

THE NATIONAL DIVIDEND SOLUTION

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Dedicated To

All who kept the flag of monetary reform aloft.

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I.) INTRODUCTION: THE CONCEPT OF A NATIONAL DIVIDEND.

'If we imagine a country to be organised in such a way that the whole of its natural born inhabitants are interested in it in their capacity as shareholders, holding the ordinary stock, which is inalienable and unsaleable, and such ordinary stock carries with it a dividend which collectively will purchase the whole of its products in excess of those required for the maintenance of the "producing" population, and whose appreciation in capital value (or dividend-earning capacity) is a direct function of the appreciation in the real credit of the community, we have a model... Under such conditions every individual would be possessed of purchasing-power which would be the reflection of his position as a "tenant-for-life" of the benefits of the cultural heritage handed down from generation to generation. Every individual would be vitally interested in that heritage, and his clear interest would be to preserve and to enhance it.'

- Major C. H. Douglas, Social Credit.

A nation belongs to its people: this is the principle that underlies and indeed justifies, the democratic form of government in all its various manifestations. From an economic standpoint, the same principle may be expressed as follows: the citizens are the shareholders of the nation. A shareholder is entitled to a vote and a dividend. Political democracy has provided him with the former, as ensured by the independent election commission. Economic democracy entails providing him with the latter, through an independent credit commission.

Though some have traced the idea of a national dividend to Thomas Paine's last work *Agrarian Justice*¹, its thoroughgoing conception and justification is the work of a Scottish engineer by the name of Major C. H. Douglas, who founded the Social Credit movement that continues to promote the dividend along with his other ideas. The main characteristics of the dividend are as follows:

i) It is generated and supplied as debt-free money: it is not financed by either taxation, profits of state enterprises, or borrowing.

ii) It is a function of nominal GNP².

iii) It is an equal payment to every adult disbursed regularly, (be it every month, every fortnight, or every week).

¹ Thomas Paine called for pensions for those above the age of fifty as well as a one-off startup payment for those reaching the age of 21, to be financed through an inheritance tax.

² Strictly speaking, it should be a function of nominal gross output - i.e. nominal GDP plus imports; my thanks to Dr. Oliver Heydorn for pointing this out.

An appropriate analogy would be with drip irrigation. Just as drip irrigation systems supply small, precise amounts of water steadily to plants, thus enabling their optimal growth, so likewise should money be provided in such small, precise quantities to individuals to facilitate their development. The establishment of bank accounts for every citizen through Jan-Dhan-Yojana has already laid the necessary foundation for this.

The national dividend differs from corporate dividends in one very important respect. A company usually provides a dividend only when it makes a profit³, because doing otherwise would increase its debt: a government does not suffer from this constraint, because, unlike private individuals and enterprises, it possesses the power of creating money (*coinage sovereignty*), and therefore can supply a dividend without increasing its debt or diverting its revenue. It is of utmost importance to understand this.

The national dividend has both ethical and practical justification. The ethical justification is as follows: since every citizen is an heir to the country's cultural, scientific and technical heritage that his ancestors created over countless generations, and since this heritage is one of the main factors of production⁴, he is entitled to a return. The practical justification of the national dividend is that it helps individuals purchase the goods and services the economy has already produced and to pay off their debts. We will proceed to address this matter in greater detail.

³ Technically, the National Dividend also distributes a 'profit' -- namely total prices minus total incomes, (thanks to Dr. Oliver Heydorn for pointing this out.)

⁴ 'The possible or potential productive capacity of any given community, having the disposal of a given complement of man power and material resources, is a matter of the state of the industrial arts, the technological knowledge, which the community has the use of. This sets the limit, determines the "maximum" production of which the community is capable... The state of the industrial arts, therefore, is the indispensable conditioning circumstance which determines the productive capacity of any given community; and this is true in a peculiar degree under this new order of industry, in which the industrial arts have reached an unexampled development. The same decisive factor may also be described as "the community's joint stock of technological knowledge." This common stock of technological knowledge decides what will be the ordinary ways and means of industry, and so it decides what will be the character and volume of the output of product which a given man power is capable of turning out.' - Thorstein Veblen, *The Vested Interests and the Common Man*.

II.) THE NATIONAL DIVIDEND AND DEBT

'Now, it must be perfectly obvious to any one who seriously considers the matter, that the State should lend, not borrow, and that in this respect, as in others, the Capitalist usurps the function of the State.'

- Major C. H. Douglas, Economic Democracy

At the outset, it is necessary to distinguish between the form and content of money. Over time, with changes in technology, money's form has shifted from shells and beads to metal coins to paper notes to electronic numbers on computer databases (which appears to be the most common form of money at present). In contrast to this variety of changes of form, the content of money has, in the main, one of two possibilities: debt-free money and debt-based money.

Coins and paper money remain, to this day, debt-free money: money that is created and distributed into the economy without any debt being incurred by anyone⁵. Electronic money, on the other hand, is almost universally created as debt money - money that comes into existence when it is created as loans by banks. Every rupee of this type of money in circulation implies a rupee of debt. There is no reason why electronic money has to be debt-money: however, electronic money *created by banks* must be debt-money since banks are only authorized to create money by making loans⁶. The government, though, possesses *coinage sovereignty*, which means that it is legally authorized to create money without recourse to debt: it can create debt-free electronic money.

Money has three main purposes in a modern economy (which reflect its four main **functions**):

- i) It facilitates transactions, (by serving as a **medium of exchange** and an **unit of account**).
- ii) it provides economic security (by functioning as a **store of value**⁷).
- iii) it is needed to pay debts (by being a **standard for deferred payment**.)

⁵ However, if notes and coins are not spent or sent directly into the economy by the government, but sold to the banks, then their issuance does not have the same effect as an injection of debt-free money, since the banks will seek to recoup their expense from their customers/borrowers. My thanks to Dr. Oliver Heydorn for identifying this.

