Prairie *Freigeld*: Alberta Social Credit and the Keynesian Frontier of Monetary Economic Thought in North America, 1929-1938

by

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Abstract

This thesis examines the impact of Social Credit in North America during the Great Depression as a social philosophy and approach to government. By placing Social Credit in the context of interwar social movements for monetary reform, the events in Alberta from 1932 to 1938 are examined from the historical geographic iteration of what I call the Keynesian frontier of monetary macro-economic thought. This thesis shifts attention on this episode of Canadian history towards the lens of monetary neutrality. I argue that the Keynesian frontier was the intellectual environment for a worldwide English-speaking progressive underground which sought to find in macro-economic theory a vision of utopian society where money had no effect on material choices and interpersonal relations. During the 1930s, movements such as Social Credit transformed this underground into a collective effort to integrate the institutional channels of circulation with the mechanics of the modern monetary and fiscal state.

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Chapter 1
Alberta Social Credit and Keynesian Frontiers in North America

1.1 Introduction | On August 22 1935, the world's first Social Credit government was elected into power in the Canadian province of Alberta as severe drought and debt deflation disrupted settled life across western North America. The emergence of Social Credit as a political force was an experiment triggered by the unrest of the Great Depression. But it was driven by the charismatic force of William "Bible Bill" Aberhart and his interpretation of the ideas of British professional engineer turned economic reformer C. H. "Major" Douglas. The translation of Social Credit from its English origins onto the Albertan landscape occurred at a time when disputes in the high theory in monetary economics took on new meaning as people sought to fill a void in political thought. Yet the contours of monetary reform in Alberta during the 1930s extended beyond the imaginations of either Douglas or Aberhart, and were also shaped by changing trans-Atlantic ideas about money, credit-debt, income, production, business cycles and the ontological foundations of the economy. The 1929 financial crisis had created a sudden desire among many to make sense out of the esoteric matter of money and banking, including the rise of communist and then fascist ideas that established the context of radical monetary reform as a genuine alternative to orthodox liberal political economy.

The Social Credit revolt in the prairies is part of the history of a "pure credit economy" whereby all transactions are effected by means of book-keeping transfers in a double-entry accounting system.[1] In this system, money is emitted as a spontaneously positive and negative charge in the respective appropriation of ownership over assets and liabilities created in the production process. Ralph Hawtrey, one of the British monetary theorists most sympathetic to Douglas's form of reasoning, employed the "fantastic hypothesis of a civilisation without money" to make a clear distinction between private

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[1] The term "pure credit economy" was coined by Knut Wicksell in *Interest and Prices* (1898) as a hypothetical future money system where all units of payment are held as nominal rights and obligations. The concept was translated into English interwar thought via Ralph Hawtrey's *Currency and Credit* (1919) as a metaphor to describe the inherent instability of creditor-debtor relations and role of a risk-free monetary standard as a public good (Trautwein 1997: 3-5).

credit-debt relations financing production and public currency as a monetary standard for stabilizing the unit of account containing these social relations (Hawtrey 1919: 14). Drawing on Douglas's ideas, Aberhart effectively reversed Hawtrey's model of the credit economy to envisage a situation where the entirety of transactions in Alberta would be conducted through an administrative system of "provincial or government credit," which was to be operated autonomously from the Canadian institution of "bank money" (Aberhart 1933, quoted in Elliot 1991: 60). Aberhart sought to transform the monetary system based on private finance to production into a system structured around the public emission of money directly to households, who would then create and acknowledge responsibility over liabilities by effectively paying private producers to employ them as consumers of a final product on demand.

Aberhart established the Alberta Social Credit League in the belief that Major Douglas had located the source behind an inherent deficiency of purchasing power in the economy. Social Credit as a particular brand of reform thinking in the 1930s has to be situated in an English-speaking avant-garde that continued late nineteenth century anarchist and free banking traditions into a general critique of the quantity theory of money known as "underconsumptionism" (Finlay 1972: 17-43; Surette 1999: 53-56). This reframing made room for understanding the role that individual consumers play in the creation of money. Faced by a large debt burden and unemployment on the margins of the world market economy, Albertans were ready to accept Aberhart's interpretation of the Douglas argument that the growing shortage of purchasing power could be remedied with social reform. The provincial election was won on the promise that a $25 a month public dividend would be given to each "bona fide Albertan" as a transmission mechanism for creating purchasing power (Aberhart 1935: 19). Social Credit in Alberta thus brought together an innovative financial experiment with an elected government.

This thesis examines the initial period of Social Credit as a social philosophy and approach to government from the historical geographic iteration of what I call the Keynesian frontier of monetary economic theory. The Keynesian frontier was a confluence of civic and political-economic imaginaries,

centred on fundamental questions on the nature of money that emerged out of a widespread anxiety with the banking system by the late nineteenth century. The First World War set the stage for the demise of the gold standard as an anchor of world value and the assumption that banknotes and deposits represented a finite stock of money *qua* gold. Against this conventional notion that treated money qualitatively no different to any other valued substance, Social Credit argued that the creation and destruction of money has to be situated in a social geographic settlement institution that defines the monetary unit of account containing proprietary credit rights and debt obligations. The objective of the historical actors inhabiting the Keynesian frontier was to bring to light the foundations of money in an instituted form of social accountancy that defines these assets and liabilities in a closed system.

The deep structures of money in private property, creditor-debtor relations and loan interest are historical, forming a crucial continuity between ancient and modern civilizations.[2] The Keynesian frontier is a heuristic metaphor to understand a “long struggle of escape... from [the] habitual modes of thought” ensconced in the principle of equilibrium market pricing and stock clearing for a more critical realist view of these historical institutions in the monetary economy (Keynes 1936: xxiii). The root of the problem of the Keynesian frontier is put forward by Keynes's Canadian contemporary Harold Innis:

> In the eighteenth and nineteenth centuries it was possible to develop an architectonic structure to which society could slowly adapt itself, in which nature copied art. The element of time was assumed in the pattern laid down by Adam Smith and the classical economists. Rules were laid down under which society could operate. The impact of politics on economic theory as developed by Keynes was evident in his assertion that classical doctrines involved adjustments too slow in character. Money had features as a governing element which had not been appreciated. The mechanism of classical economics could only operate in the long run if short-run aids are supplied (Innis 1951: 556).

The classical theory derived from the metaphor of an equilibrium of individual interests to posit a Newtonian style of rational mechanics where money was *exogenous* relative to social relations as a constant over time, and hence could function as an invariable unit for measuring the economic value of

[2] Various scholars have explained the origins of money as a property relation of indebtedness from the emergence of class societies in antiquity (Wray *et al* 2004). The growing division of labour in the ancient Near East and Asia by the eighth century BCE was the culmination of agricultural revolutions and the rise of cities. One theory is that the institution of money as a particular form of private ownership associated with an interest-bearing loan contract originated in Greece after peasant revolutions against a tribute-based feudal society. This history places the origins of money as a particular social institution that emerged out of ancient forms of debt bondage that were gradually eroded by the individualism of the new patriarchal economy made up of households and own property (Heinsohn and Steiger 1981, 1994).

individual behaviour (Cohen 1994: 65-66, 76-79). Keynes was sympathetic to classical political economy. His goal was to bring into focus the social reality that modern money is *endogenous* to a double-entry book-keeping system of creditor-debtor relations in order to show how the classical mechanism of rewarding labour with the right to appropriate its product could become disrupted.[3]

The Social Credit movement and writings of Major Douglas were taken up among both the working class and professionals across the British Commonwealth. Its incubation was within an English-speaking progressive underground of economic thought associated with the idealistic and syncretic journal *The New Age*.[4] Editor Alfred R. Orage had turned the focus of the magazine's politics to Social Credit following WWI until his resignation in 1922. In his investigation of Social Credit from the context of interwar debates on a basic incomes policy, *Every One a King* (1995), Walter van Trier recounts how the movement in Britain climaxed with the 1935 general election. Douglas's ideas about an inherent deficiency in demand were condensed by the activist wings of the movement into a promise to give everyone a "Public Dividend" in new purchasing power (Trier 1995: 303). In Alberta, Social Credit became a political means to challenge the status quo of the federal monopoly over currency and the management of common accounting-and-payment systems (Mallory 1954; Helleiner 2005: 98-99).[5] However, it would be wrong to limit an account of the Social Credit movement in Canada to either a basic incomes policy, or to a regionalist protest against established institutions. Social Credit equally spoke to the desire for a normative science that navigated between capitalist and Marxist ideas about the economy to introduce *economic democracy*. This would be a labour-consumer run market economy

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[3] "I sympathize, therefore, with the pre-classical [neo-classical] doctrine that everything is produced by labour... It is preferable to regard labour, including, of course, the personal services of the entrepreneur... as the sole factor of production" (Keynes 1936: 213-214).

[4] I borrow the term "progressive underground" from James Webb's *The Occult Establishment* (1976) to refer specifically to an English-speaking movement that was "extra-parliamentary" but influential politically during the interwar era; "Neither necessarily fascist or anti-Semitic, the illuminated politicians deserve a classification of their own. This classification comprises bodies of the Progressive Underground in search of an irrationalist interpretation of society, whose members are indicated by their occult and mystical associations" (Webb 1976: 134-135).

[5] Aberhart detailed the plot in a 1934 address: "If social credit is introduced into this province, it would pattern its procedure after the present method with the one exception that the credit would be issued by the provincial credit house instead of the banks. The proposal is [to] issue to each bona fide citizen of Alberta (the qualifications of citizenship will be prescribed) a monthly basic dividend credit (say $25)... he will never be asked to pay it back" (Aberhart 1977: 67).

financially structured around a “self-liquidating” circuit, where the system automatically forced the clearing of debts accrued during the production of final assets (Douglas 1935: 18; Ellerman 1992).

The Alberta Social Credit League came to power in the months before the 1936 publication of John Maynard Keynes's *General Theory of Employment, Interest and Money* (hereafter *GT*). Keynes presented his magnum opus as a rupture from orthodoxy by focusing on “the great puzzle of Effective Demand... [that] could only live on furtively, below the surface, in the underworlds of Karl Marx, Silvio Gesell or Major Douglas” (Keynes 1936: 32). In his notes, Keynes wrote that “my own argument, if it is accepted, should at least serve to effect reconciliation between the followers of Marx and those of Major Douglas, leaving the classical economists still high and dry in the belief that M and M' are always equal,” in other words, in the realization that income distribution in capitalist production is an outcome of money creation and not the transfer of existing sums (Keynes 1979, XXIX: f.82).

Keynes, Douglas and Gesell (a German monetary reformer who believed the best way to liquidate money was a carrying charge tax to depreciate the value of each unit of purchasing power over time) were each variously optimistic that reform could eliminate the non-neutral or pathological causes of monetary disturbances such as inflation and involuntary unemployment. In contrast, Marx had argued for an end to the capitalist profit-based property economy in revolutionary socialism. Social Credit was one proposal out of many that sought to address the complaints of these diverging approaches whilst retaining “private property with its inequalities” to focus on particular disorders of pathological capital accumulation in the current monetary system (Commons 1923: 638).

In this thesis, the Keynesian frontier is deployed to reference a historical effort over a period roughly encompassing Keynes's life (1883-1946) to refine the foundational vocabulary of modern monetary macro-economic thought so as to make it analogous with the hermeneutic grounds of modern political thought. The frontier refers to the possibilities of a politics of money neutrality that Keynes, and other monetary theorists, intended to settle with their own interpretations of the social dynamics of

money in relation to a juridical edifice of rights and obligations.[6] The Keynesian frontier, then, was a metaphorical terrain of conflict over the deep structures of money as the unit of account for creditor-debtor relations and means of settlement to clear social obligations. The Social Credit movement that originated from Douglas and *The New Age* shaped this field of reason from an objective to create a civic and monetary basis for an alternative to capitalism and to revolutionary socialism. My intention in this thesis is to examine the Social Credit proposals not as aberrations to an internal logic of money, but as a lens into the Keynesian frontier as specific social context and conflict over the accepted meaning of specifically macro-economic concepts such as effective demand and financial instability.

The goal is to peel back the Keynesian claims of a "revolution" in macro-economic theory to reveal a particular set of ideas and movements for reform that directed its attention to the social relations and technical specifications governing the creation and destruction of purchasing power.[7] This thesis asks, how did Social Credit inform popular and professional views on macro-economic theory as a policy guide in the 1930s with its attention to the administrative processes of recording, transfer, storage and accounting of what is commonly described as money? How did the emergence of Alberta Social Credit shape iterations of Keynesian principles in the circulation of money reform ideas across North America and its landscapes of regional political economy? And why did these ideas find particular residence among the voters in the province of Alberta? In addressing these questions, the thesis illustrates how the conflict over ideas in Alberta from 1935 to 1938 provides insight into the intersections of liberal and socialist thought around the issue of money as a common value standard in a way that is relevant in a more general sense of understanding the social ontology of money today.

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[6] The economic anthropologist Karl Polanyi presented a similar take on modern money as a social institution: "The state, whose Mint seemed merely to certify the weight of coins, was in fact the guarantor of the value of token money, which it accepted in payment for taxes and otherwise. This money was *not* a means of exchange, it was a means of payment; it was not a commodity, it was purchasing power; far from having utility itself, it was merely a counter embodying a quantified claim to things that might be purchased. Clearly, a society in which distribution depended on the possession of such tokens of purchasing power was a construction entirely different from market economy" (Polanyi 1944: 196).

[7] Different interpretations of a "Keynesian Revolution" in the 1930s and 1940s continue to inform a research literature in the history of economic and scientific thought (Johnson 1971; Laidler 1999; Cord 2013). In this thesis, I do not examine developments in economic theory and policy that followed Keynes's contributions. Instead, I focus on a frontier of monetary thought in the early 1930s that gained the attention of the professional economics community.

Social Credit and *The New Age* economics of the English-speaking progressive underground were engaged in a politics based on challenging *social neutrality* with respect to the process of the creation, distribution and destruction of purchasing power within a common monetary space of association. They argued that the problems of economic instability and injustice were not due to private ownership of the means of production or a financial-profit motive, but derived from the institutional structure channeling the emission of money which Douglas and Orage referred to as "Creditism" (Douglas 1919: 4; Trier 1995: 244-245; Taylor 2000: 110). The problem facing Douglas and the progressive underground crowd was an old one in economic theory. If money is defined as the common denominator that allows different valuable things to be treated as equivalents for aggregation and transactions, then nominal money is automatically identified with real income (Cencini 1988). The ambitions of the underground were limited by their lack of a reliable way to measure the effect of issuing new money from a theory of the output to which this money must be associated with for it to be purchasing power. The significance of the publication of Keynes's *GT* at the time was to provide such a theory in the form of national income accounting which would justify underconsumptionist ideas.

Keynes's goal in the 1930s was to generalize heretical principles of creditor control over a country's monetary unit of account into an alternative theory of macro-economic dynamics in what he termed following Marx a "monetary economy of production" (Keynes 1973, XIII).[8] In the *GT*, Keynes emphasized that the basic principle of endogenous money creation and destruction in such an economy is that "*the importance of money essentially flows from its being a link between the present and the future*," where each loan contract underlying a period of financed production-consumption quantizes an economic plan according to chronological time (Keynes 1936: 293, emphasis in original). "Credit, in the sense of 'finance', looks after a flow of investment. It is a revolving fund that can be used over and

[8] Historian of economic thought Mark Blaug writes that "what marks the break in Keynes' thinking between the *Treatise* and the *General Theory* is, firstly, the switch from prices to real output as the central variable to be explained and, secondly, the... novel idea that it is investment and not saving that sparks off changes in income: instead of starting with the public's willingness to save and then showing how investment adapts itself to saving *via* the interest rate, Keynes posited a largely *autonomous flow* of investment" (Blaug 1985: 654, emphasis added).

over again... [and] each new net investment has a new net savings attached to it" (Keynes 1937b: 247). However, in his published writing Keynes did not appreciate the material and situated geographies of monetary space, nor the "coerciveness of these spatio-temporal relations" that compose a standard of value to bind these social relations in place (Mann 2008: 6). These social geographic questions of deontological and political power are abstracted in Keynes's writings for an analysis of the foundational logic of accounting identities that compose the circular flow of institutional order in a monetary production economy, and the behaviour of individuals towards money according to social conventions.

The transition from critical finance ideas such as Social Credit in the interwar years into the progressive monetarism that shaped the post-war Keynesian consensus raises questions about the method and scope of my argument in this thesis: How should we study abstract concepts such as equality, freedom and neutrality? How can we recognize the contingency of the place of these terms in the unsettled frontier of monetary thought before the Keynesian Revolution formalized macro-economic principles around national accounting during WWII, while at the same time be cognizant of the real social relations they imply? Two points for the purposes of this study: First, the history of abstract ideas in modern political thought such as equality, freedom and neutrality must be understood in terms of the intention and social context of the actors who express these concepts. As a human geographer writing about the history of a set of ideas that extended the language of standard rights into a politics of money creation, I try to emphasize the material contingency, shifts and radical potential for change in the meaning of political ideas in Alberta and the wider Keynesian frontier in North America. Second, I draw on insights from Post Keynesian and Circuitist economics to argue that money shares the same indeterminate properties as political ideas because any unit of money is initially emitted in a loan contract that is an *ex ante*, or before the fact, validation of a future social settlement in our monetary production economy (Keynes 1937a). The promise and failure of Alberta Social Credit has to be situated in the landscape of property ownership, creditor-debtor relations and regional political

culture that both shaped the movement and eroded its radical pretensions to establish an alternative structure of rights and obligations to finance the monetary production economy.

The concept of endogeneity means that “in the full sense of the term [money] can only exist in relation to [the] Money of Account” or the counting apparatus continuously reiterated by conventional obligations of payment that order the relations between creditors and debtors across time and space (Keynes 1930: 3). The Keynesian frontier is deployed as a heuristic metaphor of the development of modern macro-economic theory based around money as a form of non-material social accountancy. This was formed between an older classical political economy tradition with a relatively fixed idea of neutrality, and a “social constructivist agenda” starting from everyday practices with no invariable standard framework from which to judge economic activity in relation to an order of money neutrality (Mirowski 1989; Hall 2012: 92). Social Credit emerged in Alberta out of the struggle to make sense of the disappearance of purchasing power out of people's hands and personal accounts in the early 1930s with the reflux of bank credit-debt that provided the standard numbers used by firms and people to monetize activity. The rupture of Alberta Social Credit into power was the outcome of conflicts over the logic and language of money creation which brought attention to the problem of monetary space in the co-constitution of the standard unit of account and the means to formally settle social obligations.

1.2. Keynesian Frontiers in North America | The term “Keynesian frontier” is used in this thesis to refer to the circulation of money reform ideas across the Atlantic from the perspective of historical actors who actively sought to shape the political and ideological climate from the riddle of money neutrality, in particular, during the 1920s and 1930s when the parameters of modern macro-economics and national accounting were being outlined. I develop the concept both as a historical geography of critical finance ideas in the interwar era, and as a theoretical framework to put forward three basic foundations for a Keynesian agenda in human geography: *monetary space*, a *monetary standard* and

the *neutrality of money*. In this sense, the metaphor of the 'frontier' is developed from the double meaning of a way to organize an interpretation of actors' intentions in articulating a new language of money as a nominalist problem in the juridical vein of assigning rights and obligations, and as a set of concepts to understand the real social relations these ideas imply by extending their relevance to the present day. Such an agenda is used to outline a genuinely monetary approach to understanding the creation of space, time and place out of economic plans made by macro-institutional and individual actors, where the metaphor of the frontier is intended to refer to the bounded social relations of modern territorial government and the deep structures of historical conflict underlying these settlement regimes.

