the spending power of the Government and the buying power of consumers. The privilege of creating and issuing money is ... the supreme prerogative of the Government (quoted in Allen 1942, p.14).

Douglas argued that when community ownership of credit is denied, the economic system becomes self-destructive:

> a financial system which separates the ownership of credit from the community is self-destructive, since the community has the requisite consuming power to maintain production at its maximum (Douglas 1931, p.107).

National Dividend

Douglas's proposed solution to the problem of an endemic inadequacy of purchasing power was, therefore, to use Social Credit to fill the gap between purchasing power and prices. He proposed that this gap-filling could be achieved either by distributing a "National Dividend" to every man, woman and child to boost their purchasing power, or by providing business with a subsidy or rebate which would enable them to reduce prices, or by some combination of National Dividend and rebate. Both the National Dividend and the rebate would take the form of a non-repayable, non-interest-bearing grant, and would come into existence as credits created by the State.

Douglas sought to justify the National Dividend, not merely on grounds of pragmatic expediency, as a way of boosting purchasing power, but also on moral grounds. His moral argument was linked to the concepts of an "unearned increment in association" and a "cultural heritage".

The "unearned increment in association" - which has some similarities with Henry George's concept of an "unearned increment" - is the difference between what a group of workers can produce by acting together, and what they can produce by acting individually.

> ten men pulling on a rope can accomplish that which ten separated men could never achieve (Douglas 1922a, p.13).

It can also be regarded as the increase in value that occurs through the growth of population - "a telephone system requires a population to give it a value" (Douglas 1922a, p.13).

Douglas also sought to justify the National Dividend on the grounds that it would enable everyone to benefit from society's "cultural heritage" - i.e. the accumulated knowledge, the scientific know-how, the technology, and the educational system etc. - which had accumulated over the years. This heritage, he argued, was not the property of any one individual; every member of society should benefit financially from it.

Like most ideas, this idea of a cultural heritage was not new. It can be found, for example, in P.-J. Proudhon's "What is Property?" Proudhon argued that there exists a vast heritage of past technologies and techniques which belong to society, and not to the individual. And the same idea can be found in Edwin Cannan's 1934 article "Capital and the Heritage of Improvement". Cannan defined "the heritage of improvement as "the net economic advantage which we and other generations who come late in the history of mankind, possess in consequence of what has been done by mankind in the past" (Cannan 1934, p.381).

In Douglas's scheme, the state (i.e. the community) would be the "Trustee" for the unearned increment of association and the cultural heritage, and the banks would be its agent. The business of this Trustee would be to divide the benefits of the unearned increment amongst "the tenants-for-life of the estate". The State as Trustee would thus "lend, and not borrow, purchasing power ... for the benefit of individuals, the consumers" (Douglas 1922a, p.14).

Douglas's idea of a National Dividend follows logically from his notion that, in a truly democratic country, people are "shareholders in it first, and employees of it only secondarily, if they are employees" (Douglas 1936, p.10).

Douglas believed that his National Dividend scheme would provide a solution to the problem of unemployment. He argued that the tendency and the proper aim of the economic system is not to create full employment - which could be achieved simply by banning all labour-saving machinery - but to create "disemployment":

> We have to recognise that there is an increasing number of people - a number which is bound to increase continuously up to the point where it forms the major portion of the population - which will not be required, for any considerable length of time of their lives, in the economic and productive system at all. (Douglas 1934a, p.19)

But of course the problem is then - how do the unemployed survive?

> We have to arrange that those people can get goods without being employed. Our objective is not employ these people but to disemploy them and yet give them the goods. (Douglas 1934a, p.19)

He believed that the solution to this problem is "the dividend system" in which "all of us who are not employed can have our dividend warrants, and those who are employed can be paid in addition to being employed" (Douglas 1934, p.20).

The National Dividend would consist of purchasing power distributed to the whole population. It would be funded by the creation of new money - "by exactly the same methods as are now used by the banking system to create new money" (Douglas 1935, p.15). The amount of the National Dividend would be "sufficient ... to attain a certain standard of self-respect, of health and of decency". It would be "a recognition of the fact that, if the work is not available, [the worker] has the right to an income sufficient for self-respect and subsistence - as by right and not as a 'dole'" (Douglas 1935, p.15).

Douglas recognised that there would be moral and religious objections to the National Dividend on the grounds that it involves getting something for nothing, that some men are not worthy to receive the dividend, that it would be demoralizing for some men to receive it, and that it would encourage idleness and dissipation. (Douglas 1934, p.20).

Douglas responded to this disincentive argument by observing that it frequently came from people whose sole or main source of income was dividends received on inherited money, and by proposing that the disincentive effect could be avoided by setting the National Dividend at a judicious level.

> It is, of course, not suggested that, at first and possibly for some time to come, such a dividend should be so great that, if work was available, the worker could refuse to work (Douglas, 1935, p.15).

This reply is hardly adequate; it does not address the problem of quantitatively establishing the distinction between the "self-respect and subsistence" level on the one hand, and the disincentive-to-work level on the other. The reply also carries the interesting implication that, at some future time, the National Dividend might reach a level at which workers would be economically free to work or not work as they wished. Douglas presumably believed that even then productivity would not suffer, because the disincentive to work would be offset by improved technology.

To the other objection - that the National Dividend would be inflationary - Douglas responded that the National Dividend would merely offset the economy's endemic deflationary tendency (as proved by the A+B theorem); and that, if on balance any inflationary tendency was caused by the National Dividend, it would be offset by his second policy proposal - the subsidy or rebate on price. (Douglas 1935, p.15)

One of the aims of the Social Credit Movement was to promote technology and the use of labour-saving equipment - an aim which would have been dear to Douglas as an engineer. He criticised the conventional view that the aim of the economy was to create employment. He pointed out "that some of the best brains (scientists and others) have for 150 years or more been endeavouring to put the world out of work - and they have succeeded; ... our best brains are, in effect, endeavouring to increase the unemployment problem" (Douglas 1935, pp.13, 14). The fact that fewer and fewer people are required to produce the nation's goods should be regarded as a "magnificent achievement", not as a catastrophe. (Douglas 1935, p.14)

However, he distinguished two types of unemployed - "the fortunate unemployed, who, like myself, have a certain amount of purchasing power, and the unfortunate unemployed, who do not" (Douglas 1935, p.14). He believed that fewer and fewer workers will be required by the industrial system, and that purchasing power will have to be distributed to the unemployed in order to provide for their welfare and to ensure that total purchasing power is sufficient to pay for the goods and services for sale. (Douglas 1935, pp.14-15). He saw the current dole as the beginning of the solution to this problem, and as society's first step towards the implementation of a National Dividend System. But whereas the dole is usually seen as a temporary expedient applicable to a limited number of recipients, the National Dividend would be permanent and universal. Everyone would receive it, whether employed or not, and it would not be means-tested. By contrast with current attitudes towards the dole, the receipt of the National Dividend would be seen as a right, not as a source of social disgrace. It would become over the years an increasing proportion of each individual's total income, with wages becoming a decreasing proportion.

The combined effect of a higher National Dividend component and a lower wage component implies a movement towards a more equal distribution of income. But it is difficult to reconcile such an outcome with Douglas's anti-egalitarian views; he said that the ultimate meaning of "equality" is "having no quality" (Douglas 1945, Preface), and he criticised the view that "it is better that all should be miserable than that only some should be happy" (Douglas 1942, p.54).

However, there is some doubt about Douglas's commitment to the policy of a National Dividend. Although in his earlier writings the commitment appeared to be firm, he indicated in one of his later speeches that his policy proposals were merely suggestions:

> To meet those conditions we have put forward a number of tentative proposals, none of which, at any rate so far as I have myself any responsibility, is claimed to be final, rigid or unchangeable. They are merely suggestions ... (Douglas 1935, p.15).

The Rebate

While the rapid extension of the National Dividend was Douglas's long-term policy, he argued that, until the dividend became universal, the "unearned increment in association" should be distributed by reducing prices below cost and compensating producers by a Treasury issue of credit. (Douglas 1922a, p.14-15). In this way, it was claimed, the gap between purchasing power and prices would be filled, the economy's endemic tendency to underconsumption would be cured, real wages would rise, all individuals would receive (indirectly) their share of the unearned increment, and the increased purchasing power of consumers would stimulate production.

Douglas also emphasised that these benefits would occur without attacking the rights of property, without violent revolution, and without men being expected "as a condition of the practicability of the scheme, to be better than they are" (Douglas 1922a, p.16, quoting from A.R. Orage).

Douglas emphasised that the "issue of credit must be accompanied by the regulation of prices - otherwise, the credit would simply put up prices (Douglas 1922a, p.15). But, as Dave Clark has pointed out, this is a major impediment to the successful implementation of the scheme:

> The anti-socialist Douglas appeared oblivious to the fact that his scheme would have required an army of inspectors to fix and supervise the huge number of individual price reductions involved (Clark 1987a).

Douglas proposed that every business should be registered, and should submit a monthly audited statement of its costs, from which the adjusted price would be calculated after applying the rebate. New calculations would be required whenever costs changed. A multi-product firm would presumably be required to apportion its overall costs amongst its various products. Douglas did not seem to appreciate that, even if the actual costs were correctly audited, it would be virtually impossible for any inspector to determine whether the actual costs were justified; and that if producers could rely on the rebate to reduce their prices, they would have less incentive to hold costs down or to take cost-cutting initiatives.