⁶ Strictly speaking, banks also create money when they make purchases or payments (ex: salaries) - these however, are also of the same nature as loans since banks will seek to recoup their expenses; (thanks to Dr. Olivier Heydorn for pointing this out).

⁷ In order to do this, however, it needs to retain its value over time: the rupee, like most other currencies have tended to lose their value over time, for reasons discussed in Appendix II.

When money itself is a product of debt, then it is not possible for society to pay off its debts without undermining money's ability to serve the first two purposes. This should be obvious if we take the most extreme case: when all money is debt money (which would be the case in the cashless society that we are moving towards), and all debts are paid off, then there is simply no money left for either consumption or saving - unless new money is created either in the form of bank loans (which means new debt) - *or in the form of debt-free electronic money.*

There are a number of concerns with the creation of more and more debt-money, two of which will be addressed here. First and foremost, since it depends on the willingness of banks to lend, it effectively gives them the ability to hold an economy to ransom by simply refusing to give loans that generate sufficient money for an economy to function properly. This matter is particularly serious when one considers private sector banks whose own interests usually entail generating excessive or insufficient credit in relation to the requirements of the economy, (with inflationary and deflationary consequences respectively). The second problem is that the creation of debt-money depends on the willingness of individuals, firms and governments to borrow and become increasingly indebted: again, we cannot always rely on this willingness being equal to the monetary requirement of the economy. Adjusting interest rates is usually an effort to equate the two factors, but this has its own problems, notably the excessive power it gives central bankers and the difficulty of meeting interest payments.

In contrast, electronic money created by a public authority can be supplied directly to an economy without generating new debts. Indeed, being debt-free, this money reduces indebtedness, and it can be provided in accordance with the requirements of the economy. It also eliminates the need to keep increasing debt in order to equilibrate the economy and facilitate the liquidation of costs, (a matter dealt with further in Appendix III.)

The National Dividend is electronic debt-free money created by the political authority (ideally through an independent government body, the National Credit Commission) and distributed equally to the adult population. It stands to reason that it will facilitate economic growth, whilst cutting personal debt (directly), commercial debt (as increased sales revenue generates increased profits) and government debt (as tax revenue increases). It thereby not only strengthens the economy, but also society, by reducing the psychological stresses generated by rising debt - stresses which have led not just to distress, but also to suicide, notably among India's farmers.

III.) THE NATIONAL DIVIDEND AND INEQUALITY.

The ignorant are not the friends of the wise; the man who has no cart is not the friend of him who has a cart. Friendship is the daughter of equality; it is never born of inequality

- Mahabharat⁸.

Economic inequality - in the form of great disparities in income and wealth within a country, is harmful not only to the poor, but also to the rich and indeed, to society in general, (as shown in R. Wilkinson & K. Pickett's recent book, *The Spirit Level*⁹). It is not difficult to see why: leaving aside the resentments and insecurities that such disparities generate, it is evident that great differences in income tend to manifest themselves in completely different lifestyles among the rich, the middle class and the poor - and the resulting lack of a common way of life makes it increasingly difficult for them to understand each other. Society then disintegrates into alien classes, each concerned with its own narrow interests at the expense of the well-being of the whole.

Governments are aware of this and have sought to reduce economic inequality, primarily through redistributive taxation. Leaving aside concerns of 'tax terrorism', there is another, more fundamental limit to tackling income inequality in this manner: the ability of the rich to shift their wealth, and indeed, their persons, to tax havens¹⁰. (This is particularly pertinent for India, given the tax havens on the other side of the Arabian Sea.) Furthermore, in an increasingly interconnected globe where most nations are desperate to attract capital, countries are competing to attract high net-worth individuals into their jurisdictions; a state that imposes greater taxes on the rich, therefore, risks losing many of its wealthier members to the others. Therefore, redistributive taxation is no longer as viable as it was in the past.

It should be clear therefore that a different method of tackling inequality is necessary - and this is what the National Dividend provides. By supplying every adult with an equal amount of debt-free money, it not only supplements his income, but also reduces income disparity, since the extra income increases the total income of a poor man by a much greater percentage than the total income of a rich one. It has the added benefit of not involving any depredation of the wealthy, and furthermore, since the rich receive it as well as the poor, they have no grounds for criticizing it as discriminatory.

There is another consequence of the National Dividend: it makes inequality less of an issue. The poor are much less likely to resent the rich when they have the economic security provided by a steady stream of dividends. In addition, the unsuccessful will have much less reason to resent the economically successful, since the latter, by increasing GNP,

⁸ Quoted in E. Reclus, *An Anarchist on Anarchy*.

⁹ R. Wilkinson & K. Pickett, *The Spirit Level*, Penguin Books, London, 2010.

¹⁰ Corporations, of course, can do the same as well, so similar concerns arise when raising corporate taxes.

increase the national dividend. Indeed, by giving every citizen a shared interest in raising national income, the dividend is likely to strengthen social cohesion.

Over time as the dividend rises, not just in line with GNP, but as a proportion of GNP (in terms of its calculation), it will become the main source of income for the majority of the population: in contrast, wages, salaries etc... will decrease in importance as mechanisation and automation eliminate more and more jobs, whilst also generating increased competition for whatever employment remains. Thus, the equally distributed source of income (the dividend) will grow in importance, while the unequal sources (the rest) will diminish - leading to ever-greater income (and ultimately, wealth) equality. This will lead to an increasingly economically egalitarian society, with rising levels of mutual understanding, fraternity and well-being.

IV.) THE NATIONAL DIVIDEND AND UNEMPLOYMENT.

'The way of the people is this: - If they have a certain livelihood, they will have a fixed heart; if they have not a certain livelihood, they will have not a fixed heart. And if they have not a fixed heart, there is nothing which they will not do in the way of self-abandonment, of moral deflection, of depravity, and of wild license.'

- Meng Tzu (Mencius).

