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Major Douglas' Proposals for a National Dividend

A Logical Successor to the Wage

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In the standard paradigm of orthodox economics, resource endowments Determine personal wealth and personal income distribution. These Endowments are taken as "given" exogenous variables, at least to economists. Consequently, Consequently, for inequalities of wealth and income remedies in the distribution of wealth and income fall largely outside the purview of the positive science of neoclassical economics and can only be justified on normative non-economic grounds. The "new economics" introduced by Major C.H. Douglas in the years immediately following the First World War predicted both an exponential growth in production arising from technological change and an increase in inequality due to unemployment following the introduction of labour-saving technologies. Douglas additionally forecast a futile search for new forms of employment if income distribution continued to derive primarily from the use of productive resources and if an economy based on the profit motive prevented technical progress from creating an age of leisure (Douglas, 1919; 1920; 1922; 1924).

To counter this scenario, he designed proposals which attempted to place every citizen on a level economic playing-field. They derived from the view that all social production originates in a common cultural inheritance of past invention, with present individual effort playing a secondary role. The concept of providing citizens with freedom to select employment and consumption patterns according to non-market criteria, i.e. to turn economic theory into a tool rather than a dictator of policy, was well ahead of its time. Although dependence as an income source on a single form of paid employment throughout adult life has been the exception rather than the rule (most particularly for women), the assumption that provision need only be made for temporary and exceptional interruptions in earning capacities underlies welfare state provision based on the Beveridge Report. Reliance on a "portfolio of income streams" (Handy, 1993) has been the norm not only in pre- and post-industrial society but throughout the process of industrialization itself. From such a perspective the Douglas/"New Age" economics of the 1920s (as distinct from the Social Credit movement of the 1930s) offers imaginative insights into the current theory and practice of economic and social policy.

Three Approaches to Security of Personal Income

The Beveridge Plan

The Beveridge Plan was the culmination of measures to relieve, temporarily occurring poverty due to transitional "flaws" in the economic system. From the Elizabethan Poor Laws through the National Insurance Act of 1911 to the Measures advocated by Beveridge in 1942, the explicit assumption was that Incomes are chiefly, derived from employment. "Social security" denoted the provision of an income when earnings were interrupted through the "abnormal" conditions of employment, sickness, old age or widowhood.

Maintenance of full employment was regarded as central to the smooth Functioning of a welfare state designed merely to compensate for infrequent "interruption or loss of earnings" (Beveridge, 1942, quoted in Parker, 1989, p. 23). "Full employment" was assumed to be full male employment, i.e. regular full-time work for men from 15 to 65, regarded as an achievable goal for all governments. Married women were usually assumed to be financially dependent on their husbands.

Although "Idleness" was listed as the last of the five evils, following "Want, Disease, Ignorance and Squalor" (Beveridge, 1942, p.6), the fear of encouraging "idleness" has haunted the provision of welfare benefits. The "dole" represented a transfer of income from those in employment through income tax and national insurance payments. It was normal to regard "paid work (as) the only work which concerns policymakers...(and as)...more valuable than unpaid work" (Robertson, 1993). Means-tested benefits designed to reinforce the paid-work dependant culture created the unemployment and poverty trap [2] which inhibit the unemployed and low-paid from taking casual and part-time employment and unpaid voluntary work. For the full-time employed the option to spend less time in paid employment in favour of unpaid caring or voluntary work or of greater leisure is rarely available (Hewitt, 1993).

