Keynes and Douglas

by Edward Minton

Important Note – Please Read.

Please note this is a revised edition complete with references, each reference point has a number enclosed within brackets i.e.(1). *Place your mouse pointer over the number and depending on your PDF reader the pointer should change to a finger pointing. Click your left mouse button and you will be taken to a reference point within the footnotes. At the end of the each reference there is a return* (Ret) *link. Click on the return link to return to the paragraph that you were reading.*

There would often seem to be a subterranean dimension to the public life and literature of profoundly important human movements. Be these movements political, religious, nationalistic or intellectual, there is, if one comes close enough to them, at least some knowledge which is seemingly too intimate, too sensitive to scorn, too private, too open to ridicule, too deeply held to be offered to the censure of the profane, or ever be ventured beyond the movement's intimates.

The legendary manner of the deaths of St Peter and St Paul may once have been held closely to the early Christians in this way, with the inhibitions to sharing this knowledge melting away with time and the Church's wider acceptance.

Through a long chain of circumstance and my acquaintance with one man, I am given to understand that the Nationalist Chinese have such a traditionally held notion. It holds that Mao Tse Tung was not competent in the matter of managing the military aspects of the revolution which brought him to power. Its management was "outsourced", and fell to a French Canadian who sought unusual recompense. **(1)**

The early Australian Labour Party is said to have narrowly committed itself to the establishment of the Commonwealth Bank through the agency of King O'Malley fraudulently adding in some proxies to recently received correspondence from absentee comrades.**(2)**

My intent is not to urge towards the truth, or falsity, of what we may call the above "sensitive notions". Suffice to say perhaps, that all dogs have fleas, though they are normally only visible to the intimate.

The Social Credit Movement too, has some such "sensitive notions". It is normally thought to be poor form to publicly air them, because they are quite unprovable, and therefore only expose the teller to the suspicion of lying. Nevertheless, pushing caution aside, the circumstances surrounding the following "myth" are of no small historical interest and importance, and may influence at some time the future of economic thought. For these reasons, the exploration of the hypothesise that the myth may have substance, would seem to have value.

It goes like this;

C. H. Douglas was once invited to a private meeting of approximately 20 economists in London. J. M. Keynes, whose reputation was by this time well established, was in attendance. The Chairman in introducing Keynes to address the meeting did so effusively by referring to him as "the World's greatest Economist".

Keynes thanked the Chairman for the generosity of his introduction; however he declined any claim to being the world's greatest economist, that honour fell to another who was here present, he said, indicating "the gentleman in the second row", namely Douglas.

Many Social Crediters admit in private, to their acceptance of the above as being true. A main basis of this easy acceptance, is that Keynes's diagnosis of the problem (an insufficiency of purchasing power in the hands of consumers) can be shown to have been made by Douglas in 1917. Keynes's "General Theory" was not published until February1936. **(3)**

John Kenneth Galbraith in his "The Age of Uncertainty" published by the British Broadcasting Commission in 1977, writing of opposition to Keynes at Harvard, says of himself "*I was singled out for attack as the Crown Prince of 'Keynesism'. I was greatly pleased and hoped that my friends would be properly resentful.*" **(4)**

Galbraith recognised David Ricardo as the dominant economist of the previous century, noting that he accepted Say's Law. Jean Baptiste Say was a French interpreter of Adam Smith, who promulgated his Law which held that, says Galbraith,

"*…production always provided the income to buy whatever was produced……………so there could never be a shortage of purchasing power.*" **(5)**

"*On this point Malthus demurred*" Galbraith tells us. **(6)**

Thomas Robert Malthus held that population would always increase faster that the food supply, so famine, war and catastrophe was man's inevitable lot, and Malthus's main contribution to economics would appear to be in the inspiration of its label as "The Dismal Science".