The radical element of the Keynesian frontier was an English-speaking avant-garde of reformers and idealist revolutionaries who sought to find in monetary economics a vision of utopian society where money had no effect on material choices and interpersonal relations. During the 1930s, movements such as Social Credit transformed this progressive underground into a collective effort to integrate the institutional channels of circulation with the mechanics of the monetary and fiscal state. I interpret references to Douglas, Gesell and other members of the “army of cranks and heretics” by Keynes as a strategic measure of the revolutionary consensus that he envisioned himself spearheading to claim this frontier of macro-economic thought (Keynes 1930: 215; Aslanbeigu and Oakes 2002: 7).[9]

John K. Galbraith reflected that much of the influence of the so-called Keynesian revolution “turns on the almost unique un-readability of The General Theory...as Messiahs go, Keynes was deeply dependent on his prophets” (Galbraith 1971: 44). What Keynes actually meant could be simplified, Galbraith suggests, to a concern for “the total of purchasing power in the economy... [or] aggregate demand” (*Ibid*: 46). This schema had a particular resonance with Canada in the 1930s, which according to Galbraith “was perhaps the first country to commit itself unequivocally to a Keynesian economic policy” (*Ibid*: 52). During the 1930s, political debate between liberalism and socialism was forced to

[9] Harold Innis remarked after Keynes’s death, “in the Faustian sense Keynes maintained his position in the classical tradition by absorbing the streams of thought suggested by the names of Hobson [J. A. Hobson the self-described heretic and underconsumptionist economist], Gesell, and others” (Innis 1951: 557).

confront the prospect of totalitarian government as a genuine alternative to the democratic tradition. Keynes provided a bridge between progressive and centrist liberalisms to focus on a gradual transition from capitalism to "liberal socialism," which presented an idealistic "neutralization" of the state (and money power) as an alternative mission statement to concerns with social inequality (Freeden 1986: 346-353; Jackson 2007: 122). In the years following WWII and the formalization of national income accounting, Keynesianism became associated with the federal Liberal party and as a centrist path between the conservative positions of central Canada and the radical West (Dimand 2008: 58).

What distinguished Keynes's approach from other monetary economic theories was the central place of national income as a perfect container of monetary space that could be used as an invariable or unchanging neutral standard to measure and aggregate the economy into a coherent whole (Mirowski 1989: 306-307). The concept of a statistical national income provided Keynes with the framework for "a novel theory of purchasing power" that began from the institutional place of the monetary unit of account to give social settlements a numerical form. This form was then free to be used by members of a monetary space to create economic plans that quantify time and space (Cencini 1988: 161, 2005: 88). This opened the door to something that was largely undoable in Canadian economic discourse at the time: abstract from human history and physical geography into a model of pure numbers.[10] Keynes was brought to Canada at a time when "the very constitution of Canada appeared to be a structural problem. Reform of federal-provincial relations became, for many, the key to all the other necessary changes" (Owram 1986: 120). The diffusion of Keynes's *GT* into Canada before WWII was the result of Canadian economists and government professionals looking for a policy guide to envisage the nation as an economic unit. This allowed for a renewed modernist agenda in Canada to continue an "idealist tradition" that "sought to preserve the integrity of the price system while recognizing the role of government in ameliorating the negative side-effects of modern industrial capitalism" (*Ibid:* 200-203).

[10] Upon first reading the *GT*, Stephen Leacock, humorist and chair of political economy at McGill University "opened the book, but unfortunately, at one of the few pages with algebraic equations. He thereupon threw it down and, in disgust, as he walked away, said: [...] this is the end of John Maynard Keynes" (quoted in Dimand and Dimand 1995: 151).

The uptake of Keynes's principle of effective demand took place as the monetary foundations of this responsible government tradition were collapsing into regional fragments of toryism and socialism.

Economic thought in Canada during the early twentieth century was pluralist. Debate was shaped by conflicts in America between the neoclassical marginalists who conceived the entirety of economic life in terms of relative exchanges in an optimal equilibrium of interests, and an opposing Institutionalist tradition that criticized this deductive approach by drawing on insights from the German Historical School (Mirowski 1987). By refining the concept of equilibrium from a subjective relativist theory of value, neoclassical economic theory provided the intellectual framework to justify a policy of laissez-faire where market actors would self-regulate their activity. In Canada, the scientific weight of these ideas were often downplayed compared to their British and American counterparts as economists were mainly concerned with geographic problems of a young country that were outside of the scope of neoclassical analysis (Neill 1991: 110). The second group, which included Harold Innis and Stephen Leacock, set the stage for the Keynesian frontier and conflicts in the 1930s over the meaning of money as a social institution, with all the ensuing possibilities for liberal reform (Neill 1991: 109-112; Morgan and Rutherford 1998). American Institutionalists established connections with their British counterparts such as Edwin Cannan and J. A. Hobson who, respectively, sometimes fought with and wrote for *The New Age* when Social Credit ideas were first being published (Furner 2005; Rutherford 2007).

Historian of Canadian economic thought Robert Neill notes that a third force of economic ideas was “positive liberalism,” which he traces from the late nineteenth century into the interwar period from the idealist tradition of government intervention which had been “compounded by imperialism, international laissez-faire, and United States yellow journalism” (Neill 1991: 112). This particular strand of thought has to be situated from the political geographic expansion of Canadian territory in the 1870s and the internal colonization of the western prairies as a frontier region by European and North American settlers. Positive liberalism was conceived from the tenets of socialism as it was generally

understood in the English-speaking world in terms of an associational 'co-operative commonwealth' before the rise of interest in Marxian economic theory during the 1930s (*Ibid*: 113-114). Farmers from Midwestern and Great Plains states who migrated into western Canada brought with them a financial populist tradition which emphasized the unequal position of established creditors relative to debtors, and these critical finance ideas formed the groundwork for the translation of Social Credit into Alberta.

Social Credit had a curious role in Canada during the 1930s as a social philosophy that was both modern in the sense that the discourse channeled the language and concepts of a New Economics centred on monetary institutions to promise managed stabilization, but at the same time, was a powerful reminder of the Canadian problem of regional difference and unevenness of the national economy. In the hands of the already radical evangelical oratory of Aberhart, "the heretical monetary policies of Major C. H. Douglas represented, to many intellectuals, a vigorous and reactionary regionalism that offended many of their basic values" centred on a tradition of reconciliation (Owram 1986: 222).[11] Social Credit challenged an "emotional nationalism" during the interwar period that led Canadian intellectuals and politicians to favour centralized economic and cultural institutions in an effort to stem the influence of American trends of financial and media populism (*Ibid*: 221).[12]

This conflict over the circulation of political and economic ideas occurred as the pressure of debt burdens accumulated by staples exporting regions such as the western Canadian prairies threatened to break apart the national tradition of top-down orchestrated compromise. Innis captures the context in his remark that "the problem with debt is the problem with Canadian federalism as the federal structure is a credit instrument" (Innis 1938: 311). The fact that Social Credit was ultimately delegated outside the borders of an acceptable monetary science during the 1930s in Canada should,

[11] As Leslie Armour and Elizabeth Trott argue in their review of Hegelian idealism in nineteenth and twentieth century Canada, "we needed ideas that were capable of spanning spaces and which could link sub-cultures which, because of their distribution, tended to grow in significantly different ways" (Armour and Trott 1981: 19). See also: Ian McKay (2010) for a Gramscian interpretation of Canadian history as a long social revolution of establishing liberal order.

[12] In his contribution to the Massey Report on the arts, "The Strategy of Culture," Harold Innis outlined the gradual development of this position of a coordinated nationalist response to the commercial revolutions in print media. "The jackals of communication systems are constantly on the alert to destroy every vestige of sentiment toward Great Britain, holding it of no advantage if it threatens the omnipotence of American commercialism" (Innis 1971 [1952]: 91).

perhaps, be understood less from the place of its ideas in the battles for the Keynesian frontier, but from this tradition of reconciliatory nationalism that placed the capacity for change above the provinces.

The basic message of the Keynesian Revolution in policy terms was articulated succinctly in his December 31 1933 letter to President F. D. Roosevelt: "I lay overwhelming emphasis on the increase of the national purchasing power resulting from government expenditure which is financed by loans" (Keynes 1933, quoted in Hixson 1994: 405). As British Treasury economist and close friend of Keynes, Ralph Hawtrey noted, however, financing from "genuine loans" that draws "upon the available investible funds of the world without increasing them.... can only stimulate activity in some localities at the expense of others" (Hawtrey 1932: 446). Kansas businessman and Social Credit sympathizer William F. Hixson wrote in his review of Keynes's proposals to finance the recovery effort and WWII that the British economist would have been aware of three methods for a government to fund its spending: taxation, borrowing by contracting debt obligations with private interests, or creating non-negotiable money units without involving any credit-debt contract with private interests, in other words, "government-printed money" (Hixson 1994: 407).[13] Keynes was familiar with this last method from his experience working in the Treasury when new money to finance Britain's WWI expenditure was issued by the Bank of England against government debt (Stadermann and Steiger 2012: 648-652).

The criticism made by the progressive underground of what became known as the "Keynesian Revolution" of incorporating the concept of effective demand into economic theory and policy was that this amounted, in practice, "to a coup d'état by private money-lenders and private money-creators" (Hixson 1994: 410; Surette 1999: 108-115). Social Credit supporters and other money reformers saw this as a continuation of established creditors' control over the types of social relations underpinning money creation, and the conventional knowledge about how the system works at a time when both

[13] Hixson writes in *A Matter of Interest: Reexamining Money, Debt, and Real Economic Growth* (1991), "Keynes once spoke of the 'underworld' of Marx and listed a countryman, Major C. H. Douglas, as another 'underworld' figure. The 'social credit' schemes conceived by Douglas, however, evinced a far better grasp of the monetary problems of his time than did the contemporary proposals of Keynesians or Marxists.... Taken as a whole, however, [the Social Credit] conception of the problem and the solution were less [than] satisfactory thought through" (Hixson 1991: 127).

professional economists and heretics were making a common issue out of the proper role of public credit as a compensatory force to the instability of the monetary economy. The conflict between the official interpretation of Keynesian economics as a special case of equilibrium theory and the avant-garde underground of critical finance and money reform thought is captured in the treatment of the creation of money by governments.

A Social Credit supporter delimited the stage of action in a 1954 lecture: “The people themselves (through their elected representatives in parliament) must control the creation and issue of financial credit based on their own real credit. This would make Canada an economic democracy as well as a political democracy... The national budget can be made the chief instrument in establishing a Social Credit order” (PPA 94.271 #7). The underground began from a critique of the structural non-neutrality of traditional money, and how under current arrangements this transactions-and-payment system becomes a tool for established creditors. The official Keynesian program based on neo-classical interpretations of the *GT* ignored this critique by holding onto the concept of money as a cash base, a commodity whose quantity could be managed by central banks to contain the credit-debt activities of private banks (Bibow 2000: 533-534; Preparata 2002: 247).

Following the 1929 financial crisis, the British establishment publicly recognized the threat represented by Social Credit discourse, largely due to the influence of the churches, and invited Major Douglas to give witness to the 1930 Macmillan Committee to study the causes of the financial crash (Trier 1995: 230). Keynes's appointment as chair of the Committee “was designed to give the appearance, not reality, of radical movement” in order to placate members of the Labour government (Sidelsky 1992: 344). This meeting between Douglas and Keynes marked a major episode in the Social Credit movement's battle over defining the frontier of monetary economic thought. Keynes commanded the hearings from his theory of “processes of disequilibrium” between levels of national income outlined in his *Treatise on Money* (1930), but not from critical observation of a depression (*Ibid*: 352).

Major Douglas attempted to expound his theory that there was a structural cause for the deficiency of purchasing power associated with the social relations between banks with direct access to the public monetary standard and non-banks (producers and consumers) dependent on private credit. The nature of the problem in Douglas's mind was the overhead and interest-burden costs associated with financing the liabilities of *user costs* associated with the depreciation of machine and fixed capital, the systematic cost accounting of which he insisted caused a pathological deficiency in total demand relative to total supply. In the peripheral regions of the English-speaking world such as Alberta and New Zealand, where experiments with electoral Social Credit also took place, the doctrine provided a mandate to challenge the new conventions of monetary and central banking techniques from a more radical vision of social neutrality than the nascent Keynesian consensus was prepared to offer.

1.3 Method and Outline | I have developed two methodological paths in researching the thesis. First, I have conducted archival research on the emergence of Social Credit as a social movement and government in Alberta with an emphasis on aspects concerning the history of macro-economic thought that have been neglected in the current literature. The metaphor of the Keynesian frontier is applied to help understand the terrain of conflict over the meaning of monetary economic ideas that actors such as Douglas and Aberhart attempted to contest. This thesis contributes to the literature on Social Credit, in Alberta and elsewhere, by attending to the motivations of historical actors as they related to the key concepts of monetary space and neutrality that the Keynesian frontier was being fought over. To limit the research agenda I have focused on the early period in government from 1935 to 1938 characterized by radical uncertainty in policy direction and experimentation with the intention of creating new monetary spaces. Second, I have drawn upon inter-disciplinary studies of money as a multi-faceted social institution. These sources have mainly come from Post Keynesian and Circuitist literature in non-mainstream economics, which have been supplanted with monetary approaches in human

geography and critical institutionalist theories of the non-neutrality of traditional bank money (Deleplace and Nell 1996; Preparata and Elliot 2000; Gilbert 2005; Auvinen 2010). These two lines of inquiry converge in the conceptual revolutions shaping macro-economic theory during the 1930s that became associated with the Keynes's name. I have not set out to detail an institutional financial history of Canadian banks, firms and related data from the period. Instead, the goal is to examine the formative ideas of Alberta Social Credit from an underground of liberal and socialist reform thought that reveals a hermeneutics of conflict over money neutrality. This fight over the meaning of the terms of macro-economic theory defined the Keynesian frontier as a heuristic metaphor of the landscapes of conflict, confusion and experimentation with monetary theory and social action before the outbreak of WWII.

My archival research began in December 2011 at the University of British Columbia where I accessed the papers of Eugene Sydney Woodward, an advisor to the Alberta Social Credit government and Canadian representative of the Free Economy movement based on the money reform theories of German anarchist economist Silvio Gesell. The second stage of the research was at the Glenbow Museum in Calgary in March 2012 where I mainly confined myself to documents from the Calgary and Edmonton Boards of Trade concerning the rise of Aberhart and strategies to diffuse the social credit movement. The final stage of archival research was conducted in April 2012 through the Provincial Archives of Alberta who mailed me files within the papers of Lucien Maynard pertaining to the more experimental monetary reform agenda from 1935 to 1937. Throughout this archival search I attempted to limit my focus to points where characters of the Alberta story attempted to link particular technical proposals for monetary reform to worldwide changes in monetary theory and social philosophy. The goal has been to detail how these figures with varying degrees of responsibility made sense of unorthodox economic and policy ideas by linking their effort to wider circuits of monetary dissent.

The remainder of the thesis is divided into three chapters and a concluding discussion. Chapter Two “Keynesian Geographies and the Riddle of Money Neutrality” introduces the core theoretical

concepts guiding the thesis of monetary space, standard and neutrality from an engagement between heterodox economic theory and geographies of money and finance. The goal of the chapter is to outline a particular monetary approach for human geography that builds on insights made by Keynes on the 'essential properties' of the non-neutrality of money and interest. This Keynesian geography is developed to conceive the monetary standard as an institution for organizing proprietary credit-debt contracts which creates a macro-economic scale in the money unit of account. I am concerned with the macro-monetary scale of social accounting as a problem in its own right, one that is necessary to determine heterogeneous human activity and things into a contained economic system. Only from a definition of money as the nominal scale containing the form which goods take in time and space (i.e., income), can a theory of money neutrality be outlined based around the normative principle that money should be a neutral tool analogous to mathematics which has no effect in of itself on real variables.

Chapter Three "Social Credit, Effective Demand and Interwar Monetary Heresy" introduces the ideas of Social Credit from the context of the Keynesian frontier of political and cultural conflict over theories of demand in a monetary economy. The goal of the chapter is to illustrate the arguments behind Douglas's ideas with respect to contemporary Post Keynesian and Circuitist theories of endogenous money. In claiming to show how money operates at the intersection of a social imaginary and concrete technical choices in historical institutions, both Douglas and Keynes attempted to make sense of the seemingly nominal reality of this macro-monetary dimension underscoring economic life. The Douglas hypothesis known as the 'A + B Theorem' – that in its current form there is an inherent deficiency of purchasing power in the modern economy – is examined as the constitutive metaphor of Social Credit that challenged the Keynesian concern with liquidity preference and social behaviour. By reappraising Douglas's often terse and complex arguments through contemporary monetary circuit approaches, the chapter engages the role of the wider Social Credit movement in shaping the conflicts of the Keynesian frontier from an effort to put money in its place.

Chapter Four “*Prairie Freigeld* and Alberta Credit on the Keynesian Frontier” brings the thesis to Alberta from 1932 to 1936 in order to examine the inception of the Social Credit movement in the province to the formation of government and initial years in office. I make full use of the archival research in this chapter to illustrate how the ideas in Alberta circulated as part of a colloquial imaginary derived from disputes across professional and heterodox monetary theory. Rather than provide an overview of the first term of the government in detail, I focus on the initial period when a breakdown of communications between Aberhart and Douglas opened room for different perspectives and proposals for reform. The figure of Eugene S. Woodward is of particular interest in the development of the government's first attempt at heterodox reform: the Prosperity Certificates that became known in the press as “funny money.” The conflict between the ideas of Douglas and Gesell in Alberta is read alongside the history of the Keynesian frontier of monetary economic thought in North America.

Chapter 2
Keynesian Geographies and the Riddle of Money Neutrality

2.1. Human Geographies of Money | Literature on geographies of money and finance has grown rapidly since the 1980s and 1990s through an uneasy intermingling of theory-making in Marxian political economy and post-structuralist concerns with the discourse and practice of moneyed life (Harvey 1982; Zelizer 1994; Leyshon and Thrift 1997; Cohen 1998, Gilbert and Helleiner 1999; Mann 2008, 2011, 2013; Christophers 2011, 2012, 2013). Writing immediately before the 2007-2008 financial crisis, Emily Gilbert notes in a review of social theories of money that "the state of flux of contemporary monetary matters... has contributed to a particular anxiety around understanding what money is all about" (Gilbert 2005: 358). The continuing evolution of the early twenty-first century crisis of private creditor-debtor relations into a general politics of austerity has intensified academic interest in the concept of 'financialization' while sharpening the atmosphere of *finanzangst* afflicting the increasing members and institutions of society affected by these unstable relations.

In this chapter, I argue that what is required before an analysis of financial instability, or any macro-economic dynamics, takes place is a genuine monetary approach in human geography aimed at "revealing money's paradoxes" as an abstract symbolic power determined from a particular social setting (*Ibid*: 361). The goal is to reveal a social ontology of money as a system of circulation that "establishes in the world a certain type of human relationship," namely, the relationship between debtor and creditor which in the modern bank economy is contained in the "total situation" of double-entry accounting identities that differentiate between rights and obligations (Ellul 1984: 76-78). Money is a distinct form of power relation which determines the structural contours of the flow of numbers into accounts that assign appropriation over assets and responsibility for liabilities. The danger is that when not situated in time and place this instituted social relation will continue to be mystified instead of treated as the "sovereign factor of production" conducted through the actions of banks and states

(Auvinen 2010: 40). Money is, then, a special form of property as the token container that identifies membership in a historical geographic monetary space and social settlement underlying the flow of credit-debt relations which finance production and commerce.

The tensions running through this concept of money as both a human institution to be materially situated in time and place and an abstract context-independent system can be resolved in a more general interpretation of this peculiar reality from what macro-economist Alvaro Cencini describes as a "quantum theoretical approach... [to] economics [as] the sort of science that pertains simultaneously to the realm of the social sciences and to the realm of the exact sciences" (Cencini 2005: 280). While endogenous or nominal money (a 'sign' that enters the world as an *ex nihilo* creation backed by social conventions) is a general social fact of modern life, the strength of the monetary approach put forward by human geographers such as Emily Gilbert, Geoff Mann and Brett Christophers is to ground this reality in the territorialization of monetary space and the establishment of bank demand deposits as a monetary standard for the national and world economy (Gilbert 2005: 380).

Drawing together insights from Post Keynesian and Circuitist political economy, I propose a monetary approach for human geography that develops a critique of traditional bank money as a non-neutral social institution. The following chapter is an effort to bridge discussions in human geography literature with classical and non-mainstream economics to define "the complete non-materiality of money" as a concrete geographic imaginary that exists relatively autonomously from either financial capital or the territorial state (Cencini 1988: 20). From this perspective, the concept of the neutrality of money as a social and geographic problem of social accountancy in the production-consumption process between banks, firms and people can emerge and be engaged on its own terms (*Ibid*: 173-180).