Citizen's Income

The complexity of means-tested benefits, the expense of their administration and the harassment and insecurity faced by citizens when their circumstances necessitated making a claim gave rise to research into the feasibility of a Basic or Citizen's Income (CI) (Jordan, 1987; Parker, 1989; Purdy, 1993, Walter, 1989). By amalgamating all cash benefits and tax allowances and thereby reducing administrative costs of the present social security system, a non means-tested, non job-related income could be paid to each individual regardless of household circumstances. Such security of income offers potential for flexibility in work arrangements (e.g. part-time, career changes and interruptions, job-sharing) in line with changing economic circumstances. These proposals bear some superficial similarity to Douglas' National Dividend proposals in that the individual is the unit of assessment for a payment which does alter with household, or employment. However, payment of a CI of subsistence proportions would be necessary to remove the complexities and expense of means testing. Moreover, it would require an income tax rate of 70 per cent. Thus the *re*distribution of income from the employed to the unemployed through a CI lacks political and economic feasibility.

National Dividend

National or Social Dividend schemes envisage direct allocation of income by the State to all citizens. No transfer of wealth from those in employment to recipients is involved. Proposals of this type, made by Meade (1936, pp. 197, 250-1; 1989a) and implemented in Alaska (O'Brian and Olson, 1991) can be traced to the work of Douglas and A. R. Orage, the Guild Socialist editor of *The New Age*. Douglas was a prolific writer and campaigner. The Social Credit movement which arose from his work and spread throughout the English-Speaking world in the two inter-war decades [3] aroused extensive debate in the quest for solutions to the economic depression of the time.

As an attempt to correct the imperfections of orthodox economic theory, Douglas' proposals were found wanting (Gaitskell, 1933; Hawtrey, 1937; Hawtrey and Douglas, 1933; Keynes, 1936). However, the body of work published between 1918 and 1924 in collaboration with Orage (Orage, 1926) forms a coherent critique of the capitalist financial mechanisms which regulate production and distribution in a technologically advanced society. Douglas' proposals for a National Dividend form an integral part of a series of recommendations for the social control of credit [4].

The Douglas/"New Age" Critique

An engineer by profession, Douglas made four central observations on the workings of capitalist economies in the years immediately following the First World War (Douglas, 1919, 1921, 1922, 1924)[5]. Technological progress would reduce the availability of paid employment: financial mechanisms were designed to produce economic growth regardless of the equity of income distribution; the common cultural inheritance was the property of all citizens; and unearned income was, in principle, an acceptable form of income distribution.

Reduction in Availability of Paid Employment

Using Veblen's phrase, Douglas the engineer claimed that the "progress of the industrial arts" had already reduced the need for labour (Douglas, 1979, p. 49). Future improvements in technology would further diminish the time/energy units of labour required to meet basic need (Douglas, 1974, p. 103) and offer the option of increased leisure as an alternative to an ever-spiralling rate of production, consumption and destruction of the environment (Douglas, 1979, pp. 18-29; 1974, p. 91; 1931, pp. 78-9). The contemporary economy failed to provide this option.

Production and distribution were conducted for profit. Labour-saving technology results in reduction in time/energy units of labour necessary to maintain a stable level of output. Alternatively, it could use the same number of time/energy units of labour to increase the volume of production. In the former instance the owners of capital reap the reward, and citizens who previously earned an income from labour find their incomes reduced or non-existent. In the second instance output occurs at the opportunity cost of greater leisure.

The citizen/worker who is dependent on paid employment for an income cannot opt for a static level of material consumption and arise in "leisure" time. Without increased production the benefits of technological progress accrue to financial interests and the owners of capital. The "unemployed", in common with many workers, seek an income rather than "work" for its own sake and are reduced to a "servile wait" for a "servile job" (Orage, 1934, p. 22). Those who deplore the "dole" for exerting a demoralizing influence would be better employed examining the "financial jugglery" which places the recipient in a dependent situation. Objections to an income for all were "moral" not economic (Douglas, 1979, Part III, Ch. 2). "lf the Machine does the work of one hundred men, its production is enough to pay one hundred men's ravages. The Dividend is the logical successor to the Wage" (Orage, 1934, p. 11).