Unemployment is one of the primary causes of misery and crime: it is worth exploring why this is the case. The loss of employment entails the loss of a steady stream of income and enforced idleness - until and unless an individual can secure new work, establish an occupation of his own or else obtain an external source of funds (from relatives, charities, etc...) Idleness per se generates neither misery nor crime: the idle rich are not usually regarded as either unhappy or dangerous. Rather, it is the loss of income and the ensuing insecurity, worsened by the involuntary nature of job loss and further exacerbated by the stigmas associated with joblessness, that dislocates the hearts and minds of men and turns them against themselves, against others, and above all, against a society that seems to have abandoned them.

It should already be evident how a national dividend tackles the problems generated by unemployment in numerous ways. By providing a steady (and insofar as GNP is rising, a growing) stream of income independent of work, it mitigates - and may ultimately eliminate - the insecurity generated by the loss of employment. Since this income is provided by society (through the independent credit commission), it also counters the anti-social tendencies that joblessness generates -and unlike a dole, which humbles, or rather humiliates, its recipient, the dividend contributes to his sense of self-worth. Furthermore, if the unemployed man has a wife or other adult members in his family (such as parents, grandparents, etc...), the fact that they also receive a dividend makes the loss of his job much less of a blow to the household's earnings.

The national dividend also tackles unemployment directly. The steady stream of income it provides can help the jobless set up their own enterprises, and thus facilitates self-employment. Furthermore, by maintaining a high level of consumer spending in the economy without reliance on debt, it establishes a buffer against a downward spiral of falling demand and rising unemployment, and thus raises the chances of finding work. Last, but not least, with a national dividend, the unemployed are in a better position, not only to bargain with employers over wages and working conditions, but also to search for jobs that utilize their talents rather than the ones closest to hand.

Seen from this perspective, a national dividend would greatly facilitate labour market flexibility, by making it much easier for individuals to leave work that did not suit them and seek work that did. Even better, it would keep individuals who are altogether unfit from work, (for

temperamental or other reasons) outside the workplace, thus improving the functioning of the entire economy.

It may be argued that a national dividend would undermine the incentive to work. Let us hope this is so. For not only has much resistance to technological and organizational improvements arisen from the desire of individuals to keep their jobs (i.e. to work), but the more reluctant ordinary men are to work, the greater the pressure on management to mechanize and automate production - in other words, to accelerate economic development. However, such optimism is probably unwarranted: men are inherently restless and will almost certainly seek out some activity or avenue in which to discharge their energies. A national dividend simply ensures that in their quest for an occupation, they will be driven not by desperation to make ends meet, but by a healthy desire to employ their time and talents for the benefit of themselves and others.¹¹

¹¹ 'Social Credit envisages a society that has adopted a policy of what we could call the 'minimum employment necessary' in lieu of a policy of full employment. Certainly, people will need to discharge their energies, but we see them doing that outside of the formal economy more and more ... at least once a country has become fully developed. We want to free the individual so that he has more time and energy that he can spend as he sees fit, rather than under direction in exchange for pay packets.' - Dr. Oliver Heydorn.

V.) THE NATIONAL DIVIDEND, INFLATION AND TRADE.

'However much it is sophisticated, the argument is essentially the simple one that if inflation is due to too much of a homogenous quantitative entity called "money", to add more "money" will make it worse. But "money" is not a homogenous entity, it is a loan, which is travelling either outward, creating debt, or inward, cancelling it. 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".'

- G. Dobbs¹²

Any 'expansionary' monetary or fiscal policy encounters three major objections: it will lead to increased debt, it will lead to increased inflation (rising prices and consequently a decreasing purchasing power of money) and it will worsen the balance of trade. As previously noted, in section II, the first of these objections does not hold: if anything, the national dividend reduces debt. It is worth considering whether the other two have any merit either.

At the outset, when discussing inflation, it is necessary to distinguish between the two forms: cost-push inflation and demand-pull inflation. The former refers to rising prices resulting from rising costs that are passed onto the consumer: two examples are the wage-price spiral (where rising labour costs result in rising prices, which in turn lead to further demands for higher pay) and oil-price shocks (where a surge in the price of hydrocarbons and other raw materials push up prices of manufactured goods). Since the national dividend, (unlike higher wages) does not enter into costs at any point, it cannot create cost-push inflation. Indeed, insofar as the national dividend is spent and then used by firms to pay off their debts or decrease future borrowing, it will reduce cost-push inflation by cutting interest costs.

The notion that a national dividend will lead to demand-pull inflation is also untenable for the most part, once we consider its effect on aggregate demand. Part of any national dividend will be saved - and therefore will have no bearing on aggregate demand. A further portion will be used to repay debts (principal as well as interest), and this too will have no effect on aggregate demand (until and unless the interest is subsequently spent). The residual, in being spent, will replace new borrowing by firms and consumers, and to the extent that it does so, will not increase aggregate demand, (in other words, the expenditure of the dividend will be offset by a decrease in new loans). Only in the case of a

¹² Introduction, pages xix-xx, to C. H. Douglas, *The Monopoly of Credit*.

very large dividend - one that exceeds the level of new borrowing, will there be a residual of a residual that increases aggregate demand. Yet even this need not necessarily generate demand-pull inflation.

It is commonly assumed that the economy is running close to its full capacity, but there is reason to believe that the opposite is true. The capacity of an economy - what, following A. R. Orage¹³, we may define as its **real credit** is a function of three factors: the technical ability of its producers, the desires of its consumers and the community that makes it possible for consumers and producers to interact¹⁴. The extent to which this capacity is realized is determined by **financial credit** - the amount of money in circulation. This, however, is determined primarily by the willingness of banks to lend and the eagerness of individuals, firms and governments to borrow - *and these factors are quite different from those that determine real credit*. As a rule, financial credit generated by the banks can only realize a fraction of real credit because the desire to borrow money does not usually keep pace with the rate of technological advance that keeps increasing real credit by leaps and bounds.