To continue with Galbraith, "*For the next 100 years, until the decade of the Great Depression, Say and Ricardo ruled supreme. Men who said there could be a shortage of purchasing power did not know their economics; in fact, they were considered crackpots. Then, with John Maynard Keynes, Malthus's idea of a shortage of purchasing power became accepted doctrine. The most urgent task of government now was to compensate for the shortage ………*" **(7)**

During the 16 years prior to the publication of "The General Theory of Employment Interest and Money" Douglas had written 3 major works, given evidence at Royal Commissions in Canada, New Zealand and England [on 1st May 1930, to a Parliamentary Enquiry of which Keynes was a Member and questioned Douglas] and had by invitation addressed audiences in Japan, Norway, Australia and the United States. Douglas was recognised across the world as the man who was saying that poverty amidst plenty was a result of a shortage of purchasing power. Malthus's quibble with Say was gathering dust in the dismal science's historical dustbin. **(8)**

Douglas's Statement of Evidence to the MacMillan Committee on Finance and Industry, and his full cross examination before that Committee are available from www.socialcredit.com.au It was chaired by Lord MacMillan and Mr. J. M. Keynes was noted as one of the 12 members. **(9)**

Douglas had put forward his explanation of the occurrence of a shortage of purchasing power in his written evidence submitted prior to his appearance in person, and all members had been made familiar with it. This is normally referred to as the A + B theorem. It contends that overheads paid in previous stages of a products manufacture are not now available in the hands of consumers to meet their full retail cost. After explaining this by reading what he called "the shortest form in which this statement can be put" Keynes asked him "*By whom are the overhead charges paid*?"

Douglas answered "*They are put into the cost of the product. They are not paid to anybody. They have in previous cycles of production appeared in the cost of the factory.*"

With that Keynes folded his tent, as it were, and asked nothing more. This was the final clang of the penny dropping, it would seem. Keynes had "his" diagnosis of the problem in a deficiency of purchasing power.

Of course a diagnosis is one thing. Recommending a cure is quite another.

Douglas saw money as pretty much a ticket system, whereby products were elected for consumption by consumers. If there were not sufficient "money votes" in the community to enable the available and desired production to be elected for use, then one produced more. But his ideas of equity saw all benefiting either by the issuance of a National Dividend, or through his Just Price mechanism, both of which increased purchasing power relative to prices. **(10)**

These were NOT financial objectives. They were a practical attempt to give efficiency in terms of human satisfaction, by subduing and submitting finance to this end.

Government had long withdrawn from responsibility for a national policy of issuing credit, and had enshrined through ineptitude private monopoly in this area. This oligarchy, this Golden Internationale, would not accept any democratisation of credit, so Keynes was faced with "political" practicalities.

The Golden Internationale acknowledged the continuing revolt against orthodox finance inspired by the Great Depression. The prairie Government of the United Farmers Party in Alberta, Canada, had appointed Douglas to advise it of his ideas for countering the depression. This revolt would undoubtedly be successful at some time if provoked sufficiently, and for long enough, by a dearth of purchasing power. Something had to be done. **(11)**

The Golden Internationale was quite reconciled to the reflating of the economy, but there were two preconditions for any plan to do so. Firstly, all money created to overcome the deficiency of purchasing power, had to belong in its totality, to the Golden Internationale's Banks. Secondly, any advocacy for, or exposition of a means or theory of reflation, had to be so obfuscated as to preclude acknowledgement of Douglas. Douglas's diagnosis was accepted; however his associated solution was anathema.

The first condition was easily met. Governments had no mechanism available to independently create credit, Central Banks notwithstanding. These were peopled from their inception with personnel beholden to the Golden Internationale. This being so, all Keynes had to do, was not advocate any means of creating credit independently from the established Banking fraternity.

In the second demand, for obfuscation of analysis, the soaring genius of Keynes is without peers. In the 400 pages of his "General Theory" he never once actually explicitly states, as does Galbraith quoted above, that his analysis depended for its veracity upon acceptance of a shortage of purchasing power. A towering monument to obfuscation barely to be credited!