Economic Growth

Douglas observed that financial mechanisms determined the nature and quantity of production and the distribution of subsequent revenue (Douglas, I921). Production was debt driven. The repayment of debt plus interest necessitated an increase in financial credit at an accelerating rate in order to distribute the proceeds of technical progress [6]. Financial speculation dictated a constant drive to economic growth, any increase in material production being deemed an increase in wealth regardless of its usefulness so long as money value was attached to it so that its production generated profits for the producer and financier[7]. Since money and financial structures were socially constructed, they could be brought under the control of the community as a whole.

The Common Cultural Heritage

Douglas drew a distinction between "financial credit" and "real credit". "Financial credit", which drives production and determines distribution, is generated by the banking system and is based on the probability of delivering money. "Real credit" represents the creative energy of society, and is the means, actual and potential, to produce goods. Potential real wealth is communal in origin. Without the Common Cultural Heritage of the accumulation of technological innovations, the myriad inventions of materials, machines and processes there would be no real wealth for individuals or past generations, groups to appropriate for their own use on the basis of their "ownership" of capital or labour. This heritage, plus the "unearned income of association", constituted the "real credit" of the community and belonged to every citizen. The right to determine the extent, nature and distribution of future production should equally belong to all citizens. A small caucus who control financial institutions should not be the sole arbiters of future patterns of production and distribution (Douglas, 1974, pp.83-5)[8].

The Acceptability of Unearned Income

An income from dividends without any work test (i.e. past or present employment) was perceived as normal for owners of shares. Douglas – demonstrated that, contrary to common perceptions, did not necessarily derive from savings, i.e. consumption (Douglas, 1979, p. 135). They were a claim by some citizens on a share in the wealth of the whole community arising out of paper transactions. Though the "dole" could be regarded as a precursor of a National Dividend for all, its form in constituting a burden of taxation on those in work made it politically unappealing, no more attractive than the payment of unearned income via dividends to a select few (Douglas, 1979, p. 111).

State payment to citizens of an income which did not derive from paid employment was established in principle in the UK before the First World War. The state Old Age Pension introduced by a Liberal government in 1906 was available to all, the limiting criteria for access being the age of the citizen. In subsequent decades other European nations adopted pension schemes on a similar basis.

Summary

The above four points constitute an argument for reappraising the status quo in respect of income distribution mechanisms and outcomes. Although the prevailing ethic endorses accepted practice, the latter does not arise from economic necessity. As technological innovation increases the scope for labour-saving technology, it renders labour-intensive methods less frequent. Two possibilities arise. Profits continue to accrue to owners and financiers of capital-intensive projects regardless of employment levels. However, the threat of social unrest arising from the failure of the economy to provide income security for all citizens will necessitate both the pursuit of an escalation in economic growth and an increase in the maze of means-tested subsidies transferred through taxation of those in employment. Inefficient and unpopular "workfare" schemes[9] and a toleration of the black economy scarcely rank as viable long-term solutions. An alternative is the investigation of new methods of income distribution, based neither on work nor on redistributing the pay of those in employment. The starting point of such an investigation is a review of the notion that the products created by society belong to those owning labour or capital, i.e. a reappraisal of the whole process of wealth creation.

From National Debt through National Asset to National Dividend

In the Douglas analysis ownership is not synonymous with control. Materials, land, labour and factories can lie idle despite the wishes of their owners if their products are not in effective demand. Control of effective demand resides in the financial system rather than in ownership of the factors of production (Orage, 1926; Douglas, 1921, pp. 51-2). The financial system is not a naturally occurring phenomenon to be studied from a respectful, objective distance. It is a human invention which can be brought under conscious human control.