It may be argued that a shortage of financial credit will simply cause prices to fall until all real credit is realized (this being the application of the Fisher Equation in the Quantity Theory of Money, i.e. $PT = MV$), but this ignores the fact that prices (P) have a lower limit set by cost, and if money is insufficient to liquidate costs, it is the volume of transactions (T) that decreases rather than the price. Conversely, an increase in the money supply (M) will increase the volume of transactions rather than the price because of the existence of considerable spare capacity in the economy. (We assume that the velocity of circulation (V) is stable, although in a recession it may decrease as individuals and firms hoard money in response to economic insecurity).

The effect of a national dividend on trade is similar: unless, it is extremely large, a national dividend will not increase aggregate demand, and therefore will not alter the trade balance. Nonetheless, it is worth pondering what the effect of a huge dividend would be.

At first glance, it would appear that by raising consumer spending, it would also raise imports and thus worsen the trade balance (in the case of countries running a current account deficit) or mitigate the imbalance (in the case of countries running a current account surplus). If one were to stop at this stage, one would be compelled to conclude that only nations with trade surpluses can afford a huge national dividend, and that too, only to the extent that they can continue to export more than they import.

However, there is another factor that operates in the opposite direction: the effect of a national dividend on labour costs. With their income supplemented by the national dividend, employees will require less of an increase in their wages/salaries to maintain or indeed, improve, their current standard of living. In other words, the national dividend effectively subsidizes labour, and thus gives firms, (particularly labour-intensive ones) a major competitive advantage. This advantage should

¹³ Editor of the British publication, *The New Age*, who first publicized the work of Major C. H. Douglas.

¹⁴ Without the ability of the producer, there are no products; without the desire of the consumer, the products have no value; without the community, the transaction cannot be realized.

enable them to increase exports, potentially offsetting any increase in imports resulting from the national dividend.

A third factor to consider is economies of scale: a huge national dividend - insofar as it is spent - invariably increases the size of the home market and thus, enables firms to increasingly maximize the utilisation of their production facilities, thereby spreading their fixed costs over a larger number of units. The resulting cost advantage will assist firms in gaining market share, both internally and internationally. The larger the dividend, the larger this factor will be.

All in all, the effect of a huge national dividend on the trade balance is indeterminate, as the first factor is cancelled out by the other two to some extent. Much will depend on the ability of domestic firms to take advantage of the opportunities that such a national dividend provides. Should they do so, and should the dividend end up bestowing a competitive advantage, we need not worry about trade disputes, since we can inform any country that objects to the advantage we have secured for ourselves that they are free to establish and apply their own dividend. In the long run, a rising tide of national dividends will lift all boats.

VI.) THE NATIONAL DIVIDEND AND ITS ALTERNATIVES.

'...the dividend is the logical successor to the wage, carrying with it privileges which the wage never had and never can have, whether it be rechristened pay, salary or any other alias; because the nature of all of these is a dole of purchasing power revocable by authority, whereas a dividend is a payment, absolute and unconditional, of something due. The first is servitude, however disguised, the second is the primary step to economic emancipation.'

- Major C. H. Douglas, Credit Power and Democracy

The National Dividend is not alone: a number of other measures for alleviating the financial plight of the public have been suggested, the most notable of which are guaranteed incomes and targeted assistance. It is of vital importance to understand why a national dividend is not only different, but also superior, to them.

The idea of a guaranteed income may be summed up as follows: the government gives every individual a particular sum of money every year, either alongside or in place of existing welfare expenditure, financed out of its annual budget. At first glance, this may seem indistinguishable from a national dividend, but as we shall see, the two are very different.

The first of these differences concerns the method of provision. A guaranteed income is supplied by the government of the day through its budget, which makes it a political instrument which may easily be misused for electoral gain. A national dividend, on the other hand, is delivered by an independent credit commission, and thereby, is insulated from political manipulation just as the ballots supplied by an independent election commission are.

The second major difference concerns their calculation. The guaranteed income is an arbitrary figure, determined by the political authorities as they see fit. The national dividend is determined in relation to nominal GNP: it therefore retains not only its value in the face of rising prices, but also its economic importance in the face of rising output, (one could say that it is both inflation and income indexed). Alterations in the size of the dividend as a percentage of GNP are determined by the independent credit commission with regard to the economic situation, in much the same way that voting days are determined by the independent electoral commission with regard to the political and social situation.¹⁵

The most important difference between the national dividend and the guaranteed income is how they are financed. Guaranteed income schemes are funded via the budget - i.e. through taxation, borrowing, profits of state enterprises, etc... In other words, they do not add any new

¹⁵ Ideally, in my opinion, the percentage would slowly and steadily increase over time, and any inflationary risks would be warded off by the Reserve Bank of India curbing bank lending through interest rates, liquidity reserve ratios, etc...

debt-free money into the economy: they either recycle/redistribute income or increase debt. This seriously limits their economic benefits. In contrast, the national dividend, precisely because it is funded through debt-free money, has the added advantage of stimulating the economy without increasing debt.

All the drawbacks mentioned above relating to a guaranteed income also apply to targeted assistance - i.e. it is vulnerable to political misuse, it is arbitrary and it does not curb debt. However, targeted assistance has additional shortcomings that make it perhaps the worst approach for alleviating poverty.

First and foremost, there is a major implementation problem, since it is necessary to determine whether an individual falls into the category of those requiring such assistance. Establishing this not only entails official intrusion into the finances of individuals (a serious violation of their privacy), but also generates considerable scope for corruption and deceit, (ex: individuals may pretend to be poor in order to receive the assistance). The contrast with the unintrusive simplicity of applying a national dividend is most striking.

