THE SOCIAL CREDITER

Volume 76 No 2 | FOR POLITICAL AND ECONOMIC REALISM | March - April 1997

Brian Burkitt and Frances Hutchinson

Department of Social and Economic Studies University of Bradford

The Political Economy of C.H. Douglas

A Re-Appraisal for Today

In times of economic recession mainstream economists often turn to the work of unorthodox amateurs in their search for solutions. It is their practice to abstract from heterodox works those aspects which most closely accord with mainstream thought, while dismissing the less familiar elements as irrelevant. The work of one such amateur, Major C.H. Douglas, attracted the attention of Keynes and Hawtrey in their search for solutions to the twin problems of economic decline and unemployment during the inter-war years. Although providing valid insights into contemporary problems[1], Douglas' writings lack coherence when read as an attempt to solve these problems in any conventional sense. Indeed, Economic Democracy which introduces all Douglas' basic concepts, was first published in 1919 when the trade cycle problems of the inter-war years were yet to manifest themselves. Douglas was motivated by other concerns. He questioned the necessity for economic growth, and he sought reasons for the failure of industrial technology to deliver a comfortable lifestyle for all, free from long hours of labour and perpetual insecurity. As an explanation of the financial mechanisms which require an escalating increase in material output as an essential pre-requisite for distributing effective demand to consumers, Douglas' work deserves critical re-examination.

This paper originates from a systematic appraisal of the Douglas/Orage writings during the immediate post-World War I years. Douglas was familiar with the work of Veblen (Douglas:1979 edn.p49) and the Douglas/Orage critique of capitalist finance is in accord with the tenets of institutionalist economics.

Douglas' Original Observations

As consulting electrical engineer to Westinghouse in India and the Post Office in London before the First World War (he designed the fully automated unmanned Post Office Tube) Douglas noted that financial restrictions inhibited the introduction of new technologies. However, such constraints on government activities were overcome with the outbreak of war in 1914. His observation, when working on the accounts at Farnborough in 1916, of an imbalance between wages paid out and costs generated within a given period, gave rise to his notorious 'A+B Theorem' (Douglas: 1923; 1979, Appendix). While Assistant Superintendent of Farnborough aircraft factory Douglas acquired the rank of Major, and between 1918 and 1924 he consolidated his theories with the assistance of A.R. Orage, the Guild Socialist editor of *The New Age*.

By developing the implications of his observations, Douglas became convinced that economic decisions were made by default. Money was essential to the maintenance of a modern economy, yet decisions concerning its creation and circulation occurred within banking circles, which were not democratically accountable to the community. Naively, Douglas the practical engineer believed that the mere publication of his findings would enable the community at large to exercise conscious control over the monetary mechanisms which ultimately determine the nature and quantity of production and the distribution of goods to consumers. Money could become a 'ticket system' for the allocation of society's goods and services rather than a system of speculation operated by and for the financial benefit of a section of society. Though his writings were the subject of heated debate throughout the UK in the 1920s (e.g. Ramsey, Hobson, Dobb, Cole, The Labour Party) and the 1930s (e.g. Hawtrey, Gaitskell, Durbin) the radical implications of his 'social credit' proposals were far out of keeping with the ethos of the times and failed to elicit comprehension.

Douglas' proposals, contained in his earliest writings (1918-24), were designed to facilitate the distribution of a sufficiency of goods and services to all citizens (Douglas:1974 edn, p82)[2] and to use technological advances to *reduce* paid employment time. It was not Douglas' original intention to offer solutions to the problem of unemployment arising from the depression, nor to facilitate the production of an ever-increasing stream of material goods in order to expand the economy. We argue that Douglas' proposals were critically reviewed as solutions to the trade cycle problems of the inter-war years, and thereby found wanting. However, his aim was to seek more efficient and equitable mechanisms for the control and distribution of production. This central aspect of his work, developed in collaboration with A.R. Orage between 1918 and 1922 has received little critical attention.

Some Basic Douglas/Orage Concepts

The Cultural Heritage

In Douglas' view the flow of productivity of labour and of capital was of far less significance in determining the potential for production than was the stock of the 'common cultural inheritance', i.e. the myriad inventions of tools, materials and processes, developed over time and used in co-operation, which form the true wealth of the community[3].

This common legacy from the past belongs to all individuals in the community, since the 'owners' of any individual productive resource cannot claim to have made their contribution in isolation. On the basis of this concept, Douglas justified the proposition that a national dividend be paid as of right to all citizens (Douglas: 1924, p56, 207).

