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ON THE RELEVANCE AND ADEQUACY OF CLIFFORD HUGH DOUGLAS AND HIS SOCIOECONOMIC PHILOSOPHY *

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ABSTRACT

This paper discusses the criticism of Austrian and Keynesian schools of thought against the theory of the unorthodox monetary and social reformer Clifford H. Douglas. The thesis of the author is that the ideas of Douglas although especially adequate to our most pressing economic problems of today were disrespected, misunderstood and universally rejected from the Austrians by their complete lack of practical understanding in the field of accrual accounting, the not self-liquidating price system in the modern industrialized economy and the credit theory banking. While John Maynard Keynes, who was personally influenced by Douglas was more likely trying to save his carrier by distancing himself from the more essential analysis of the relevant but extremely politically incorrect author.

In conclusion, the carrier economist and political parties of the time proved to be morally and intellectually incapable of handling Douglas's economics. The consequences of this turned out to be far worse and reaching than the uninformed public may assume as according to the author the relevance and adequacy of Douglas's economics raises exponentially with the exponential rise in technology and income inequality while the ideas of his critiques become exponentially more dangerous and inadequate.

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1. INTRODUCTION

At a time when socio-economic relations are in a deep crisis, as it is now, orthodox political economy usually starts to lose value in favor of more unorthodox thinkers. In this case investigating the ideas of the heretic economists, reformers and philosophers who emerged in the period between the Two World Wars and during the Great Depression is particularly important task for academics. During his research the author found alarmingly that precisely the heterodox thinker which in his opinion presented back then the most adequate analysis and solutions to our most pressing problems concerning the outstanding unpayable global financial debt, the technological unemployment, the income inequality and the concentration of power in the hands of oligarchic corporate elite, remained unknown, misunderstood and largely removed from the academic debate. I am speaking about the British engineer, economist and philosopher Clifford Hugh Douglas who founded during the nineteenth 20s and 30s the most radical movement in the field of Christian democracy and Social finances, the so called Social Credit Movement,

The political economy of the Social credit movement in more recent times has been the subject of more in-depth analysis only on the part of an extremely narrow circle of academics. Here we should mention the research by Frances Hutchinson, Brian Burkitt, J. M. Pullen, G. O. Smith and John E. King (see Hutchinson and Burkitt, 1997; Pullen and Smith, 1997, King, J.E., 1988).

During the 30s the only ones to really accept and appreciate Douglas were mainly intellectuals from arts, anarcho-syndicalists and Christian communities along with some leading progressive figures from the field of practical science. Here we should quote the Nobel physics laureate Frederick Soddy: "Science without Social Credit is sheer suicide" (Munson, 1945, p.335), the renowned Scottish poet Hugh Macdiarmid: "Douglas represents the very culmination of Scottish genius in its contribution to the Anglo-Saxon world", the founder of cybernetics Norbert Wiener: "Of course I have studied Douglas. I accept him without reservation and see no future for our society unless Social Credit principles are incorporated at an early date"? (de Mare, 1986,p. 14). Charles Chaplin revealed in his autobiography that having read Douglas he saved his fortune from the Wall Street crash of 1929, by turning all his stocks and shares into solid worth because it occurred. (Cooney A, 1996, p.4).

2. DISCUSSION

Social credit is an interdisciplinary distributional philosophy covering the fields of economics, politics, history, finance, accountancy and Christian ethics. It was developed by Clifford Hugh Douglas, educated in Cambridge prominent Scottish engineer, economist and public figure who worked for Westinghouse Electric Corporation, the Canadian General Electric Company and Royal Aircraft Establishment. From the end of the First World War to the late 1930s, he developed and presented his ideas by lecturing, publishing numerous articles and books including Economic Democracy (1919), Credit power and Democracy (1920), Social Credit (1924), The Monopoly of Credit (1931), The Use of Money (1935), The Alberta Experiment: An Interim Survey (1937). The movement was conceived by Douglas as an intellectual response against the threatening centralization of power in the hands of financial and monopolistic capitalism which started from the beginning of the 20th century. The main objective was to save the Christian Civilization by rethinking and reforming the field of finance for the return and redistribution of power from oligarchic institutions to the community and the individual. Douglas wrote: "Systems were made for men, and not men for systems, and the interest of man which is self-development, is above all systems, whether theological, political or economic." (Douglas C.H., 1974, p.18). Economic theory in the service of politicians and financiers for him was the major cause of poverty and conflict as those problems have already been solved by engineers and scientists at the beginning of the century (Crowther G. 1940: p. 434). For the financial and banking institutions which have failed not one or two of his projects, he added: “I am certainly not here as a moralist; but as an engineer. I have an appreciation of the importance of foundations. I find it incredible that a stable society can persist founded on the most colossal lucrative fraud that has ever been perpetrated on society (Douglas CH, 1936).