Geoff Mann has noted that human geographers sometimes stumble on "the problem of money," and "economics" when they seek to destabilize "macro" accounts, and instead focus on everyday situated practices, sites and places to get a handle on material reproduction (Mann 2011: 73). The goal

of Mann's interjection is to insist that money has a "first-order ontological status" or a "relative scalar autonomy" that is able to cut through particular instances and expose "the way in which the macro of 'macroeconomic' lives" (*Ibid*: 72, 84). Mann argues that because of the primary role of money in making this macro-economic scale happen in the first place, our current situation is one where the stability of the "cycle of credit and debt denominated in money" binding individuals to a common standard has become an exceptional domain removed from the sphere of democratic government (Mann 2013: 200). The modern monetary economy depends on the continuation of a meaningful political geography for this property structure of "equal right and hence capacity for equal obligation," which defines modern society from the individual members of a space of association in a distinct manner to an earlier feudal society based on unequal rights (Macpherson 1968: 58-59). For capitalism to continue there must be no qualitative difference between the present and the future in terms of the structure of rights, obligations and Hobbesian finality of payment at this macro-scale. Any renewed *politics* of money creation, and the government of an accounting-and-payment architecture, demands that we address these foundational principles of social neutrality (Mann 2010: 617-619).

Geographers have sometimes derived concepts from Marxian political economy to explain the essential properties of money from the principle of capital as a totalizing force. The most influential of this historical geographic materialism put forward by David Harvey begins from Marx's formula of the "primary circuit" to describe capital accumulation as the "transformation from money into commodities back into money plus profit," or M – C – M' (Harvey 1982: 20).[14] Harvey argues that the expansion of surplus value at the end of the circuit (M' > M) does not contradict the principle of equivalence in exchange because the exploitation of labour as an input-factor siphons value in labour power equal to net profit in the system as a whole. Surplus value is understood as a measure of exploitation specific to

[14] Keynes drew on this concept in an early draft of the *GT*: "The distinction between a co-operative economy and an entrepreneur economy bears some relation to a pregnant observation made by Karl Marx... He pointed out that the nature of production in the actual world is not, as economists seem often to suppose, a case of C – M – C'... That may be the standpoint of the private consumer. But it is not the attitude of business, which is a case of M – C – M', i.e. of parting with money for commodity... in order to obtain more money" (Keynes 1979, XXIX: 81). From the premise that the source of income in M' was money creation, Keynes sought his reconciliation between Marx and Douglas (*Ibid*: f.82).

capital relations in terms of the realization of profits and wages in class struggle (Cartelier 2007: 223). Building on Harvey, the primary circuit of "real" production-consumption is presented by critical geographer Noel Castree as "*necessarily* [giving] rise to the banking and finance sectors," mainly because firms need credit to cover overlay (wages and other overhead costs) between profit-making sales (Castree 2009: 44, emphasis in original). Harvey and Castree define credit as "in essence, money lent by various agents with the expectation of recouping more money" out of interest payments (*Ibid*). In other words, credit-debt relations and interest-bearing contracts are understood in Marxian geography as subordinate to primary circuits of capital in a production process that takes time. The essential non-neutrality of money is explained by the capitalistic structure of social relations that separate between an entrepreneur and a wage-earning class in the process of income realization.

This commodity theory has recently been at the centre of a discussion in the journal *Society and Space* between Brett Christophers and Emily Gilbert on possible ways to frame money as an object of inquiry in the geographic social sciences. Christophers suggests that when it comes to the issue of money, geographers should "follow the thing" by extending David Harvey's principle of using commodity chain analysis as a way of defetishizing capitalist production from the particular stages of labour defining input and output factors (Christophers 2011). Historian of economic sciences Philip Mirowski argues that there are "two Marxian labour theories of value: the first rooted in [an] older substance tradition, the other sporting resemblances to nascent field theories in physics... the real-cost or virtual approach" (Mirowski 1989: 177). The idea of beginning from money as "a commodity of a special kind" is in keeping with the former embodied value view where the problem of money is integrated into abstract labour values in fixed and circulating forms of capital (Harvey 1982: 24-29; Castree 2009: 38-39; Christophers 2011: 1075). Gilbert responds to this framework with the principle that credit-debt relations precede commodity production, which in effect extends from the spatial field concept of money as a non-material unit of account for organizing social relations (Gilbert 2011: 1085).

The concept of monetary space means that the products of labour in consumer and capital goods can only exist according to the logic of an economic system when contained in money units that are the record of a circular flow in a closed system. This money circuit simultaneously creates and assigns ownership over assets and liabilities. The problem of neutrality in this circuit has to be understood from the proper sequence, or iteration, of historical institutions undergirding the current capitalistic economy.

Keynes emphasized in his *Treatise on Money* (1930), among other writings, that the central institution in a proprietary economy is the "money of account which is the subject of contract and of customary obligation" before any production for sale can begin (Keynes 1982, XXVIII: 252f).[15] These insights provide the foundation for a circuitist human geography that begins from the concept of monetary space defining a money of account and social settlement. In contrast to the view that bank loans consist of already existing deposits equivalent to surplus values that are then transferred between agents (deposits make loans), the circuit approach insists that there must be a creation of some kind of symbolic token – a proprietary contract – before the emission of money can take place (loans make deposits). The eighteenth century mercantilist James Steuart described money of account as an "arbitrary scale of equal parts;" nominal cost accounting and pricing "performs the same office with regards to the value of things, that degrees, minutes, seconds... and scales do to the geographical maps, or to any plans of any kind" (Steuart 1767: III, I: 4-5).[16] There is an important sense in which human geographers can contribute to an understanding of money in this sense of a "fixed quantum of abstract value" that is laid down in rules set out by plans without suppression of qualities of place, contingency and social relations (Ingham 2012: 129). The problem is to develop an approach that grounds nominal money of account within historical institutions in order to conceive of the concrete processes that establish money's real stability as a "solid foundation" of economic life (Steuart 1767 IV, I: 2).

[15] "The introduction of a money, in terms of which loans and contracts with a time element can be expressed, is what really changes the economic status of a primitive society; and money in this sense already existed in Babylonia in a highly developed form as any years before the time of Solon" (Keynes 1982, XXVIII: 255).

[16] Steuart noted that the concept of money as an "imaginary scale" was treated with skepticism in post-Newtonian England as "a metaphysical deduction upon so familiar a subject" when we "see everywhere that things are valued in silver and gold coin" (Steuart 1767: III, I: 7).

Castree has argued that "the ongoing power of Marxian political economy... enables a critical project of *envisioning capitalism*" in critical geography, centred explicitly on a renewed "class politics" as a way to engage the matter of distribution without presuming a strong theory of economic value or social history as in previous incantations of Marxism (Castree 1998: 141, emphasis in original). The question is, then, what is there to envision and at what level of abstraction? In a similar manner to Castree, the circuitist approach adopted by Italian political economist Riccardo Bellofiore seeks to "rescue the Marxian labour theory of value as a macro-monetary theory of exploitation without commodity-money" (Bellofiore 2011: 199). In this sense, money exists as purchasing power to claim the goods created in the production process (Bellofiore and Realfonzo 1997: 97; Graziani 2003):

> A circuitist view of the capitalist process [begins with] money [as] a 'sign' depending on social habits and state sanction, injected into the system as 'finance' created *ex nihilo* by the banking system to start production through the advance of the money wage bill to wage earners (Bellofiore 2011: 192).

Following Marx and Keynes, this circuitist approach has reinterpreted the role of monetizing the factor costs of work, the wage bill, to argue that the circuit of incomes to wage-earners is the sole source of national demand. By rejecting the marginal productivity explanation of income distribution as a conservation of productive services that can then be divided between the suppliers of labour services and the suppliers of capital services, these authors intend to reformulate the classical theory of absolute value beginning with the social relation between labour and money. The formation of non-wage income becomes not a matter of distribution between classes, but an issue of the very ontology (and hence neutrality) of money as a unit of account and means of final settlement (see: Gnos and Rossi 2012).

The reformulation of classical value theory into a circuitist theory of endogenous money and the formation of purchasing power does not follow from any mechanical laws, however, because in a virtual pure credit economy "the only means to judge productivity is with reference to value at a point in time, which is rendered contingent" (Mirowski 1989: 184). The evaluation of wage-income values, or any value expressed in the money circuit, is radically contingent to "a political/constitutional *settlement* of some kind" and the socio-cultural architecture and incentives channeling money creation

that forms these number values (Smithin 2011: 78, emphasis in original).[17] Money is the outcome of an iteration of socially constructed relationships such as property, the deontic power of assigning rights and obligations, and an inscription system to account for these relations (Mirowski 1991: 579-580).

Keynes read Marx on two levels: as a contributor to the problem of money in political economy, and from the ideological perspective of the "Capitalism versus Socialism" debate in the 1920s and 1930s. His ultimate rejection of both Marx's economic theory and his political solution were framed according to his attack on the "*embodied* value theory" of Ricardo that defined the value of a commodity as the labour time socially necessary to produce it (Brehens 1994: 197). Keynes proposed a "*commanded* value theory" which he associated with Thomas Malthus and, by the late nineteenth century, an "underworld" of heretics and money reformers (*Ibid*: 198-201, emphasis in original). The unit of account and medium of payment are a "social-historical *creation*," the device to order creditor-debtor relations that forms the basis for such a quantification of value in the first place (Castoriadis 1978: 735-738; emphasis in original). The formula for the circuit of capital (M – C – M') can be thought of as a "semiotic code" that has been formed over time in the layering of historical institutions such as property and security, double-entry book-keeping and a national banking system to structure the current system of money's emission (Dyer 1989: 505; Bortis 1997: 20-57, 309; Gilbert 2005: 272).

In a 1934 lecture to Cambridge students, Keynes argued that "the Marxists have become the ultra-orthodox economists. They take the Ricardian argument to show that nothing can be gained from interference. Hence, since things are bad and mending is impossible, the only solution is to abolish [capitalism] and have quite a new system. Communism is the logical outcome of the classical theory" (Keynes 1934, quoted in Sidelsky 1992: 511). The common element in the Keynesian frontier that distinguished monetary heretics from orthodox thinkers in the 1930s was a recognition that economic

[17] This is not to suggest that Marx was not cognizant of these conundrums in monetary thought: "Economists, who are thoroughly agreed as to labour-time being the measure of the magnitude of value, have the most strange and contradictory ideas of money, the perfected form of the general equivalent. This is seen in a striking manner when they treat of banking, where the commonplace definitions of money will no longer hold water" (Marx 1967: 81f.).

activity could not be realistically thought about from dyadic exchange relationships between two opposing agents (or groups of agents, i.e., classes), but requires a common accounting-and-payment system that stands as a third party over each transaction. *The New Age* intellectuals in England who extended Douglas's claim of a structural monetary disorder began from the principle of a system-wide "functionalism" in the body of national accounts that could not be reduced to materialist class struggle. The class antagonism between capitalists and organized workers was interpreted as a symptom arising from the more fundamental pathology of an out of control monetary system (Finlay 1972: 172).

Behind every concrete form of money there is no permanent essence, but in each case a set of principles determined from a standard of value that make both money and society intelligible. The intangible social link between the form of payment in relation to a unit of account is what allows for a "genuine mode of circulation associated with a genuine social organization" (Cartelier 2007: 218). The point is that the contingency of money does not negate the fact that this particular mode of circulation follows a structural logic. The problem gets reframed as a study of the "metaphorical structures in our culture [that] serve to buttress the palpably false but pragmatically useful conservation principles" used to associate nominal money with an invariable value standard (Mirowksi 1990: 713).

With the early twentieth century resurgence of critical finance thought, the common meaning of liberalism had to be reconstructed to bring into focus the political, legal and deontological foundations connecting property and money creation. In other words, "political economy becomes, not a science of individual liberty, but a science of the creation, negotiability, release and scarcity of debt" that takes place in the books of a transactions-and-payment system linking individuals to a permanent community (Commons 1934: 390). It was in this optimistic spirit that "Keynes's system was consciously cast as a third alternative to both Marxism and laissez-faire, and [as] the only comprehensive alternative which says that the economy is neither a perfect machine nor doomed to failure, but a fallible human institution improvable by human reason" (Fitzgibbons 1988: 1, quoted in Bortis 1997: 352). The

principle of effective demand was essential to Keynes's rejection of the "classical ergodic axiom," or the assumption that the economic future is pre-determined, for a General Theory that was intended to replicate Einstein's revolution in modern physics by beginning from the existing space-time continuum (Davidson 1978; 1984: 562; Galbraith 1996: 14-15).[18] The chapter on "Mercantilism and Usury Laws..." in the *GT* reveals Keynes's shared concern with the Institutionalists on money as "the strategic institution of modern capitalism" in a world of member states and continuous time (Dillard 1980: 255).[19] The Keynesian frontier consisted of the unsettled landscape and contest over the meaning of money neutrality that this social constructivist view brought into the range of possibility.

Pre-empting recent work on human geographies of money and financial circulation, the French economist François Perroux introduced the concept of monetary space "as a *field of forces*," an open-ended negotiation between various "plans" made by national and imperial powers to establish the institutional conditions for the issue and flow of payments (Perroux 1950: 98, emphasis in original):

> The monetary flows attracted towards or issuing from one of [the] financial "places" of the nineteenth or twentieth centuries, the variations of their direction, their composition and their volume, actualize a monetary space which is not totally independent of the one described as defined by a plan, but which cannot be approximated or reduced to it (Perroux 1950: 98).

The concept of monetary space takes centre position in the Keynesian human geography I have in mind. This concept has not received due attention in recent literature on geographies of money and finance, which have focused either on expanding value theory or post-structuralist concerns with relational action but not the macro-dynamics of the monetary circuit as such.[20]

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[18] As monetary economist Charles Goodhart puts it, the standard models used in neo-classical theory assume that because interests are in equilibrium, and people are rational actors, default on loan contracts is impossible (Goodhart 2008: 213).

[19] The American Institutionalist John R. Commons noted that "with mercantilism thus rejected, scarcity took on, not the institutional form of property, but the physical form of a preordained law of equilibrium of supply and demand operating on fluid individual atoms like the waves of the ocean... The Nineteenth Century materialistic economists believed regulation would be well done by private property and self-interest, but they had to bring in a kind of beneficent 'natural' law, an overruling natural right, or an analogy to Newton's law of equilibrium. If these were not enough, they had to go back to the Eighteenth Century and appeal to God and Patriotism" (Commons 1934: 238, 258).

[20] As economic geographer Ron Martin notes, "as yet there is still no single, coherent and generally accepted body of theory of what the French spatial economist François Perroux (1950), writing over 50 years ago, called 'monetary space'. Certainly our understanding of the geography of financial crises is very underdeveloped" (Martin 2011: 590). Of the recent scholarship undertaking a monetary approach outside of economics, only the economic sociologist Geoffrey Ingham seems to have directly tackled the concept of monetary space as a non-material field where "all prices and debts are denominated in a single money of account" (Ingham 2004; 2006: 266).

The field metaphor has been deployed in economic sociology following the work of Pierre Bourdieu to describe an "economic field" of the structural credit-debt and power relations in which private firms make and actualize their plans (Swedberg 2011: 73-75). In this thesis, I use the concept of monetary space as a 'field of forces' to focus on the connections between the principle of effective demand in Keynes's macro-economic theory that starts with bank money and Einstein's use of the term to show how space can have certain properties independent to the existence of material atoms.[21] As economic methodologist Teodoro Togati argues, Keynes's point in gesturing towards the field metaphor as a means to understand a structural logic of economic activity was to show that "all space is the scene of these laws and not, as for mechanical laws, only points in which matter or charges are present" (Einstein and Infeld 1938: 152, quoted in Togati 1998: 21). It is the qualities of money as a field that creates the spatial effect of an "action at a distance" which cannot be accounted for from observation of agents and things in the physical world alone (McLuhan 1964: 10; Ingham 2004: 4-6). In other words, "macroeconomics has its own laws, which are in fact monetary-structural rather than behavioural," and monetary space is the first point of entry to understanding these macro-foundations based on the logical structure of social accountancy (Rossi 2010: 59). In our current monetary economy, these foundations are inseparable from the principles of double-entry book-keeping in a national banking system.

Geographer Emily Gilbert and political scientist Eric Helleiner have emphasized that there is a territorial element to contemporary money closely related to the power to authorize, design and issue the unit of national currency (Gilbert and Helleiner 1999; Helleiner 2002, 2003, 2005; Gilbert 2007). Starting from the history of actually existing territorial currencies is a way to explore Ingham's claim that "money is a form of sovereignty, and as such it cannot be understood without reference to authority" (Ingham 2004: 12). Ralph Hawtrey also noted the relationship between money and the

[21] This is not a separate idea from Bourdieu's concept of the economic field, as evident in his statement that what happens in market transactions "is a two-way relation that is always in fact a three-way relation, between two agents and the social space in which they are located" (quoted in Swedberg 2011: 76). Rather, the object of inquiry shifts from the side of private firms' balance sheets to the corresponding book-keeping operations within the banking system.

"sovereign power over property... [and] first comes the power of *taxation*" (Hawtrey 1930: 10, emphasis in original). This power to create an initial obligation among the members of a monetary space to an authority formed the model of a general-purpose or transferable money that was eventually adopted to order the appropriation of ownership over assets and liabilities in private creditor-debtor relations (Hudson 2004: 99). However, the material and situated approach that each scholar endorses does not mean that monetary space should be reduced to the territory of the modern nation-state.

Hawtrey agreed with the "chartalist" or state theory of money, defining such "ticket" money as "the means established by law (or custom) for the payment of debts" in a social settlement (Hawtrey 1925: 176).[22] Hawtrey's objective in examining how the issue of state money interacts with other economic processes was directed at the problem of whether or not "the mechanism of banking can, without commodity-money or legal tender, stabilize the money of account for the measurement and payment of debts" (Commons 1934: 477). Hawtrey notes with approval that the state theory of money "takes account of the *administrative practice* of the State" and how "the State in making and receiving payments can give preference to any particular kind or kinds of money" (Hawtrey 1925: 253). But insofar as this requires that "the State theory of money becomes a central bank theory of money" it raises the problem of the place of money's emission in a particular settlement regime. For while "a central bank is undoubtedly an organ of the State in that it is a creature of the legislature... it is not necessarily *administratively* a part of the State" (*Ibid*, emphasis in original). The basic connection between Social Credit and the Keynesian frontier of monetary macro-economic theory was in making the distinction between central and private bank money in a mixed monetary economy.

The core of the problem is *monetary space* as a common abstract imaginary scale that is simultaneously a concrete unit of account issued within a closed book-entry system. In this sense,

[22] The idea of chartalism (Latin for token) dates back to the German Historical School, and in particular G. F. Knapp's state theory of money. Neo-chartalism is a contemporary school of thought that emphasizes *monetary sovereignty* as the foundational scale of macro-accounting and economics. The school is divided between a radical camp advocating for fiscal public employment programs associated with Randall Wray and an orthodox camp associated with Bank of England alumnus Charles Goodhart. Helleiner situates his approach closer to the latter view, positioning the role of state money in the interbank and international settlement systems of the modern banking economy (see, Lavoie 2011).

money exists autonomously from either private trade or state authority, but is a *social link* that acts as a customary mechanism for setting and settling creditor-debtor relations (Commons 1934: 477).[23] The emission of money in a closed circuit requires a monetary standard linked to a permanent community. This de-centres the chartalist view of the abstract State to examine how culture, ritual and conventions all have a part to play in understanding the creation of a common invariant or *social value standard* that must be something other than the money unit of payment itself (Deleplace 1996: 307; Goodhart 2005). In the words of circuitist economist Bernard Schmitt, "in each country, bank numbers are given a name; they are 'baptized', as it were" (Schmitt 2012: 74). This act of naming and giving a home to money in relation to a given monetary space is the essential feature of a monetary standard as the invariable 'other' that every money unit has to relate to for it to be used as ready money.

Keynes proposed that a monetary standard "can only be conceived as a policy guide," a positive program measured in the form of autonomous circuits of public credit-debt (Deleplace 1996: 308, 321). A comparison with the historical gold standard regime that Keynes influenced the ending of in Britain in 1931 as described by his colleague Hawtrey can help to clarify how this relates to monetary space:

> The foundation of the gold standard is the tying of the value of the monetary unit to the value of gold by the fixing of the price of gold. Inasmuch as gold is a commodity with a world market, it has a world value, and therefore the gold standard gives a world value to the monetary unit itself (Hawtrey 1927: 30).