Real and Financial Credit

Douglas extensively deployed the terms 'financial credit' and 'real credit'. 'Financial credit' is generated by the banking system. Purchasing power is created on financial criteria. Producers of goods can only borrow to initiate production if they are also potential producers of money. The key word here is 'created'. Douglas observed that bank loans constitute *newly created* money, not 'old' money which has been saved. Hence interest accrues to banks by virtue of their ability to *create* money for and in their own interest (in both senses of the word): i.e. investment is not based on saving. By contrast, 'real credit' is based on the creative energy of society as a whole, being the means, actual and potential, to make goods. This potential real wealth is communal in origin, and should therefore belong to the entire community. 'Real credit' represents the potential to deliver goods. 'Financial credit' represents the power of the banking system to administer 'real credit' and is based on the probability of delivering money.

National Debt and National Dividend

Douglas argued that the title to a share of future production could be transferred to individuals who had neither renounced past consumption nor made any tangible contribution whatsoever (e.g. in the form of labour) to the real wealth of society. He traced the series of paper transactions which financed the First World War (Douglas: 1924, pp134-144). Their net result was virtually indistinguishable from the direct creation of extra currency by governments, save in one important respect. Individuals and organisations, who had made only a paper contribution to the war effort, now possessed a claim on the future production of the community in the form of 4-6% interest payments. It was, apparently, acceptable to pay unearned income to these people because they 'owned' the National Debt. However, such payments were drawn against the 'real credit' of the community. By transforming the National Debt into a National Asset, all citizens could in principle receive an unearned income as of right.[4]

Douglas' Message and its Reception

Douglas advocated the social control of money because money is a socially determined phenomenon. His attempts to demonstrate the interaction between the creation of money and the processes of production and distribution through his 'A+B Theorem' earned him widespread notoriety. In his view, the interest *from* the national stock of wealth (the Cultural Inheritance) could be directed *to* all citizens. In making this suggestion, he was merely advocating that the possibility be considered, indicating that the *status quo* is only one option amongst many: a man-made system and not divinely ordained. He was, effectively, a true heretic. However, his impenetrable style obscured his complicated concept and laid him open to misinterpretation even by enthusiastic supporters.

Taken out of context, Douglas' observations and theories appear to be offering precise solutions to the trade cycle problems of the inter-war years. His proposals for the social issue of credit and for the payment of a National Dividend as of right to all citizens seemed tantalisingly simple remedies to his proponents (Young: 1921, Hattersley: 1922) yet inherently inflationary to his detractors (e.g., Gaitskell:1933, Hawtrey:1937). Hence Douglas continues to be cited as a typically misguided underconsumptionist (Preston: 1991). Albeit in a different context, Galbraith has faced similar incomprehension in his attempts to demystify money and financial mechanisms. "The process by which banks create money is so simple that the mind is repelled. Where something so important is involved, a deeper mystery seems only decent." (Galbraith: 1975)[5]

From his observation of the actual working of industry, Douglas concluded that forward plans for the economy were determined by one section of society, the increasingly powerful financial/military/industrial complex.[6] These plans, based on speculative calculations, operate imperfectly and to the detriment of society as a whole. The economy is like a "bridge which has been raised through the agency of scaffolding and false-work, Its completion has been delayed and its lines obscured by the failure to remove the structure which has enabled it to be built, but which is no longer necessary." Many people "are supported by the false-work. The problem is to get the false-work away without precipitating into catastrophe the swarming multitudes who regard it as the real structure. Unfortunately, a number of the foremen working on the bridge see themselves unable or unwilling to distinguish the structure from the scaffolding." (Douglas: 1924, p42) Society as a whole would be better advised to formulate its forward plans by consciously controlling its financial mechanisms.[7]

Ownership, whether by private firms or by the collective state, was beside the point. As Orage (Orage: 1926) explained: "Ownership of a means of production gives control to the degree that the product is in economic demand." Such demand depends upon the monetary mechanisms which determine costs and prices. Given the social will, as had occurred for destructive purposes during the First World War, the technical expertise could be developed to base forward monetary strategy upon trends detected in the preceding period, using developments in computing.

Growth Economics via the 'A+B Theorem'

Douglas failed spectacularly in his attempts to clarify via the 'A+B Theorem' the significance of the two-dimensional nature of investment, i.e. its demand-increasing and capacity-creating aspects. "No writer in economics has made his thought so opaque to the reader." (Mehta: 1983)

In *Credit-Power and Democracy* the Theorem is explained as follows:

> "A factory or other productive organisation has, besides its economic function as a producer of goods, a financial aspect . . . a device for the distribution of purchasing power through the media of wages, salaries and dividends. . ." Its payments divide into two groups:
>
> "Group A - All payments made to individuals (wages salaries and dividends)
>
> Group B - All payments made to other organisations (raw materials, bank charges and other costs)
>
> 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 plus B . . . Since A will not purchase A plus B, a proportion of the product at least equivalent to B must be distributed by a form of purchasing-power which is not comprised in the descriptions grouped under A." This "additional purchasing power is provided by loan credit (bank overdrafts) or export credit."