Then there is the question of the borderline. Any targeted assistance scheme will have a cut-off point, and will therefore alter the incentive structure of individuals near that point. For instance, a man may end up taking a less suitable job, even though a more suitable one offers better pay, because the latter takes him past the cut-off point and thereby eliminates his second source of income.

Last, but by no means least, there is a certain stigma associated with receiving government handouts - again, in stark contrast to receiving dividends. Not only do many men feel ashamed of having to go on the dole, but the wealthier sections of society tend to consider such welfare spending as a burden on them that merely facilitates the proliferation of shiftless, licentious, good-for-nothing loafers. This effect is particularly pronounced if the wealthy tend to belong to a different community than many of the poor, and can easily lead to the collapse of political support for a targeted assistance scheme. In contrast, not only will no one be embarrassed by receiving a national dividend, but the wealthy will have absolutely no grounds for complaint since a) they receive it as well, b) they do not pay for it, and c) they can have no valid objection to dividends *per se*, since they are usually shareholders and/or bondholders.

One final point: to avoid confusion, the terminology should be upheld. Money disbursed to only a section of the population is targeted assistance; money disbursed to the entire population, but financed through the budget is guaranteed income; only debt-free money disbursed to the entire population, constitutes a national dividend, and only the last of these is advocated here.

VII.) CONCLUSION: ECONOMIC DEMOCRACY.

'Everyone today has their eyes fixed on the race to become top world economic power; but there is another race proceeding in the background and the eyes of history are on this greater race. Which nation will become the parent of economic democracy? This is the race which will permit that nation, and eventually all nations, to achieve success - but not at the expense of other nations - leading eventually to a prosperity that will make our troubled times appear like a Dark Ages.'

- Michael Rowbotham, *The Grip of Death*.

The National Dividend is the means by which a country transforms into an economic democracy. It achieves this by turning citizens into shareholders, with each having an equal and inalienable stake in their country, which guarantees them an income stream that rises in tandem with the nation's economic growth. It empowers the public in another way: by shifting from a debt-driven economy to a dividend driven one, the national dividend ensures that production responds primarily to the needs of the common man rather than the interests of the banks. Furthermore, by reducing the importance of work as a source of income, it strengthens the position of employees vis à vis employers.

This single measure increases liberty, equality and prosperity whilst simultaneously reducing indebtedness and insecurity. Last, but by no means least, it strengthens the nation, generating greater unity of purpose by giving every member a clearly identifiable, shared stake in its future. The sooner it is adopted and implemented, the better.

APPENDIX I: THE PROBLEM OF COST LIQUIDATION.

For a long time, the mainstream of the economics profession upheld Say's law. This 'law', (formulated by 19th century French economist Jean-Baptiste Say, who was responsible in the main for turning economics into a social science and giving it a semi-theological form¹⁶), may be simply stated as '*Supply creates its own demand*'. This means that the payments to the factors of production (rent for the landlord, interest to capitalists, wages to workers, etc..) constitute the market for the goods and services produced by an economy in the aggregate. In other words, a general surplus of output is impossible: the costs of production are always capable of being liquidated by the expenditure of the incomes generated by the productive process.

Contemporary economists acknowledge that it is possible for Say's Law not to hold, due to disposable incomes being reduced by taxation, and due to savings not being reinvested: they attribute these insights to John Maynard Keynes. As a matter of little-known historical fact, a far more profound analysis of the failure of the economy to liquidate its costs was provided over a decade and a half before Keynes' most famous work¹⁷, by Scottish engineer Major C. H. Douglas; however, his views challenged certain vested interests, whereas those of Keynes did not. Hence, Keynes is widely regarded as the greatest economist of the 20th century, whilst Major Douglas is virtually unknown.

The following analysis is derived from the work of Major Douglas.

A simple example will elucidate the problem: A man (we will call him Vaibhav) inherits a farm, but lacks the money to hire farmhands. He borrows a certain sum - say Rs. 10,000 from a friendly banker who not only waives the interest, but also the fee. With Rs. 10,000, Vaibhav hires ten landless labourers for Rs. 1000 a month each. Clearly, the products of his farm have to be sold at prices that cover both his running expenses as well as his monthly repayment of the original loan to the bank.

Suppose the bank requests repayment in the form of ten monthly payments. At the end of the month, Vaibhav's total costs (in Rupees) are:

Total Costs: 10,000 (Labour Costs) + 1000 (Repayment) = 11,000 Rupees.

However, the total amount of money disbursed - i.e. the cash his landless labourers have to purchase the products of his farm are:

Total Income available for Expenditure: 10,000 Rupees, (Rs. 1000 times 10).

In order for Vaibhav to keep his enterprise running and avoid defaulting on loan repayments, he needs Rs. 1000 from another source. Either he gets it through exports (i.e. selling his products to another set of

¹⁶ In his *National System of Political Economy*, Volume 3, page 33, Friedrich List notes 'The only original thing in J. B. Say's writings is the form of his system, viz. that he defined political economy as the science which shows how material wealth is produced, distributed and consumed.'

¹⁷ *The General Theory of Employment, Interest and Money*, first published in 1936.

people) or through additional credit creation - either by banks or by the government. Note that the supply of credit has to match his repayments in order for him to stay solvent.¹⁸

This very simple example should make it abundantly clear that the total costs of an enterprise can exceed the total incomes it generates. Furthermore, one should note that the one thousand rupees paid back to the bank do not constitute an income: it is credit that is withdrawn from circulation until and unless it is reloaned. Only after it is reloaned can it form an income: otherwise, it is simply an entry in the books.

Let us now imagine that a second individual, Vishal, borrows ten thousand rupees in order to hire ten farmhands (at the same wage rate of a thousand rupees a month) and with the same repayment schedule mentioned before. His monthly cost is also Rs. 11,000 at the end of the first month. However, suppose some of his farmhands purchase Rs 1000 worth of products from Vaibhav's farm, thereby enabling Vaibhav to pay off his debt. They only have Rs. 9,000 left to spend on Vishal's produce - whilst Vishal's total costs are Rs. 11,000. In other words:

Total Costs: 11,000

Total Income remaining available for Expenditure: 9,000.