During a radio debate in 1933, Douglas accused economists of not living in the reality using inadequate concepts of finance, pricing and employment for the industrializing societies (Hutchinson and Burkitt 1997: p.92; Douglas and Robertson 1933). At the beginning of the twentieth century, the huge leap in technology and productivity, along with the ever-expanding financialization of capitalism began to seriously challenge the foundations of traditional economic theory. Career economists refusing to recognize and accept the challenge still after more than 100 years prefer to remain static orthodox in an increasingly dynamic and problematic

world. They still continue to analyze the monetary economy through supply and demand curves based on the barter economy, one imaginary economy in which money and banks are neutral. In this sense Clifford Douglas appears to be one of the most effective and profound critics of mainstream economic thought. Unlike other heretics and finance reformers he managed to bring his ideas to the masses and inspired a powerful public response in countries such as Canada, Australia and New Zealand. Unlike the prominent representatives of mass economic thought, Douglas' theories are based on his rich practical experience in the field of engineering, accounting and management. His career as chief engineer and manager for Westinghouse Electric Corporation in India, Royal Aircraft Factory in England allowed him to acquire real and in-depth knowledge of the operation in both the industrial, the financial sector and their accounting methodologies (Douglas CH 1936: p .14). Experience and knowledge, which according to the author most career economists absolutely do not poses. As a scientist and engineer he began with observation and then formed a hypothesis. Orthodox economists mostly apply the opposite approach.

Douglas's main contributions to the field of economic thought are focused on three important subjects. The most important is his theory about the chronic shortage of purchasing power in the modern industrial economy. He was the first to study the effects of current accounting on income and prices. Then we should mention the contributions to the banking theory of credit and his critique of quantity theory of money. Douglas brought the study of money, debt, credit and economics down to reality where it makes sense.

Douglas criticized the classical economy because it is based on a barter economy, while the modern economy is monetary. To the orthodox economist money is a medium of exchange. This may be valid only in case when the majority of wealth is produced personally by individuals who exchanged it with each other. In the modern economy, where production is split up into multiple processes, wealth is produced by people and machines working in association with each other. Wealth is a common pool upon which people can draw and the efficiency gained by individuals cooperating in the productive process to Douglas was known as the “unearned increment of association”- historic accumulations which he called the Cultural Heritage or Social credit.

Douglas believed the "cultural inheritance of society or the social credit" were the primary factor in the production. Our cultural inheritance is defined as the knowledge, technique and processes that have been handed down to us incrementally from the origins of civilization. Consequently, we do not have to keep "reinventing the wheel" each year. "We are merely the administrators of that cultural inheritance and the natural resources and to that extent the cultural inheritance is the property of all of us, without exception." (Douglas, January 22, 1934.)

With the development of civilization, the capital created through social credit will gradually completely displace the work of the individual as a factor in the economy. In this sense, according to Douglas in highly industrialized economy it is dangerously irrational money to be viewed and used as a commodity and medium of exchange, money must be used increasingly as means of distribution of wealth and production. (Douglas, February 13, 1934)

For Douglas as a representative of the Christian community and as an engineer the human needs are not unlimited and the problems of production and scarcity have already been resolved. Central problems in the economics of industrial societies are the distribution of social credit and the artificially created poverty (Douglas, C.H. 1920b). The main obstacle to resolving them is the deliberate or unintentional ignorance from the side of economists and politicians to the so called credit theory of banking and the theory of chronic shortage of purchasing power (Douglas, C.H. 1931).