Despite the clear references to the 'rate of flow', in common understanding (e.g. Gaitskell's critical discussion, and Klein) Douglas is thought to have argued that both A and B payments constitute the cost of goods and determine prices, but only the A payments to workers are available to purchase goods and services. The B payments mysteriously disappear from the system, thus causing stagnation. His detractors then refute this misrepresentation by a statement of the obvious; B payments for intermediate goods are paid out as wages and salaries, and so constitute demand for goods no less than do A payments.[8]

Any creation of extra purchasing power to subsidise the distribution of goods and services would increase the money supply and thus have an inflationary effect. Though Hawtrey recognised the accuracy of Douglas' theoretical analysis (Hawtrey:1937) he, too, assumed that Douglas was actively advocating a subsidy to facilitate distribution, and concluded that this would be constructive only under certain economic circumstances (e.g. in the early 1930s) when deflation was the perceived problem.

Mehta (1983) has gone some way towards illuminating the substantive element of the 'A + B Theorem'. Drawing on Foster and Catchings (1925), Mehta used Douglas' reply to J.A. Hobson in *The Socialist Review* (1922) to clarify Douglas' central observation. Mehta's approach is amplified below. Although Foster and Catchings are in accord with Douglas in recognising the drive to economic growth inherent in the economic system, Douglas was unique in observing that investment does not arise from the saving of a proportion of a finite sum of money. On the contrary money, in the form of financial credit, is constantly created and re-created for the purpose of profitable investment.

Money Creation

Douglas questioned the assumption that "a bank only lends its own and its customers' money" when in fact a bank leads "new money". Bank loans create bank deposits. Since bank loans/deposits constitute money, the quantity of money can be seen to vary according to these transactions (Douglas: 1922b, p143).

Banking is not "simply a pawnbroking transaction between borrower and lender . . . The question of collateral security is . . . quite immaterial; every credit transaction definitely affects the interests of every person in the credit area concerned, either through the agency of prices, or by the diversion of the energies available for productive purposes." These observations constitute a case for 'socialised credit' creation (Douglas: 1922b, p144)'

Money Circulation

In a barter economy with low division of labour, single-stage production, and exchange based on a double coincidence of wants, demand and supply are readily matched so that general over-production is impossible. In an industrialised money economy, however, a mismatch is likely unless remedial action is taken. In his debate with Hobson, Douglas said:

"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 and distributed under present conditions by a draft, and an increasing draft, on purchasing power in respect of future production. This latter is mainly and increasingly derived from financial credit created by the banks." "An increase in the money paid this week is identical with any form of money inflation . . . it widens effective demand, stimulates production and raises prices . . . The money to be spent this week does not depend at all on the goods which can be, and are, supplied this week, and is not part of the cost of the goods which can be supplied this week." (Douglas: 1922b, p141)

As Foster and Catching explain (Foster: 1925, pp308-311); assuming a single Corporation, that consumers spend all they receive within the year when they receive it and that sales dispose of the output of the previous year, the situation will be:-

Output	1,000,000	units of goods
Sales	1,000,000	units of goods
Receipts	1,000,000	dollars
Wages	900,000	dollars
Dividends	100,000	dollars

Index of prices = 100

The above rests on the assumption that the volume of money remains constant. Following Foster and Catching, the existence of a bank can be posited. If the bank lends the Corporation $90,000, $90.000 is added to the total volume of money in circulation. Assuming that the Corporation uses this money to increase its production in the current year by 100,000 units, and to do so pays out all the new money in current wages, the statement for that year would be:-

Output	1,100,000	units of goods
Sales	1,000,000	units of goods
Receipts	1,090,000	dollars
Wages	990,000	dollars
Dividends	100,000	dollars

Index of prices = 109

Note that sales are in respect of the output of the previous year. The increased output of the current year is yet to arrive upon the market. Prices rise because demand (wages) has increased whilst supply remains constant. Douglas focused upon the dynamics of financial flows caused by the ever-increasing time-lag created by new technologies between the original financing of a productive process and the appearance of the finished commodity on the market.

Foster and Catching point out that "in the following year, prices cannot be sustained at the new level of 109 unless there is not only another increase in the volume of money, but a larger increase than in the previous year." (Italics in original) This is demonstrated by the third balance sheet:

Output	1,200,000	units of goods
Sales	1,100,000	units of goods
Receipts	1,180,000	dollars
Wages	1,080,000	dollars
Dividends	100,000	dollars

Index of prices 107

As production expands over a period, the volume of money is increased, resulting in a higher price level which can only be sustained if the volume of money rises at an accelerating rate. Prices cannot fall below costs plus a minimum of profit, under present conditions, since profit forms the inducement to produce (Douglas: 1922b, p141); i.e. the above scenario would be radically altered if the Corporation was content merely to recoup the extra $90,000 outlay and break even.