Vishal therefore needs Rs. 2000 from somewhere else (again, either exports, more bank loans or state credit) to avoid insolvency. Were neither exports nor state credit possible, the amount of bank lending he would need in order to stay solvent is greater than the amount he needs to pay to the bank.

Now let us add a third enterprising individual, Venkat, who borrows Rs. 10,000 from the bank, but this time, he pays two inventors, Krishna and Kutty, Rs. 2,000 for a machine they have made that enables 8 men to do the work of 10. His repayment schedule is the same, and since he has to only hire eight farmhands, his labour costs are lower - namely Rs. 8,000. Of course, he owes the bank Rs. 1000 every month - but he also has to account for depreciation.

Let us say that the machine is a resilient one that will last a hundred months: depreciation is therefore 1% of Rs. 2000 or twenty rupees; and that Krishna and Kutty purchase goods from Vishal, so his costs are taken care of. Thus, at the end of the month, Venkat's situation is as follows:

Total Costs: 8,000 (Labour Costs) + 1,000 (Repayment) + 20 = Rs 9,020.

Total Incomes remaining available for Expenditure: Rs. 8000.

Note therefore, that *even if the bank were to waive the repayment of*

¹⁸ One could argue that Vaibhav can take Rs. 10,000, pay the banks Rs. 1000, and in the next cycle, either hire nine workers at the existing wage rate or hire the ten workers at a lower wage rate: however, he will end up needing to do this in every subsequent cycle as well - resulting in either mass unemployment or a continuously decreasing wage rate which would be devastating for morale, even if its purchasing power remained intact. At any rate, such wage flexibility is a most unrealistic assumption.

Venkat's loan, he would not be able to cover his costs unless the bank makes further loans, (leaving aside exports and state credit).

At first glance, it would seem that with Venkat, cost liquidation is nonetheless easier, because now the outstanding gap is only Rs. 1,020 whereas with only Vaibhav and Vishal, it was Rs. 2000. However, the next month, the situation is quite different.

The total costs of the three are as before - Rs. 11,000, Rs, 11,000 and Rs 9,020, for a total of Rs. 31,020. However, the total incomes disbursed are Rs. 28,000. Evidently, even if all bank repayments are waived, there is not enough money to cover the costs. Put differently, if banks were to loan just as much as they received in repayments, it would not suffice. Only with increased lending can these enterprises afford to stay in business.¹⁹

Furthermore, the Rs. 1,020 of new money needed in the first month - assuming it is borrowed on the same terms as before (i.e. 10 repayments) entails a Rs. 102 payment in this month. If such money is borrowed by Vaibhav, Venkat and/or Vishal, it is added to costs; if it is borrowed by their workers, then the repayments are deducted from incomes. Either way, the gap between costs and expenditure grows further.

It should be evident at this stage that we have a positive feedback mechanism: debt and depreciation are generating more and more debt.

¹⁹ Note that this problem would have occurred even if Venkat had purchased a super-efficient machine that dispensed with labour altogether. Say he spent Rs. 10,000 and the machine enabled him to produce the necessary goods while incurring only Rs.10 in depreciation. Venkat's costs would be Rs. 1,010 as he would have zero labour charges. The Rs. 10,000 he initially spent would cover the repayments of all three entrepreneurs for a maximum of three and a third months: by the fifth month, their combined costs would be Rs. 23,010 (11,000 + 11,000 + 1,010) and the total incomes disbursed would be Rs. 20,000 with Rs. 3,010 in new loans needed to liquidate costs.

APPENDIX II: COST LIQUIDATION AT PRESENT.

It is necessary to understand how costs are liquidated in the current economic system in order to realize why certain economic phenomena occur. To this end, an algebraic approach will be employed.

For the sake of simplicity, we will assume no profits, no usury, no taxation, no government spending and no foreign trade.²⁰ The total sum of prices is $A + B$, where A represents the incomes disbursed by the production process, and B represents costs that do not become incomes *at this point in time* - notably loan repayments and depreciation allowances, (the former is withdrawn from circulation by banks, the latter goes into a capital reserve). Therefore, the total expenditure in this system is $A+C$ where C refers to new loans made by the banks. (We have assumed that all income is spent, we will remove this assumption later).

In sum:

The Sum of Prices: **A + B**
Total Spending: **A + C**

If $C < B$, there is a recession (unsold goods, firms can't repay loans, workers are sacked) and if $C > B$, there is a boom (goods are easily sold, loans are easily repaid, etc...) It should already be evident that the credit providers - i.e. the banks, hold the whip over the economy: their decisions can determine boom or bust. It should also be clear that if individuals, firms *and* governments are unwilling to take on new debt, a recession is inescapable.

Let us now incorporate a time factor. The incomes disbursed by the production process are not released at one go, but over a period of time - say, every week. The products come into the market later - say after a month (four weeks). Some of the money disbursed has been saved, some has been used to pay off personal debts - and some has been spent. The last of these is still in circulation - except a portion that is used to repay commercial debts²¹.

In short, a proportion of the incomes disbursed by the productive process are no longer available for expenditure, or are simply not going to be spent. We will define this proportion as α which is a number between zero and one. Hence:

The Sum of Prices: **A + B**
Total Spending: **(1- α)A + C**

Now, if $C > B + \alpha A$ we have a boom and if $C < B + \alpha A$, we have a recession. Note that if $C = B$, then $C > B + \alpha A$ and a recession results. *In other words, in order to avoid recession, the economy needs more*

²⁰ The reader may, of course, introduce all these factors later if he so wishes.

²¹ For example, a worker spends some of his income on a product and the vendor uses some of that money to pay off (at least a portion) of his commercial debt.