Not half way into his Preface to his General Theory dated 13/12/1935 he gives one of the most notable, indeed unforgettable, displays of ability to confuse and stupefy ever to be rendered in the English language. I am not being nasty, I am sincerely impressed, and my laughter in admiration is only intermittently suppressed. He is trying to explain (or leave unexplained in a welter of verbiage; take your choice) why his General Theory compared to his Treatise On Money of 5 years previously, which "*is a natural evolution in a line of thought ….may sometimes strike the reader as a confusing change of view*."

Firstly he says it "*…is probably clearer to myself than it will be to others;*" This should be inscribed in stone as a Keynesian Eternal Truth.

In the former he says he was, "*…regarding the influence of money as ….separate from the general theory of supply and demand*" but towards its end was "*…pushing monetary theory back to becoming a theory of output as a whole*." In this paragraph of a page and a half the conceptual ambiguities role on with majesty. I don't wish to misrepresent it. Please read it. Once you know the nature of his intent, it's a masterpiece of hilarity written at the expense of those with a pretence to understand, or those who, in an honest despair at incomprehension, slink away. Like all true works of genius it is a multi-faceted thing where opposites can be true. To the humble honest people trying to understand with a view to helping in the midst of the Great Depression, it was a cruel humiliation and despairing condemnation to poverty and despair. It offered us the fruits of our own labours, but only at the price of submission to forever increasing debt. **(12)**

Another Keynesian interpreter, Professor Dudley Dillard, was often used to render Keynes's General Theory approximately intelligible. For example in his pamphlet "Lord Keynes and the Prevention of Depression" (I. P. A. Review, Sept./Oct. 1950), he says;

"The essential point in the theory of effective demand is that investment activity is the disbursement of income, most of which will be spent for consumers' goods, without bringing on to the market any current consumers' goods to be sold. The expenditure of income derived from investment activity fills the gap between income received and the expenditure made out of that income for consumption goods." **(13)**

To those familiar with Douglas's A + B theorem this represents an approximate dance about it. Moreover it is clearly wrong, for whether " *…income derived from investment activity fills the gap…"* is not axiomatic, but dependent upon its magnitude, and timing.

Most laymen are very deferential towards professionals. George Bernard Shaw said that "*All professions are conspiracies against the laity*." Whether he meant consciously or unconsciously is unclear. He also said "*That which is not readily understood is taken to be profound"*, and this usually provides the modus operandi of the "conspiracy". **(14)** **(15)**

The little joke of the obfuscators at the innocence of those who genuflect, and aimed at their humiliation, is shared in the quotation below. It comes from an address given to The London School of Economics (who published it) by Sir Hugh Casson on 6th of December 1957;

"A few names – Keynes, Kaldor, Bareau, Einzig – drift into the memory as though off a credit title to some Hollywood epic … and then the blind of ignorance and intellectual laziness descends. I hope however that I am right in assuming that since my own professional life is dependent largely upon bluff yours will be too, and that it is as fellow-frauds, established or to come, that we can meet this afternoon at least upon that common ground." **(16)**

Of course reflating the economy on the basis of ever escalating debt met with resistance. This not least from the inertia of previously prevailing deflationary ideas of "sound money", which were aimed at maintaining the purchasing power of money rather than the purchasing power of the populace, so as to enhance the real value of the Banks' mortgages.

Galbraith recounts the historical developments which brought Keynes to ascendancy;

"*Although the recession of 1937 made Keynes's ideas respectable in Washington, action to lift the level of employment remained half-hearted. In 1939, the year war came to Europe, nine and a half million Americans were unemployed. That was 17 percent of the labor force. Almost as many (14.6 percent) were still unemployed the following year.*

The war then brought the Keynesian remedy with a rush. Expenditures doubled and redoubled. So did the deficit. Before the end of 1942, unemployment was minimal. In many places labor was scarce.

There is another way of looking at this history. Hitler, having ended unemployment in Germany, had gone on to end it for his enemies. He was the true protagonist of the Keynesian ideas." **(17)**

Thus Keynes, the plagiarist of Douglas' diagnosis, with Hitler's help, set the world upon the road of the ever increasing indebtedness of Nations and peoples to the Golden Internationale.