Investment increases the capacity to produce over the long run; it expands the community's 'real credit'. Consequently Douglas noted that technological innovation must lead to rising prices (instead of falling prices as might logically be anticipated), or unemployment and a failure of distribution (Douglas: 1922b, p141). The creation of a Just Price mechanism to regulate prices through productivity could bring finance into line with material reality; inventions designed to increase supply and decrease prices would cease to provide a threat to the mechanisms of production and distribution (Douglas: 1919a, p110; 1924, p97-105).[9]

Implications

Money and Values

The financial system operates as a guessing game in which financiers and producers speculate on the future supply and demand of commodities. "A banker lends credit, which is not his, but public property, because he expects to get something; in his case, interest. An employer, in his turn, lends the credit (wages, salaries) because he expects to get something, production, from which he will get profits. The individual consents to work for money, which derives from credit, because he expects to get goods, which to him are profits. So far from the modern large-scale credit system resting solely on a basis of 'savings', . . . -on something done in the past - it rests more and more on a correct estimate of something to be delivered in the future." (Douglas: 1922b, pp143-4)

When Douglas was writing, money (credit) was yet to become a major commodity in a vast gambling den. However, the writing was on the wall. Within a decade, in 1931, financial interests in disagreement with the elected government's 'unsound' policy of income support for the unemployed brought down the government (Bassett: 1958). By contrast, contemporary international capital and currency links, with the development of huge Euro-bond mechanisms, and financial liberalisation dwarf the powers of financial agents in the inter-war years. "There is one Trillion U.S. dollars worth of financial assets traded daily in the form of money market certificates, treasury bills, commercial paper, stocks, euro-bonds and all other kinds of electronic chits circulating the planet. This value constitutes a virtual world of trading information which is several magnitudes higher than the total annual global GDP which is estimated to be $27.7 Trillion" (Tanega: 1992).[10] Domestically, moreover, present consumption based on future indebtedness in the form of consumer credit and the mortgage boom in the housing market could have been predicted from Douglas' analysis.

The Manufacturing Base

The production of manufactured goods at an ever-increasing rate, regardless of their usefulness so long as they are profitable is the base of the economy. Neither the distribution of income nor the exchange of services occur without the accelerating expansion of profitable capital accumulation associated with manufacture. This process as Douglas foresaw[11], carries several fundamental implications.

Firstly, advances in technology do not achieve a stable level of output, consistent with sufficiency of material needs and an increase of leisure. Rather, the production of commodities needs to increase at an accelerating rate to maintain profitable accumulation, irrespective of whether Maslow's (1970) priority requirements are met and irrespective of the resulting distributional inequalities. It follows that planned obsolescence linked to the generation of new 'wants' through advertising is essential to maintain demand and profitability. As the experience of recent decades shows, armaments achieve this end, being immediately disposable once used, and frequently rendered obsolete *before* the point of sale by counter-systems already in the pipeline.

Secondly, as outlined in *Pyramid of Power* (Douglas: 1919b), extension of the economies of scale inherent in the application of new technologies and the financial mechanisms required by profit constraints inevitably generate a concentration of power at the top of a diminishing number of large-scale, closely linked industrial and financial enterprises, whose management becomes increasingly similar, whether owned privately or by the state (Schumpeter: 1942).

Thirdly, short-term profits are increased if business ignores its social and environmental impacts and focuses upon the financial profitability of large scale machinery, chemical herbicides, pesticides, fertilisers and long distance transportation systems.

Finally, export manufactures become essential, not only to acquire imports but also to facilitate production and exchange on the home market.

The Social Control of Money

Douglas argued that the substitution of state planning for the large scale planning of private oligopolistic enterprises provided no remedies in itself. Douglas was not alone in the inter-war years when advocating the social control of money (Gaitskell: 1933). He was, however, prolific - perhaps too prolific - in his range of possible mechanisms to achieve this end. Essentially, he viewed money as a useful 'ticket' system, one which should become dependent upon, rather than be the determinant of, society's priorities. This objective could be approached by the provision of a national dividend to all citizens, linked to the control of real and financial credit through geographic location and decentralisation of industry[12], and by the adoption of Douglas' principle of a 'Just Price'. The latter relied upon the future development of computing to assess past costs, prices and material levels of consumption and to forecast future requirements with increasing levels of accuracy and sophistication without dispensing with the price mechanism and market forces.[13] The 'Just Price', based on the ratio of annual consumption to 'real credit', would facilitate current consumption. Costs of production being met from the creation of social credit which was wiped out as goods entered the market and were consumed (Douglas: 1920, pp131-4, 151). In effect, a sophisticated form of social planning based upon the manipulation of monetary mechanisms designed to reflect the common claim upon the cultural inheritance would replace financial speculation for individual profit.

Conclusion: Wealth or Economic Growth?