Nationalisation, Socialism and Collectivism

Douglas insisted that his Social Credit scheme was not a scheme for the nationalisation of credit or of banks. His Social Credit concept might conceivably have led some of his followers to support bank nationalisation, and Douglas Social Credit might have thus been partly responsible for the abortive attempt in 1947 to nationalise the Australian banking system, but Douglas himself spoke clearly and often against nationalisation in general, and the nationalisation of banks in particular.

He was critical not only of the practice of public ownership but also of the concept itself. He referred to "the Satanic use which has been made of such meaningless phrases as public ownership and control" (1942, p.7), and asked

> How can a bloodless abstraction called 'the public', having neither position or dimension in time and space, own, still less control, anything? ... The simple fact is, of course, that the word 'ownership' is itself largely meaningless. Except as a legal fiction, you do not 'own' anything you do not control, and the object of the drive for 'public ownership' is, as in Russia and Germany, to take away individual freedom and to centralise power in the hands of a new Ruling Caste. (Douglas 1942, p.7)

His criticisms of Socialism were as vigorous as those of nationalisation. He argued that a socialistic abolition of private property would mean the "absolute centralisation of economic power" (Douglas 1942, p.49), which would result in inefficiency and tyranny:

> bureaucratic Socialism is probably the most inefficient method of conducting an economic system which has ever been devised (Douglas 1942, p.9).

> Socialism, or to give it its correct name, Monopoly, is not a *production* system... It is a legalistic system based on a power complex supported by a set of abstract slogans which its policies and results contradict, where these have any concrete meaning. The idea so skilfully inculcated that confiscation of property will assist in the distribution of wealth is, of course, completely without foundation. Socialism is a restriction system, as any examination of Socialistic practice in the Trades Unions will confirm, and it has two well defined fundamental principles - centralisation of power, both economic and political, and espionage. That is to say, every advance towards Socialism is an advance towards the Police State. (Douglas 1942, p.10).

He maintained that the characteristics of a bureaucratic socialist state, as in the case of Russia, included "espionage ... mass cruelty ... and the use of every means of publicity to represent a retrograde tyranny as a marvellous advance" (Douglas 1942, p.39).

He was opposed to socialism even if it was implemented by educational and democratic means. He believed that the "fundamental tenet of the Fabian Socialist is that all purchasing power shall be dispensed by the State at its discretion" (Douglas 1922b, p.25), and he dismissed the work of the Fabian Society in the following blunt terms:

> The Fabian Society has been notably successful in intercepting, sterilising and misdirecting intelligent enquiry into the causes of social unrest (Douglas 1922b, p.23).

He argued that under Fabian Socialism individual freedom and initiative would be sacrificed to "the Supreme State"

> ... to which every man must bow, and by whose officials all human activities from the cradle, or before, to the grave, and after, shall be regulated (Douglas 1922b, p.23).

His antipathy towards socialism is encapsulated in the statement:

> Socialism is the complete rule of the individual by functions and is Satanic (Douglas 1942, p.55).

However, despite the vigour of his attacks on nationalisation and socialism, it would seem that Douglas's opposition was directed not at public ownership as such, but at "collectivism" or centralisation in all its forms, including private as well as public collectivism. He seems to have opposed public ownership, not because it was public, but because it was collectivist and centralist, and was therefore anti-individualist and evil. "Centralised sovereignty" he said "is at the root of all the world's ills" (Douglas 1945, p.64). According to Douglas "the conflict in the economic world" is not between capitalism and socialism, but between, on the one hand, cartels, monopolies and nationalised industry, and, on the other hand, small business and privately-owned property (Douglas 1935, p.37).

He believed that collectivism, in both its private and public forms, was being promoted by the great conspiracy for world dominion.

> Collectivism, economic and political, is the policy of the Supernational Forces. Its fundamental objective is the Slave World, ruled by a Praetorian Guard in the employ of a Ruling Race. It has no chance whatever of success, but it has a real chance of setting back the clock of human happiness by hundreds of years. (Douglas 1942, p.57).

This distinction between nationalisation and collectivism resolves an apparent paradox or contradiction in Douglas's thought. How could he, with logical consistency, attack nationalisation, but at the same time advocate social credit, which in effect would abolish the provision of bank credit by private banks and substitute provision by the State?

The answer to this paradox lies in his distinction between nationalisation and socialisation; or between socialism and socialisation. He insisted that his argument was "not an argument for nationalised banking ..." but "an argument for socialised credit" (Douglas 1922d, p.9).

He thus seems to have been arguing that, although the State provision of credit appears at first sight to be a step towards socialism, it is in effect a movement away from collectivism, because it makes credit universally available and thus destroys the collectivist monopoly of credit enjoyed by the private banks.

This distinction between nationalisation and collectivism is reflected in his distinction between "common ownership" and "joint shareholders". The former concept is often used, he said, by "the world plotter or planner". We are common owners of the Post Office, but this entitles us only to a share of the "usufruct" of the Post Office assets; it does not entitle us to a share of the assets themselves; nor to a role in the management and control of the Post Office - that is in the hands of an administration; nor to a dividend out of the profits of the Post Office. (Douglas 1945, p.7). Our proprietorial situation with regard to the credit created by society should therefore be one of joint shareholders, rather than common ownership.

Douglas's anti-nationalisation views can be seen clearly in his attitude to the private ownership of coal. Contrary to the views expressed in labour circles, he held that there is no justification for the claim that the coal belongs to the people. Referring to a Scottish charter of the year 1202, he stated that "the right of the landowner to dispose freely of his coal has never since been questioned" (Douglas 1945, p.19), implying that in his view there was no moral or legal justification for questioning the right.

This distinction between socialism and socialisation is also reflected in his observations on the meaning of democracy. He believed that the answer to socialism was "genuine democracy". He rejected the definition of democracy as the rule of the majority - "Majorities have no rights and are generally not right" (Douglas 1942, p.55). He defined "genuine democracy" as "the right to atrophy a function by contracting out", adding that "the power of contracting-out is the first and most deadly blow to the Supreme State" (Douglas 1942, p.55). In Douglas's system the National Dividend would thus play an essential role in the establishment of genuine democracy. By providing individuals with economic security, it would enable them to contract-out, and to become less dependent on the State, in matters such as health, pensions, and education.

However, it seems that Douglas did not always express himself clearly or consistently on this distinction between socialisation and nationalisation. Referring to the debates on this issue within the Labor Party in Tasmania in the 1930s, Davis has noted contemporary reports that when Douglas was in Australia in 1934 he conceded that nationalisation of banking was a possibility, and that banking might eventually become a state service. But as Davis has remarked, "Douglas's concession hardly seems compatible with his generally scornful attitude to the state". (Davis 1978, pp.117, 130). The alleged concession probably arose either from a misunderstanding on the part of his Australian listeners or from a temporary and inconsistent aberration on Douglas's part.

This distinction between Social Credit and bank nationalisation would be, for many readers, rather subtle and even nebulous - a distinction without a difference in effect, especially when at times Douglas uttered pro-nationalisation statements, such as capital should be "vested in the community" (Douglas 1922a, p.13). But Douglas himself was quite convinced that his scheme for Social Credit was not a scheme for bank nationalisation. Against bank nationalisation he said:

> Various well-meaning if somewhat naive organisations have stated, as though it were both axiomatic and desirable, that only 'the State' has the 'right' to issue purchasing power (Douglas 1945, p.6).
>
> there is no evidence to indicate that a nationalised banking and currency system would be anything but more oppressive than a partly decentralised system. Each approach to centralisation, and this approach has been rapid, has increased the tyranny of Finance, a tyranny which in itself is technical, but becomes political by reason of the immense advantages which accrue to its manipulators. There is no more effective claim to totalitarian power than the claim to the sole right to issue and withdraw (tax) money ... Those well-intentioned people who feel that nationalisation of banking, with its attribute of credit-money creation is desirable, would do well to realise what it is they are proposing, which is the Divine Right of Kings, *tout court*, without a responsible King. (Douglas 1945, p.65).

There remains, however, a problem of interpretation. Despite Douglas's protestations to the contrary, the distinction between nationalisation of banking and Social Credit is not clearly defined. He criticised the notion of public ownership, and preferred the term "joint shareholders" to "common owners", but did not explicitly distinguish between "joint" and "common", or between a "shareholder" and an "owner". Hence it is difficult to know exactly where he stood on the issue of nationalisation *v.* private enterprise. His writings provide an extensive supply of admirably-turned quotations suitable for use in speeches against nationalisation and public ownership, and in support of private enterprise. But at the same time, his comments on the monopolistic powers of private banks, and his proposals for Social Credit, are a very serious attack on one of the key components of the private enterprise system.

Students and disciples of Henry George will see here a close parallel with the Single Tax. George was, like Douglas, an ardent critic of socialism and supporter of private enterprise, and his land tax was an attack on another hallowed component of the private enterprise of the system - the landowner. But both George and Douglas apparently thought that their respective reform proposals would strengthen, not destroy, the private enterprise system. They thought that the unearned increments associated with land ownership and credit creation were in fact not essential institutions in the capitalist system, and that to the extent that capitalism flourished it did so not because of, but in spite of, these two institutions.