In *Social Credit* Douglas provides an illustration. War would have come to an abrupt end in 1914 had the State accepted the financial reality that there was no money with which to fight. The purchase of weapons, munitions and army supplies required large sums of money which could not be recouped from the "public as consumer" through current taxation. Douglas traced the series of paper transactions which transformed bank overdrafts into the National Debt. This creation of money (credit) was possible once the gold standard had been abandoned (Douglas, 1921, p. 204). "Owners" of the National Debt, which increased from c£660 million in August 1914 to c£7,700 million in December 1919, were paid interest at 4-6 percent from the public exchequer by virtue of no material contribution to the war effort in terms of labour or foregone consumption. On the strength of tanks destroyed, munitions expended, supplies consumed and the general devastation of the war, owners of Government War Securities held a claim against future production which had no justification in their past or present contribution to the community (Douglas, 1979, p. 135). The loan "simply represents communal credit transferred to private account" (Douglas, 1974, pp. 119-24).

This saga demonstrated that financial constraints can override financial constraints, i.e. economic operations are ultimately politically determined. Further, it established a precedent for the payment of dividends, a share of national wealth, to individuals whose contribution to the creation of that wealth was ephemeral. The National Debt is "clearly a distributing agent" (Douglas, 197, 1, p. 121).

"To a financier a country is simply something on which to base a mortgage" Douglas, 1924). And, "the inducement to subscribe to a loan consists in the interest paid on it". (Macmillan Report, 1931.) Douglas argued that "the State should lend, not borrow", and should use the returns on its loans to pay a dividend to all its citizens (Douglas, pp.174 p. 121; 1979, pp. 149, 185).

In similar vein, though without specific reference to Douglas, Meade (1989, 1993) proposes a "Topsy Turvy Nationalization". He notes that nationalizations after the Second World War resulted in "the State becoming but orwner-manager without the benefit of an increased income". As the previous owners of nationalized concerns profits were bought out and the National Debt increased, profits disappeared in compensation. By redeeming the National Debt and converting it to a National Asset investing funds on the Stock Exchange, the State could secure the “beneficial ownership of the income earned on certain capital assets without undertaking any responsibility for the management of the business concerns”. Management would be left to the private sector.

Meade's *Agathotopia* proposals mirror Douglas in several respects and include a scheme for joint management of enterprises by “holders of Labour and Capital shares”, which bears some similarity to “The Mining Scheme” outlined by Douglas and Orage (Douglas, 1920, Appendix). However, Meade more cautiously presupposes a greater degree of continuation of the status quo. He combines the dividends on the National Asset with payment of a Basic (transfer) Income. Although he recognizes that security of income would reduce “the unbridled urge for unlimited growth and unnecessary consumerism” and render more acceptable “some reduction of output as a price for an improvement in its distribution”, the State’s acquisition of a National Asset would be dependent on economic growth. In contrast, the necessity for a continual expansion in output is questioned throughout Douglas’ early writings.

Moreover, Meade presupposes the inevitability of the imperfect human being, i.e. that greed and competition are, and will remain, the primary motivating factors behind human behaviour, the standard assumption of mainstream economics. Douglas’ broader vision of the potential for freedom from the servility enforced by economic necessity is echoed by advocates of Citizen's Income (Robertson, 1993). Security of income contains the potential to reduce the primacy of self-interested “Economic Man” (Lutz and Lux, 1988) and to set the aspirations of white, Western middle-class males (Harding, 1986) within a less subjective socio-economic reality (Waller and Jennings, 1990).

Douglas and the Work Ethic

One major objection to payment of a secure, non-means-tested, non-employment-tested income to all citizens is its potential to undermine the work ethic. Douglas questioned the ability of existing financial structures to provide the option to work less in order to produce a sufficiency of material goods and enjoy more leisure. Given industrialization and the potential for infinite technological innovation which Douglas as an engineer foresaw, ample resources existed to provide for the needs of all citizens with a minimum of labour (Douglas, 1974, p. 78). Douglas questioned the sense in, and the necessity for, engaging in employment primarily to acquire a money income to meet basic needs (Douglas, 1919). In this he anticipated Gorz (1989), Maslow (1970) and Soper (1981). Already the spectre of Taylorism, embraced by Ford and copied by Russian Communism, was extending the scope of wage drudgery (Douglas, 1974, p. 49). Paid employment for its own sake was not ennobling, and no attempts to make it so, e.g. by the Arts and Crafts Movement, could disguise its servile nature. In Douglas’ view professionals, including his own profession, find work intrinsically satisfying and do not engage in work *primarily* to secure an income. Hence *necessary* work will be undertaken without financial reward being the major motivation.