*lending and borrowing (i.e. debt) than before*²². In short, we have a positive feedback mechanism that leads to ever-increasing debt - even without usury. (Usury - i.e. lending at interest can make the situation worse, since interest payments are an additional cost - though if they are spent by their recipients, they add to spending and cancel out costs to that extent.)

To fully recognize this, it is important to note that today's loans are tomorrow's repayments. In other words, borrowing in one time period ends up generating a cost in subsequent time periods. Let us consider the amount of new borrowing C that needs to be repaid is c , where $c = \beta C$, with β representing the portion of debt that needs to be repaid every month.

For the economy to be in a state of equilibrium, $C = B + \alpha A$. In the next period, the costs will be $A + B_1$, where $B_1 = B + c$.²³ Hence, $B_1 > B$ and the total sum of prices - $A + B_1$ (assuming labour costs, A , are the same) has automatically risen. If output has not increased in line with the growth of costs, then the price per unit of production has also risen - i.e. we have inflation, a reduction in the purchasing power of money. Even if output has increased accordingly, there still remains the problem of liquidating these increased costs, which necessitates further loans, or else exports (but not every country can be an exporter), failing which, recession follows.

To sum up, an economy based on debt-finance is essentially a Ponzi scheme.

²² Since even if B consisted entirely of repayments to the bank, it stands to reason that when $C > B$, the amount of money being borrowed exceeds the amount being repaid.

²³ It is implicitly being assumed that the B repayments are continuing as before. However, it is entirely plausible that part of B consists of loans that are being repaid in full - let us say, βB . In which case, B_1 is $(1-\beta)B + c$, and since $c = \beta C$, and $C = B + \alpha A$, B_1 is $(1-\beta)B + \beta(B + \alpha A)$ - which simplifies to $B_1 = B + \alpha\beta A$, which is obviously greater than B since α , β and A are all positive.

APPENDIX III: ENTER THE DIVIDEND.

We now add a National Dividend (D) to the analysis in Appendix II. *If the entire dividend is spent*, we have the following situation:

$$\begin{array}{ll} \text{The Sum of Prices:} & \mathbf{A + B} \\ \text{Total Spending:} & \mathbf{(1- \alpha)A + D + C} \end{array}$$

If the dividend is less than the level of saving, (i.e. $D < \alpha A$) then cost liquidation will require new borrowing (C) that exceeds repayment (B). It should be recalled that B may also entail other costs, such as depreciation allowances, and therefore, while repayment can never exceed B in the above equation, it can certainly be less than B. For the sake of simplicity we assume it is B.

If the dividend is equal to the level of saving, (i.e. $D = \alpha A$) then we have the level of new debt required equalling the amount being repaid - i.e. $C = B$ - assuming, of course, that B consists entirely of repayments.

If the dividend is greater than the level of saving, but less than the sum of saving plus repayments, (i.e. $\alpha A < D < \alpha A + B$), then the level of new debt required is less than the amount being repaid (i.e. $C < B$) but some new borrowing is still needed (i.e. $C > 0$). Over time, such a dividend will attenuate debt.

If the dividend equals the level of savings plus repayments, - which in mathematical terms is $D = \alpha A + B$ then no new debts are required.

If the dividend exceeds the level of savings plus repayments, (which means $D > \alpha A + B$) then total spending exceeds total costs, with varying consequences such as increasing output, rising prices, forced savings, asset bubbles, etc...

It is of course, unlikely that the entire dividend will be spent. Initially, individuals will probably save nearly all the dividend, considering it to be a windfall gain that could be withdrawn at any time. Once they realize that it is not a one-time payment, but a regular stream of income, we can expect them to save it at the same rate as they save their usual income - i.e. α .

In this case, we have:

$$\begin{array}{ll} \text{The Sum of Prices:} & \mathbf{A + B} \\ \text{Total Spending Possible:} & \mathbf{(1- \alpha)A + (1- \alpha)D + C} \end{array}$$

The five situations are as follows:

- 1) $D < (\alpha/1- \alpha)A$ then $C > B$
- 2) $D = (\alpha/1- \alpha)A$ then $C = B$
- 3) $(\alpha/1- \alpha)A < D < [(B + \alpha A)/(1- \alpha)]$ then $C < B$
- 4) $D = [(B + \alpha A)/(1- \alpha)]$ then $C = 0$
- 5) $D > [(B + \alpha A)/(1- \alpha)]$ then $C < 0$

APPENDIX IV: SECULAR STAGNATION & FINANCIAL BUBBLES

In its 2015-2016 Annual Report, the Bank of International Settlements (BIS)²⁴ identified two narratives regarding the economic plight of much of the world: the secular stagnation perspective and the financial bubble collapse perspective. It regards the two as alternatives: but upon closer scrutiny, it is clear that they are not mutually exclusive.

The secular stagnation narrative postulates a general deficiency of demand in the economy due, primarily, to income inequality, that results in insufficient money in the hands of the poor, who tend to spend a larger portion of their income than the rich. Redistributive policies combined with greater government spending are suggested as the solution.

In contrast, the financial bubble collapse narrative argues that the implosion of a credit-fuelled boom results in banks having too many bad debts, (or what may call 'non-performing assets') on their balance sheets, making them unwilling to lend further until this problem is settled one way or the other. The usual solution suggested is the creation of a 'bad bank' by the government to take the bad debts off the hands of the banks, so that they can 'repair' their balance sheets and start lending again.²⁵

As previously noted, the BIS report treats these two narratives as alternative explanations, but it is contended here that they are not only complementary, but simply two aspects of the same problem - a problem identified by Major C. H. Douglas about a century ago, and which is solved by the National Dividend. The problem is that costs are generated faster than incomes, leading to a chronic shortage of purchasing power in the economy. Income inequality exacerbates this shortage, but does not cause it: therefore, redistribution can only mitigate it, at best. The existing economic system's response to this problem is to make up the shortfall through the provision of additional loans which generate the missing purchasing power. But loans today entail repayments tomorrow, (not to mention interest payments), which further raise costs without increasing incomes, (*since the repayment of a loan does not generate income, and whilst interest payments are incomes, they are not necessarily likely to be spent in their entirety, insofar as they usually accrue to the wealthy, who spend a smaller proportion of their income than the poor*). This means that the economy requires more and more borrowing in order to liquidate existing costs, effectively creating the financial bubble that invariably bursts when either banks are no longer willing to lend more or individuals, firms and governments are unwilling to borrow more. At this point, the economy declines with insufficient sales, rising unemployment, non-performing assets, closing enterprises, etc...