Individualism

Douglas's anti-collectivist and anti-centralist views are reinforced by the fervour of his pro-individualist views. His forceful and persuasive expression of the philosophy of individualism - a philosophy which estranged him from interventionist socialism and endeared him to the Far Right of the political spectrum - was a prominent feature of his writings, especially in later years. Indeed, some commentators of the Right seem to remember him only for his political individualism, and tend to forget the radical and redistributionist aspects of his proposals for the socialisation of banking and for a universal National Dividend. As evidence of his individualism, we have his statement

> the human individual is the highest manifestation of divine attributes with which we are in day-to-day contact. What differentiates him from the lower orders ... is his initiative - the fact that he manoeuvres under his own steam (Douglas 1942, p.7).

As noted above, the alleged international financial conspiracy was seen as a "conspiracy against the individual" (Douglas 1942, p.9):

> I am confident that there is an organized attempt to drive [the individual] down the scale of existence, so that he becomes primarily a number on a card index, by taking away any recognisable initiative, his potentially divine attribute (Douglas 1942, pp.6-7).

This metaphysical or theological basis for Douglas's individualism was evident even more forcefully in the statement:

> *the supreme aim of evolution is differentiation, and ... the determined effort to present human beings, and to treat human beings, as a collectivity, is the Sin against the Holy Ghost,* for which there is no forgiveness. (Douglas 1942, p.19).

Douglas's philosophy of individualism extended to a criticism of organisation. He did not oppose organisation "if done consciously and with full understanding by those who are organized"; but otherwise he regarded organisation as " a descent", "a retrogression", "the evocation of an elemental force", and "the prostitution of human nature to a lower order of evolution - the group soul". As evidence of this degradation he cited the behaviour of "Functionaries" who in private life and as individuals are "decent fellows", but who are "in their Function, possessed of devils" because they "assume power ... arising out of collectivity" (Douglas 1942, pp.19-20).

This individualism can be seen also in statements such as:

> We have to discard the idea that every child is born into the world to mind someone else's business, and substitute the fact that he is responsible for minding his own (Douglas 1942, p.55).
>
> ...groups are inferior to individuals (Douglas 1942, p.55).
>
> There is only one sound basis for co-operative society, and that is individual and personal responsibility (Douglas 1942, p.59).
>
> the root of the matter is - mind your own business, and allow no man to make a business of minding you. Listen, in reason, to what advice seems to be backed by proper experience and ability, and pay no attention to windy idealism. And then - mind your own business. It is in sore need of your attention. (Douglas 1942, p.64).
>
> Neither I nor any other individual can help you if you will not help yourselves, and neither I nor any other individual who has endeavoured to arouse you to a sense of responsibility can take that responsibility from you.
>
> You are responsible for the poverty, grinding taxation, insecurity and threat of war. Yours is the responsibility, yours can be the power.
>
> Will you, individually and collectively, assume the responsibility and the power? If not, there is no legitimate ground for hope. (Douglas 1936, p.13).

Role of the Private Banks

Although Douglas argued that credit should be created by the community, not by the privately-owned banks, the latter would still have a function to perform in his system. The bank would be "the organ of credit-issue, its mobiliser", and "the most important and fundamental function of a bank" would be:

> to envisage the capacity of the community it serves, taken in conjunction with its plant and culture, to meet the demands made upon it; and under democratic control, to issue purchasing power, on behalf of the community (the true State) up to the limit of this capacity (Douglas 1922a, pp.13-14).

The banks would act as "the servant of the consumer, and not, as at present, the tool of the financier and the price-maker". They would be "agents" of the State in the distribution of social credit (Douglas 1942, p.14). They would function as "public utility concerns" and would be licensed and supervised (Douglas 1942, p.31).

> Because control of Credit being in the words of Hon. McKenzie King, "A public matter not of interest to bankers alone, but of direct concern to every citizen," credit policy should be vested in an authority responsible to the representatives of the people. (Douglas 1942, p.31).

A small 1936 pamphlet, *The Tragedy of Human Effort*, provides details of the licensing and supervision procedures for the private banks. Douglas suggested that the chief officials of all banks and other financial institutions should be licensed, with the licence fee set at a moderate level - say £100. However, if the financial institutions do not achieve the policy imposed by Parliament within a reasonable time, their licences would be withdrawn; and the licence fees for the replacement officials would be very greatly increased - Douglas suggested 1,000 times the original licence. This penalty, or the threat of penalty, would encourage cooperation with government policy. Douglas added, however, that the government would not interfere with the details of banking. (Douglas 1936, p.11).

No detailed systematic account was given in *The Tragedy of Human Effort*, 1936, of the policy or policies which the government would or should implement and which the private banks would be required to administer. But in *The Big Idea*, 1942, one specific policy was spelt out. The banks would be prevented from foreclosing on home mortgages. Douglas compared unscrupulous banks to "a foreign aggressor":

> it is just as much the duty of any Government to protect the homes of individual members of Society against the confiscatory practices of unscrupulous money-lenders as it is to defend its people against the invasion of a foreign aggressor. (Douglas 1942, pp.35-6).

It is worth noting that, despite his philosophy of individualism and despite his aversion to Big Government and to Socialism, Douglas believed it was "the duty of any Government" to protect home-owners against the banks.

Such protection measures were incorporated in the "Home Owners Security Act" which was passed by the Province of Alberta but was disallowed by the Canadian Government in 1938. The Act

> 1. Would have prohibited foreclosures or sale under mortgage proceedings of any farm home.
> 2. Would have prohibited foreclosure or sale under mortgage proceedings of any home in a town, city or village, unless the plaintiff first deposited $2,000 with the Court which would be paid to the owner if dispossessed to enable him to purchase another home.
> 3. Would have induced debtor and creditor alike to seek equitable basis of settlement through medium of the Debt Adjustment Board.
> 4. Would have enabled home-owners to enter into new contracts commensurate with their present ability to pay. (Douglas 1942, p.36).

In a "Draft Scheme for the Mining Industry", Douglas proposed that a special bank, to be called the Producers' Bank, should be set up for the mining industry, preferably by the

Trades Unions concerned. But he later drew back from this proposal, suggesting that it was not essential to the operation of his Scheme and that it had been based on an over-optimistic view of the role of the Trades Unions. (See Douglas 1922b, p.34-5, 43-4.)

In the light of the criticisms made by Douglas of the banks, it is surprising that he allowed them any role at all in his Social Credit system. Presumably, he felt that, if their role as creators of credit was taken over by the State, the anti-social and exploitative nature of their activities, which he so strongly condemned, would cease.

But many unanswered questions remain about the role of the private banks in a Social Credit Scheme. For example, what fee or commission would the private banks receive for their involvement? Would the fee be a sufficient inducement and compensation for them to participate? Would the work required of them be sufficiently extensive, or sufficiently skilled, or sufficiently onerous, to justify a sizeable compensation? Presumably, if the National Dividend is to be distributed at all, and if the price rebate is to be given automatically to every business which requests it and which supplies adequate details of its costs, would any discretionary function, or any exercise of financial judgement, be required of the banks? If the private banks lose the right to create credit, would their lending activities be limited to the lending of a fraction (not a multiple) of the funds lodged by external depositors, and would this provide them with adequate profits?

Questions such as these were left unanswered in Douglas's publications. It is clear that the private banks are not to be nationalised and are not to be abolished, but the precise nature of their role in Douglas's reformed system, and the profits they might expect from performing that role, are not at all clear. The successful operation of Douglas's scheme appears to depend upon the willingness of the private banks to cooperate, but Douglas gives no hint of how this cooperation would be induced.

II SOME AUSTRALIAN RESPONSES TO DOUGLAS
(A) Academic and Official

D.B. Copland 1932

One of the earliest Australian published responses to Douglas, and one of the more academically distinguished, came from Professor D.B. Copland of the University of Melbourne. His 31-page pamphlet *Facts and Fallacies of Douglas Credit*, 1932, arose from a lecture of the same title delivered on 4th August, 1932 in response to a request from the Melbourne University Commerce Students' Society, and was intended as a "popular exposition" of Douglas Social Credit and "a critical comment".

The lecture was held at the Central Hall, Little Collins Street, Melbourne, and according to a report in the *Argus* of August 5th, 1932, all available accommodation in the Hall was taken long before 8 o'clock, and the lecture was conveyed by means of an amplifier to the Assembly Hall. It was estimated that 1100 people were present in the two halls. A lecture in reply to Copland's lecture was held at the Central Hall on 1st September (Admission 1/-; reserved seats, 1/6). (From *The New Economics*, September 1, 1932; copy supply by Marjorie Harper.)

The tone of Copland's *Facts and Fallacies* pamphlet is set in its admonitory Preface:

> To test one's faith constantly is a duty, and I hope the advocates of social credit principles will test their faith in the light of this criticism. I am not so optimistic as to believe that I can induce all of them to recant what I believe to be heresy.

Copland rejected the idea of a systemic deficiency of purchasing power implied by the distinction between A and B payments. In Copland's view, the lynchpin of the Douglas argument was that B payments once made would be "held fast" in the hands of recipients. Against this, Copland maintained that B payments would ultimately be distributed to consumers, and that therefore there would be no inherent deficiency of purchasing power in the economic system. On the basis of his argument for the incorrectness of the A+B theorem, Copland concluded that the Douglas scheme to make credit generally available in order to eliminate the alleged disparity between selling prices and costs would be redundant. Copland further argued that any increase in credit would entail an addition to the total flow of spending available to purchase goods at current prices, and would therefore be inflationary.