The credit theory of banking states that in the process of lending banks can create new money regardless of the policy of the central bank. Douglas is a supporter of the theory alongside Henry Dunning Macleod, Schumpeter and Ralph Hawtrey. He is one of the earliest economists to confirm that loans create deposits rather than vice versa and gave a brief mathematical proof of this in his book Social Credit (Douglas C.H. 1924). For over 90 years this extremely important fact along with other Douglas ideas were grossly ignored by the academic community. In 2014, the prominent German banking specialist Professor Richard Werner convinced a small branch of a major European bank to open its books and in his words for the first time in the 5000 year history of banking, empirically proved that banks can create individually new money in the process of crediting (Werner R. 2014: p.16) Unlike the other supporters of this theory, Douglas had the courage to also make an analysis of the supposed political and economic consequences. He criticized the banking system for two reasons: 1st for becoming a crypto-state that has

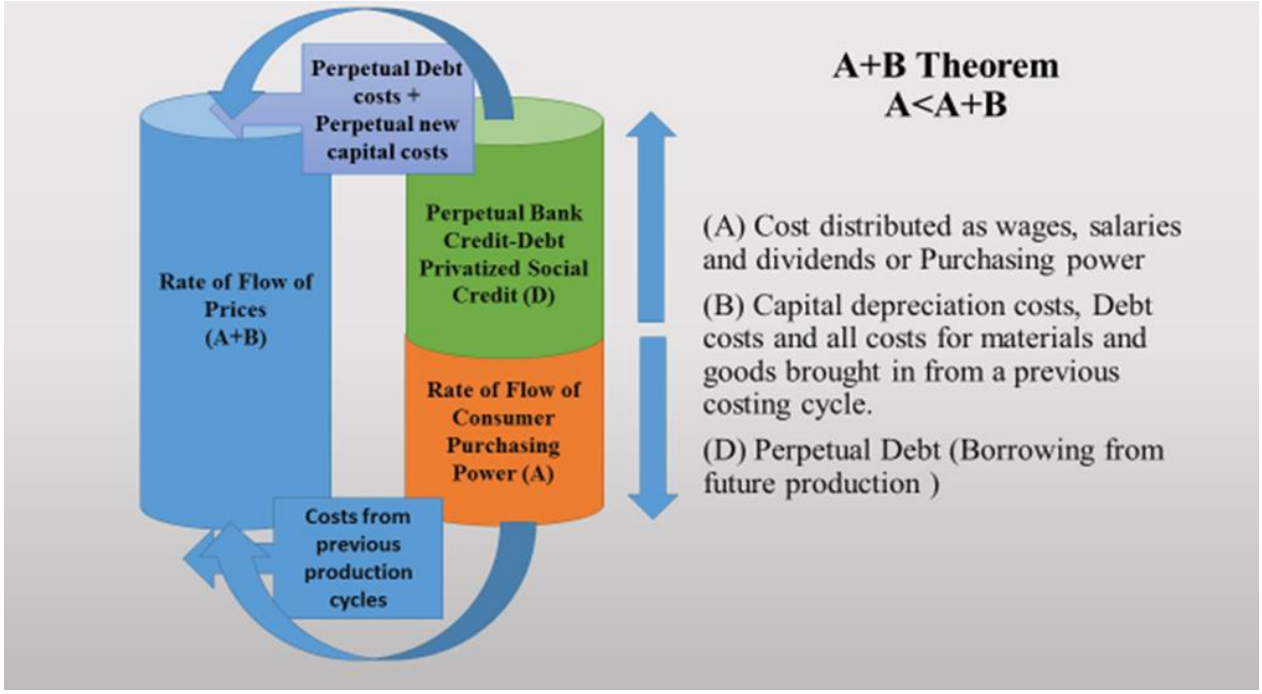
centralized power for centuries and second for the monopolization of credit and the claim of ownership to the money it creates. The latter he claimed was equivalent to claiming ownership of the nation. (Douglas CH 1931; Douglas CH November 24, 1936.) Money and credit, Douglas argues are simply abstract representation of the wealth of the community, the ability of the community to deliver goods and services whenever and wherever required (Douglas CH February 13, 1934). By monetizing and privatizing credit, banks not only seize wealth, but also impose a price, interest on the appropriated (Douglas C.H. 1931). Social Credit challenges the fraudulent claim of the banks to ownership of the credit which they issue as a debt owing to themselves to monetize the wealth of the community which wealth the banking industry most certainly does not create. For this reason, one of the basic principles in the philosophy of social credit is that credit money cannot be created as debt by private corporations. Despite the resistance of the British Empire, Canada's prominent social credit followers were the last public figures to be able to apply this principle to practice in the Western world. In 1938. William Aberhart, Prime Minister of Alberta in the first government of the Social Credit Party founded the largest and most successful institution in the field of social finance, the Alberta Treasury Branches. ATB Financial is Alberta's most important financial asset. Founded during the Great Economic Depression ATB is North America's biggest and most important public bank with over $47.673 billion in assets, 6 times larger than then the only other public bank in North America, the Bank of North Dakota and 3.6 times larger than Servus Credit Union in Alberta (with $14.2 billion in assets). ATB Financial is not a private bank but is a bank with full financial services that is literally owned by Albertans backed 100% of the assets of the province. ATB also has one of the healthiest balance sheet of any bank in the world.