A minority of mainstream economists, including Keynes, Hawtrey, Meade[14] used theoretical apparatuses resembling that of Douglas in formulating proposals for the efficient operation of the economy. Douglas, however, questioned the very purpose of the economic system and the nature of wealth. The range of his writing was considerable, and only a limited indication of the breadth of his views has been attempted in this article. However, the following points constitute the kernel of his economic philosophy as it appears in the four *English Review* (1918-1919) articles, *Economic Democracy* (1919), *Credit - Power and Democracy* (1920) *The Control and Distribution of Production* (1922) and *Social Credit* (1924).

Technological innovation had reached the point where no physical barriers remained to the achievement of unlimited production. Potentially, the needs of all citizens could be met without the emphasis on growth. Though the Cultural Heritage of the entire productive mechanism was ultimately owned by the community, by virtue of inheritance and current labour, ownership by private or state institutions was not the key distinction, As long as real credit, the means to maintain life, was controlled by financial credit the community could be coerced into patterns of production and consumption which failed to meet real needs and the desire for leisure. The regulation of price according to productivity and consumption through the Just Price mechanism, coupled with the establishment of an unearned income as a right (non-means tested and non-work related) for all citizens could create a truly sovereign consumer. Four decades later Mishan (1967) was to describe consumer sovereignty as a myth, and the present disarray of western economics in the face of the experience of the 1980's suggests a Douglas-type observation of the monetary assumptions underlying economic theory is long overdue.

\- - - - - - - -

Footnotes

1 King (1988, pp. 151-3) details the extent of interest of Keynes and Hawtrey in Douglas' theoretical analysis.

2 Douglas anticipated the concept of 'sufficiency' as used by Gorz (1989). See especially Chapter 9 "From 'Enough is Enough' to 'The More the Better'".

3 A similar concept is used by Capie and Collins, and termed 'total factor productivity' or TFP (Capie: 1992, p14).

4 Meade (Meade: 1989) uses an almost identical argument.

5 For a comprehensive history of modern money supply mechanisms see Niggle (Niggle: 1990).

6 Lutz and Lux (Lutz: 1988, pp.213-4) describe the close relationship of personnel in US institutions. See also Chomsky (Chomsky: 1991,p108) on "military Keynesian programmes" and *The Campus Connection* published by Student CND in 1992, on the military funding of academic research projects and its implications in terms of political/ financial and academic linkages.

7 Here Douglas anticipates Niggle (Niggle:1990). If money supply is endogenously determined by the commercial banks the political control of the central bank ceases to have relevance, monetarist 'rules' are irrational and new institutions for implementing control need to be developed.

8 See Mehta (1983) for a more comprehensive explanation of this 'standard interpretation'.

9 Wicksell (1906, Ch.l) makes the same point. Labour saving innovation tends to reduce the marginal product of labour. Therefore wage earners require a subsidy in compensation.

10 Tanega explains: "I estimate $1 Trillion U.S. on the basis of summing the total value of transactions on the capital markets, the value of tradeable goods and the value of individual cash transactions interfaced with banking or credit institutions." (Tanega: 1992).

11 The following selected quotations substantiate the claim that Douglas anticipated the issues outlined in the following paragraph.

In "the obsession of 'work for its own sake' no misgiving allays (the capitalist) vision of an earth packed solid with the most highly efficient factories, pouring out massed production into limitless space". (Douglas:1920,p137-8)

"A large proportion of the world's energy, both intellectual and physical, is directed to the artificial stimulation of the desire for luxuries by advertisement . . . to the end that 'employment' as a device for the distribution of purchasing power may be maintained." (Douglas: 1919a, p77)

"A mangled and misapplied Darwinism (has created) the individual efficient in his own interest. and consequently well-fitted to survive, (but who) possesses characteristics which completely unfit him for positions of power in the community . . . Pyramidal organisation is a structure designed to concentrate power, and success in such an organisation . . . becomes a question of the subordination of all other considerations to its attainment or retention." (Douglas; 1919a)

"At any given period the material requirements of the individual are quite definitely limited." (Douglas:1919a, p78)

"'Labour-saving' machinery has only enabled the worker to do more work; and . . . the ever-increasing complexity of production, paralleled by the rising price of the necessaries of life . . . (have created) an increasingly precarious existence." (Douglas:1919a. pp36-7)

"The control of society by the 'producers' means exactly that . . . The production of armaments . . . is a determining factor in world politics; and that is so because millions of men and women get their living, as the phrase goes, by working in armaments factories. That is to say, the producer controls the consumer. If those millions of human beings were not dependent on this particular form of production, it is highly probable that the armament business would languish." (Douglas:1920,p83)

"I do not regard it as a sane system that before you can buy a cabbage it is absolutely necessary to make a machine gun." (Douglas: 1933)

"A revision of economic policy, to be stable, must result in higher economic efficiency, even though the very aim of that policy is to reduce economic problems to a very subordinate position." (Douglas:1919a, p90)

"The failure of internal effective demand . . . involves the necessity of an increasing export of manufactured goods to underdeveloped countries . . . The logical end of economic competition is war." (Douglas:1919a, pp135-7)