The World, for access to its own credit, would submit to continually escalating indebtedness, either by way of its voluntary acceptance of debt for any of various purposes, or via an involuntary imposition of Government deficits to be serviced by taxation.

The **distribution** of such purchasing power acquired as debt, wherever possible, was strictly confined to the recompense associated with employment, whether such be useful or necessary notwithstanding. This was found, necessarily, to have to be augmented by social security, again, funded by debt and/or taxation.

The centralisation of control over the human organism was greatly advanced.

And so we continue in 2013 in a Keynesian world. One in which a forever reoccurring dearth of purchasing power is forever overcome [to the extent to which it is overcome] by an increase in indebtedness by whomsoever will accept it.

In Keynes's "General Theory" the shortage of purchasing power was a matter of "*lost savings*" which were neither spent nor reinvested. In Michael Rowbotham's "The Grip of Death" he observes that "*Douglas and others pointed out that there did not appear to be surplus savings in domestic bank accounts, either private or commercial. In fact savings were at an all time low. Economists replied by suggesting that perhaps some of the lost savings were either literally lost, or were being hoarded as cash."* **(18)**

When Pat was migrating from Ireland to America, whilst leaning on the rail in mid-Atlantic, his watch band failed and the watch fell into the sea. Pat denied that he had lost his watch, on the grounds that "*Nothing is lost if you know where it is*!"

On this basis Keynes's lost savings are indeed lost, because nobody to this day has been able to discover their hiding place, and so verify their existence.

At the height of the Great Depression, at least in Australia, the money in existence actually contracted for a few months. This was because Bank loans were being repaid faster than additional loans were being made. The Banks played the role of "the black hole" which sucked in the public's purchasing power and locked the world into depression for the duration. Savings, which only represent, and come into being, as somebody else's indebtedness to the source of all modern money, the Banking System, were not being hoarded at all, they were being obliterated in cancelling out some part of the mortgagees' liabilities.

The difference between Douglas's and Keynes's approaches to overcoming this commonly acknowledged shortage of effective purchasing power, may be assisted towards understanding by an observation from Professor Geoffrey Dobbs' introduction to the 1979 edition of Douglas's "The Monopoly of Credit".

"*The best analogy is, perhaps, a chemical one. A state of inflation might be compared to one of corrosive acid poisoning, due to a gross excess of (positive, hydrogen) ions. The urgent need is to neutralise these with a base, i.e. by adding negative, basic ions. The argument that, since the damage is due to an excess of "ions", to add more "ions" would make it worse, is quite analogous with that used by economists who reject Douglas's analysis and proposals as "inflationary".* **(19)**

Introducing continuous increases in **debt** into an economic system is wholly different in nature, from introducing **credits** into it which arise from a point outside of that system, as they are effective in cancelling out debt. Money is somewhat similar to electricity in that it may carry both positive and negative charges. It flows out of Banks increasing indebtedness, and into them decreasing debt. It flows out increasing charges, and back decreasing them.

Douglas held that a shortage of purchasing power was constantly being generated, while Keynes's missing savings meant that the shortage was periodic and intermittent. Since in every year of the existence of Australia as a nation [since 1901], the money supply (M3) has increased, the authorities responsible for this would seem to be of Douglas's viewpoint. The rate of increase varies between boom and recession, yet in every single yearly period it increased. Recent variations of increase include 19.07 % in 2007-8 and 4.30 % in 2009-10, reflecting the impact of the global recession. Average increase from 2007 to 2011 was 11.5 %. **(20)**

It is of significance I think, that in the last Chapter in which Keynes deals with technical matters (Chapter 23) he devotes the whole of the last page to Major Douglas. [The last Chapter 24 only deals with social questions.] Is it that in this page he reaches his object; the heading off of Douglas from public acceptance of the nature of the solutions he proposed to the acknowledged problem of a deficiency of purchasing power?