In a situation of endogenous money, the social value standard allows for anyone to access through a special institution the monetary unit on demand, in an unlimited amount at an administered rate of interest. The central problem for understanding these dynamics of a monetary standard from a human geography perspective is "in stating the conditions under which public rules and private behaviours are consistent with one another," so that the logical structure governing the issue of money in a monetary space can be performed according to coherent and predictable rules of the game (Deleplace 1996: 318). The principle of endogenous money is fundamentally a question of the ontological relationship

[23] As the French economist Ghislan Deleplace describes it, money's "role as a *social link*... is what allows people to form a permanent community [...] its stability is not only a matter of preserving constant proportions between economic magnitudes, but also a condition of avoiding the disruption of social relations" (Deleplace 2003: 45).

between money and space: rejecting the commodity or asset theory based on a substantive value that is conserved across exchanges, the only way to assign an economic value to material goods is by the concrete intermediation of money proper issued in the accounting of a social geographic settlement.

The Greek philosopher Cornelius Castoriadis refers to the underlying social imaginary of deontic, or rules-based, rights and obligations as the "question of total justice," or "*paideia*... the question of *politics* bearing on the institution of the ensemble of society" (Castoriadis 1978: 725-726, emphasis in original). Money is an expression of social value standards that have cumulated over time in historical institutions, the common virtues individuals are directed from the field of forces of money issue and payment to shape their conduct around, "but [this] virtue is not measurable, nor, more generally, are individuals comparable except by conventions" (*Ibid*: 734). Money as a practice, system and social relation is co-constituted from a particular imaginary of what equivalence and economic justice means. Individual practices involving the buying, spending, lending, borrowing, leasing or collateralizing of particular money units have to be framed from the dynamics of a closed book-keeping system that shapes the initial emission of money before these types of behaviour are possible, and this macro-reality is, in turn, an outcome of the deep structures of creditor-debtor social relations in public and private forms, and the charging of interest in a loan contract that defines an imperative to grow the property economy in order to clear liabilities (Heinsohn and Steiger 1981; Binswanger 2009).

As Mirowski puts it, "the overriding problem of all market-oriented societies is to find some means to maintain the working fiction of an invariant standard so that debt contracts (the ultimate locus of value creation) may be written in terms of the unit at different dates" (Mirowski 1991: 579). This social value standard corresponds to a set of principles that structures the book-entry emission of money from the creation of a positive and negative charge in the respective appropriation of assets and liabilities over the course of a production-consumption process that takes time. The establishment of a monetary standard can, then, be addressed from what Mirowski has called a "social theory of value"

that places the invariant in the historical and political geography of social institutions such as double-entry accounting conventions, the legal definitions of property and state money as a token identifying membership in a monetary space itself (Mirowski 1989: 400).

2.2. The Riddle of Money Neutrality | On New Year's Day, 1935, Keynes wrote to his confidant the playwright and Fabian intellectual George Bernard Shaw on the progress of his evolving theory of the macro-economic dynamics of employment, interest and money. The letter highlights the strategy of an "anti-Marxian socialism" Keynes had in mind:

> I can see that they [Marx and Engels] invented a certain method of carrying on and a vile manner of writing, both of which their successors have maintained with fidelity. But if you tell me that they have discovered a clue to the economic riddle, still I am beaten.
>
> To understand my state of mind, however, you have to know that I believe myself to be writing a book on economic theory that will largely revolutionize – not, I suppose, at once, but in the course of the next ten years – the way the world thinks about economic problems. When my new theory has been duly assimilated and mixed with politics and feelings and passions, I can't predict what the final upshot will be in its effects on action and affairs. But there will be a great change, and, in particular, the Ricardian foundations of Marxism will be knocked away (Keynes 1982, XXVIII: 42).

The most significant aspect of the *GT* in terms of its effects on the English-speaking world can be grasped from this underlying premise of a revolutionary moment where a belligerent, youthful opposition is able to attack the hegemonic orthodoxy (Keynes included neo-classical and Marxist economics) from its foundational weaknesses to result in a new consensus (Aslanbeigu and Oakes 2002). Keynes bemoaned the influence of some "few old gentlemen tightly buttoned-up" and their grip of "abstruse financial reasoning" on the government of the social body (Keynes 1931: 134). These individuals considered their decisions to be responses to market forces without realizing that their own privileged actions in a particular setting constituted money as a social institution that is "produced by non-market agencies and does not obey economic 'laws' of the production and exchange of commodities" (Ingham 2000: 22).[24] Keynes attempted to solve the riddle of how nominal accounting

[24] "Each Bank Chairman sitting in his parlour may regard himself as the passive instrument of 'outside forces' over which he has no control; yet the 'outside forces' may be nothing but himself and his fellow-chairman, and certainly not his depositors" (Keynes 1930: 27).

variables translate into real distribution from an investigation into the non-neutral properties of money and interest in the context of disorderly and decaying capitalism.

Summarizing the impact of Keynes's *GT*, Frederick von Hayek wrote that “although the technocrats and other believers in unbounded productive capacity” might revel in his message, what Keynes had actually provided was “the economics of abundance... he has given us a system of economics which is based on the assumption that no real scarcity exists” (Hayek 1941: 374). The controversy between Hayek and Keynes centred on their different meanings of the neutrality of money as an intermediary of finance and business enterprise. Like Keynes and his Cambridge followers, Hayek put forward a monetary theory to explain the depression, but one which emphasized the over-investment of capital in the previous boom period. Hayek blamed the “immanent elasticity of the money system” for disrupting the scarcity principle and with it an equilibrium-finding natural rate of interest to borrowing that he envisaged as the foundation of economic theory (Realfonzo 1998: 115).[25]

Institutional money creation breaks the scarcity principle as it allowed business and government to spend without saving, which in his view disturbed money as a neutral or constant invariant over time and space. Hayek responded to the depression by putting forward an agenda to impose a set of rules and institutions onto society that would neutralize money according to the scarcity principle. Keynes ultimately rejected this notion of money neutrality from which Hayek's politics of austerity gained its epistemological force. Instead, Keynes focused on the self-imposed constraints of producer and consumer thriftiness in the social context of liquidity preference and other intangible conventions throughout an integrated bank money system (Parguez 1996: 156). The inflationary situation described by Hayek was an outcome of treating money as a positively valued asset in the financial system where it becomes the mythological “widow's cruse which remains undepleted however much [it] may be devoted to riotous living,” instead of the unit of final payment to clear obligations (Keynes 1930: 125).

[25] The neutrality of money “refers to the set of conditions, under which it would be conceivable that events in a monetary economy would take place [in which] relative prices would be formed, as if they were influenced only be the ‘real’ [or non-monetary] factors which are taken into account in equilibrium economics” (Hayek 1931: 130).

The riddle as I see it is in comprehending how money becomes conceived as a thing with "extraterritorial qualities," or a marketable object, rather than as a pure means of payment to clear debts in a double-entry accounting system (Gilbert 2005: 380). The neutrality postulate of the commodity or quantity theory first ascribed to David Hume (1752) and reformulated by Irving Fisher (1911) may be stated as follows: "if, starting from a long-run equilibrium, the stock of money is doubled in the economy, then, regardless of how this money is initially distributed, the economy will not come to rest again until all prices have exactly doubled and every transactor's money holdings have exactly doubled" (quoted in Rossi 2001: 83). This is not a theory about the potential effects of money creation on output and prices so much as it is a statement about the neutrality of *society*. The commodity theory of money as it was explicated by Hayek, who was adamantly against ending the gold standard in the early 1930s, was intended to portray economic activity as a series of relative exchanges between individual agents. The goal of Hayek's interpretation of money neutrality was to present a theory of an economic world that proceeds only from its members, or where social institutions are not essential. The consequences are that money as a public good gets reduced to "merely an information problem, a principal-agent relation" between the users of money as a record keeping device for processing the information expressed in the price system (Mann 2010: 18). Inflation is conceived as a state of disorder tantamount to a Hobbesian *civil war*, instead of a pathological outcome of a macro-accounting system.

The Keynesian frontier of monetary macro-economic theory was fought by underground and professional economic and social reformers over the grounds for an alternative concept of money neutrality. Instead of beginning from a state of equilibrium defined by voluntary dyadic exchange relations, these actors sought to envisage the "non-neutrality of money (and finance) [as] a deep part of a model of the economy and not an afterthought" so as to develop a government agenda for the modern state to attend to the problem of macro-economic order (Minsky 1996: 78). To clarify this systems-approach to the deep structures of the monetary circuit as it pertains to our current modern monetary

situation, I am indebted to the framework put forward by British and Canadian economists Wynne Godley and Marc Lavoie in *Monetary Economics: An Integrated Approach to Credit, Money, Income, Production and Wealth* (2007). The book proceeds by modelling an increasingly complex system of accounting identities in a double-entry system of book-keeping to show the institutional processes behind "how prices translate nominal into real variables, thereby determining the distribution of the national income" (Godley and Lavoie 2007: 9). Two basic points are made; first, we have to account for the difference between inside[26] and outside[27] money; and second, we need to understand how processes of circulation and payment in a mixed monetary economy interact coherently to the extent that "there cannot be any black hole" in the total substantive identity of money-incomes (*Ibid*: 14). This means that any positive monetary asset held is also placed in the procedural structure of "the monetary circuit, that is, the monetary creation, circulation and destruction that accompanies production and wealth creation," in other words, simultaneously associated with a negative liability (*Ibid*: 18). The overriding premise is that no matter how complex a monetary economy becomes there is an absolute accounting identity held in a common transaction-and-payment accounting system.[28]

The principle to be taken away for a monetary approach to macro-economic order in human geography is that because inside money instantaneously clears to zero when the private credit-debt circuit to finance production is emitted, outside money created alongside the issue of the monetary standard in (the sovereign's) central bank liabilities, or cash, is the only possibility for liquidity at a macro-scale. This means that outside money in government deficits and debts are "identical to, respectively, private savings and wealth," meaning they exist as endogenous variables determined by processes in the inside pyramid of credit-debt relations and are not factors controlled by governments directly, but an outcome of the specific structure of money's emission (*Ibid*: 97; Cartellier 2012: 21).

[26] This is *private* money that is "created by commercial banks when they make loans, and which ceases to exist when loans are repaid" (*Ibid*).

[27] This is *government* money that is "created whenever a government pays for something by making a draft on its central bank or by paying for something with banknote, and which is extinguished when a payment is made by a member of the public to the government, typically in the form of taxes" (*Ibid*: 57).

[28] "Sums of money that are positive in the economy, are negative in the banks' ledgers" (Schmitt 2012: 72).

Keynes's analysis in the *Treatise on Money* introduces the framework for this mixed economy in terms of the integration of government and private property money in a double-entry accounting system operated by a settlement institution. According to Keynes, the intervention of the state was key to transforming the form that money takes as a means of payment in a unit of account from heterogeneous personal private credit-debt relations into an impersonal medium of final payment: "the Age of Chartalist or State Money was reached when the State claimed the right to declare what thing should answer as money to the current money-of-account" (Keynes 1930: 5). The determining factor in the composition of monetary space is not the ownership of the institution which becomes indebted, but the private or public nature of the debt against which money is spontaneously emitted (Cencini 1988: 46). It is a matter of the substantive identity in double-entry accounting that liabilities to the public account are liquid assets to a definition of the private economy that includes banks, firms and individuals.

The Social Credit movement in the 1930s argued for a mixed monetary system where non-private property backed government money is issued in a guaranteed basic income to compensate for an alleged inherent lack of effective demand. In his 1930 testimony, Douglas referred to his system as involving two channels of purchasing power formation: "one of which is the credit source, and the other is the public – the cash source" (Hiskett 1935: 63). In a 1934 BBC radio broadcast lecture for a series on "Poverty in Plenty: Is the Economic System Self-Adjusting?" that included A. R. Orage, Keynes made clear that his assault on orthodoxy picked up the cause of the monetary heretics. The flaw in conventional thinking was to create a world "where money makes no real difference," and the inability to knock away the foundations of classical theory was "largely due to the failure... to develop a satisfactory theory of interest" as a monetary phenomenon that has direct effects on the property economy in terms of real variables of output, employment and income (Keynes 1973 XII: 488f).

The questions which flummoxed the monetary reformers found resonance in the interwar revival of scholastic thought based around the Aristotle-Aquinas theory of the Just Price: what is the

loss that must be compensated for the use of money itself? Is money interest a raw tribute as argued in the exploitation theories of Marx, Gesell, Douglas or even Keynes? The pre-modern scholastics and mercantilists emphasized the ontological distinction between interest as a *monetary* issue determined by value standards, and interest as a return to *capital and labour* in property and contract relations. This reframes the “Capitalism versus Socialism” debate from a question of private or public ownership into a matter of the neutrality of existing institutions. Keynes, the heretic, began from an appreciation of money as its own unique institution in the field of forces composing a monetary space and its relation to a monetary standard that functions as the social link to a permanent community:

> I was brought up to believe that the attitude of the Medieval Church to the rate of interest was inherently absurd and that the subtle discussions aimed at distinguishing the return on money-loans from the return to active investments were merely Jesuitical attempts to find a practical escape from a foolish theory. But I now read these discussions as an honest intellectual effort to keep separate what the classical theory has inextricably confused together, namely, the rate of interest and the marginal efficiency of capital (Keynes 1936: 352).

The issue of money neutrality is perpetually complicated by the instituted social relations between *money* as a counting device and *capital* dealing with bank deposit incomes and their associated output.

In positioning his approach between Marx and Douglas, Keynes wanted to suggest how over-investment (inflation) and under-consumption (lack of purchasing power and unemployment) were simultaneous outcomes of the same situation of pathological capital accumulation: “Marx and those who believe in the necessarily exploitatory character of the capitalist system, assert the inevitable excess of M'; whilst... Major Douglas who believe[s] in its inherent tendency towards deflation and under-employment, assert[s] the inevitable excess of M. Marx, however, was approaching the intermediate truth when he added that the continuous excess of M' would be inevitably interrupted by the series of crises” (Keynes 1979, XXIV: 81f.). In his economic writings, Keynes separated his analysis of inflation in the *Treatise* and his analysis of unemployment in the *GT*. Circuitist economists such as Bernard Schmitt and Alvaro Cencini have extended these insights into an explanation of inflation and deflation as two sides of the same pathological reality in a non-neutral monetary economy.

A realistic theory of money neutrality has to start “from the logical rules governing bank money” in a way that can separate between orderly and disorderly incomes (Cencini 1996: 16). The intention of this approach is to totally reject any behavioural explanation of monetary disturbances and refer these problems to the fundamental constraints of a double-entry book-keeping system.

In Chapter 17 of the *GT*, “Essential Properties of Money and Interest,” Keynes laid out the basis of this argument that as a unique command institution composing the economy's unit of account, money's “own-rate,” or the administered interest rate on central bank liabilities “rules the roost” (Keynes 1936: 223). Following the approach of Silvio Gesell, Keynes argued “the rate of interest is a purely monetary phenomenon and that the peculiarity of money, which flows from the significance of the rate of interest, lies in the fact that its ownership as a means of storing wealth involves the holder in negligible carrying charges, and that forms of wealth, such as stocks of commodities... do involve carrying charges” (Keynes 1936: 355-356; Davidson 1978). According to this interpretation, the non-neutrality of the primary interest rate set by the central settlement institution can be found in the properties of money as an imperishable unit of account for containing social wealth.

The truly heretical message of the underground was not that interest charges are a measure of exploitation relative to some normative Just Price benchmark, but a statement of the power relations that constitute the structure of creation and appropriation over assets and liabilities in a double-entry accounting system (Ellerman 1992: 65-67). The property of traditional bank money results in boom-bust crises because in our current order, “accumulation must take the form of monetary accumulation... [that] occurs [when] the circuits are not closed and... the 'revolving fund' is continually renewed and as the volume of short-term credits grows over time” (Wray 1996: 450-451). The growth of the quantity of money occurs alongside the growth of the quantity of interest-bearing credit-debt, creating a long-term tendency for instability as overhead costs swell over time. The current standard “functions like a structural barrier preventing the economic community from attaining its welfare optimum,” as money

holders are able to turn to the fixed circuits of an above zero interest rate (and the pyramid of financial claims to money) that short circuits the rate of flow to pay for basic goods and maintenance of the built environment without incurring further liabilities (Suhr 1989: 14). The general objective of monetary reform in the 1930s was to neutralize the conditions for this purely monetary source of instability.

The suggestion underlying the Social Credit and Keynesian variations of the circuit approach was that the non-neutrality of money was a social problem that could be addressed from a program of *economic democracy* that extends principles of individual autonomy (private property) and money as a public good (neutral accounting circuit and means of final payment) to their logical conclusions.[29] Some reformers argue that the objective of money neutrality would at least require “the abolition of the private banking system's privileged access to state money at the top of the monetary hierarchy,” or the pyramid of credit-debt relations, and the creation of money directly to individuals on an equal basis regardless of one’s position of property security or credit-worthiness (Auvinen 2008: 209; Bell 2001: 149).[30] On the other hand, the quantum economics approach developed by circuitists Bernard Schmitt and Alvaro Cencini argues that with the proper reforms to distinguish in the current banking system between financial departments of money, credit-debt and capital, “as a pure number, deprived of any intrinsic value, money [can be] effectively [made] neutral” (Cencini 1998: 180). The Social Credit movement insisted that regardless of the social choices involved, the “unearned increment in association” had to be socialized in order to eliminate the privileges accrued to established creditors out of money's emission (Douglas 1922: 13).

The merit of an engagement with the connections between Douglasism in the wider progressive underground of Guild Socialism, Social Credit and Keynes's economics is that these anti-quantity traditions provide a novel definition of money's neutrality from a systems-based perspective of the

[29] In other words, “the system is flawed because it violates the principles of the institutions that are usually associated with capitalism... property and democracy” (Ellerman 1992: 1).

[30] As the Italian circuitist economist Alain Parguez puts it, “banks cannot be passive suppliers of money because as long as there is no perfect socialization of credit, banks are Rentiers targeting some increase in their wealth out of their credit activity” (Parguez 2001: 10).

logical order of social accountancy. The meaning of the neutrality of money can only be addressed by abstracting from value judgements about income distribution to consider the *ex ante* rhythm of the creation and destruction of money in the banking double-entry system of accounts that has to be instituted in some kind of formal structure of rights and obligations.

Chapter 3
Social Credit, Effective Demand and Interwar Monetary Heresy

3.1. New Age Economics in Historical Context | Clifford Hugh Douglas (1879-1952) is an enigmatic figure. He has no official biography, a fact that seems to stem more from his own desire for secrecy about his private life than lack of interest (Finlay 1972: 85-100). Despite his impact on credit reform in the 1920s and 1930s, his ideas have been almost entirely forgotten in the standard account of the history of economic thought.[31] Douglas had been financially successful enough as a professional engineer to retire by the time he first began economic writing in 1918. At an address to the Canadian Club at Ottawa in 1923 he provided a background of the origins of his ideas, which he traced to his changing experience in accessing credit for large infrastructure projects before and after the outbreak of WWI. According to Douglas, the first insights into his social credit ideas began at Britain's aviation research centre, the Farnborough Royal Aircraft Establishment, where he was employed from 1916-1918, while doing cost accounting for the plant with a tabulating machine.[32] Data on the costs of inputs were punched out in a sequence; and he describes how he used to dream of "a river of cards" detailing on the one side the total costs of production behind output and the total payments received as incomes on the other (Hutchinson and Burkitt 1997: 10-13). Douglas observed that in a credit-based economy there is a dual flow of numbers corresponding to the costs of production and the price of an income reward that could be used as the basis for an objective analysis of the formation of supply and demand.

The key person in the translation of these basic ideas into a doctrine known as Social Credit was Alfred R. Orage, who as noted above, was the editor of the socialist and literary arts magazine *The New Age* from its inception in 1907 (with the financial support of George Bernard Shaw) until 1922

[31] In the 1987 edition of the *New Palgrave Dictionary of Economics* he was granted half a column. But in the latest 2008 edition any reference to Douglas or social credit had been subsumed into the entry "Monetary Cranks" by the same author and "Canada, economics in" by Robert Dimand and Robert Neill who cite it as an inflationary alternative to what would become Keynesian policies (Clark 1987: 920; Dimand and Neill 2008).