Copland also criticised Douglas's view that savings may result in diminished consumers' spending power, because they are not distributed as wages, salaries or dividends. Copland argued:

> Savings are not accumulated in the form of hoards of money hidden in stockings. Savings are invested and they create demand for goods and services (1932, p.17).

Referring to Keynes's analysis of saving and investment in his *Treatise on Money*, Copland argued that Douglas would have been "on more certain ground" if he had drawn attention to the disparity between saving and investment, because in "some cases saving may exceed investment, while in other cases it may fall short of investment" (Copland 1932, p.17).

Copland could be interpreted as saying that Douglas had given the right answer but for the wrong reason; i.e. he was correct in recognising the possibility of underconsumption but was incorrect in his analysis of its causes. But Copland's arguments could also be queried. His statement that "Savings are invested and they create demand for goods and labour" cannot be easily reconciled with his statement that saving "may fall short of investment".

Copland also took issue with Douglas's "mathematical proof" that banks create credit. Copland argued that Douglas's proof is based on the assumption that cash (C) is constant, and that this assumption is "without foundation, either in theory of in practice" because the cash kept by banks is maintained, not at a fixed amount, but at a "fairly definite long term ratio of cash to deposits", although this cash ratio may fall as the banking system improves (Copland 1932, p.11).

This criticism by Copland would appear to be correct, but insubstantial. It does not disprove Douglas's thesis that banks create deposits; it merely says that the rate of increase of loans is slightly less than the rate of increase of deposits. If, in Douglas's equations, instead of assuming cash (C) = deposits (D), we assume $C = \alpha D$, where α is the cash reserve ratio, then substituting in

$$L + C = D + K$$

$$\frac{dL}{dt} = (1-\alpha)\frac{dD}{dt}$$

If α = (say) 0.1, $\frac{dL}{dt} = (\cdot 9)\frac{dD}{dt}$

Douglas responded to Copland in his *The New and the Old Economics*, 1933, which also included a response to Lionel Robbins whose criticisms were similar to those of Copland. The substantive point to which Douglas stuck, and which Copland had been unable to accept, was his interpretation of the nature of B payments. According to Douglas the B payments are previously-distributed purchasing power, and do not form part of the purchasing power available to purchase goods currently on the market.

Douglas reiterated his view, against Copland, that the Social Credit scheme would not be inflationary. Copland's prediction of inflation concentrated on the effect of the National Dividend; Douglas concentrated on the effect of the rebate, arguing that his scheme could not be inflationary because the rebate would be paid to producers only on the condition that they reduced prices.

However, despite Copland's opposition to Douglas's A+B theorem, he apparently agreed with Douglas's view that the banks should be controlled. He was reported in the Adelaide *Advertiser* of July 14, 1931, to have said

> Banking is more than mere finance; it is a great social function, which should be controlled in the permanent interests of the people. (Quoted in Allen 1942, p.28.)

Professor Copland's public lectures on Douglas Social Credit also included an address before the Economic Society at the King's Hall in Sydney on 24th August 1932. According to a report in the *Sydney Morning Herald* of the following day (copy supplied by Marjorie Harper), Copland argued that the A+B theorem was the fundamental fallacy of Douglas Credit, and that there is no justification for believing that the B payments are held fast in the hands of their recipients. The many stages of production occur simultaneously and, at any point of time, payments are being made to consumers by the producers of raw materials and by the producers of finished goods. If Douglas was correct in his analysis the production system would have broken down long ago. Since A payments are only one-fourth of the total value of goods, consumers would have been able to purchase only one-fourth of the output.

In addition to his public lectures in 1932, Copland published articles on the Douglas Credit System. The journal *To-day* carried his reply to Mr Chas. B. Da Costa on April 30, 1932, and his rejoinder to Mr C. Barclay-Smith and other correspondents on June 11, 1932. (Copies supplied by Marjorie Harper.) On April 30, 1932, p.11, Copland argued that Douglas's theories had not been accepted either by economists or by radicals. In a frank admission of the conservative ideology of the economics profession, Copland said "Professional economists, from whom we naturally don't expect much enthusiasm for revolutionary doctrines, rejected Major Douglas", and added that "no economist of standing anywhere in the world has embraced Major Douglas". He admitted that, for the Douglas credit supporter, "professional economists are beyond redemption. They would feel bound to reject any theory that upset their own pet schemes", but he reminded Da Costa that Douglas's scheme had also been rejected by a committee of the British Labour Party which included such radicals as Sidney Webb, G.D.H. Cole, John Hobson, and R.H. Tawney. Referring to Douglas's idea of a National Dividend, Copland argued that the economy has in fact delivered a dividend to the people in the form of a standard of living that has increased fourfold over the last hundred years, adding

> No Social Credit Scheme is required to secure for the people as a whole a dividend in the increasing productivity of industry.

Copland rejected the alleged chronic deficiency of purchasing power, and added that

> Credit based upon savings plus social credit would rapidly create a surfeit of purchasing power, and cause a general rise in prices.

On June 11, 1932, Copland said

> [Douglas] may pull the wool over the eyes of some folk with his *A plus B theorem* and his price formula, but he will not convince the veriest tyro in economics that his analysis is sound.

In reply to a critic who had argued that the gap between purchasing power and prices was being filled by bank credit, Copland pointed out that the amount of bank credit required would have been many times more than the actual credits held by the banks.

W.K. McConnell 1932

The author of this 32-page pamphlet was a Tutorial Class Lecturer in Economics at the University of Sydney. It was published at the suggestion of C.V.Portus after he had attended a lecture by McConnell on this topic. McConnell agreed with Douglas's view that the economy suffered from a mal-distribution of purchasing power and needed a reform of its monetary system. But he insisted that the A+B theorem was a fallacy, and predicted that the National Dividend would lead to inflation, excessive indulgence, and an unwillingness to work (pp. 19, 21, 24). He also stressed the difficulty of fixing prices, and of determining a fair wage and a fair profit, for every commodity (p.16).

R.F. Irvine 1933

Another Australian academic response to Douglas was made by Professor R.F. Irvine, Sometime Professor of Economics, University of Sydney, in his *The Midas Delusion*, 1933. Irvine's reception of the A+B theorem was more favourable than Copland's. In Irvine's interpretation, since the wages have been mainly spent on bringing the present consignment of goods into the consumption market, they are not available to buy current output. Current production can therefore only be bought given the availability of bank credit, which represents (in the words of Douglas) "an increasing draft on purchasing power distributed in respect of future production". The perception of systemic deficiency in the availability of purchasing power is tied to the fact that bank loans associated with previous cycles of a product's history have to be repaid before the product reaches the market. Irvine suggested that when bank loans are repaid by those who receive B payments, money is thereby "destroyed". The "purchasing pool" which Copland saw as being automatically sustained is in fact subject to endemic attrition.

T. Waites, 1933

This 1933 *Report* by the Government Statistician of New South Wales (T. Waites) is a very detailed analysis and categorical condemnation of Douglas Social Credit. Waites summarised Douglas's scheme as follows:

> The Douglas theory is concerned mainly with asserting that in modern industry there is a chronic deficiency of purchasing power due to inherent defects which have existed in the financial system since it commenced to assume its present form about 100 years ago. (p.1)

Waites acknowledged that "around these central ideas there are others based on philosophical grounds" but added that "I do not think it falls within my province to discuss these latter, which are largely matters of opinion and outlook" (p.1).

In his capacity of Government Statistician it was of course appropriate that Waites should restrict his attention to the strictly economic aspects of Douglas's thought, but, as we shall argue later, it is the other, non-economic, "philosophical" ideas of Douglas, which Waites dismissed as "largely matters of opinion and outlook" - in particular, the notion of community-ownership or community-control of credit - which might still be economically relevant today.

Waites's critique of Douglas thus centred on the A+B theorem and on the inflationary consequences of the plans for a National Dividend and a general rebate on prices. Waites wrote: "... all that emerges from Major Douglas' statement of the A plus B theorem is that part of the payments to individuals in respect of any given production is made before the rest of the payments to individuals in respect of such production" (p.11). According to Waites, there are therefore no grounds for asserting that there is a permanent and increasing deficiency of purchasing power in relation to that required to purchase the goods produced at asked-for prices.

In the course of his attack of the A+B theorem, Waites acknowledged the Douglas argument that sale of securities by banks and recall of loans is one of the causes of deficiency of purchasing power. Waites, however, did not accept the inevitability of this process. And, in his view, Douglas did not really see the process as inevitable either.

> I do not think that Major Douglas means to imply that banking practice is normally and permanently deflationary, and I presume that he regards deflation as an occasional rather than as a perennial or cumulative occurrence (Waites 1933, p.13).

On the inflationary effects of Douglas's proposals, Waites wrote: "the essence of Major Douglas' credit scheme *is* credit inflation on an astounding scale". Waites noted that Douglas "realised the need for preventing disorders due to excessive credit inflation" but added that Douglas "did not provide any mechanism to prevent it" (Waites 1933, p.23).

In the final paragraph (p.27), Waites distinguished between Douglas's proposals and proposals for the expansion of repayable credits for the purpose of promoting recovery, and stressed that his report has not involved a discussion of the merits or demerits of the latter pump-priming proposals.