In this page Keynes denies that Douglas's B-payments, which went to liquidating the costs of previous production cycles, create the significant deficiency of consumer purchasing power that Douglas maintains. He says in part "*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 even in that case it is necessary to allow for the possibility of these provisions being offset by new investment in other directions as well as by increased expenditure on consumption."* **(21)**

The answer (in part) to the first sentence is that "*current expenditure on replacements and renewals*" are in the main, made on purchasing inventories of prior cycles of production, or they would not yet exist. In the case of the second sentence, when there is a deficiency of consumer purchasing power already existent, buying more than the existent funds have the power to do so, or financing investment from sales which consequently cannot be made, is only possible in one of two ways; in increasing the national debt in Keynes's model, or issuing a national dividend in the Douglas model.

Douglas's social credit is anti-matter to Keynesian social debt.

To be fair to the Bankers, their product, credit, is an abstraction, and the financiers' habit of thought is to have it serve abstract financial objectives. It is not seen from the viewpoint of the engineer, as an accounting system to be wholly malleable to best serving the object of costing production and distributing it.

Leaving aside a few insignificant considerations, one of the Bankers' imponderables goes as follows;

- At present all money is created by Banks giving out loans which they account as Assets. All Bank deposits arise as a result of these loans being spent, which create deposits which the Banks call Liabilities. This is so tidy. Bank Assets equal Bank Liabilities, with a few minor adjustments for shareholders funds, reserves, real assets etc.

- Then along comes Douglas suggesting that Nations establish Balance Sheets such as public companies are required to keep. The Assets side would record all of those things [whether privately, publicly or corporately held] conducive to production for human consumption, for example, arable lands, transport and communication facilities, industrial plant, the education of its people, housing and cultural assets and much else. The Liabilities side would list all of those items which make claims upon those Assets, by far the greatest of these, being the national aggregate money supply.
- Further, since the Bank issued credit is now seen to be issued against the National Balance Sheet, he suggests that some credit equal in amount to any current deficiency in purchasing power should be issued, not against the Banks assets [which would add to costs and prices through the later demand for its recovery] but directly against the Nation's Assets.
- It is here that orthodox Bankers' eyes glaze over. If they are not making the loan they will not have that Asset to record. If they are however, receiving the resulting deposit, it will be entered as a Liability. The Bankers' net worth is decreased by every cent which arises as credit created outside of their system.
- One can sympathise of course, with the pain which arises from a misguided adherence to abstract conceptualisation. We've all been there. But really, if this difficulty is regarded as just another matter for attention along the road to enabling the maximising of human satisfaction from the economy, it is so readily addressed. Let us imagine a situation in which, say 20% of all a Nation's credit had been issued against its National Balance Sheet, and the Bank XYZ has Assets of $1,000 million and Liabilities therefore of $1,250 millions.
- Since it [the 20%] had not been issued against the Banks' Assets, but the Nation's, it is misrepresentative of the truth to attribute its liability for 20% of its deposits to the XYZ Bank. Balancing figures are an everyday occurrence in the world of accountancy. The liability for its deposits might be discounted by 20%, this being the liability attributed to the National Balance Sheet. Legislation is probably not needed in this, as it is lawful for accounts to reflect reality, but it could be so formalised with some lawful formality if any are more comfortable with this.
- N.B. Alternately to the above, the Banks may be required to issue an amount equal to the deficiency of purchasing power against the National Balance Sheet. If this were free from redemption it would not raise costs and prices in this way, and further, if only a modest and fair charge were made as a cost of administration, this would not present problems, but would, of course allow the Banks Balance Sheets to continue to "balance".

If we are not repressed by abstractions, but are serving the interests of life, we adjust our tools to serving us and our fellows. If some preconceived idealised object has precedence, then life must be adjusted to serving it, and any madness becomes possible.