12 For details, see 'A Practical Scheme for the Establishment of Economic and Industrial Democracy', first published as Appendix to 'Credit-Power and Democracy'. (Douglas: 1920a)

13 Douglas was well placed to assess the future potential for computing, having used early computers at Farnborough.

14 Meade read Douglas as a student.

\- - - - - - - -

Bibliography

Bassett, R, (1958) *Nineteen Thirty-One: Political Crisis* (Macmillan)

Capie, F, & Collins, Michael, (1992) *Have the Banks Failed British Industry?* (Hobart Paper 119, IEA, p14)

Chomsky, N, (1991) *Deterring Democracy* (Verso)

Dobb, MH, (1922) "Does the World Need More Money?" *Communist Review* pp29-41

Douglas, CH, (1918)."The Delusion of Super-Production" *English Review* pp428-432

Douglas, CH, (1919a) *Economic Democracy* (Bloomfield Publishers, 1974edn)

Douglas, CH, (1919b) "The Pyramid of Power" *English Review* Vol.28, pp49-58, 102-107

Douglas, CH, (1919c) "What is Capitalism?" *English Review* pp166-169

Douglas, CH, (1919d) "Exchange and Exports" *English Review* pp368-370

Douglas, CH, (1920) *Credit-Power and Democracy* Cecil Palmer

Douglas, CH, (1922a) *The Control and Distribution of Production* Stanley Nott

Douglas, CH, (1922b) "The Douglas Theory: A Reply to Mr. J.A. Hobson', *Socialist Review* March, pp139-145

Douglas, CH, (1923) "Social Credit History: Address to the Canada Club", reprinted in *The New Economics* Nov. 4,1934

Douglas, CH, (1924) *Social Credit* (Institute of Economic Democracy, 1979 edn)

Durbin, EFM, (1933) *Purchasing Power and Trade Depression: A Critique of Underconsumptionism* (Cape, 1933)

Foster, WT, & Catching, W, (1925) *Profits*, (Houghton Mifflin)

Gaitskell, HTN, (1933) *Four Monetary Heretics* in Cole, GDH, *What everybody Wants to Know About Money* (Gollancz, 1933)

Galbraith, JK, (1975) *Money: Whence it came and where it went*, (Penguin)

Gorz, A, (1989) *The Critique of Economic Reason* Verso

Hattersley, C Marshall, (1922) *The Community's Credit* (Credit Power Press)

Hawtrey, RG & Douglas, CH, (1933) "The Birmingham Debate" transcript in *The New Age* April 6, pp267-279

Hawtrey, RG, (1937) *Capital and Employment* (Longmans, Green) (The chapter on Douglas was omitted from the 1952 edition)

Hobson, JA, (1922) "The Douglas Theory", *Socialist Review* February pp70-7 and April 1922, pp194-9

Keynes, JM, (1936) *The General Theory of Employment, Interest and Money* (Macmillan)

King, JE, (1988) *Economic Exiles* (Macmillan)

Klein, L, (1947) *The Keynesian Revolution* (Macmillan)

Labour Party, The, (1922) *Labour and Social Credit: A Report on the Proposals of Major Douglas and the 'New Age'* (London)

Lutz, MA, & Lux, K, (1988) *Humanistic Economics* (The Bootstrap Press)

Maslow, A, (1970) *Motivation and Personality* (Harper & Row)

Meade, J E, (1989) *Agathotopia: The Economics of Partnership* (Hume Paper No. 16)

Mehta, G, (1983) "The Douglas Theory: A New Interpretation" *Indian Journal of Economics* Vol.64, pp121-9

Mishan, EJ, (1967) *The Costs of Economic Growth* (Staple Press)

Niggle, CJ, (1990) "The Evolution of Money, Financial Institutions and Monetary Economics", *Journal of Economic Issues* Vol. XXIV No.2, June

Orage, AR, (1926) "An Editor's Progress. Part 2', *Commonweal*, pp402-4

Preston, RH, (1991) *Religion and the Ambiguities of Capitalism* (SCM Press)

Ramsey, FP, (1922) "The Douglas Proposals", *Cambridge Magazine* 11 pp74-6

Schumpeter, JA, (1942) *Capitalism Socialism and Democracy*

Tanega, J, (1992) "Towards an Environmental Credit-Rating Agency" (IRNES Paper)

Wicksell, K, (1906) *Lectures on Political Economy. Part 2*

Young, WA, (1921) *Dividends for All: Being an Explanation of the Douglas Scheme* (Cecil Palmer)

EMU - Unbridled Power

Monetary Union, with its single currency and its European Central Bank acting independently of any democratic control, is the most important and dangerous of all of the proposals designed to achieve "ever closer union" in Europe. We should be clear that what is at stake is a great deal more than any "efficiency" which bankers and others claim for it. For as the German Chancellor Helmut Kohl has confirmed, "an economic union will survive only if it is based on a political union". (*Financial Times*, 4 January, 1993)

It is therefore **both** economic and political sovereignty that will be conceded by the participating nation states.