In the same year that ATB was founded, the prominent Canadian lawyer, politician, mayor of Vancouver and social creditor Gerald McGeer won a campaign and was at the heart of the National Bank of Canada Nationalization Act of 1938. Thanks to his personal efforts in the period between 1938-1974 the Canadians managed to pay for their military spending, finance their public health, education and major infrastructure projects, while enjoying low taxes and low public debt (Bank of Canada Review, September 1978).

After analyzing the accounting data of more than 100 businesses in Britain, Douglas reached his most original contribution in the field of economic thought - the theory for chronic

shortage of purchasing power expressed in the so-called A + B theorem (A <A + B). Douglas's analysis dating back to World War I revealed that the primary economic problems of the modern industrialized economy are the chronic shortage (GAP) of income relative to prices (deficiency of purchasing power,) and the dysfunctional financial system. That means that the Say's law in a modern industrialized economy is a fallacy and markets cannot clear. The market system is not self-liquidating precisely because it generates prices at a faster rate than it distributes the consumer income with which those prices might be met. A functional financial system in this case will be one that adequately reflects reality and would not allow for such an inherent discrepancy between prices and incomes to occur (C.H. Douglas 1933, p. 25).

As can easily be seen from the scheme below the current rate of flow of prices A + B cannot be covered by the market in any given moment through natural growth rate of purchasing power without exponential growth in debt (Douglas, C.H. 1931). The problem is further aggravated by the substitution of labor as a factor in production by high-tech deployment. It should be noted that in the current economic reality prices are covered mainly by income from wages and not from capital dividends. The chronic gap is conditioned by a number of factors, among the most significant being: 1) the value of capital depreciation costs, ie the accountancy of costs that do not generate purchasing power for the consumer; 2) the presence of costs from previous production cycles in current prices, these costs also do not create current purchasing power (they have created income already spend in the past); 3) the rate of profit, savings and investment policy. Critics of the theorem would argue that the gap in the economy is covered by the circulation of money according to the quantity theory of money. The theory that the increased "velocity of circulation" of money (Quantity Theory Of Money) creates purchasing-power was entirely discredited by C. H. Douglas in the early part of the 20th century. Money does not "circulate". Most money are issued as bank credit (debt) for production or consumption and cancelled when the goods produced are sold and the money returns to the bank. It is issued and cancelled continuously (Douglas, C.H. 1931).



The only way to solve the problems described above Douglas sees in reforming the financial system on the basis of communal central banking and national dividend. Social Credit central bank would monetize that proportion of consumer prices which is unrepresented by consumer income via the creation of national dividend (debt-free credit) and would distribute it proportionally to the individual accounts of the beneficial owners of the communal capital. Prices and Incomes would be in an automatic balance and the financial system would become self-liquidating instead of relying on an ever-growing burden of outstanding debt to meet current prices. The National Dividend, will be indexed to productivity. No potential for production, no dividend. In no way was Douglas advocating uncontrollable debt-free money printing to consumers.

Today despite the rapid technological progress through the 20th and 21th centuries, the societies in the most developed countries are experiencing at the same time underfunding in social services as underfinancing in infrastructure and a collapse in the middle class while drowning in astronomical private and government debt burdens. All of the above along with the fact that the global debt of $ 217 trillion in the beginning of 2017 is representing 327% of the global GDP (see Institute of International Finance, Q1 2017) is the ultimate proof for the adequacy and relevance of Douglas analysis.

What is extremely puzzling is that the theories of Douglas were met with almost universal rejection and lack of understanding from the academic economists of the time. Now almost 100 years later despite the fact that representatives from some unorthodox schools of thought like Modern Monetary Theory, Circuitism and Post Keynesians are starting to rediscover and repeat some of his ideas, Douglas is still not quoted, discussed and his contributions are not properly recognized.