The second last paragraph of the *Report* indicates the vigour of Waite's denunciation:

> It is a matter for deep regret that proposals which have been so widely advocated as those of Major Douglas contribute little or nothing of real value to the solution of the problems that confront us. And it is a matter for greater regret that by teaching fallacious doctrines in regard to credit they constitute some impediment to the dissemination of sound conceptions of its functions and to the adoption of such a line of monetary policy as may moderate the troubles that recur in the economic system. While it is all to the good that such problems are being studied, more harm than good must result from Major Douglas' erroneous analysis of facts and advocacy of proposals based on credit inflation of the crudest kind. (p.27)

K.J. Binns 1947

In 1947 the Government of Tasmania sent Mr K.J. Binns, M.A., B.Com., Economist in the Treasury, to Canada to enquire into, amongst other things, the Social Credit movement in the province of Alberta. His report, *Social Credit in Alberta*, published in November 1947, contained sections on Social Credit philosophy, Social Credit monetary theory, and Social Credit in practice.

Along with most other economists then and since, Binns rejected the A+B theorem. He denied that there is an inevitable chronic shortage of purchasing power in the capitalist system.

He also rejected the argument that the payment of interest on loans and the repayment of the loans themselves would necessarily produce a shortage of purchasing power. He pointed out that the interest paid to banks is distributed as income to bank employees etc., and that the principal once repaid is available either for relending or to meet the bank's liabilities to its depositors.

However, Binns recognised that a shortage of purchasing power could arise in another way. In relation to the repayment of a notional £100 loan, he wrote

> It must, however, be conceded that the £100 principal, although not destroyed, will not be available as purchasing power if the bank for any reason does not relend it (or is not called upon to pay it to a depositor), but decides to maintain a more liquid position. If the banks, in seeking greater liquidity, restrict credit, there may then be a deficiency of purchasing power". (Binns 1947, p.24)

This represents a significant doctrinal concession. Some previous critics based their rejection of Douglas on a Say-like certainty in the adequacy of purchasing power. They countered Douglas's belief in the inevitability of a shortage of purchasing power by substituting their equally fervent belief in the inevitability of a sufficiency of purchasing power. Binns, however, while rejecting the inevitability of a shortage, also rejected the inevitability of a sufficiency, and at least at a theoretical level recognised the possibility of a shortage arising from the banks' restrictive credit policies. Unfortunately, Binns did not proceed to investigate the empirical question of whether, or to what extent the banks had restricted credit. He merely stated:

> It is not necessary to consider to what extent banks in Alberta or in Australia have on occasion restricted credit or caused deflationary tendencies (Binns 1947, p.24).

B. Berzins 1967, 1970

The history of the Douglas Credit movement in Australia has been documented by Baiba Berzins (1967, 1970). Douglas Social Credit Associations were established in all the capital cities in 1930-32, and by the end of 1933 there were 199 groups throughout Australia, mostly in New South Wales and Western Australia, with 5-6,000 members. The message was propagated through two journals - *New Economics* (Melbourne) and *New Era* (Sydney) - through public meetings, and by books, pamphlets, plays, novels, poems, songs and cartoons. According to Berzins the movement had "the atmosphere, and the urgency, of a religious crusade" (1970, p.150).

K.G. Richmond 1972

This thesis traced the connection between the Australian League of Rights and Douglas Social Credit. The study was conducted with the formal permission and acquiescence of the League, and includes 65 recorded interviews with members or supporters of the League.

Richmond divided Douglas Social Credit into three separate but integrated sectors - the economic sector, the political theory, and the conspiracy theory - and argued that Douglas's greatest interest lay in the ideology of individualism, as a response to the dehumanisation of modern society. According to Richmond, the conspiratorial and paranoid aspects of Douglas's thinking were latent in his early writings, but came more to the forefront in the 1930s and 1940s, stimulated by the rejection of his ideas. All three elements are based on a strong attachment to Christian beliefs, to the self-employed entrepreneurial petit-bourgeois individual, and to Britain. (Richmond 1972, p.3-5).

Richmond identified three distinct, and warring, branches of the Social Credit Movement in post-depression Australia: (1) the study groups, whose aim is to educate the public - this was Douglas's original policy; (2) those attempting to obtain political office - a policy which was most evident in Queensland but which Douglas did not approve of; and (3) the "electoral campaign" method, espoused by Douglas in 1935, which includes both study groups and political activism, and which attempts to win support from politicians. According to Richmond, this third branch of the Social Credit Movement became the League of Rights, led by Mr Eric D. Butler. The link between Douglas Social Credit and the Australian League of Rights has also been explored by Campbell 1978. In Dave Clark's view (1984) the "Douglas Social Credit movement ... degenerated into a neo-

fascist rump called the League of Rights, obsessed with Zionist-led conspiracies and racism".
The researches of Richmond and others show that the influence of Douglas in Australia has been more political than economic. His economic arguments, such as the A+B theorem, the National Dividend, and the Just Price have won little long-term acceptance amongst the general public - despite some initial popularity - and even less amongst academic economists. Any long-term influence that he still enjoys appears to be based on his philosophical and ideological opinions - his individualism, his anti-collectivism, his anti-socialism, his pan-Britishism, his conspiracy theory, and his racism - some of which repel more supporters than they attract.

D.L. Clark 1980
A more recent Australian academic response to Douglas has been given by Dr D.L. Clark of the University of New South Wales in his paper "Funny Money Old and New", 1980, which outlines Douglas's system together with the responses of Copland, Waites, Dobb, McConnell and others. Clark's researches have shown that the 52 items on Social Credit listed in the *Bibliography of Australian Finance* published by the Reserve Bank of Australia in 1971, are "the mere tip of a mammoth iceberg of Australian material" (p.29).

G. Mehta 1983
Another recent Australian academic response to Douglas has been provided by Dr. G. Mehta, of the University of Queensland, in his article "The Douglas Theory: A New Interpretation", *Indian Journal of Economics*, 1983. Mehta argued that the A+B theorem has plausibility if it is considered in the context of a sequence of periods, i.e. dynamically. Mehta (p.124) quoted Douglas's comment that " ... the wages, salaries and dividends distributed during a given period do not, and cannot, buy the production of that period, that production can only be bought by a draft, and an increasing draft, on the purchasing power of future production, and this latter is mainly and increasingly derived from financial credit created by the banks" (Douglas 1922d, p). Mehta noted that the requirement for the commodity market to be in equilibrium is for increasing amounts of purchasing power to be distributed in respect of future production in successive time periods. He argued that Douglas had grasped the concept of investment in both its demand-increasing and capacity-creating aspects, and that this model showed hints of the Harrod-Domar model.

(B) Other Responses
The following items have been selected, partly at random and partly by reason of availability, as a sample of the extensive popular literature stimulated in Australia by Major Douglas.

E.L. Holmes 1932
The author described Douglas as "the World's Greatest Social Economist" (p.7) and believed that the Douglas system would achieve the "financial emancipation of the people of Australia" (p.29).

The main innovation in the pamphlet was an attempt to quantify the National Dividend and the Rebate, and to outline procedures for their implementation. Holmes estimated that in 1930-31 a National Dividend of £1 per week for the 6,500,000 men, women and children of Australia would have provided £338m of purchasing power, but that this would have left a gap of £57m between purchasing power and prices. He calculated that this gap could have been filled up by an 8 per cent price rebate. He proposed that the National Dividend would be periodically entered into individual pass books at the people's bank, and that manufacturers would regularly submit returns to the Commonwealth Statistician "on a reversed Sales Tax System or some other approved method". The Statistician would revise the size of the rebate every 3,6, or 12 months.

The practical procedures suggested by Holmes appear to differ from those suggested by Douglas. For Holmes, the National Dividend would be the major instrument at the outset of the Scheme, with the balance of the purchasing power gap being met by the Rebate. For Douglas, the Rebate would be the initiating measure, with the National Dividend being increased progressively in later years.

H.P. Colebatch 1932

This 8-page pamphlet is an example of how the attention of critics of Douglas Social Credit, as well as of supporters, was focussed on the A+B theorem, and the National Dividend and/or Rebate Scheme. Senator The Hon. Sir Hal Colebatch, D.B., C.M.G., asserted that the Douglas proposals were "founded on fallacy, and hopelessly impracticable" (p.2) and "could be operated only under a fascist or a communistic system of government" (p.3). He challenged the Social Credit Movement to provide a "working order" account of how the rebate scheme would operate, particularly in the case of exports (p.2). He claimed that the economy's ills were due not to a shortage of credit as alleged by Douglas, but to an excessive issue of credit by the government during the First World War. His solution was to restore the pre-war real value of the currency.

It is significant that Colebatch did not refer to Douglas's arguments for the socialisation of credit.

C.C. Armitage 1932

This Social Credit pamphlet was written by another Major. It urged its readers to petition State and Federal politicians to establish a National Central Bank and National Credit; or, alternatively, to form a United Central Party incorporating the other political parties. Armitage argued that the depression could not be cured unless "we alter 'Bank Credits', used for the profit of a few, into 'National Credits' used for the benefit of the Nation and the people". (Inside back cover)

C.B. Da Costa 1933

This pamphlet had its origin in a series of lectures given in 1931 by C.B. Da Costa, Hon. Sec., Douglas Credit Association of Queensland. (See above for Copland's earlier reply to Da Costa.) Da Costa's initial and main theme was the social ownership of credit. His proposed reform involved "the vesting of the ownership of the money system, including all financial credit, in the community" (p.2). He described the private creation of credit as a "usurpation [by the bankers] of the ownership of money" (p.12), and, in opposition to Douglas, declared that the private banks "do, in truth, counterfeit" (p.9).