[32] Douglas fashioned the moniker "Major" while being employed at Farnborough, where it seems he was moved from work on the London Post Office automated underground railway system when war broke out (Trier 1995: 154).

when he left London to seek out the Georgian mystic G. I. Gurdjieff. *The New Age* became the central paper for radical debate to challenge the intellectual stranglehold of Fabian socialism in defining the political economic epistemology of the British left. Before endorsing Social Credit, the journal had become the main organ for the ideas of "guild socialism" popular in the 1910s among intellectuals and aspects of the trade union movement. Orage and others in this movement attacked the technocratic pretense of Fabian socialism in their political writings to develop a political platform that attempted "to deal with man's religious instincts, his artistic proclivities, his desire for ownership and professional pride" (Martin 1967: 233). G. D. H. Cole, the head of the National Guilds League, summarized the state of the movement by its collapse in 1919: "Our left wing is pushing us into Russionised communism... our right wing, in a panic lest something may really be going to happen, is trekking at its best speed to the land of spiritual values, in which gross material things can be forgotten" (Cole 1919, quoted in Webb 1976: 112). Orage was one of those conservative spirits, and the history of Social Credit has to be understood from this effort to find a guide for post-capitalist society other than the Marxian socialism that was becoming increasingly prominent in Britain during the 1930s.

A basic distinction has to be made between the accounting-based economic theories of Douglasism and the Social Credit movement championed by Orage within the progressive underground (Trier 1995: 150). Douglas presented his analysis as an engineering perspective which he claimed pointed to defects in the social accounting system that result in a perverse situation where "the only effective demand of the consumer... is a few per cent. of the price value of commodities, and is cash credit. The remainder of the Home effective demand is loan credit, which is controlled by the banker... and the industrialist, in the interest of production with a financial objective, not in the interest of the ultimate consumer" (Douglas 1920, quoted in Trier 1995: 160). To this end of claiming an inductive approach to effective demand, as a view of how the world ought to be the economic doctrine of Social Credit was bound to emphasize powers of observation and statistical facts ahead of introspection and

philosophy. Douglas claimed that his method was purely inductive, a matter of comparing accounts, and hence a scientific statement to prove "that economic want is anachronism" (Douglas 1932: 8-9; Martin-Nielsen 2007). *The New Age* under Orage, on the other hand, became known as a conduit in the English-speaking world for anti-materialist ideas of neo-medievalism, the writings of Friedrich Nietzche, Freudian psychoanalysis and exoticized Eastern philosophies (Chesterton 1936; Milburn 1996; Taylor 2000: 100). However, the difference between Douglasism and the New Age faith in spontaneous generation is elusive, as the Social Credit theory was often stated in the nature of "a revelation" of hidden truths inherent in the facts (Trier 1995: 241).

Writing in 1926, Orage reflected on his transition from guild socialism to support for Social Credit: "the doubts that haunted me regarding the practicability of National Guilds... [were] always of the same nature – the relation of the whole scheme to the existing, or any prospective system of money" (Orage 1926: 402). Douglas provided Orage with a systematic approach to thinking about a post-capitalist economic democracy, while, according to Ezra Pound, "Orage taught Douglas how to write" (Martin 1967: 271). The editor simplified the message into a classical rhetorical trope: "that prices ought to fall as our communal powers of production increase" (Orage 1926: 435). The link between the mechanical accounting approach and Social Credit derived from the "war of ideas" Orage and his guild socialist associates were fighting for the soul of the left in Britain (Mairet 1936: 65). By breathing radical life into the skeletal cost accounting framework deployed by Douglas it was hoped that a new language to speak truth in economics could be forged as the grounds for social reform.

C. H. Douglas published his first book *Economic Democracy* (1920a) from a series of essays for the *New Age* written under the tutelage of Orage (Trier 2005: 224). Douglas presented a guild socialist argument against "centralization of the power of capital, and the credit which is based on it" with reference to long-standing socialist attacks against efforts to mechanize living labour into factor inputs (Douglas 1920a: 27). But he also moved away from the repudiation of machine power associated with

the arts and crafts movements inspired by John Ruskin and William Morris, arguing that modern science and technique is "the cultural inheritance of the community" (*Ibid*: 92). The result was an ambiguous call to decentralize production into co-operatives of guilds and shop owners. The crux of the argument was structured around the guild socialist ideal of ending the wage-slavery or "wagery" system to replace capitalist production with decentralized associative private property ownership and an end to "the power of centralized finance" (*Ibid*: 84; Mairet 1936: 66- 68). However, Douglas also introduced the concept of a "Just Price" in terms of macro-accounting condition where the costs of production composing total supply balanced with the available purchasing power composing total demand. The sketch of the argument was that once an alleged deficiency of purchasing power had been abridged in some form of decentralizing credit reform, there would commence a transition from a "competitive world system" into a pluralist world of co-operative economies (*Ibid*: 132-135).

In his second book *Credit-Power and Democracy* (1920b) Douglas contrasted his earlier work with a more robust defence of capitalist production and private property. The emphasis shifted from an extension of guild socialist ideas that mixed classical liberal and Marxian concepts of value originating from labour towards a greater focus on the operation of accounting institutions and the nominal flow of the money circuit (Douglas 1920b: 10-13). Douglas extended the guild socialist view that economic crises in modern societies were not caused by private ownership of the means of production or a profit-finance motive, but rather stemmed from anomalies in the conventional practices of social accounting. Douglas began from the principle that science, art and technology constitutes a cultural heritage in a manner that resembled Thorstein Veblen's theory of capital as privileged social knowledge.[33] The goal was to summarize socialist arguments over uneven power relations in a machine capital age and refer these problems to a basic formula that expressed the underlying logical-conceptual dynamic causing an

[33] The concept of cultural heritage is also close to Edwin Cannan's principle of the "inheritance of improvement" to be distinguished from capital as a proprietary phenomenon. Cannan, an institutionalist and socialist economist who retained the self-adjusting equilibrium concept wrote: "to have machinery of production is a good thing when we cannot attain our ends without it; but if we can attain our ends more easily or quickly without it, so much the better. If we could improve our knowledge and organisation in such a way to wipe out the value of all the things which now form our real capital, how happy we should be!" (Cannan 1934: 392; Trier 1995: 232).

alleged inherent lack of purchasing power. The distribution of new credit to compensate for this deficiency became the core dilemma of the Social Credit movement (Trier 1995: 292-303).

The gist of the argument was that there was a lack of incomes to cover the overhead costs of machine depreciation and this concentrated power in the hands of established creditors. The reason for this pathological condition can be found in non-random accounting errors that in a micro-economic sense lead to profitability miscalculations by firms, and in a macro-economic sense result in monetary disturbances. Douglas was extending already existing concerns in institutionalist economics and cost accounting theory over the possibilities for systematic accounting errors in the treatment of overhead costs on fixed assets associated with *replacement goods*. The only means available to firms to cover these payments is through credit issued against their proprietary collateral, an institutional artform that Veblen had infamously depicted as a legal reification of the privileges conquered by business in an environment determined by competition for bank credit. The result of this financing of short-term credit to cover working capital, as Douglas noted, was that the costs of consumer goods are so bloated with the overhead of "watered stock" in bank payments due as to make its absorption by wage incomes an accounting impossibility (Veblen 1904; Preparata and Elliot 2000; Preparata 2004: 118-121).

The institutionalist economist John M. Clark noted in his *Studies in the Economics of Overhead Costs* (1923) that the practice of cost accounting refers to the method of providing information on the cost of a particular input factor, as opposed to general financial accounting concerned with detailing the profit and loss of the firm as a whole. The principle that the price of the output of production is formed by cost accounting practices by banks, firms, governmental and other institutions challenges neo-classical theories of price being set spontaneously by supply and demand on the market (Clark 1923: 233-235).[34] The problem for Clark was to account for a specific category of overhead costs that "cannot be traced home and attributed to particular units of business" in a neat conservation of values as

[34] As Marc Lavoie notes, "pricing in mainstream economics seems to be rather simple. For competitive firms, no decision needs to be made; price is set by the market... prices clear the market; everything produced gets sold" (Lavoie 2001: 21).

economists such as Marx had envisaged (*Ibid*: 1-7). This related to the changing cost structure of firms from a wage-based industrial economy into a capital intensive machine age: “the substitution of machine for hand labor meant nothing less than the introduction of a new species of creature, which rapidly became the most dominant personality in industry... Now the machine is the central figure, and labor follows the laws of the machine's being” (*Ibid*: 7). This category of costs associated with machine use and maintenance entered the conventions of social accountancy by creating “ruinous” competition between businesses, for example, by selling outware below total costs as Douglas had suggested in his Just Price concept, in order to secure a place in the hierarchy of credit (*Ibid*: 23-24; Rutherford 2013).

Douglas argued that a perverse treatment of overhead costs relative to the logical rules governing bank money allows established creditor interests to compound their power over everyone else as entropy and capital amortization create a growing demand for credit to cover the operating expenses of business. Douglas embellished this concept in his A + B Theorem that began with the treatment of a firm as a bookkeeping entity as well as the owner of final output for sale. Douglas made his case that there is a general and cumulative deficiency in demand to the 1930 Macmillan Committee:

> [In any business enterprise] payments may be divided into two groups. Group A. – All payments made to individuals (wages, salaries, and dividends). Group B. – All payments made to other organizations (raw materials, bank charges, and other external costs). Now the rate of flow of purchasing power to individuals is represented by A, but since all payments go into prices, the rate of flow of prices cannot be less than A plus B, a proportion of the product at least equivalent to B must be distributed by a form of purchasing power which is not comprised in the description grouped under A (Douglas 1937: 142-143).

The A + B Theorem was not a dynamic theory of the monetary production circuit, but instead was a mechanical statement that there was a general and growing gap between incomes received and the total costs of production representing the prices needed to clear all debts to creditors: A < A + B. Although crude in format, Douglasism proved influential in the development of an interwar political economy of money and credit in the English-speaking world. The possibility of reframing the pathologies of the capitalist monetary system onto the neutral terrain of book-keeping accounting identities tallying debits and credits had profound implications for responses to the economic crisis (Trier 1995: 228-233).

The Douglas A + B Theorem rested on the need to make a distinction between income and these peculiar capital costs that provide no reward in purchasing power from a macro-economic perspective. Marx clearly stated the nub of the problem from the distinction made by Adam Smith between the means of consumption and the means of production. In his analysis, the output consisting of the means of production "do indeed form at the same time *revenues for all agents involved in this production*, i.e. wages for the workers, profits and rents for the capitalists. For the *society*, however, they do not form revenue [income or purchasing power], but *capital*" (Marx 1978: 444-445, emphasis in original). The fundamental point to be established is whether this capital accumulation takes place to the benefit of the members of society or not. Douglas is closer to modern macro-economic theory in the sense that he conceived monetary disturbances such as inflation, involuntary unemployment and financial instability as conditions of a disorder caused by accounting errors, the stuff of social convention. In other words, pathologies that can be remedied (Cencini 2001: 191-195). Neo-classical economists, including Keynes, have often held these arguments in contempt, choosing instead to focus on subjective problems of uncertainty and risk but not the social accounting conventions themselves (Brief 1965: 14-16).[35]

Social Credit became an effective base for a wider unorthodox movement "because it resulted from an intimate merger of the (economic) A + B Theorem with a romantic (largely Ruskinian) view of the world – the former element distinguishing it from the specific discourses of other social and monetary critics; the latter allowing it to resonate with the minds of those who were critical of modern industrial society" (Trier 2005: 203).[36] Douglasism proved influential to a progressive underground of English-speaking thought during the interwar era as it retained the current social order of property, creditor-debtor relations and interest behind a monetary economy, while claiming to point to objective

[35] "Once it is recognized that accounting is largely a matter of convention, it is easy to perceive that the nature of the conventions adopted may greatly influence the development of an economy" (May 1936, II: 307).

[36] A quote from Ruskin is instructive here: "Consumption absolute is the end, crown and perfection of production; and wise consumption is far more difficult than wise production. Capital which produces nothing but capital is only root producing root; bulb issuing in bulb, never in tulip; seed issuing in seed never in bread. The Political economy of Europe has hitherto devoted itself to the multiplication… of bulbs. It never saw nor conceived such a thing as a tulip […] the wealth of a Nation is to be estimated only by what it consumes" (Ruskin 1985 [1860], quoted in Trier 1995: 243).

defects in the institutions and conventions which account for these social relations in a closed system of double-entry book-keeping. Douglas attempted to popularize his reform efforts as having "glimpsed a portion of reality, and that conception of reality is a philosophy, and the action that we take based upon that conception is a policy" defined by the setting up of an improved body of National Accounts that would give every member of a social space of association an equal share to participate in the heritage of improvement (Douglas 1939: 4). The reaction to Douglas's ideas provides a lens into the complex interrelations between liberal and socialist economics during the interwar period from the problem of a *popular heresy*, or an idea that is so unusual and embarrassing to normal science that it is ignored until a popular movement begins to take shape around its core concepts (Dutton and King 1986: 260).

When Major Douglas first expounded his social accounting theory of defective demand after WWI, its reception was mainly confined to the "Chandos Group" in London that at times was attended by Ezra Pound, Bertrand Russell, Lewis Mumford, "who was at least sympathetic," G. D. H. Cole and T. S. Elliot, "a crypto-Social Creditor" (Finlay 1972: 170; King 2005: 35). Interspersed among these literary and academic figures were the voices of the Armenian G. I. Gurdjieff; his Russian disciple P. D. Ouspenksy; and the Austrian founder of Anthroposophy Rudolf Steiner, who, among others, shaped the English-speaking progressive underground from the elitist premise of a "quest culture" to transfer the spiritual values of "wise men from the East" into a modern political economic formula (Webb 1976; Sutcliffe 2007: 63-65). A. R. Orage was the key intermediary in translating the positivist modernism of Douglasism and the economic metaphor of a pathological circuit (where supply was always greater than demand) into the idealist revolution being promoted in guild socialism. Douglas emerged in *The New Age* in 1918 as "a saviour" to the journal and its editor, where the A + B Theorem was interpreted as a code to realize the necessary social transformation into post-capitalism (Trier 1995: 271-273).[37]

[37] This idea is demonstrated in the editor's notes for another journal: "I came to the conclusion that in Orage there was an obstinate substratum of belief that there was some secret of control of the universe: a key by which one could unlock all the doors, and be a master of Power. There were veritable Masters in Tibet, for instance; or, if the great ones on the earth would adopt Social Credit, *The New Age* would begin" (*New English Weekly* 1934, quoted in Trier 1995: 272).

These divergent views were united in the common goal of devising an alternative to the State Socialism promoted by the Fabians. However, Douglas first published his writing in *The Organiser*, subtitled "a journal of business," which was edited by Holbrook Jackson, an early member of the Fabian Society and the person who introduced Douglas to Orage (Trier 1995: 254). In many respects, the shift in editorship of *The New Age* in the 1920s towards Social Credit was a continuation of Orage and others' attempts to distance their politics from a scientific materialism. Between 1919 and 1922, Orage used the influence of his name and journal as leverage to gain Douglas an audience with Fabian members (*Ibid*: 257-258). Orage described the relationship with organized socialist and labour groups; "personally, we remained, as a rule, on the friendliest terms; but officially and editorially, it was silent war, broken only be the occasional [...] crackle of polemics" (Orage 1926: 377). The idea of a book-keeping reform as the way out of capitalist crises provided another means of marking independence.

By the 1920s, Orage was increasingly losing faith in the trade union movement ever achieving the guild socialist ideal of decentralized worker control and social stability (Taylor 2000: 124).[38] The goal of the Social Credit movement from its urban and intellectual roots into a political force across the Commonwealth was to prepare the ground for a post-capitalist leisure society where automation of economic activity would be the rule of thumb and the arts would become the organizing force in redefining capital as a "Common Heritage" (Armstrong 2013: 54). "Despite the imprecise and often evasive nature of his social philosophy and monetary analysis, this rather incoherent, cranky, slightly paranoid amateur attracted critical attention (and some cautious praise) from several of the most orthodox economists of his day, including Robbins, Hawtrey and Keynes" and provoked "vigorous (and sometimes intemperate)" replies from Marxists and Fabians who conceived the argument as a regression to past utopian socialisms (Dutton and King 1986: 260).[39]

[38] Literary scholars have argued that the magazine had always been hostile to the "political left" in both organized labour and New Liberalism, with writers such as Pound and Wyndham Lewis embodying a reactionary modernism with totalitarian consequences (Ferrall 1992; Villis 2006; Surette 2011).

[39] Nor was the concept accepted widely among monetary reformers. Frederick Soddy, an Oxford professor of chemistry who received the Nobel Prize in 1921, wrote on Social Credit that no greater "cloud of mystification and fallacy" existed than the belief in 'credit' as a sort of "magic talisman for escaping the necessity of sowing as preparatory to reaping... All

Douglas gained traction in the United States in the 1930s where he enlisted the support of the literary critic Gorham Munson and other New York-based writers whom Orage had got to know while spreading Gurdjieff's ideas in America. There was a poetic impulse behind the movement to demand *meaning* in the nominal realities of economic life, and to measure credit-debt accounting identities as concrete sums of cultural power.[40] Ezra Pound and T. S. Elliot each supported social credit ideas to guide a romantic, historical ideal of the self that had to be defended from a totalitarian capital and state. On the other hand, William Carlos Williams shaped the American Social Credit movement around a positive idea of the modern corporate age that could eliminate the cultural "blockage" preventing a more comfortable self to emerge (Heinzelman 1980: 244-267). Perhaps the influence of philosophical pragmatism and economic institutionalist traditions in North America shaped this uptake of social credit ideas from a shared anxiety with the general lack of an understanding about the current social order. Another factor to consider is the timing of the introduction of Social Credit across the Atlantic during the peak years of the depression. There was an immediacy to the translation of social credit ideas in North America, where the language was often stripped of the esoteric influences of the English progressive underground and interpreted through existing underconsumptionist perspectives found in institutionalist and financial populist traditions (Dahlberg 1932; Munson 1945; Generoso 1981).[41]

Social credit ideas were in accord with the philosophical background of American "radical innovators with profoundly conservative goals," who conceived their politics around the de-centralization of ownership over land and money (Pells 1973: 3). This agenda was not cast in terms of a laissez-faire market but from a managerial collectivism that emphasized planning and stability over entrepreneurial risk (*Ibid*: 69-70). The great promise of Social Credit, however, "the substitution of the

'New Economists' are in agreement with the diagnosis of Major Douglas... that the consumers are becoming increasingly less able to buy the whole potential production of industry, and that more money in the pockets of consumers is the remedy. But [to explain this] the theories of the Douglas School seem to have no basis in fact (Soddy 1931: 72-75).

[40] This mission statement of demanding a clearer meaning of economic language was already evident in Orgae's book *The Alphabet of Economics* (1917), which he had published just before meeting Douglas (Trier 1995: 279).

[41] However, it is worth noting that Munson's book on Social Credit, *Aladdin's Lamp: The Wealth of the American People*, was published by Creative Age Press that was founded by the medium Eileen Garrett, and incorporated into its publisher's logo W. B. Yeat's gyre image associated with the poem "The Second Coming" (Munson 1945).

[public] dividend in place of the wage," was presented by literary figures such as Munson as an extension of traditional American republican principles of individual freedom over totalitarian group planning (Douglas 1934, quoted in Graves and Hodge 1941: 297). A good example of the integration of social credit concepts into an American aesthetic of economic democracy is provided in Frank Lloyd Wright's notes on three "inherent rights" in his utopian community plan: a right to a "direct medium of exchange... some form of social credit; [a] place on the ground;" and a right to "public ownership of accumulated scientific knowledge that concern the life of the people" (Wright 2011 [1935]: 346). The science fiction writer Robert Heinlein who was active in the Los Angeles social credit movement also incorporated the principle of a guaranteed Social Dividend and administered Just Price to bridge consumption and production into his visions of the frontier-worlds of the future (Mullen 1979: 212).[42]

Alan Dyer, an economist, extends this American tradition drawing on Veblen, William James and W. C. Williams to write on "Social Credit as Economic Modernism" using a simplified definition focused on the guaranteed basic income over the accounting error alleged in the A + B Theorem:

> Social credit derives from the belief that the provisioning capacities of a country are a collective phenomenon based on the accumulation of generations... and should be used in a democracy as a fund of credit from which each citizen is guaranteed an equal share in... a basic income (Dyer 2005: 165).