²⁴ BIS, 86th annual report, 2015-2016, page 22 of 258.

²⁵ The financial bubble narrative, according to the BIS, attributes the collapse of bubbles to regulatory failure to rein them in. Presumably greater restrictions on bank lending are called for in such conditions, but these run the risk of deterring banks from lending to firms and individuals, thus undermining the recovery. A National Dividend, by providing an economy with debt-free money, enables economic activity to continue even when banks are unwilling to lend.

Thus we observe that the financial bubble is the inevitable concomitant of secular stagnation in a debt-based economy. It is easy to see how a national dividend deals with this predicament. By providing additional purchasing power without raising costs, the national dividend overcomes secular stagnation - and by overcoming it in this manner, it removes the need for more and more borrowing, (which leads to financial bubbles) and increasingly enables firms to finance themselves through retained profits. As the dividend rises, it becomes easier and easier for individuals, firms and governments to pay off debts, thus enabling banks to clean up their balance sheets.

APPENDIX V: FURTHER CONSIDERATIONS

1) Multi-stage Production

In Appendix I, we considered Vaibhav, Vishal and Venkat running three separate farms. Now suppose, that they run three enterprises in three stages of production with respect to a single farm. For example, Vaibhav's men do the sowing, growing and harvesting, Vishal's do the cleaning and sorting, whilst Venkat's do the packaging. We have the same manpower (ten men, ten men and eight men respectively) and the same lending terms, (i.e. no interest, no bank charges and repayment in ten monthly payments).

Vaibhav, as in Appendix I, borrows Rs. 10,000 and has costs of Rs. 11,000, (Rs. 10,000 for labour, Rs. 1000 for repayment). However, Vishal, must borrow not Rs. 10,000 (as in Appendix I), but Rs. 21,000 - since **he not only has to pay his workers, but also his supplier** - Vaibhav. Thus, Vishal's costs are Rs. 23,100, (Rs. 10,000 for labour, Rs. 11,000 to purchase the supplies from Vaibhav, and Rs. 2,100 in repayment).

Venkat, as in Appendix I, hires eight men and purchases a machine (from Krishna & Kutty). The machine has the same price as before (Rs. 2000), and the same depreciation charge, (Rs. 20 per month). However, Venkat also has to borrow enough money not only to pay for his workers and machinery, but also to pay his supplier - in this case, Vishal. Thus, his total borrowing is Rs. 33,100, (Rs. 8000 for labour, Rs. 2000 for the machine, and Rs. 23,100 for the supplies from Vishal).

Not surprisingly, Venkat's costs are even higher, at Rs. 34,430, being comprised of Rs. 8000 labour cost, Rs 20 depreciation, Rs. 23,100 for supplies and Rs. 3,310 for loan repayment. The total amount of income that has been disbursed in this period however, is only Rs. 30,000, (Rs. 28,000 in labour charges, plus the Rs. 2000 paid to Krishna & Kutty). Thus, we have a gap of Rs. 4,430 in the first month; for every subsequent month, the gap will be Rs. 6,430, since the payment to Krishna & Kutty only takes place in the first month, while the costs remain as before.

To conclude: as an economy becomes increasingly sophisticated, the gap between prices and incomes rises, leading to ever-greater dependence on increased borrowing (and where possible, exports) to cover the gap. Failure to do so risks recession and economic collapse.

2) The Paradox of Wage Increases in a Capital-Intensive Economy.

In *Economic Democracy*, Major C. H. Douglas noted:

While the ratio of plant charges to total wages and salaries is less than 1:1 over the whole range of commodities, a general rise in direct rates of pay may mean a rise (but not a proportionate rise) in the purchasing power of those who obtain their remuneration in this way. But when by the increased application of mechanical methods the average overhead charge passes the ratio of one to one... every general increase in rates of pay of "direct" labour may mean an actual decrease in real pay.²⁶

I've found that a mathematical approach demonstrates the validity of this point. Let prices (P) be composed of plant charges (K) and labour costs (L). Hence:

$$P = L + K$$

and therefore

$$\Delta P = \Delta L (L/(L+K)) + \Delta K (K/(L+K))$$

which simply means that the change in price is equal to the change in plant charges times the share of plant charges in total costs plus the change in labour costs times the share of labour costs in total costs.

Now let $K=kL$, where k represents the ratio of plant charges to labour costs. Hence, ΔK is $k\Delta L$, and thus:

$$\Delta P = \Delta L (L/(L+kL)) + k\Delta L (kL/(L+kL))$$

Therefore, if we cancel L from numerator and denominator in the brackets:

$$\Delta P = \Delta L (1/(1+k)) + k\Delta L (k/(1+k))$$

which simplifies to:

$$\begin{aligned}\Delta P &= \Delta L (1/(1+k)) + \Delta L (k^2/(1+k)) \\ \Delta P &= \Delta L ((1+ k^2) / (1+k))\end{aligned}$$

Since ΔP is the change in prices and ΔL is the change in labour costs, it follows that if $k > 1$, then $\Delta P > \Delta L$, which implies that prices rise further than the increase in labour costs, and consequently, real wages decrease, thus demonstrating the point made by Major Douglas.

²⁶ Major C. H. Douglas, *Economic Democracy*, pages 60-61.