Yet although on occasion there is acknowledgement that a major failing of the single currency project is "that it is motivated by politics not economics" (*The Times*, 3 February, 1997), media coverage generally concentrates on its fancied impact on economic activity. In the last week of January, for example, it was again the lead item in media news bulletins. This time they were reporting a threat by the boss of Japanese car-maker Toyota that if Britain resisted full participation in the proposed single currency, then further investment by Toyota in Britain would be unlikely.

Notwithstanding denials by other Japanese car-makers in the UK, the prospect of Britain losing out on inward investment became the subject of heated discussion. The move by Ford to relocate its Escort model to Germany added fuel to the fire, despite suggestions that this was prompted by German government provision of huge "hidden" subsidies. Robin Cook, Shadow Foreign Secretary, regarded by many in the Labour Party as a closet Eurosceptic, was nevertheless also mindful of the threat from Toyota and gave his strongest indication yet that, because of the "potential loss of inward investment", a Labour government might feel compelled to lead Britain into a European single currency by the year 2002.

And so the "debate" about EMU revolves primarily around economic arguments while the question of what such participation might mean in terms of political sovereignty remains muted.

In fact, if EMU is achieved, then the European Central Bank will have **absolute** authority in implementing monetary policy. Article 105.2 of the Maastricht Treaty confirms that its "basic tasks . . . shall be *to define and implement* the monetary policy of the Community", while Article 105a notes that "The ECB shall have the *exclusive right to authorize* the issue of bank notes within the Community . . . (and these) . . . shall be *the only notes to have the status of legal tender within the Community*". (emphasis added)

And there is to be no democratic oversight whatever. For as we noted in the last issue of TSC, Article 107 of the Treaty confirms that "*The Community institutions and bodies and the governments of the member states* undertake . . . not to seek to influence the members of the decision-making bodies of the ECB or of the national central banks in the performance of their tasks". (emphasis added)

So it should be absolutely clear that, once accorded to the ECB, these powers over monetary policy will effectively ensure that all citizens of the European Union will be subject to an oligarchy of bankers in both economic and political matters. And it needs only a little thought to recognise that absolute control of monitory policy ensures in the last analysis absolute control of all policy. Sir Alan Walters puts the matter succinctly when he notes that "The concentration of monetary power spawns the concentration of budgetary and political power, and ultimately of security and foreign policy". (*Referendum Party News*, February 1997)

Bankers however have an even higher priority to be served once an independent ECB and Single Currency have been achieved. They are ultimately concerned with the survival of their fractional reserve banking system which, by allowing private commercial banks to create "out of nothing" well over 90% of the total money supply in modern economies, currently delivers to them a share of the world's wealth greatly in excess of what they are entitled to in equity. In operating this system, private bankers claim the ownership of the "money" they have newly created and lend it out at interest to governments, (national and local), businesses and consumers. Every sector of society is therefore constantly in their debt, and as a result they exercise a degree of power and influence greater than any national government. And yet their system simultaneously engenders great instability and injustice and poses a constant threat of system breakdown.

From time to time it is suggested in justification of the proposals for EMU that we should look for re-assurance to USA, where in a federal union "expert" bankers do in fact make independent decisions about the appropriate level of money supply and interest rates. But anyone who thinks the American example is a convincing one should consider a few facts.

* In the immediate aftermath of World War II, America was the world's greatest creditor nation. Today, despite its massive reserves of natural resources, it is the world's greatest debtor nation with a national debt running into trillions of dollars.

* A recent article by the American correspondent of *The Scotsman* recorded how it was widely accepted that Alan Greenspan, Chairman of the Federal Reserve Board, had manipulated the economy during the recent election so as to favour the re-election of Bill Clinton as President, and that he is acknowledged to be the "second most powerful man in America". On the evidence, others might well think that the position is actually occupied by Bill Clinton.

* Each State is competing ever more fiercely with other States to persuade businesses to locate their operations with them rather than with their competitors. They are doing so, exactly as in Europe, by offering ever greater financial inducements and ever more "flexibility" in their labour laws.

In Europe however there is still some possibility of stopping the European Union juggernaut, and for the implementation of much more sane proposals for economic reform.

REVIEW

To Restrain the Red Horse: The Urgent Need for Radical Economic Reform

by Alan D. Armstrong, with a Foreword by Stephen Maxwell. (Towerhouse Publishing Ltd., Dunoon, Argyll, 1996. ISBN 0 9529320 0 8

One of the four horses of the Apocalypse was red. "To its rider was given power to take peace from the earth and make men slaughter one another; and he was given a great sword", Revelations 6.4, *New English Bible*. The menace of conflict is explicit in the title of this book, just as the prospect of harmony restored is implicit in its sub-title.