Douglas’ perspective echoes Veblen’s belief that pecuniary and predatory traits are the product of the capitalist system. Economically secure elements of the working class could be expected to develop traits of “clear, logical thinking, co-operation, mutual aid and general humanitarianism”. The “instinct of workmanship” and the power of “idle curiosity” to produce technological innovation were suppressed by the capitalist system (Hunt, 1979, pp. 330-2). This rejection of the inherent disutility of labour, with its denial of the necessary centrality of financial reward, was among the factors which rendered Douglas’ writing uncongenial to mainstream economists of the inter-war period. The Douglas approach, however, sheds new light on the rationale of employment as the dominant mode of income distribution.

Income distribution presently depends on the performance of *economically* necessary labour, which is essential to the maintenance of *financial* profitability. Much of the essential maintenance of home and community, the provision of subsistence requirements, cleanliness and health care which underpin the financial economy is mainly, although not exclusively, performed by women for little or no financial reward (Henderson, 1991; Lewenhak, 1992). Essential labour may be well paid. Engineers, for example, may be amply rewarded in financial terms for designing a bridge which is necessary for the transport infrastructure. However, Douglas argued that high financial reward merely indicates high rating in its own terms. Although mainstream economists protest to the contrary, there is no necessary correlation between economic value and social value. Economic theory remains woefully inadequate in determining what is an acceptable allocation of resources and desirable degree of equality in distribution (Wilson, 1992).

A frequent objection to Douglas' economics is that he failed to comprehend the significance of freedom of choice. In orthodox terms, supply and demand determine the use of scarce resources. The highly skilled are perceived as being well paid because their skills are in short supply. Hence the conventional justification for vast differentials between the pay of teachers and nurses on the one hand and business school graduates on the other. There is no statistical evidence, however, to support the assertion that the ratio of suitable applicants to available places is lower in respect of business school applicants compared with nursing or teacher training. On the contrary, 6,000 applications were recently received for the 127 places on a Salomon Brothers' training course. "Pay cheques at Salomon Brothers spiraled higher in spite of others who would do the job for less" (Ormerod, 1992).

Conclusion

The Douglas/Orage critiques of capitalist finance in the early1920s is highly relevant to contemporary concerns. Selectivity and targeting of benefits inhibits participation in paid employment for recipients while placing an increasing burden of transfer payments in the form of taxation and National Insurance contributions on employers and employees. Attempts to ameliorate the system may prove less fruitful than a radical restructuring in line with the Douglas/Orage analysis.

Notes

1. Defined as a national rate of employment at or below 3 percent (Beveridge, 1942).
2. See Parker (1989) for a description of the operation of the unemployment and poverty traps.
3. Douglas' tours in these decades included Canada, Tokyo, Norway, the United States, South Africa, New Zealand and Australia. Social Credit political parties were successful in Alberta and British Columbia in the 1930s (Macpherson, 1953; Finkel, 1989).
4. Termed "Social Credit" by proponents of Douglas' theories. This name was first used by Orage (Douglas, 1920, Appendix) and subsequently became the title of Douglas' fourth book.
5. Original dates of publication are given in the References section. Where possible page references are given in the text for more recent editions which are more generally available.
6. This was the substance of Douglas' "A+B Theorem".
7. As early as 1918 Douglas was writing of the artificial stimulation of wants through advertising and the generation of planned obsolescence (Douglas, 1918).
8. Similarly Soper (1981, pp. 64-5) argues that financial structures determine patterns of production and distribution.
9. For a comparative description of workfare schemes, e.g. those proposed by Ninford and Howell, see Parker (1989).

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