The shallowest criticism towards his ideas first came from prominent scholars of the Austrian school of thought, with some modern day representatives continuing the tradition. Both Mises and Hayek mentioned Douglas once but it was done without any analytical thought and in an extremely primitive and un-academic way. For Hayek he was: "gravely affected and born with a double dose of the inflation bacillus in his composition", while Mises called him a "more consistent lunatic" and "would-be reformer". It is really absurd that Austrians whose theories relied so much upon the problem of economic calculation completely lacked any potential for practical understanding the problems of accrual accounting methodology, price formation and credit (debt) based monetary systems upon which the modern economy is actually functioning. Austrianism could have worked in an 18th century village based on barter and hand labor but in an industrial economy, it is actually their monetary reform that could be considered an outright dangerous lunacy.

On the other side John Maynard Keynes recognized that Douglas had valid insights but he wholly disagreed with his formulation and diagnosis. In his General Theory of Employment, Interest and Money he wrote:

"Since the war there has been a spate of heretical theories of under-consumption, of which those of Major Douglas are the most famous. The strength of Major Douglas's advocacy has, of course, largely depended on orthodoxy having no valid reply to much of his destructive criticism. On the other hand, the detail of his diagnosis, in particular the so-called A + B theorem, includes much mere mystification. If Major Douglas had limited his B-items to the financial provisions 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. Major Douglas 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." (Keynes 1936, p.370-371)

In order to understand the peculiar and contradictory position of Keynes where Douglas's ideas were at the same time accepted and rejected we should first look at the positions of some of his close supporters who were more closely familiar with the social credit theory.

The Nobel Prize winner James Meade, one of the prominent Keynesian economist stated explicitly that prior to discovering, first, Fisher's quantity theory of money theorem and later Keynes' savings and investment theorem he was inspired by Douglas. In his Nobel Prize lecture he said:

"My interest in economics had the following roots. Like many of my generation I considered the heavy unemployment in the United Kingdom in the inter-war period as both stupid and wicked. Moreover, I knew the cure for this evil, because I had become a disciple of the monetary crank, Major C.H. Douglas, to whose works I had been introduced by a much loved but somewhat eccentric maiden aunt. But my shift to the serious study of economics gradually weakened my belief in Major Douglas's A+B theorem, which was replaced in my thought by the expression MV = PT."

Interestingly Meade's real attitude and position was revealed when shortly before his death, he admitted in an interview that he had been forced to distance himself as a follower of Douglas in order to pursue and develop his career (see King, J.E. 1988). However, Meade borrowed and incorporated many of his ideas (see Meade, J.E. 1993; King, J.E. 1988).

A positive attitude and approach to Douglas had another British economist, John Maynard Keynes's close friend Sir Ralph George Hawtrey. Hawtrey lead deep debates with him in Birmingham in 1933, included him in his lectures and his book Capital and Employment, and also acknowledged his contributions to the theory that the depreciation costs differ from other costs in that they do not create income (see Douglas and Hawtrey 1933, Hutchinson and Burkitt 1997: p.88) In his correspondence with Keynes Hawtrey encouraged him to recognize his debt to Douglas about the idea of sinking funds that he borrowed in The General Theory of Employment, Interest and Money (Hutchinson and Burkitt 1997: p.88; King, JE 1988: p.153). Keynes confirmed that he had removed the reference to Douglas from an earlier draft intentionally, in his

own words: "“to endorse Major Douglas’s argument when you do not think if of any practical consequence is asking for trouble”" (see King, JE 1988: p. 153; Keynes 1983, XII: p.599-600, 612). Similar to Meade, Keynes unofficially recognized and accepted Douglas's analysis but formally distanced himself by defining his core theory as mystification (see de Mare E, p.89, Keynes 1936, p.370-371). Keynes most likely realized that a reform of finance on the basis of the social credit theory at this time was absolutely unacceptable to the status quo. For this reason in order not to compromise his own career according to the author he on one hand abstracted some of Douglas's ideas, but on the other substituted the diagnosis of the problem and the solution with a politically correct theory. Keynesian social debt actually turned to be an antithesis to Douglas's theory of social credit

3. CONCLUSION

The carrier economist and political parties of the time proved to be morally and intellectually incapable of handling Douglas’s economics. The consequences of this turned out to be far worse and reaching than the uninformed public may assume. Any attempts to present and analyze Douglas's ideas through the prism of orthodox economic thought are absolutely counterproductive. The political economy of social credit exists within the framework of alternative economic logic and social philosophy which relevance and adequacy raises exponentially with the exponential rise in technology combined with a rise in social consciousness and Christian ethics. While at the same time with the rise of income inequality, social and moral degradation at the beginning of the 21st century, the ideas of his critiques become exponentially more dangerous and inadequate.

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