There are two parts. In Part I, under the title of 'Economy in Crisis', the author, a graduate in economics, analyses the mainsprings of the major economic and social problems of our time. Thus Chapter 1 deals with the development of 'money' and banking, bank creation of money, and attempts to control money supply. Chapter 2 deals with international debt - the IMF and World Bank, and Third World debt with taxpayers footing the bankers' bills. Chapter 3 considers Environmental Impacts - population growth, greenhouse gases, climate change and loss of forests. Chapter 4 looks at Unemployment under the impact of accelerating technological changes such as the information and robot revolutions. Chapter 5 studies Social Breakdown - the jobless, poverty, crime and drugs.

The author traces each specific problem back to its roots in the working out of the existing monetary system based on the "fractional reserve" principle of banking. This system exercises a private monopoly in creating the bulk of the world's money supply, literally "out of nothing", but issuing it only as debt repayable with interest. This debt burden so distorts the underlying economic realities and the thinking about them that projects which are physically possible and socially beneficial are rendered "impossible" for financial reasons which are wholly spurious.

In Part II, " The Route to Change", Armstrong outlines the history of some unorthodox ideas and significant events. Included are the Guernsey and European experiments, the American Revolution, experience in Canada and the Royal Commission on Banking there, and individual responses including those of Henry Ford and Thomas Edison about funding the Muscle Shoals hydro-electric station free of debt in 1921. He then summarises the main contributions to the continuing debate about the monetary system, including Irving Fisher and Henry Simons, Prof. Frederick Soddy, J.M. Keynes and C.H. Douglas. All but Keynes condemned the debt-money system. Soddy denounced it as a "confidence trick". Fisher and Simons in their day advocated a State monopoly of money creation by an independent body responsible to Congress, money to be created and issued free of debt at source, with normal business borrowing and lending continuing as usual thereafter.

Pride of place, however, is given to C.H. Douglas and his Social Credit analysis and proposals which go far beyond the concepts of monetary reform. His aim was to ensure the economic and political freedom of the individual in a world of plenty through its equitable distribution by means of an assured basic income, independent of earnings. The book is not primarily an argument for Social Credit however, but a call for united action against a universal evil.

Armstrong takes head-on the question of how much effort and politics must be arrayed against the Red Horse. He accepts that the history of the last fifty years shows that merely advocating reform is never going to be sufficient in itself. Indeed Douglas himself abandoned advocacy *per se* in the 1930s in favour of activists acting as catalysts in grass-roots organisations for social betterment.

Following that lead, Armstrong envisages the need to mobilise the many diverse organisations and campaigns for different objectives into a concerted attack upon the Money Power. That requires that the different interests can be shown that their separate causes derive from a common fundamental fault in the monetary system. Hence the analyses as laid out in Part I and the prescription in Part II. He echoes Douglas - "First defeat the Money *POWER;* then reform the Money *SYSTEM*".

Armstrong adds urgency to his call by citing progressive and chronic unemployment as a failing system for providing incomes, and also the environmental threats to our life support systems arising from inexorable economic growth. He reinforces his case by a detailed Strategy and Action Plan, placing voluntary organisations in a key role.

As the Foreword says, this is a "brave polemic aimed at the heart of the financial system" and it will need the support of all men of goodwill. Certainly Social Crediters will fully support its aims and objectives. The Bibliography is thorough and extensive and will prove a ready source for students and others, well worth the outlay in itself. A paperback, this book has a fine type-face and layout and good quality paper and cover. It is an attractive package and will withstand quite a lot of handling.

Cover price £11.95; to subscribers of TSC, £9.00 post free. Cheques to Towerhouse Publishing Ltd, 32 Kilbride Avenue, Dunoon, Argyll, PA23 7LH.

IMcG.

THE SOCIAL CREDITER

This journal expresses and supports the policy of the Social Credit Secretariat, founded in 1933 by Clifford Hugh Douglas. The Social Credit Secretariat is non-party and non-class, neither connected with nor supporting any political party.

SUBSCRIPTIONS

Annual rates: UK inland £10.00; overseas surface mail £12.00; overseas air mail £15.00; Australia $20.00; New Zealand $15.00; New Zealand air mail $22.00. In Australasia, subscription and business enquiries should be addressed to 3 Beresford Drive, Draper, Queensland 4520.

Printed and published by K.R.P. Limited,
P O Box 13855, Edinburgh EH15 1YD
0131 657 4740

Editorial Office: 21 Hawkhead Crescent, Edinburgh EH16 6LR

Books and booklets on the subject of Social Credit are available from Bloomfield Books, 26 Meadow Lane, Sudbury, Suffolk, England, CO10 6TD. In Australia, from The Social Credit School of Studies, 3 Beresford Drive, Draper, Queensland 4520.