It is interesting to note that, by contrast with most other Social Credit publications, Da Costa did not introduce the A+B theorem until quite late (p.18) in the pamphlet. He expounded the principle of the social ownership of credit without recourse to the A+B theorem, thus implying that, in his understanding of the Social Credit philosophy, the principle of social ownership of credit can stand independently of the A+B theorem.

G.E. Emery 1934

In this 16-page anti-Douglas pamphlet, distributed by the Victorian Council for the Maintenance of Sound Monetary Conditions, Emery agreed with Colebatch (1932) that the present problems were due, not to credit restriction by the banking system, but to the excessive credit issued by the Government to pay for the war, resulting in increased prices and increased interest payments on the National Debt. But instead of attacking the A+B theorem, Emery attacked the notion of credit creation, denying that banks can create credit out of nothing. He argued that banks can only lend the money of depositors, and that the Government alone can create credit. (The latter admission comes close to an unintentional argument for Social Credit.) Emery described the Douglas scheme as "Rainbow Finance" (p.5).

C. Barclay-Smith 1940

(See above for Copland's earlier comments on Barclay-Smith.) Although this pamphlet did not mention Major Douglas or Social Credit, its arguments and proposals were similar to those of Douglas Social Credit. Barclay-Smith argued that in addition to the real sacrifices of World War II - the lives lost, the heartbreak endured, and the materials consumed - the interest on and repayment of the war debt incurred by the government would be a needless financial sacrifice. His solution to the financial sacrifice was for the government to finance the war effort by creating credit, instead of borrowing from banks and individuals. He advocated that the creation of credit by the government should be substituted for the creation of credit by the private banks. He also argued that war itself arises from the fact that the banks keep money in short supply so that interest rates will be higher. The resulting poverty and lack of purchasing power restricts the home consumption of goods and results in "export mania". This trade war for foreign markets inevitably leads to military war.

> If the people of all countries had the purchasing power to consume the bulk of their own production, there would be no insensate struggle for export markets, and therefore no wars arising from it. (p.25)

Barclay-Smith thus neatly integrated Hobson's theory of imperialism into Social Credit philosophy.

According to Barclay-Smith, we were fighting two enemies in World War II. Hitler was the "enemy without" and "the international monopoly of money" (p.26) was the "enemy within".

> Defeat at the hands of Hitler would be slavery, and victory with Debt Finance still enthroned would be little better (p.83).

Barclay-Smith did not invoke the A+B theorem, but gave his utmost support to the Douglas principle of community-based credit. He believed that the "fundamental principle of all future civilization" and "the first requisite of any 'new world order' was that "the ownership of the public credit belongs to the people who create it" (p.83).

It is interesting to note that, for Barclay-Smith, as for Da Costa, the principle of community-owned credit could stand independently of the A+B theorem.

S.F. Allen 1942

The pamphlet *Money, The Question of the Age*, by Stanley F. Allen, a Chartered Accountant, went through seven editions from 1938 to 1942. Its popularity was probably due to the impressive array of authorities and public figures assembled by the author to support the case for government control of credit. This, according to Allen, would be consistent with the continued existence of the private banks, provided they act "as experts and capable administrators" and provided they "take their hands of the nation's credit" (p.27).

Policy for Progress, 1945

A good example of the extreme utopianism of the Social Credit Movement is contained in this 32-page pamphlet. It offered a middle way between "the moribund Conservative Right" and "the delusions of the Socialistic Left" and claimed that, if the Commonwealth Government were given the "sole right over the creation of all forms of money", it could issue non-repayable credit at little or no interest; all debts of public corporations could be abolished; interest on primary producers' debts could be reduced to 1% or less; interest on all existing home mortgages could be kept at less than 4%, and new housing loans could be made available at 1% or less; income tax could be immediately reduced and ultimately abolished; all excise duties could be abolished over three years; public works could be financed without debt; pensions, child endowment, unemployment benefits, and sickness benefits could all be generously increased; hospitals, education and immigration could be improved; and decentralisation could be effected with interest-free loans. These and other farcical claims were apparently intended to win converts to the cause, but they might just as well have been concocted by opponents seeking to ridicule the Social Credit movement. The pamphlet concludes with a stirring call to "all men and women of goodwill ... [to] join a local Social Credit organisation and work for the propagation of its principles of Christian economics" (p.33). Christian economics was presumably understood to be an endless re-enactment of the miracle of the loaves and fishes.

Social Credit in Tasmania

Richard Davis has documented the strong influence exerted by Social Credit on the Tasmanian Labor Movement in the 1930s and 1940s, and has shown that some of the leading Tasmanian exponents of Social Credit - e.g. G.S. Carruthers, who was elected to the Tasmanian Parliament in 1934 as a Douglas Credit candidate - did not regard the A+B theorem as essential to the Social Credit philosophy. Davis has also noted that, according to C.B. Macpherson (1953, p.112), Douglas himself played down the A+B theorem and agreed that the case for Social Credit could stand independently of the A+B theorem. (Davis 1988, pp.117, 119, 130.)

The Social Crediter

This Australian journal provides evidence of the extent to which the Social Credit movement has given increasing emphasis to specifically political issues. The journal states that it "expresses and supports the policy of the Social Credit Secretariat which was founded in 1933 by Clifford High Douglas". But in the 1966 issue (for example), Douglas is rarely mentioned and the following themes are given prominence: there are repeated warnings of the threat of Communism; the USA is urged to use greater military force in Vietnam and to intervene in Cuba; the John Birch Society is exonerated from the charge of racism and is said to be "the only thing with a chance of stopping a full Communist take-over of the U.S."; Mr Ian Smith's stand on UDI in Rhodesia is commended; and a modern translation of the Lord's Prayer is opposed.

III REFLECTIONS ON DOUGLAS SOCIAL CREDIT TODAY

Can Social Credit Stand Independently of the A+B Theorem?

Douglas put forward the A+B theorem as the basis for his credit proposals, and it was therefore to be expected that the A+B theorem would be the focus of attention for both Social Credit supporters and the critics. On the side of the critics we find that writers such as Copland rejected the A+B theorem, and thereby believed they had completely discredited Social Credit. Their argument, quite logical in itself, was that if the policy of Social Credit is based on the A+B theorem, and if the A+B theorem can be shown to be untenable, then Social Credit policy must also be untenable.

But this raises the question of whether the A+B theorem is in fact the essential basis for Social Credit policy. Can Social Credit policy stand independently of the A+B theorem? Can it be sustained on other grounds if the A+B theorem is rejected?

One view is that since Douglas himself seemed to regard the A+B theorem as the essential basis of the Social Credit policy, any attempt to divorce Social Credit from the A+B theorem would do violence to Douglas's intentions and would constitute an historically unacceptable misuse of the term "Social Credit".

Another view, however, is that there are important elements of Social Credit policy - in particular, the socialisation of credit - which can stand independently of the A+B theorem, and that it would not be an abuse of terminology to continue to describe these elements as "Social Credit" (or, to pacify the terminological purists, as "Neo-Social-Credit") even if the A+B theorem is rejected.

In the ensuing discussion, to avoid becoming embroiled in a terminological debate over the true and essential nature of Douglas Social Credit, and to direct attention to the issues themselves rather than their labels, we will refrain from describing the socialisation of credit as "Douglas Social Credit", even though Douglas advocated it.

But before leaving "Douglas Social Credit" it would perhaps be useful to observe that the A+B theorem is to Douglas Social Credit what the labour theory of value is to Marxism. Both are designed to introduce an element of historical determinism. The labour theory of value seeks to prove that, since all value is created by labour, the allocation of part of the the product to profits, interest and rent means that labour is necessarily and inevitably exploited in a capitalist system. The A+B theorem seeks to prove that an overall deficiency of purchasing power is a necessary consequence of the conventional financial system. Neither Marx nor Douglas was content to base his reform policies on contingent events. It was important for each to be able to substitute necessity for contingency, and to show that the exploitation or underconsumption was a necessary, not merely a possible or probable, outcome of the system. The question for both, and their followers, is whether their policies can still be sustained on the basis of a probabilistic contingency instead of a deterministic necessity. Can Marxism stand without the labour theory of value? Can Social Credit stand without the A+B theorem?

Community Ownership and Control of Money and Credit

A continuing theme in Douglas's writings - a theme which can stand independently of the A+B theorem - is that credit is a form of money, and money is a common, not a private, good. It is an institution established by the community, and the continued viability of any particular form of money depends on its being generally acceptable as money by the community in which it operates. The idea is not of course unique to Douglas. One can find glimmers of it as far back as Oresme, and it can be found expressed explicitly and forcefully in some modern writings.

This concept of money as a common good carries with it a moral implication: if money is a community-created asset, then the community should have the right to create money, to regulate its supply, and to recoup any revenue from its creation.

One can readily dismiss the A+B theorem as an unsophisticated attempt to attach an inevitability attribute to the purchasing power problem. And one can dismiss the conspiracy theory and the racism as manifestations of paranoia. But the issue of community-ownership and/or community-control of credit, and the related issue of the harmony or disharmony of interests between bankers and the community, are not so readily dismissed. One Australian historian has asked:

If, however, none of these redistributive mechanisms proves to be feasible, or if the puritanical objection to receiving something-for-nothing proves to be an insurmountable obstacle, it seems inevitable that economies with increasing capital intensiveness will be characterised by increasing inequality in the distribution of wealth and large scale unemployment, with the dole being the only form of National Dividend. Douglas may or may not have found the answer, but he can at least be given credit for seeing the problem.