In Keynes and Douglas we have two geniuses, two philosophies, two policies which emanate from those philosophies, two outcomes, and two social consequences **and never the twain shall meet.**

Footnotes for Keynes and Douglas

1. Patrick Walsh, Intelligence Officer of the Royal Canadian Mounted Police who served in North Africa, Canada and the United States. After retirement he was a Canadian delegate to several World Anti-Communist League Conferences at which Nationalist Chinese were particularly active. Personal communication in 1976. (Ret)

2. Dorothy M. Catts, 1957,"King O'Malley: Man & Statesman", Publicity Press, pages 172-3.(Ret)

3. Professor Geoffrey Dobbs, 1979, "Monopoly of Credit", 4th Edition, Bloomfield Books, in "About the Author", page 181. (Ret)

4. See page 218 of quoted publication. (Ret)

5. John Kenneth Galbraith, 1977, "The Age of Uncertainty", BBC and Andre Deutsch, page 36. (Ret)

6. John Kenneth Galbraith, 1977, "The Age of Uncertainty", BBC and Andre Deutsch, page 36. (Ret)

7. John Kenneth Galbraith, 1977, "The Age of Uncertainty", BBC and Andre Deutsch, page 36. (Ret)

8. "Economic Democracy" and "Credit-Power and Democracy" in 1920, and "Social Credit" in 1924. (Ret)

9. A 1931 Australian reprint of part of this Parliamentary Enquiry taken from its Official Minutes of Evidence, entitled "Evidence Submitted to the MacMillan Committee of Finance and Industry by C. H. Douglas M.I.E.E. M.I.M.E. M.I.Mech.E.". Published by Douglas Social Credit Association (N.S.W.). (Ret)

10. C. H. Douglas, "The Use of Money", Third Impression September 1935, Stanley Nott Ltd, London, Pages 15-16. An address delivered by Major Douglas in New Zealand on 13th Feb. 1934. (Ret)

11. C. H. Douglas, 1937, "The Alberta Experiment –An Interim Survey", Eyre and Spottiswoode, London. First Edition published 1937, pages 27-28. (Ret)

12. J.M.Keynes, 1936, "General Theory of Employment Interest and Money", MacMillan and Co., Limited, St. Martin's Street, London, First Edition. From the Preface dated December 13, 1935, pages vi and vii. (Ret)

13. This article was contributed to “Review”, Sept./Oct. 1950, by Dudley Dillard, who was then Professor of Economics at the University of Maryland, U.S.A. and later reprinted by courtesy of National Bank of Australasia Ltd. (Ret)

14. George Bernard Shaw, 1906, “The Doctor’s Dilemma”. A play now available as eBook # 5070. (Ret)

15. Oops. Google has not been able to discover this second “Shaw quote” or attribute it to anyone else. Can anyone please help? If not, attribute it to the author, provisionally, and move on. (Ret)

16. Sir Hugh Casson R.D.I., M.A., F.R.I.B.A., 1958, “The Unseeing Eye”. An oration delivered at the London School of Economics and Political Science (who also published it) on Friday, 6 December, 1957. Page 3. (Ret)

17. John Kenneth Galbraith, 1977, “The Age of Uncertainty”, BBC and Andre Deutsch, page 221. (Ret)

18. Michael Rowbotham, 1998, “The Grip of Death”, Jon Carpenter Publishing, Alder House, Market Street, Charlbury OX7 3PH. Fourth Printing 2009, page 238. (Ret)

19. Publisher of this Fourth (Douglas Centenary) Edition was Bloomfield Books, 26 Meadow Lane, Sudbury, England. Pages xix and xx. (Ret)

20. Official Year Books of the Commonwealth of Australia, Numbers 1 to 99 of 2013, published by the Commonwealth Bureau of Census and Statistics, and prepared by the Commonwealth Statistician of the time. (Ret)

21. J. M. Keynes, 1936, “General Theory of Employment Interest and Money”, MacMillan and Co., Limited, St. Martin’s Street, London, First Edition. Pages 370 & 371. (Ret)