Social Credit as a social movement was always vague enough that it could belong to the domains of artists and economists alike intrigued by the possibilities of discovering a new language of democracy. The definition of policy was not the priority, a fact that Douglas shared with the institutionalists; "if there is any policy implication in a Veblenian economics, it is a desire for democratic economic institutions" (Dyer 2005: 167). As with Keynes, Social Credit emphasized how the disparity between traditional common sense based on the quantity theory of neutrality and the realities of an endogenous accounting framework made economic democracy harder to conceive and discuss as a social objective:

> If we carry 'economy' of every kind to its logical conclusion, we shall find that we have balanced the budget at nought on both sides, with all of us flat on our backs starving to death from a refusal, for reasons of economy, to buy one another's services (Keynes 1932: 281).

[42] As noted in a CBC article on Heinlein's recently discovered long-lost first novel from 1938 *For Us, the Living: A Comedy of Customs*, the book "imagines a future America patterned on 1930s Alberta" (CBC December 9 2003).

The concept of effective demand requires a form of economic modernism as the only way to make sense of the concept is to place individual behaviour in a macro-field of the flow of payments.

Walter van Trier notes that there was an almost obsessive interest in Douglasism among professional economists from 1921-1922 and then again during the depression from 1932-1936 because its constitutive metaphor of an inherent deficiency in purchasing power was so explicitly incompatible with the prevailing economic view of the world based on the quantity theory of money and Say's Law of an equilibrium between supply and demand.[43] The principle underlying Douglas's argument that there was a general and cumulating gap between total supply and total demand required a novel approach to purchasing power that made conceptual room for a positive program of public credit. Douglas's proposals for the Public Dividend and Just Prices were designed to counter-act a problem in the social accounting system, but ultimately did not address the structural flaws causing these disturbances to begin with. However, the premise of neutralizing anomalies internal to financial accounting remains an important contribution to a circulation reform agenda (Trier 1995: 227-230).

3.2. Silvio Gesell, "A Strange, Unduly Neglected Prophet" | The historian of economic thought R. L. Heilbroner suggests that Keynes probably made the refrain "the future will have more to learn from the spirit of Gesell than from that of Marx" because he had read more of the former than the latter more widely known political and economic theorist (Keynes 1936: 355; Heilbroner 1994: 172).[44] The published writings of Silvio Gesell, a German-Argentinian merchant turned anarchist monetary

[43] These disputes on the ontology of the monetary economy continue to shape differences in the non-mainstream economics literature: Circuitist scholars such as Bernard Schmitt argue that Say's Law is an accounting identity that must logically hold in a monetary economy the instant that money is emitted to count an asset and a liability that are, by definition, equal in value (Schmitt and Greppi 1996); Post Keynesian theorists like Randall Wray are keen to emphasize liquidity preference from a treatment of the effects of financial markets on circuits of production-consumption; "Say's Law does not hold... because those who receive income may prefer to hold liquid positions. As liquidity preference rises, asset prices fall, causing production of physical assets to decline" (Wray 1996: 457).

[44] Two American economists emphasized the connections between Gesell and Keynes's thoughts on the demand for money in their 1940s dissertations: Dudley Dillard's *Proudhon, Gesell and Keynes: an investigation of some "anti-Marxian socialist" antecedents of Keynes's General theory of employment, interest and money* (1940); and Lawrence Klein's *The Keynesian Revolution* (1947). The extent of Keynes's debts to Gesell in forming his liquidity theory of interest has received occasional analysis in the history of economic thought since (Darity 1995; Davidson 2000: 4; Preparata 2002).

reformer, became the subject of university lectures and theoretical dispute in the 1920s in South America and Europe. Beginning in 1933 and until the end of the war, the attitude of professionals in the English-speaking world towards Gesell changed as economists such as Irving Fisher and Keynes referenced his ideas as elements of the "underground" of monetary heresy that were consistent with the liberal basis of new macro-economic thinking (Chick 1987: 520; Popescu 1997: 262-263).[45]

Silvio Gesell (1862-1930) was born in Germany but experienced his formative business years in Argentina at the end of the nineteenth century during the worst period of monetary instability and foreign exchange crises. He published *Die Reformation in Münzwesen als Brücke zum Sozialen Staat* ("Currency Reform as a Bridge toward the Social State") in 1891 that laid out the foundations of his theory of "freed money" or *freigeld*. He first described his ideas as "liberal socialism" and while initially followers organized under the emblem of Quesnay's Physiocracy by 1919 associations in South America and Europe had settled on *Freiwirtschaft*, or Free Economy, as their nominal ideological concept. In the tumult of the political landscape of 1920s Germany the *Frieland-Freigeld-Bund*, "Free-land and Free-money Association," articulated a utopian vision that mixed pacifist anarchist traditions with Manchester School liberalism to animate a spirited social reform movement that gained attraction in amateur reform and professional economic thought around the world (Onken 2000: 605).

In the decades between the market collapse in Argentina in the late nineteenth century and the mounting paralysis of the interwar years in Germany, Gesell stated the basic tenets of his "ideal social state." Contrasting his system to liberal capitalism and Marxian socialism, Gesell argued that rent-free land and interest-free money would ensure workers received the full value of their labour. Land would be nationalized, its owners compensated by issue of non-interest bearing state bonds, and all land rents socialized in the form of a basic dividend to the "mothers of the world," whose maternal output, the population, constituted the demand and rent paid. Gesell expressed hope that a cultural renaissance in

[45] Schumpeter, however, responded to say "I am not a Marxist; nevertheless, I sufficiently recognize the greatness of Marx not to offend him by considering him to be in the same category as Gesell" (Schumpeter 1936: 793).

western society would begin from equality between the sexes, while the subsidy to *all* (present and future) mothers (he included single and foreign women in his draft plan for Germany) conveyed the naturalist element of his moral philosophy (Chick 1987: 520).

His central work, *Die Naturliche Wirtschaftsordnung durch Freiland und Freigeld* ("The Natural Economic Order through Free Land and Free Money," hereafter *NEO*), published in 1916, can be read as a treatise for regulative therapy to cure monetary disruptions in circuits of production-consumption. Gesell emphasized voluntary international co-operation as the key to a post-capitalist monetary order and the best way to combat the ultra-nationalism and anti-Semitic diatribes that had immersed the continent before his death in 1930. At the heart of Gesell's vision of a new world order would be the "International Valuta Association" that would issue and manage an international monetary unit convertible into the national currency units of member states to act as a neutral clearing house between surplus and deficit producing countries. The architecture of this institutional framework is a forerunner to Keynes's original *Proposals for an International Clearing Union* that the British delegation submitted to the Bretton Woods conference but which their American counterparts rejected in favour of today's International Monetary Fund (Popescu 1997: 267; Onken 2000: 616-617).

The "organic failure" of liberal capitalism, Gesell argued, was found in the institutionalized proprietary regime of money and land that together composed a *droit d'aubaine* – a seigneurial right held by property owners to confiscate the monetary worth of consumers through the metaphorical license of treating the nominal container of the flow of trade as a commodity for sale at market price.[46] Berkeley economist Dudley Dillard wrote in his *Proudhon, Gesell and Keynes: An Investigation of some "Anti-Marxian-Socialist" Antecedents of Keynes' General Theory of Employment, Interest and Money* (PhD 1940) that these reformers were united in an approach that began from legitimizing the ego and private property. They attacked "finance capital [from] a condemnation of all income from

[46] "Money-interest is the product of an independent capital, namely money, and is comparable to the tolls exacted in the Middle Ages by robber barons, and until lately by the State, for the use of roads. Interest on money is not influenced by the interest on so-called real capital (houses, factories, etc.) though the converse.... is true" (Gesell 1929: 176).

property," and "they attribute the flow of such income to the artificial scarcity of property caused by the peculiarities of money" (Dillard 1997: 276-80). Keynes distinguished himself from the anarchist monetary reformers with his philosophy of human uncertainty in the liquidity preference theory. This led him towards the "socialization of investment" and the endorsement of a mixed economy:

> [Keynes was] skeptical of monetary reform (lowering the interest rate) as an adequate social control for securing a sufficient inducement to invest. His socialization of investment follows from his belief that... the instability of market estimations made through the stock exchange will be too great to be offset by reductions in the rate of interest. This represents a more direct attack upon the investment market than either Proudhon or Gesell deemed necessary (Dillard 1997: 287).

What Keynes took from the anarchists Proudhon and Gesell was the conviction that property as a form of immaterial security had become an obsolete and exploitative means of organizing circulation. The often cited but vague reference to the gradual "euthanasia of the rentier" in the concluding remarks of the *GT* indicates the sort of libertarian moral philosophy that Keynes took from these individualist anarchists as an alternative to moving all the way down the path of state socialism (Keynes 1936: 376).

Against the ideological polarity between the "forces of reaction" and "revolutionary socialism" that defined continental Europe in the 1920s and 1930s, the *Freiwirtschaft* movement anchored itself in an organic individualism premised on a natural order of private property over the means of production. These reformers put forward an agenda of institutionalizing the demurrage principle (the fee associated in marine transport with the time it takes to unload cargo at port) in the form of a carrying charge tax on the money unit (Preparata and Elliott 2004). Gesell's monetary theory of interest reversed the orthodox wisdom that the interest rate was determined by market forces for the supply and demand for money, and instead argued that interest was an *ex-ante* "standard of expectations" administered by social institutions before market activity occurs (Suhr 1989: 13):

> The purpose of the book [*NEO*] as a whole may be described as the establishment of an anti-Marxian socialism, a reaction against laissez-faire built on theoretical foundations totally unlike those of Marx in being based on a repudiation instead of on an acceptance of the classical hypotheses, and on a fettering of competition instead of its abolition. I believe that the future will learn more from the spirit of Gesell than from that of Marx.
>
> In the first place, he distinguishes clearly between the rate of interest and the marginal efficiency of capital, and he argues that it is the rate of interest which sets a limit to the rate of growth of real capital. Next, he

> points out that the rate of interest is a purely monetary phenomenon and that the peculiarity of money, from which flows the importance of the money rate of interest, lies in the fact that its ownership as a means of storing wealth involves the holder in negligible carrying charges, and that forms of wealth, such as stocks of commodities which do involve carrying charges, in fact yield a return because of the standard set by money (Keynes 1936: 355-356).

The neo-classical theory that interest is determined by an equilibrium of voluntary preferences is "completely stood on its head" so that financial capital becomes a social convention of the monetary standard (Seccareccia 1997: 136). Gesell saw in money "the archetype of death... the minimum of material properties is what all men demand of the material part of money;" gold, for instance, has been valued as a social standard across monetary spaces because of its base properties (Gesell 1929: 52).

The principle underlying the technical details of Gesell's monetary theory that translated onto Keynes's economics was a utopian social reform with the objective "to attack *rentier* capitalism and to substitute in its place an interest-free society" (Dillard 1942: 348, emphasis in original). The basic interest rate (*Urzins*) was interpreted as an essentially exploitative payment, in other words, pure inflation, ostensibly legitimized to prevent money-holders from "hoarding" the standard unit of payment. Gesell's theory of social reform that influenced Keynes distinguished between two types of interest payments: basic interest and interest as a return on real capital:

> The accumulation of capital assets in no way reduces the independently determined money rate of interest. On the other hand, the accumulation of capital assets does lower the rate of return on real capital. When the latter falls below the basic (money) rate, accumulation ceases because it is now more profitable to hold money than to invest (Dillard 1942: 351).

The basic interest rate functions as a command mechanism in association with the monetary standard to establish a positive return on money units as token claims, and this determines the necessary rate of profit return for any given business venture.[47] Gesell's contribution to the Keynesian frontier of defining the non-neutrality of money and interest was in this idea of the "encroachment of imperishable money on the unfolding of the physical economy," in other words, the gradual domination of a command institution over other human activities (Dyer 1989; Preparata and Elliot 2000: 34).

[47] This point is expressed by Keynes in his letters with Hawtrey on the language of concepts in the *GT*: "My whole point is that no theory of interest can be derived from marginal efficiency. My theory is that, given the marginal efficiency of capital, then the rate of interest, whatever it is, derived from quite different sources, tells us on what scale investment will take place" (Keynes 1973, XII: 631).

3.3. Douglas and the Apostles | The fate of C. H. Douglas as an economic writer in the English-speaking world was cast in John M. Keynes's *General Theory* in 1936, where he was delegated as "a private perhaps, but not a major in the brave army of heretics" (Keynes 1936: 371). However, Douglas was arguably a major popularizer of Keynesian concepts of thinking in terms of accounting identities and defining effective or aggregate demand as the basis of the national monetary economy. The emergence of national accounting as a common mode of thinking about economic reality is a relatively recent phenomenon, and is contingent to a particular moment in the 1930s and 1940s when accounting as an epistemology became a serious topic for "the practice of modern macroeconomic management" among a community of statisticians, civil servants and academics (Galbraith 1980; Mitchell 1996; Suzuki 2003: 473). Douglas's premise of an inherent deficiency of purchasing power required a way to conceive economic reality in macro-accounting terms in order to make sense of the claim, and in this sense contributed to the Keynesian frontier of thinking about income as an "object of conscious national policy" (Adelstein 1991: 162-163). This theoretical revolution structured the meaning of the economy around a few fundamental accounting identities as logical definitions to frame the analysis.

The references to social credit ideas in the *GT* are vague. Douglas is grouped by Keynes within a "spate of heretical theories of underconsumption," but also that "the strength of Major Douglas's advocacy has, of course, largely depended on orthodoxy having no valid reply to much of his destructive criticism" (Keynes 1936: 370). Douglas seemed to serve two purposes for Keynes: as a weapon to mock the incapacity of equilibrium or non-monetary orthodox thinking to explain the macro-economic instability behind the depression, and as a way to demarcate his own revolutionary consensus on effective demand management from the heretical underworld. What united Douglas and Keynes was the concept that the real world of monetary space and flows could be abstracted into logical income accounting identities. This inclination towards a "numerical epistemology of macroeconomic reality" among reformers allowed for government expenditures on the back of state

credit to be qualified as positive incomes on the same terms as private credit (Suzuki 2003: 506).

On May 1 1930 at the Macmillan Committee set up to determine the root causes of the crisis, Douglas was invited to publicly defend his argument in front of Keynes and the panel of experts. The Major had become a figure of interest for his argument that there was an inherent and cumulative deficiency of effective demand, and that this disparity would lead to mounting debt and war (Dutton and King 1986: 266). It was upon touching the intricacies of capital depreciation that made up this alleged gap that Douglas stumbled in the communication of his ideas (Preparata 2004: 148):

> Question: What happens to the difference [the B payments]?
> Answer: It is represented by the fixed assets in the company which it cannot distribute in the form of money.
> Question: It does not distribute it to its shareholders, but if a company earns £100,000 in one year and puts £50,000 towards increasing its plant does that £50,000 flow out in additional wage payments?
> Answer: No, that does not happen at all. What really happens is, that during a given year's working it is necessary to create a number of things like tools, or jigs, or something of that sort, which must be charged in the cost of product to the consumer...

Douglas emphasized that he was not referring to the effects of bank interest or distribution of corporate dividends as somehow diminishing total purchasing power. The problem was to account for the treatment of the money-incomes associated with the forces of entropy, or user costs, on fixed capital.

> Question: And if in the interval you had to have new machines to replace the old ones you would have to hire individuals to produce them. How does that differ from any other form of consumption?
> Answer: Because you are not starting from zero. You are starting from the world as it is... The simple and vital fact remains that the wages paid during [production] are less than the price of the [product] by an amount, large or small, which is added to the cost of the [product] before the [product is] sold, representing, at least, “depreciation.” This amount which is added to the cost of the [product] represents overhead charges in their simplest form.
> Question: By whom are the overhead charges paid?
> Answer: They are put into the cost of the product. They are not paid to anybody. They have in previous cycles of production appeared in the cost of the factory (Douglas 1930, quoted in Preparata 2004: 89-90).

Douglas confronted Keynes and the rest of the committee members with a quandary: how do you distinguish between real money as a magnitude of national income identical to the value of national output, and nominal money as a magnitude of overhead costs that carry zero purchasing power? This dilemma pointed to the basic cause of a disorder between the balance of total supply and total demand.

In Keynes's short critique of Douglas in the *GT* he refers to the A + B Theorem as including a degree of “mere mystification” that did not justify its claims to be an objective solution (Keynes 1936:

370). But what Keynes actually says about the fallacies of Douglas's reasoning is not clear:

> If Major Douglas had limited his B-items to the financial provisions 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 (*Ibid:* 371).

This referral to "financial provisions" is an ambiguous statement on Keynes's part as it seems to concur with Douglas's basic claim that there is a deficiency of purchasing power at any given point of time.

The role of Social Credit in the Keynesian frontier is better understood through the dialogue between the Major and Ralph Hawtrey. On March 22 1933 Hawtrey, who at the time was Assistant Secretary to the Treasury, debated Douglas in an event hosted by the Birmingham Social Credit group. The transcripts provide an excellent means to place Douglas in the context of interwar debates on monetary theory. First, however, Hawtrey's background needs to be briefly expanded on as it is relevant to the philosophy of the Keynesian frontier. Hawtrey maintained that "economics cannot be dissociated from ethics" (Hawtrey 1926: 184). Both Keynes and Hawtrey were a product of the Cambridge secret society known as the Apostles and were deeply influenced by G. E. Moore's *Principa Ethica* (1903): "Moore claimed that goodness is an objective non-natural property that exists in the world and that some things are in fact good" (Andrews 2010: 299). This position shaped the Apostles' approach.[48]

The Cambridge philosophy centred around Moore's ethics that Keynes and Hawtrey adhered to dated back to a longer tradition of the writings of Samuel Taylor Coleridge, a poet, journalist and philosopher remembered for bringing German idealism to bear on the English sceptical tradition. The first goal of the Apostles tradition was to understand that because the objective good as a non-natural property of the world could only be seen from the periphery of partial truths, what was required was reconciliation of different views while providing an account for individual disagreement (Andrews 2010: 301). Moore shaped the views of the Apostles by insisting that the objectivity of goodness is a

[48] Keynes spoke of Hawtrey as among those impacted by Moore in remarkably candid terms as a religious experience: "Its effect on *us*, and the talk which preceded and followed it, dominated, and perhaps still dominate, everything else... The influence was not only overwhelming[;]... it was exciting, exhilarating, the beginning of a new renaissance, the opening of a new heaven on a new earth, we were the forerunners of a new dispensation" (Keynes 1971, X: 435).

matter of observation and common sense, not one of theoretical deliberation. In his original critique of positivist economics, Hawtrey remained faithful to Moore in keeping to basic principles: “We need not adopt a definitive system of ethics, so long as we can apply that body of judgments which all systems of ethics alike endeavour to explain and assimilate” (Hawtrey 1926: 186; Maccio 2013).

Perhaps it was this philosophy that placed economics as a means to some objective good, observable only from partial truths, which attracted Hawtrey to debating Major Douglas on sympathetic grounds of reconciliation whilst making differences clearly known. The Apostles tradition argued that because economics is so dependent on a philosophical vision of a non-natural good, it was impossible to separate the exact science from the partial ethics. Before economics can make sense of the relation between nominal and real variables there must be a grounding of the social vision that makes this association between money and stuff possible (Hawtrey 1926: 371). So let us turn to the debate.