The Invisible Hand in Banking

The problems that challenged Douglas in the 1920s are very different from those challenging us today. Douglas was mainly concerned with what he saw as an artificial and anti-social restriction of credit by the private banks. Today concern is expressed that banks, in their competition with one another, tend to issue excessive amounts of credit, resulting in inflationary pressures and in mortgagees' bankruptcies. At first sight therefore it might seem that Douglas has little or no relevance today. But there is, in fact, a theme common to the 1920s and the 1990s, viz. the lack of harmony between the interests of the bankers and the interests of society. Banks can cause as much harm by lending too much as by lending too little.

The issue with which Douglas was grappling was, in modern jargon, the issue of the role and the control of the money supply. Douglas saw, as clearly as Friedman and monetarists, the key role played by the money supply (in particular, bank credit). For Douglas, the solution to the problem of the money supply lies in government intervention. For Friedman, the government is the problem, not the solution.

This issue of the possibility of a conflict of interests between the banks and society would seem to be as urgent and as unresolved in the 1990s as it was in the 1920s. The arena of potential conflict includes not only the aggregate amount of credit that is created, but also the avenues into which it is directed.Although Douglas was mainly concerned with the aggregate level of purchasing power and of bank credit, he did at times focus on the issue of the direction and composition of investment. For example, he stated that the current banking system "*leaves to the banker the decision as to whether the production is desirable production*" (Douglas 1920, p.32; italics in original.) This is another area in which Douglas could still have some relevance today. His proposal for the socialisation of credit, as well as ensuring a sustained but not excessive flow of purchasing power, could be a means of bringing community aspirations to bear upon the direction and composition of the credit provision process. For example, there must surely be some doubt about the desirability of large quantities of bank credit being directed towards company takeovers, speculation in shares and real estate, including trading-up by existing home owners. Has the exercise of banking prerogative meant a crowding-out of new home building and credit deprivation in the industrial and export sectors? When the speculative ventures fail, as has happened in Australia in recent years, are the home-building and industrial sectors obliged to carry artifically-high interest rates so that the banks can compensate for their losses in the more speculative sectors? Is it in the best interests of society that banks should continue to enjoy their privileged discretion in determining the direction of credit? Such questions open up possibilities which are generally assumed away.

Structural and Behavioural Inevitability

If the A+B theorem is dismissed, then Douglas's case for the *inevitability* of a deficiency of purchasing power must also be dismissed. But nevertheless it was, in a sense, inevitable that the banks in exercising their discretion in the pursuit of profits and the avoidance of bad debts, should have restricted the supply of credit in the 1930s, and thus created or exacerbated a shortfall of purchasing power. Even if the structural or physical inevitability proposed by Douglas is theoretically unjustified, it could be argued that the restrictive actions of the banks in the 1930s had a behavioural inevitability. The same

> Can we afford to dismiss as Douglas Credit faddism ideas for controlling the credit mechanism in the interests of the community rather than external financial interests? (Davis, 1986)

This concept of the community ownership of credit does not appear to have received as much attention in the secondary literature as it deserves.

In assessing the relevance, if any, of Douglas to today's problems, we could ask, firstly, whether this principle of money as a community-created asset is valid; secondly, whether that principle is generally acceptable; and thirdly, what if anything could be done or should be done to give effect to it. The economic and moral implications of this principle are considerable, running counter as they do to one of the most fundamental precepts and practices of our financial system. The implications are so considerable in fact that one wonders whether Douglas and the Social Credit movement did their cause a great disservice by concentrating their arguments on the technicalities of the A+B theorem instead of promoting the broader notion of the social ownership and control of credit.

Given that the main form of money in advanced capitalist countries is bank credit, the principle of community-owned money leads to the conclusion that the benefits currently accruing to private banks from their credit-creation activities should belong to the community at large.

Another implication of that principle is that the community has the corresponding responsibility to control not only the quantity of credit created domestically, but also the quantity of credit moving in and out of the country. There would be little point in regulating the quantity of domestic credit if the international movements of money were left unregulated. A completely deregulated foreign exchange market would therefore seem to be inconsistent with the notion of community-created credit.

Also, if the minting of coins, and the printing of bank notes, and the creation of bank credit are all considered to be community-owned activities, then instead of regarding state-owned banks as a form of state interference with the private sector, we should think of credit creation by non-state-banks as an interference by the private sector in the legitimate activities of the public sector.

The National Dividend and Long-Term Structural Unemployment

Douglas's proposal for a National Dividend for all can be easily dismissed as "Rainbow Finance" (Emery 1934, p.5) or as a utopian cargo-cult, in which, without any individual effort, everyone will be guaranteed subsistence and leisure; but it can also be taken seriously as an attempt to grapple with the problem of maintaining adequate purchasing power in an increasingly capital-intensive industrial system. Douglas saw that, although all production requires both labour and capital, the contribution of current labour to the final product is becoming proportionately smaller, and the contribution of capital proportionately greater. Douglas described labour's role in this situation as that of a catalyst. If labour and capital are paid in proportion to their contributions to production, the ability of labour to purchase the product will continue to diminish. According to Douglas, the purchasing power of labour can never equal the prices of the products, because A cannot equal A+B; and this deficiency will be worsened with increasing capital intensiveness. Douglas's solution was a National Dividend paid as a supplement to wages or as a subsidy to producers. This proposed solution may well be either inflationary or impractical or both; but his failure to find a convincing solution to the problem does not make the problem go away. It could be suggested that Mrs Thatcher was unconsciously implementing Douglas's National Dividend when she tried, by privatising public enterprises, to turn Britain into a property-owning democracy with everyone's wage being supplemented by dividends. Kenneth Boulding's proposal for a Grants Economy can also be interpreted as a form of Douglasite National Dividend.

could be said of the over-lending by the banks in the 1980s, which has resulted either in foreclosures and forced mortgagee sales, or in the credit destiny of borrowers being left in jeopardy. The banks argue that it was the Government's monetary policy in the 1980s that raised flexible interest rates to unexpected levels and caused borrowers to default. But, at the same time, it would seem that the lending formulas used by the banks in assessing borrowing capacity did not incorporate a sufficient margin for interest rate movements. Competition between the banks to obtain loan customers, combined with their lack of experience and foresight in the prediction of monetary policy - they apparently do not enjoy the omniscience required under the perfect competition model - together with a lack of due prudence on the part of the customers, appears to have once again produced, with behavioural inevitability, a situation which has not been in the bests interests of the economy as a whole.

The private banks are generally assumed to be safe houses for depositors' funds. But it is interesting to speculate on what might happen if one or more of our major banks became bankrupt. What could the Reserve Bank or the Treasury do to protect depositors? One possible solution would be to issue depositors with bank notes or Treasury notes; or, in other words, with "Social Credit". The protector of last resort of the system of privately-created credit would be publicly-created credit, and the private banking system would be rescued by its own worst enemy.

The experience of the 1930s and the 1980s suggests that the invisible hand has been of little help in guiding the banking industry. Douglas may have been wrong in asserting a structural inevitability in the deficiency of purchasing power, but he did at least bring attention to the pivotal role of bank discretion in the dispensation of credit, and appears to have been right in recognising the desirability (or even the practical inevitability) of some degree of government regulation or control of the banking prerogative.

The real issue thus seems to be the behavioural inevitability of a lack of congruence between the interests of the banks and the interests of the public. The preoccupation of Douglas and of his critics with the question of the structural inevitability of purchasing-power deficiency has prevented this real issue from emerging as clearly as it otherwise would have.

It could be argued that, despite the almost universal condemnation of Douglas's theories by economists and bankers, the evolution of the financial systems thoughout the world has provided a progressive vindication of Douglas (at least of his policies, if not of his theories). The conversion of the privately-owned Bank of England into a publicly-owned corporation, the creation of other nationalised Reserve Banks, the abolition of the right of private banks to print their own bank notes, the supervisory functions of the Reserve Banks in relation to the financial system, and the use of deficit financing to stimulate employment ... such measures could all be interpreted as steps towards the socialisation of credit. At the theoretical level, Douglas could be discredited; but at the level of practical policies, there now seems to be widespread recognition of the need for some degree of socialisation of credit; and for some limits to the uninhibited exercise of bank discretion. The problem lies not in the principle but in the pragmatic determination of the optimum *degree* of socialisation, or of the optimum mix of deregulation and regulation. The recent Australian move towards deregulation of banking seems to have been a move away from this optimum.

The problem which Douglas grappled with in the 1930s was the role of the banks in the deficiency of purchasing power; the problem experienced at all times is the degree of discretion that can be allowed to the banking system.

BIBLIOGRAPHY

Allen, S.F. 1942. *Money. The Question of the Age*, 7th ed., (1st ed. 1938), Sydney, 46pp.

Allen, S.F. 1952. "The Old Order is Collapsing ... Isn't National Credit the Financial Answer", *Amalgamated Engineering Union Monthly Journal*, June, pp.15-16.

Anon. 1945. *Policy for Progress. The Social Credit Solution of the Problems of To-day and To-morrow*, Leisure Age Publishing Co., Sydney, 33pp.

Anon. 1962. *Social Credit in 1962. An Introduction for New Readers*, Stratford-on-Avon, K.R.P. Publications; and Sydney, Tidal Publications, 24pp.

Armitage, C.C. 1932. *The Causes of War and Depression and the Cure - "Equation" (True Balance) and "National Credit"*, the author, Sydney, pp.20.

Barclay-Smith, C. 1940?. *Victory Without Debt*, Leisure Age Publishing, Sydney, 95pp.

Belshaw, H. 1933. *The Douglas Fallacy*, Whitcombe & Tombs, Auckland, 31pp.

Berzins, B. 1970. "Douglas Credit and the A.L.P." in R. Cooksey, ed. *The Great Depression*, pp.148-60. Also published in *Labour History*, No. 17, 1970.

Binns, K.J. 1947. *Social Credit in Alberta. Report Prepared for the Government of Tasmania*, Government Printer, Hobart, 53pp.

Campbell, A.A. 1978. *The Australian League of Rights. A Study in Political Extremism and Subversion*, Collingwood, Outback Press, 201pp.

Cannan, E. 1934. "Capital and the Heritage of Improvement", *Economica*, pp.381-92.

Clark, D.L. 1980. "Funny Money Old and 'New'", Melbourne Political Economy Conference, 16-17 August, 54pp. (pp.28-39a refer specifically to Douglas Social Credit.)

Clark, D.L. 1984. Review of P. Love, *Labour and the Money Power, Financial Review*, 24 August, p.36.

Clark, D.L. 1987a. "Douglas, Clifford Hugh", in Eatwell, J. *et al.*, eds, *The New Palgrave. A Dictionary of Economics*, Vol. I, p.920.

Clark, D.L. 1987b. "Monetary Cranks", in Eatwell, J. *et al.*; eds, *The New Palgrave. A Dictionary of Economics*, Vol. III, pp.502-4.

Colebatch, H.P. 1932. *Douglas Credit, Currency and Purchasing Power*, Sydney, Sane Democracy League, 8pp.

Copland, D.B. 1932. *Facts and Fallacies of Douglas Credit with a Note on Australian Credit Policy*, Melbourne University Press, Melbourne, 31pp.

Da Costa, C.B. 1933. *Need We Repudiate? A Series of Lectures on the Douglas Credit Proposals*, 2nd ed., Brisbane, Douglas Social Credit Association, pp.49. 1st ed., 1932.

Davis, R.P. 1978. "Social Credit and the Tasmanian Labor Movement", *Tasmanian Historical Research Association: Papers and Proceedings*, 25(4), pp.114-32.

Davis, R.P. 1986. "'A Real and Quite Unique Affinity': New Zealand and Tasmanian Labor 1934-1949", *Labor History*. pp.68-70.

Dobb, M. 1936. *Social Credit Discredited*, Martin Lawrence, London, 30pp.

Docker, F.J. 1933. *Douglas Delusions. A Critical Examination of the Douglas Social Credit Proposals*, Angus & Robertson, Sydney, 244pp.

Douglas, C.H. 1920. *Economic Democracy*, Cecil Palmer, London, 154pp.

1921. *Credit-Power and Democracy* 2nd ed., Cecil Palmer, London, 212pp. 1st ed. 1920.

1922a. *These Present Discontents*. Cecil Palmer, London, 16pp. Bound with 1922b.

1922b. *The Labour Party and Social Credit*, Cecil Palmer, London, pp.17-42. Bound with 1922a. Also includes *Draft Scheme for the Mining Industry*. pp.43 -4.

1922c. *The Douglas Theory. A Reply to Mr. J.A. Hobson*, Cecil Palmer, London, 10pp.

1923. *The Evidence of Major C.H. Douglas before the Select Standing Committee on Banking and Commerce ... House of Commons, Canada*. Sydney.

1924. *Social Credit*, London, Cecil Palmer, 223pp. (2nd ed. 1926, 3rd ed. 1933, revised ed. 1935.)

1931a. *Warning Democracy*, London, C.M. Grieve, 207pp.

1931b. *The Monopoly of Credit*, London, Chapman & Hall, 128pp.

1933. *The New and the Old Economics*, Melbourne, The Lothian Publishing Co., 26pp.

1934a. *The Use of Money*, Liverpool , K.R.P. Publications, 24pp.

1934b. Evidence of Major Douglas to the New Zealand Monetary Committee. See New Zealand 1934b.

1934c. *The Control and Distribution of Production*, 2nd ed., 1934, Stanley Nott, London. 1st ed., 1922.

1934d. *The Nature of Democracy*.

1934e. *The Douglas Manual. Being a Recension of Passages from the Works of Major C.H. Douglas Outlining Social Credit*, comp. P. Mairet, London, Stanley Nott, 116pp.

1935. *Money and the Price System*, 18pp.

1936. *The Tragedy of Human Effort*, 16pp.

1942. *The Big Idea*, Liverpool, K.R.P. Publications, 64pp.

1944. *Programme for the Third World War*, Liverpool, K.R.P. publications, 62pp.

1945. *The Brief for the Prosecution*, Liverpool, K.R.P. Publications, 88pp.

1974. *Thoughts of Douglas* comp. K. Richmond, University of New England.

1969. *The Development of World Dominion*, Sydney, Tidal Publications; and London, K.R.P. Publications, 157pp. (Passages by C.H. Douglas from *The Social Crediter*).

Dutton, H.I. and King, J.E. 1986. "'A private, perhaps, but not a major ...': The Reception of C.H. Douglas's Social Credit Ideas in Britain, 1919-1939", *History of Political Economy* 18(2): 259-79. Reprinted in J.E. King, *Economic Exiles*, Macmillan Press, London.

Emery, G.E. 1934. *Sound Finance*, Melbourne; Stanley Addison; Victorian Council for the Maintenance of Sound Monetary Conditions, 16pp.

Finlay, J.L. 1971. "The Religious Response to Douglasism in England", *Journal of Religious History*, 6(4): 363-83.

Finlay, J. 1972. *Social Credit: The English Origins*, McGill-Queen's University Press, Montreal, 272pp.

Gaitskell, H.T.N. 1933. "Four Monetary Heretics", in G.D.H. Cole, ed. *What Everybody Wants to Know about Money*, Victor Gollancz, London, pp.347-75 on C.H. Douglas.

Hawtrey, R.G. 1937. *Capital and Employment*, Longmans Green and Co, London, Ch. x, "Social Credit", pp.291-314.

Holmes, E.L. 1932. *Australia's Real Wealth and How to Use It - Being a Practical Introduction to the Douglas Social Credit Proposal*, Sydney, 30pp.

Irvine, R.F. 1933. *The Midas Delusion*, Hassell Press, Adelaide.

Irving, J.A. 1959. *The Social Credit Movement in Alberta*, University of Toronto Press, Toronto, 369pp.

Jordan, B. and Drakeford, M. 1980. "Major Douglas, Money and the New Technology", *New Society*, 24 January, pp.167-9.

Keynes, J.M. 1935. Review of *Report of Monetary Committee, 1934, New Zealand*, *Economic Journal*, March, pp.192-6.

Keynes, J.M. 1936. *The General Theory of Employment, Interest and Money*, London, Macmillan.

Lock, F. 1919. *The Nationalisation of Credit. The Only Cure for Industrial Unrest*, Geo. B. Philip & Son, Sydney, 318pp.

Love, P. 1984. *Labour and the Money Power*, Melbourne University Press, Melbourne.

Macpherson, C.B. 1953. *Democracy in Alberta: Social Credit and the Party System*, University of Toronto Press, Toronto, 258pp.

Maxwell, Lt.-Colonel D.W. 1931. *'Cheap' Money!! Or How the Money-System* Prevents *Work & Causes Unemployment*, Williams Norgate, London, 23pp.

May, A.L. 1968. *The Battle for the Banks*, Sydney University Press, Sydney, pp.229.

McConnell, W.K. 1932. *The Douglas Credit Scheme. A Simple Explanation and Criticism*, Sydney, 24pp.

McKellar, J. 1932. "The Douglas Analysis of the Economic System", *Australian Quarterly*, 14th March, pp.70-80.

Mehta, B. 1983. "The Douglas Theory: A New Interpretation", *Indian Journal of Economics*, pp.121-9.

Monahan, B.W. 1967. *An Introduction to Social Credit*, 2nd ed., K.R.P. Publications London; Tidal Publications, Sydney, 136pp. (1st ed. 1947)

New Zealand, 1934a. *Report of Monetary Committee*, pp.69-84 on the Douglas Scheme.

New Zealand. 1934b. *Monetary Committee. Minutes of Evidence.*

Powell, Major Arthur E. 1932. *The Deadlock in Finance or the Solution of Our Money Troubles*, 4th ed., The Worker Trustees, Sydney, 104pp.

Richmond, K.G. 1972. *The Australian League of Rights. An Empirical Study of the League in Northern New South Wales and Southern Queensland, 1973 to 1974.* M.A. Hons. thesis, University of New England.

Saidy, F. 1944? *The Exposure; Public Credit and Banking Witchcraft*, Sydney, the author.

Waites, T. 1933. Government Statistician of New South Wales. *Report on the Douglas Social Credit System*, Sydney, Government Printer, pp.27.

Zavos, S. 1981. *Crusade. Social Credit's Drive for Power*, INL Print, Wellington, 207pp.