The transcript of the debate was printed in an April 6 1933 issue of *The New Age*. The forward stated that Social Credit took the form of a loan but amounted to “a gift in substance” with no payment due. If interest was the “symbol of a moral obligation on the part of the recipient to the authority issuing the credit,” then Social Credit denoted the responsibility of the community to provide the individual “free credit” (*New Age* April 6 1933). Hawtrey focused upon the idea that banks destroy money by refluxing debt, agreeing with Douglas on his description of the system but admonishing his technical solution as “about as helpful as a misprint in the multiplication table” (Hawtrey 1937: 314):

> Before setting out to criticise the doctrines of Major Douglas, I should like to say that on certain matters I am in entire accord with him. Among these I would especially mention his view that the demand for commodities arises from incomes and that incomes arise out of production.
>
> When the final sale to the consumers takes place, the money advanced by the banks has to be paid off. That part of the proceeds of sale is simply destroyed. For just as a bank advance creates money, so the repayment of an advance extinguishes money... The release and absorption of cash [by the banking sector] plays an important part in the regulation of credit. What is commonly called an expansion of credit is really a device for inducing a release of cash, while a contraction of credit is a device for inducing an absorption of cash. The release of cash may be effected either with money drawn from existing balances or with money lent by the banks. Similarly an absorption of cash may mean either the accumulation of idle money or the repayment of bank advances.
>
> The real significance of the power of the banks to create or extinguish money is that it enables them to bring about the release or absorption of cash. If the net result of all the different causes at work is an

absorption of cash, then there is deficiency of purchasing power; if the net result is a release of cash, then there is an excess of purchasing power.

> This account of the relation of the credit system to productive activity differs from that of Major Douglas in that it reaches the conclusion that an excessive demand is just as likely to occur as a deficiency. According to Major Douglas's theory there is a *persistent and inherent* tendency to a deficiency of demand (*The New Age* 1933: 2-6, emphasis in original).

The fundamental argument put forward by Hawtrey to the audience was that the problem of credit control "is one of practical expediency rather than of abstract right" and that the principle expressed in the A + B Theorem that there was a general and growing deficiency in demand was only one possible reality, but not a likely one based on the interests of banks and property owners (*Ibid*: 6). By the time Douglas had been cross-examined by both Keynes and Hawtrey, the Social Credit movement as a small group of committed reformers was over a decade old. Douglas had long been predicting an inevitable financial catastrophe, and here, in the midst of what would later be known as the Great Depression, the movement at last found the attention that led to these economists' interest (Finlay 1972: 128-130).

The basic message of Douglasism itself, however, fundamentally changed in the 1930s. The A + B Theorem at the heart of his analysis of non-neutral social accountancy was increasingly criticized as superficial and insufficient, a development of its poor reception at the Macmillan committee. As the movement gathered steam in the early 1930s there was a shift among members and advocates to stress the place of Social Dividends as the key to social credit thinking (Trier 1995: 236-238). This occurred at the same time as the statistical revolution in macro-economic theory that Keynes was integral in defining with the publication of the *GT*. The fate of Social Credit as a serious reform movement was in large part decided from Douglas's interactions with the Apostles alumni between 1930 and 1933.

According to Hawtrey, Douglas was mistaken to frame capital depreciation and amortization as "constituent of [a] cost which does not appear in the form of incomes," as such overhead costs are accounted for by firms out of retained earnings. There is no failure of balance between supply and demand as all "incomes are devoted partly to consumption and partly to investment;" in other words, Hawtrey was restating the equation that would be formalized as national income in Keynes's basic

accounting identity: (Y) income = (C) consumption goods + (I) investment goods (*New Age* 1933: 3).

The next year, however, in an article for the *Economic Journal* titled "Monetary Analysis and the Investment Market" (1934) Hawtrey began with the premise that "in the propositions of economics an algebraical notation has the advantage of a precision which cannot always be attained by the literary contrivances of language" and then proceeds to define accounting values in the following fashion:

> "Let selling value of output = A,
> consumers' income = B,...
>
> Incomes are derived from production or economic activity... But we cannot draw the simple conclusion that A = B, for *there is one category of costs by which incomes are not generated; that is depreciation*" (Hawtrey 1934: 631, emphasis added).

Hawtrey had apparently made a drastic change of mind between March 1933 of the Birmingham debate and some time prior to the December 1934 publication of this essay. "Recognition is due to Major C. H. Douglas for insisting that depreciation is a part of cost that does not of itself generate incomes" (*Ibid:* 646f.).[49] Hawtrey underscores that this burden is "not bought out of income, and are not part of the consumers' outlay. They are bought out of capital" (*Ibid*: 634). Drawing on the same language as the editor's introduction to the publication of the Birmingham debate, he refers to the costs to cover the depreciation burden of maintaining fixed capital, not interest in of itself, "as a debit or lien attaching to the output of capital goods as a whole" that can result in pathological outcomes (*Ibid*):

> Depreciation sometimes proves a stumbling-block in the way of acceptance of the theory of credit regulation. Equilibrium requires sales to be equal to output... But there remains a residue of output, equal to depreciation, the demand for which depends upon the spending of the depreciation allowance (*Ibid*: 646).

As Gorham Munson put it in his book on Social Credit, the A + B Theorem "is not mystifying but unfamiliar and upsetting to the prejudices of conventional economists... [who] have taught that every cost entering into the determination of price was at some time or other somebody's income" (Munson 1945: 150). Once this assumption has been disturbed there is a possibility for a pathological situation in

[49] Hawtrey insisted in the forward of his book *Capital and Employment* (1937), which reprinted another debate between him and Douglas, that "as it really was a correspondence with Major Douglas that led me to the conclusion that depreciation ought not to be treated as itself generating incomes on the same footing as other costs, it is only fair to him to say so" (Hawtrey 1937: vii, quoted in Dutton and King 1986: 275).

the social accountancy system where total supply tends to become greater than total demand.

The Douglas position emphasized the predictable aspect of the negative effects of entropic forces on capital values expressed in his A + B Theorem, which translated into an agenda of accounting for a category of nominal money-income units which contain zero real demand. This argument was never accepted in official Keynesian theory. Consider this passage from the "Appendix on User Cost" in the *GT*: "Some part of the maintenance of the equipment must necessarily take place pari passu with the act of using it (e.g. oiling the machines). The expense of this... is included in the factor costs" (Keynes XIII, 1973: 69). In other words, user costs are treated as normal incomes to be pooled and loaned in the financial recycling mechanisms constituting the accounting flows of monetary space.

In his drafts and letters building towards the publication of the *GT*, the extent to which this problem of user costs troubled Keynes becomes more apparent than the brief mentions in his text suggest. It is worthwhile to quote his notes and exchanges with Hawtrey on the matter:

> What we ordinarily mean by the price of anything naturally includes the part of the price represented by the marginal user cost. Let us call this the gross supply price. But the common practice of arguing as though the supply prices could be equated to marginal prime cost suggests what economists have often had unconsciously in mind what we may call the net supply price, i.e., after deduction of user cost. Now from the point of view of the individual spender, it is the gross price which uses up his income; but from the point of view of the entrepreneur it is the net price (or the net price subject to still further deductions) which generates new incomes. *Thus there is a constant leakage going on in the circulation of income (quite apart from saving)* unless entrepreneurs are making it good by new investment equal to what they have deducted from gross price to cover user cost. Doubtless this is the leakage which Major Douglas has observed. But he has not observed that it can be made good by investment. He has perceived the possibility of evils ensuing from the deficiency of effective demand, but he has failed to perceive that there are two ways of maintaining effective demand, - namely by investment as well as by increasing consumption" (Keynes 1973, XIV: 416-417f., emphasis added).

In these notes published in his *Collected Works* during the 1970s, Keynes appears to agree with the concept that continuous financing to cover depreciation (i.e., in accounting terms, capital amortization) is necessary to block a macro-economic leak of purchasing power. Keynes even outlines the possibility for accounting for total user costs in a hypothetical formula: "If the entrepreneur's actual financial deduction from gross price, which he regards as in no sense and in no circumstances available as income, could be laid down by an infallible formula, then I should define *income* as what remains after

this deduction. But there is no such formula" (Keynes 1973, XIV: 4117f., emphasis in original). These notes suggest that Keynes, in theory, recognized how the user costs of capital were a special kind of income that had to be treated differently in a genuinely *macro-economic* or holistic framework.

In his letters to Keynes on the issue of deflationary conditions associated with the sinking funds employed by firms to finance working capital, Hawtrey suggests: "This is Major Douglas's argument. Might you not acknowledge it?" (Keynes 1973, XII: 599-600), and later after an unsatisfactory reply from Keynes that "to endorse Major Douglas's argument when you do not think if of any practical consequence is asking for trouble" (*Ibid*: 612). This evidence for understanding the impact of Douglasism on Keynesian frontier of macro-economic thought in terms of the peculiarity of accounting for user costs also links to the main influence of Gesell: the difference between imperishable money and the real world of decay, with all of the carrying costs of material life in an entropic environment.

3. 4. Social Credit Reconstructed | We can now examine the structural flaw in the current social accounting system imperfectly identified in the A + B Theorem. The history of Social Credit as a basic incomes movement, and its connections to earlier proposals in the post-war Reconstruction Era and the "Social Dividend Keynesians" who followed after WWII, has been well documented (Trier 1995).[50] The core of Douglasism – the A + B Theorem which states that there is an inherent deficiency of purchasing power in the national economy – has received less than positive attention.[51] The goal of this section is to reconstruct Douglas's argument as a theory of monetary disorder relating to a cost accounting error in the financial construction of social accounts. The problem of defining the peculiar B payments can only be addressed by demarcating a third department in the common accounting-and-payment system, in addition to monetary and credit-debt departments, to contain the flow of payments

[50] The Canadian experiment with a basic minimum income in Manitoba by the federal Liberal government under pressure from a social democratic left during the late stages of the 'Keynesian Era' has been documented by Eveyln Forget (2013).

[51] The Canadian political theorist C. B. Macpherson wrote: "Here is a theorem, in apparently simple and compelling algebraic terms, which seems to show with complete logic that there is never enough money distributed in the course of producing things for them all to be bought. The fallacies of the theorem would have been readily apparent had it not been presented with such lack of definition and such variety of interpretation" (Macpherson 1962: 108).

for replacement goods associated with the user costs of capital. The basic outline of this reform agenda is discussed with reference to Douglas's economics and the quantum-theoretic approach of Bernard Schmitt and Alvaro Cencini, and finally the significance of this reconstruction for human geography is summarized.

In his analysis of the doctrine in Alberta, C. B. Macpherson described social credit theory as "more radical in its criticism of society and more utopian in its proposals" than conventional political culture, because "it set out to solve all the world's problems without having an anchor in the experience of any homogenous class" (Macpherson 1962: 93). Before the 1935 election, the Social Credit movement in Britain and urban North America was composed of intellectuals, church members, the organic husbandry movement and other members of the middle and even aristocratic classes (Finlay 1972; Conford 1998). For Macpherson, this alienation from the concrete class experience and conflict over the means of production meant that "the only offsetting factors [to the lack of demand] alleged by Douglas involved premises as erroneous as the logic of the original theorem was fallacious: namely that the whole system was becoming increasingly in debt to some persons or institutions outside the system" (*Ibid*: 112). Macpherson's analysis is limited, however, in that within our mixed monetary economy, outside money as the means of final payment is channeled through inside means of promissory payment in credit-debt relations. To understand the concept of a total lack of purchasing power requires beginning from the distinction between money, credit-debt (income) and capital.

Both Social Credit and the quantum economics school of thought interpret the modern problem of money as a structure of rules and laws actualized in financial bookkeeping. Schmitt reiterates the gist of the A + B Theorem in his alternative national income statement $Y = C + I + U$. The banking system's treatment of the incomes associated with covering depreciation loss suffered by fixed capital over time, U for user costs, has created a condition where "in the real world and for a considerable number of years, total demand has fallen systematically short of total supply in many national

economies. The cause of this discrepancy lies with the demand for replacement goods" (Schmitt 1996b: 78). In Schmitt's words, "only a monetary reform is equal to the task. The purpose is to establish, within the banking system, a control or a 'sifting' of monetary flows" (*Ibid*: 73). The reform separates the national banking system into three distinct departments: a money issuing department, a financial credit-debt department and a capital department that accounts for the treatment of user costs, "a category of expenditure which has gone unnoticed by all schools of thought, Keynesian or otherwise" (*Ibid*: 87). A Social Credit activist expounded on this principle that money-incomes associated with paying for replacement goods have to be differentiated from money-incomes adding to real output:

> It is true that B payments (raw materials, bank charges, external costs) represent payments of wages, salaries and dividends, but it is untrue that this purchasing power is still in existence. A closer scrutiny reveals that these B payments only *represent*, they do not *constitute* wage, salaries, and dividends. Except for the profit of traders immediately receiving them, they consist wholly of replacement credits which merely transfer goods and debt and pay off and replace older credits outstanding. They are not fresh disbursements (H.M.M. 1935: 10, quoted from Preparata 2004: 95, emphasis in original).

Once expended, these incomes created alongside the monetization of replacement goods in user costs represent a "purely nominal magnitude" and so from a macro-economic perspective "nourish... *zero demand*" in the formation of total purchasing power (Schmitt 1996b: 98, emphasis in original).

Despite the differences with Douglas's vision of social reform, there is a fundamental common element in the quantum scholar's critique of the status quo: "given the skewed bank accounting, the investment of profits [associated with B payments] generates a pathological ill-functioning capitalism [where] economic agents are the victims of a system" (Cencini 2005: 168). The reason that this pathological condition is not more widely appreciated is that the orthodox body of national accounts cancels out U, a unique category of expenditure, by including its value in "intermediate consumption" and imputing the "value-added" in the production process into the final consumer good (Kuznets 1941: 41-42). The resulting situation is that "economists are somehow deluded into believing that the value which the previously accumulated fixed capital sheds in the current period is an impartible magnitude, for it enhances, so they believe, the value of the consumption goods which are produced with the

assistance of machinery" (Schmitt 1996b: 89). What this means is that due to a non-random accounting error there is an inevitable overvaluation of new investment goods out of a systematic confusion between the costs to cover capital amortization and the value of consumer goods churned out. The structural problem is the standard accounting convention to impute a positive value measure of what is, in macro-economic terms, a purely nominal fund associated with keeping up with entropy over time.[52]

The normative implications of this flaw to the problem of economic democracy can be found in the ways that Douglas and the quantum school distinguish between incomes received by "individuals" (A payments) and "depersonalized firms" (B payments). In other words, incomes received by the "firms themselves, and not their individual owners" create a situation where legal corporate fictions of personhood become the owners of fixed capital goods, specifically in order to secure the collateral in plant equipment and other assets to access credit and pay for the liabilities of user costs (Cencini 2005: 166). Douglas argued that this process where production becomes "of a character demanded by those in control of credit and is capital production" is pathological and exploitative because in real terms, "the fundamental derivation of credit is from the community of individuals" and not to the impersonal legal constructs of a macro-system such as banks or corporations (Douglas 1922: 24).

In contrast to the dominant neoclassical doctrine, the various incomes agents hold are not formed following mechanical principles of value conservation in a relative exchange of productive services for money as inspired by classical physics. The formation of purchasing power in wage and non-wage incomes are properly human activities involving the goods produced by workers with the help of capital previously built by workers (Bailly 2012: 128-129). It is in this sense that Keynes argued that the wage-unit "can thus be regarded as the essential standard of value" which ultimately composes current national income (Keynes 1936: 302). The non-wage incomes that form in the accounts of owners of capital (depersonalized firms, creditors and shareholders) are the outcome of

[52] As Cencini defines the problem: "A monetary disorder manifests itself as a *nominal* (or numerical) unbalance between total supply and total demand – whose substantial identity is never challenged – and has its origin in a pathological transaction that deprives income holders from a part of current output" (Cencini 2001: 202).

past household savings invested into fixed capital, and the point where such capital formation occurs either through an orderly or pathological process depending on the treatment of capital user costs.

According to this point of view, the cultural heritage of technological improvement has become "hopelessly out of the reach of society (considered as the set of individuals operating in our economic system)" because of a process whereby the profits associated with monetizing overhead costs are "appropriated by impersonal *Capital* itself" as an indirect burden charged on total demand in higher prices for consumer goods (Cencni 2005: 166, emphasis in original). In contrast to the Marxian approach that begins with abstract capital as a totalizing structure, the quantum economics approach places this as an outcome of pathological capital accumulation due to a book-keeping error.

The solution for Douglas entailed the construction of new administrative machinery in the Social Dividend and the Just Price that would "patch up" the relations between supply and demand after the fact of private investment (Preparata 2004: 104). In other words, the guaranteed basic income was one possible way to compensate for a flaw in the current formation of purchasing power, but was not in any sense the core principle of Social Credit as a macro-accounting theory of the pathological capital accumulation that creates these structural anomalies.[53] Take the following statement from *The New Age*: "Costing reform must supersede credit reform as the conscious objective of the Social Credit movement... The quantity of credit is not the vital point; it is the proportionate allocation of credit as between capital development and consumable output which makes all the practical difference to the personal prosperity of every member of the population" (New Age 1929, quoted in Finlay 1972: 129). In Douglas's view of the world, the true nature of "Capitalism... is a system of fixing prices in relation to costs," which advantaged established creditors by shifting the liabilities for user costs on fixed capital onto wage-earning households (Douglas 1922: 14; Macpherson 1962: 115-116).

[53] Despite the central role of his inherent deficiency of purchasing power thesis, Douglas has usually been interpreted as a forerunner to Keynes's agenda of using fiscal policy to stabilize national income: "by the time of Keynes, Major C. H. Douglas had, for some years, been winning lowbrow converts to the concept of Social Credit. The operative feature of Social Credit was a social dividend, meaning the equivalent of cash payable to citizens at large – a reprise of the pioneering idea of colonial Maryland. The social dividend would surely be spent. It involved none of the passiveness of monetary policy. So Douglas anticipated Keynes – as Keynes himself observed" (Galbraith 1975: 223-224).

The critical agenda that Douglas contributed to in the 1930s included social reformers such as Silvio Gesell and Frederick Soddy who considered how entropy had to be accounted for in monetary theory and policy (Trier 1995: 246-247). Canadian post-Keynesian economist Mario Seccareccia introduces this tradition in his essay "Early Twentieth-Century Heterodox Monetary Thought" (1997):

> In a closed system there exists a continuous and irreversible tendency for free or available energy to dissipate into bounded or unavailable energy and, therefore, for matter to go from order to chaos. Even time itself became conceptually intertwined with the existence of on-going irreversible entropic processes in nature. Hence, dynamic models of an economic system that would allow for the passage of time (such as theoretical models of capital and interest) must also simultaneously consider the effects of entropy to provide realistic models of the actual world (Seccareccia 1997: 126- 127).

The problem was conceived in the progressive underground from the common thread of an asymmetry or non-neutrality between the real and nominal dimensions of a monetary economy: "Wealth perishes, but debts, being legal claims to future wealth, appear to afford a means of dodging Nature... What [individuals] desire is not wealth, but debts that do not rot" (Soddy 1931: 24). The Social Credit proposals concentrated on devising some state-directed financial recycling mechanism to compensate for the forces of entropy which would somehow "be set by the average rate of depreciation of physical goods," and in doing so prevent credit-debt accumulation associated with the costs of working capital (Seccareccia 1997: 136). The "loss of energy" concept as the constitutive metaphor of Douglasism is what allowed for so many variations in the evidence that supposedly verified the A + B Theorem, as each problem could be interpreted as a symptom of the general problem in social accounting of compensating for the impact of entropy on fixed capital investment over time (Trier 1995: 246).

This reconstruction of Social Credit into a macro-accounting theory of the orderly or disorderly treatment of the user costs of capital has direct consequences for human geography. The basic problem is how do the users of the inheritance of improvement – capital – relate to the members of a monetary space? While Brett Christophers critiques thinking about economic instability and crises from the national scale as an "anaemic geography" when engaging current financial relations of a global nature, the principle of reforming bank accounting can *only* begin from the monetary space which defines the

macro-circuit containing these processes (Cencini 2012; Christophers 2012). The circuitist approach begins from the monetary structure and a logical structural framework governing the banking system of double-entry book-entry credit-debt money at the national level. This monetary standard exists as an autonomous scale as evident by our use of territorial currency to demarcate membership in a permanent community and a social value standard. This does not necessarily imply a state of autarky, or a self-sufficient closed economy, as Douglas (and Keynes) at times put forward, but it does entail a renewed focus on the deontic and political foundations of macro-economics out of historical institutions. A monetary approach to human geography has to reckon with these principles of monetary space and effective demand on their own terms before interpreting the relationship of these dynamics with any contingent conflict of interests between historical actors and groups over production and distribution.

The link between Social Credit as a minor popular movement and Douglasism as a set of arguments leading towards the conclusion that there is an inherent deficiency of demand was the intellectual background of the interwar progressive underground that spanned across the Atlantic. The core of this "underworld" between radical conservative and socialist thought associated with figures such as A. R. Orage and Ezra Pound was a critique of liberal orthodoxy and values around money known as "underconsumptionism" (Finlay 1972: 17). The argument for provisioning a Public Dividend in newly created purchasing power to every member of a given monetary space was based on the principle of the need to create a national Capital Account to contain the income flow of the user costs of capital, in addition to the existing formal structures that separate between money and credit-debt in the modern banking system. Laying out an economic theory that discounted the cultural and accrual biases towards investment and fixed capital for its own sake in essays such as *The Delusion of Super-Production* (1919), Douglas provided the framework for a small but significant strand of an English-speaking idealist underground across Christian Distributionist, Guild Socialist and Social Credit lines who dreamt of a post-capitalist and post-creditist model of "consumer sovereignty" (Trier 1995: 395).

Chapter 4
Prairie *Freigeld* and Alberta Credit on the Keynesian Frontier

4.1. Introduction | In August of 1936 the newly elected Social Credit government of Alberta released $175,000 in one dollar "Prosperity Certificates," what the press and opponents called "funny money." The notes were issued in an effort to fulfill a campaign promise made by the leader of the movement, the school headmaster and evangelical radio personality William "Bible Bill" Aberhart, to distribute "$25 to every bona fide Albertan citizen" (Aberhart 1935: 19; Elliot and Miller 1987: 188). The certificate scrip money was based on the *schwundgeld* (shrinking money) concept developed by Silvio Gesell and was the first attempt in a series of measures designed to increase the purchasing power of Albertans while reducing public debt. It centred on the promise of free money "or some equivalent for money" referred to by its orchestrators simply as "Alberta Credit" (McGoun *et al* 1936: 517). Months earlier, on April 1 1936 the Social Credit cabinet had made the decision to default on its maturing debt payments rather than allowing a federal Loan Council to manage the provincial books and payment schemes (Ascah 1999: 53). It was the first and only Canadian government to default. The *Prosperity Certificate Act* was one of several pieces of legislation that followed the default, including bills to cut the interest by one half on all outstanding provincial[54] and municipal securities[55], a cancellation of all interest owed on farm mortgages[56] and the establishment of an Alberta Credit House[57] to design and implement policies to meet the promise of Alberta Credit.

The Dominion government and the Bank of Canada, which had been established just three years previously as a private body of creditors, immediately sought to contain the anticipated fallout of these interventions under the impression that federal and provincial creditworthiness would be seen as interchangeable in overseas capital markets (*Ibid*: 61-67). In a letter to the Toronto financier Thomas

[54] *The Provincial Securities Interest Act*, 1 Edward VIII (Second Session), Statutes of Alberta, 1936, Chapter 11.
[55] *The Municipal Securities Interest Act*, 1 Edward VIII (Second Session), Statutes of Alberta, 1936, Chapter 12.
[56] *The Reduction and Settlements of Debts Act*, 1 Edward VIII (Second Session), Statutes of Alberta, 1936, Chapter 2.
[57] *The Alberta Credit House Act*, 1 Edward VIII (Second Session), Statutes of Alberta, 1936, Chapter 1.

Bradshaw, Graham Towers, the first governor of the central bank, sought to contain this source of "nervousness" in bond markets: "the Province may now be considered one of the strongholds of monetary cranks, and some offsetting influence is highly desirable" (*Ibid*: 60). Beginning in the autumn of 1936, the Canadian Bar Association (CBA) began a campaign of discrediting social credit theory and its government by "bringing home the damaging effect of such legislation… to the man in the street." In a draft released on behalf of institutional bondholders the Dominion government was urged to frame these intrusions as having "serious consequences to the citizens of Canada as well as to Confederation itself" (*Ibid*: 68). In the words of Canadian banking historian Robert Ascah, "peace, order and good government were reduced to the preservation of the existing financial order" (*Ibid*: 68). The concerns among established creditors were not just about the constitutional validity of the province's legislative goals; efforts to make Social Credit concrete entailed a threat to the real and imagined monetary order in the public mind. As a CBA advert in an Alberta periodical summarized: "Credit – it belongs to you – the community does not own it" (quoted in *Ibid*: 69). Alberta Social Credit channeled a regional political economic anxiety to alter the stakes of the game in monetary, credit and capital institutions.

Aberhart had won the Alberta election on the promise that he would install his version of Social Credit within eighteen months of the August 1935 election. This chapter concentrates on the rise of the movement from 1932 to 1935 and the months following the election into the summer of 1936 when the uncertainty of the government's agenda resulted in an atmosphere of experimentation, in particular, the default on public debt obligations and efforts to establish Alberta Credit. The goal of this chapter is not to chart a comprehensive account of the first term of the Social Credit government but instead to focus on critical moments from this period that reveal Alberta's place in the Keynesian frontier. I challenge the existing literature on Alberta Social Credit for not engaging with the context of modern monetary theory. The narrative detailing these crisis moments then considers how heretical theories were incorporated into the political campaign and tumultuous first years of government.

The Alberta Social Credit phenomenon emerged at a time when "the nineteenth-century focus of the federation on growth... [was] supplemented by a mid-twentieth-century emphasis on the shared equality of citizens" (McDowall 2008: 75). The Canadian historian of macro-economic thought Robert W. Dimand has noted that Canada has attracted little attention from historians charting the international spread of Keynesian ideas. The advent of the Keynesian Revolution in Canada was brought about by two groups: students at Cambridge, and federal civil servants and government men who established a Liberal policy consensus of effective demand management as a middle-path between corporate self-regulation and central planning (Dimand 2008: 57-58). As the historian of national accounting in Canada Duncan McDowall has argued, the Keynesian revolution was crucial as a way to make sense of structural un-employment and income distribution in the statistical data collected on the monetary economy. The conditions for drastic change in the field of Canadian political economy were in place:

> It was recognized that perhaps inductive analysis – driven by the gathering and observation of fact – should underlie the discipline. Out of the right facts might come the right theory and the right public policy. History has conceded the commanding heights in this transformation of economic thought to John Maynard Keynes, whose *General Theory of Employment, Interest and Money* appeared in 1936. At the time, however, Keynes joined a chorus of theorists wrestling with the problem of correcting unemployment and underconsumption. (In the provincial election of 1935 Albertans had, for instance, embraced Social Credit, the doctrine of an English engineer, C. H. Douglas, who preached that the state should pump additional purchasing power – "funny money" the critics said – into the economy.)
>
> While the Dominion Bureau of Statistics tinkered with production figures, the focus of economics had shifted from the productive outcomes of capitalism to its *structural* and *distributive* dynamics. The Depression experience had indelibly impressed the role of income – who got what, where, and when – on the minds of economic observers" (McDowall 2008: 42, 63, emphasis in original).

Equality of economic citizens in the new macro-economic theory was interpreted in terms of the relative distribution of a total national income; Social Credit argued that equality of citizens had to be addressed from the structural neutrality of institutional channels governing money creation, initial distribution and destruction prior to the formation of income in production-consumption circuits.

The Liberal government under Prime Minister Mackenzie King responded to the October 1929 financial crash with a conservative federal budget that followed 'sound' finance principles concomitant with the classical approach. In 1930, the electorate brought in the Conservatives who promoted an

activist response to the depression, and the new Prime Minister, Calgarian R. B. Bennett, came into office raising tariffs and promoting expanded trade negotiations with Commonwealth countries. With mounting bankruptcies and growing stress on federal-to-provincial relief lines the fear began to settle in that Canada was not going through a mere cyclical recession but a structural collapse of the national monetary economy (McDowall 2008: 35-37). Social Credit entered the political scene competing for the position of a radical third alternative to the establishment parties.

The Canadian humorist and McGill chair Stephen Leacock described the ideas of Major Douglas as "certain profundities of British fog impossible for most to understand which in sunny Alberta, by force of prayer, turned into Social Credit... Whatever may be in [these ideas], in Alberta it led to a partial repudiation of public debt, and scaling down of mortgage interest, things done however, under other names, in Saskatchewan" (Leacock 1936: 525-35). In the Canadian research literature, Social Credit has been interpreted as radical or conservative in its ambitions, but in either case, "the Alberta movement was essentially an attempt to use political power to redress the balance of forces in the market" (Mallory 1954: 5-6, 57). This reading of the Social Credit agenda, however, does not quite penetrate the fog of the genuine revolutionary element that stemmed from an effort to realize the political dimensions of the peculiar, nominal reality of money as a nominal circuit and field of forces.

The emergence of Alberta Social Credit as a political force in North America has to be situated in the sudden and major changes in the dynamic of international finance capital after World War One. The Dominion of Canada had historically been dependent on creditors in the City of London to fund major investments in canals and railways. This position began to unravel with the financial strains of war and by 1917 Canada had become a net exporter of financial capital to Britain (Ascah 1996: 5-6). Whereas domestic interest rates in Canada had traditionally been set in London, the Dominion government began to have an increasing stake as the pre-eminent borrower and issuer of public debt (*Ibid*: 10-11). The North American continental economy grew steadily in the 1920s with the rise of

commodity prices but this boom occurred with an underlying increase of financial instability and the end of London's dominance over international capital. Before the October 1929 stock market crash, uncertainty around speculation in the New York markets caused relatively conservative creditors in Canada to liquidate their commercial loans to agriculture and industry and shift portfolio positions into government liabilities (Safarian 1959: 21-35; Ascah 1996: 24-32). Unlike the fragmented system of finance in the United States, the payment structure in Canada "evolved into an oligopoly which was tightly regulated in a grand bargain whereby the chartered banks would provide financial stability in exchange for the Canadian government limiting entry into the industry" (Bordo *et al* 2010: 2). When the crash came there were no bank failures in Canada, instead deflation and depression arrived as a managed reflux of credit that decimated western farmers on the margins of world markets.[58]

The impetus to make good on election promises and install Alberta Credit following the August 1935 election coincided with the political aftermath of the 1934 establishment of the Bank of Canada as a private corporation by the Bennet government. At a crucial moment in the development of Canada's domestic capital market anchored in Dominion securities and rapidly changing place in international financial hierarchies, Alberta Social Credit incorporated the new economic language of Douglas into the existing terrain of ideas extending from American financial populist traditions. This challenged the federal government over the monopoly issue of a monetary standard. Before the establishment of the Bank of Canada, the government dealt with its debt issue through a syndicate of chartered banks organized by the Bank of Montreal and the inter-bank market for this monetary standard was dealt with in private clearing houses (Ascah 1996: 22-25; Gilbert 1998; Bordo *et al* 2010: 6). Professor Craig McIvor writes in his assessment of the depression in Canada that "the ultimate responsibility for [the credit] contraction must rest not with the banks but with the government which failed to assume any responsibility for control of the total means of payment in the economy" (McIvor 1958: 130).[59] Social

[58] Economic statistician D. C. Gregory estimated that for 1932 debt servicing payments accounted for one quarter of the farmer's total expenses (MacGregor et al 1939, quoted in Ascah 1999: 54).

[59] In a June 1934 debate in the House of Commons, then opposition leader McKenzie King opposed the Bennet

Credit challenged the orthodox function of the monetary standard as an administered channel to introduce liquidity into the system by proposing new transmission mechanisms for channeling purchasing power directly to the members of a given monetary space.

In a 1934 committee to the Alberta government before Aberhart's Social Credit was swept into power Douglas stated that the object of his analysis "in its essence is a correct estimate of the productive capacity of a given unit based upon that which is the real social credit of the unit. You have something which we call financial credit which can also be made to be the reflection of this real social credit" (Alberta 1934: 110). Douglas optimistically framed his theory as a program for a path to a future economic democracy, and not just a schematic explanation of economic catastrophe and doom.

A report to the spring 1936 legislature based on Douglas's report to the UFA government written by cabinet member without portfolio and later attorney general Lucien Maynard called for the:

> systematic provision of a New Circulation system under the unchallengeable control of the province, particularly in regard to radio facilities of sufficient power to cover a wide geographical area [and] the organization of some Credit Institution, either under the Dominion Bank Act or otherwise, which will give access to the creation of effective demand (Maynard 1936 PAA: 1994.271.133).

Douglas's concepts translated onto the Alberta landscape in the context of a wider rupture in economic ideas across the world towards a state of autarky, or what Keynes termed in a 1933 essay "National Self-Sufficiency," and with this came the anxiety of *knowing* economic space so as to manage internal flows of income towards realizing social objectives (Keynes 1933; Adelstein 1991; Vanoli 2005). Social creditors conceived the superposition of possibilities for utilizing public credit with social conventions shaped by communications media as parts of a larger circulation system.

The statement by Lucien Maynard that "the State Credit House could be started simply by opening a branch of the Treasury Department in the centre of the city of Edmonton" suggests the terrain of institutional change in question (Maynard 1936). This amounted to saying that the Alberta

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government plans for the central bank on the premise that a private corporation would operate under the whims of international interests: "The present legislation establishing the Bank of Canada is a definite step in the establishment of an imperial policy of finance, under which the financial destiny of Canada is placed under persons independent of parliament, who can maintain, through the Bank of England and other central banks of empire nations, a definitive and positive control of the empire, currency, credit and trade" (King 1934, quoted in Ascah 1999: 19).

government was contemplating using the province's credit as a means of payment for private and public services within Alberta, in other words, treating provincial bonds as its own monetary unit and not just as a claim to Canadian bank money. Aberhart believed that the essential premise of an inherent lack of demand would guide the government. The nominal reality of money as a credit accounting construct, and faith in the possibility of plenty was reason enough in his mind for some authoritative body to manage this infrastructure to higher ends. While the experiments to enact Social Credit either failed or were ruled unconstitutional, the movement had a profound impact on political standards at the time.

4.2 Literature on Alberta Social Credit | The writings of Major Douglas were already familiar to progressive intellectuals in Canada in the thirties. Dispatches to the province from economists in the *Canadian Journal of Economics and Political Science* convey a sympathetic attitude and broad concern with issues of public finances, inter-governmental tensions and environmental conditions. The Edmonton economist Archibald McGoun wrote his essay "Alberta, Economic and Political" (1936) to examine the prospects for institutional change in the province.[60] The objective of the article was to provide a comprehensive overview of the financial position of the province in relation to external creditors, supplemented by comments on national income accounting by D. C. MacGregor. McGoun's insight was to examine the Alberta government's agenda of managing the means of payment in the province from the context of creditor money as a social convention and immaterial field of standards: "As a general principle, the sanctity of contracts for its own sake does not commend itself to the Alberta voter. Indeed, the validity of moral standards is being questioned the world over" (McGoun 1936b: 519).[61] Literature on Social Credit in the Canadian social sciences has largely extended from political science and sociology disciplines focusing on the electoral intentions of these Alberta voters.

[60] Archibald F. McGoun, a native of Montreal studied at Harvard and later taught at the University of Alberta (he also taught briefly under the urban theorist Patrick Geddes at Montpellier, France). McGoun published papers before writing on the Alberta situation focused on monetary economics with a Marxist and Hegelian bent such as "The Nature of Interest and the Causes of its Fluctuations" (1917) and "Inequality and Accumulation" (1924).

[61] McGoun cautioned against monetarist ideas and "so far as money is the same as purchasing power" argued that the contract-and-payment system rested on the security of property (McGoun 1936a: 141).

In 1950, fifteen years after the election of Alberta Social Credit, the Social Sciences Research Council of Canada (SSRCC) commissioned University of Toronto sociologist S. D. Clark to edit the *Social Credit in Alberta* series to explain the rise of the party in western Canada using modern disciplinary methods in sociology and political science. Academic interpretations of Alberta Social Credit have been greatly influenced by University of Toronto philosopher Crawford B. Macpherson's *Democracy in Alberta: The Theory and Practice of a Quasi-Party System* first published in 1953 as the anchor of the series.[62] Macpherson argued in Marxian terms that Social Credit was a product of the false consciousness of property owners who conceived of themselves as "independent producers" (Macpherson 1962: 215). The managed settlement of Alberta starting in the late nineteenth century was profoundly shaped by the migration of American Midwestern and Great Plains farmers who brought their own political culture characterized by a populist form of positive liberalism into North America's "Last Best West" (Wiseman 2011: 2). Macpherson's thesis was that the *petit bourgeoisie* quality of the political culture in Alberta had been shaped by the place that these farmers and other small property owners held within the capitalist relations of production which created this false impression of autonomy. For Macpherson, this meant that Albertans as a community saw the United Farmers of Alberta (UFA) party and Social Credit as variations of a "plebiscitarian system" that would provide a technical fix to economic instability and the price mechanism by way of popular control (*Ibid*: 219).

Other volumes explained Social Credit from different disciplinary perspectives. J. R. Mallory focused on the federal-provincial structure and latent regional protest to argue that Aberhart used radical economic ideas as a weapon in this fight over provincial autonomy, not necessarily with the intention of realizing social credit ideas (Mallory 1954). W. E. Mann detailed the diversity of Christian sects in Alberta as a factor in Aberhart's rise, although other scholars of evangelical history in Canada have argued that Aberhart alienated his early fundamentalist audience, in part, because of the materialism of social credit ideas. Aberhart's Calgary Prophetic Bible Institute was rigidly and

[62] The sub-title was later renamed in a 1962 edition to *Social Credit and the Party System*.

"radically sectarian" and closer to a personality cult (Mann 1955; Elliot and Miller 1987: 319; Stackhouse 1993: 42). Finally, J. A. Irving argued that the psychological disorder caused by the Depression circumvented the rational processes of Albertans and allowed for mass hysteria (Irving 1959). Each of these works in the post-war Social Credit series considered the phenomenon from a single factor to explain why Albertans elected the anomalies that were Aberhart and Douglas. The academic problem was to explain the Social Credit phenomenon on anything but its own terms.

Social Credit in Alberta has often been presented as a "right populist" inter-class regional front that focused on issues of money and banking reform with a liberal vision towards free markets that favoured the prairie commodity producer. In contrast, the Co-operative Commonwealth Federation (hereafter CCF), founded in Calgary but which came to power in Saskatchewan under a farm and labour alliance, is usually framed as a "left populist" movement with its ties to the evolutionary socialism of the Fabian-inspired League for Social Reconstruction (Conway 1978; Richards and Pratt 1979: 32-5). These framings of western Canadian protest parties along the political spectrum have often been influenced by Macpherson's emphasis on the continuity of "*petit bourgeoisie* liberalism" across the incumbent western agrarian UFA and the novice Social Credit government with their shared use of "a business analogue as a basis for popular democracy" (Macpherson 1962: 232). Both parties evoked images of the corporate body to organize their ideal of representative government. While for the UFA members "the image was that of an old-fashioned business corporation, in which the shareholders had a personal knowledge of the business" in the case of Social Credit "their image was that of a giant corporation, in which the shareholders are atomized, their voices reduced to proxies, and their effective rights reduced to the one of receiving a dividend" (*Ibid*: 233). The business analogue to democracy can be seen as an attempt to square civic-republican notions of fairness and justice with the circuit of social accounting in finance to production. Macpherson's interpretation of Social Credit as a money reform agenda does not do justice to the problem of charting a normative science of circulation.

The focus of Macpherson in *Democracy in Alberta* is on the consequences that the political ideology of Social Credit had on the function of the party system in parliamentary democracy. He begins with the argument that “a society imbued with the independent producer's attitude towards property” requires an institutional framework to “moderate and contain the opposition of class interests” (Macpherson 1962: xii). The strength of the book is its review of the continuation of political culture and the place of social theory in Alberta between the nominally unorthodox UFA and Social Credit governments. Henry Wise Wood, the Missouri-born leader of the UFA, embodied this fragment of American positive liberalism that was mollified and appropriated in the new political climate.[63] Macpherson argued that both parties and their leaders espoused the same belief in the inevitable establishment “harmonious co-operative society,” and the role of social theory was specifically cast not in terms of a conflict of class interests over the means of production, but as a means to distinguish between regional economic interests and external “plutocratic forces” (Macpherson 1962: 30).

The other focus of Macpherson's research was on C. H. Douglas's own social theory as it developed in the 1930s during with the brief but spirited rise of Social Credit as a political force across the English-speaking world. The emphasis is placed on Douglas's political theory at this time which began from a stark separation between the concrete policy of Social Credit and the administration of representing a will of the people in government .[64] Following a shift in strategy leading up to the 1935 British general election, the Social Credit movement following Douglas's writings defined its position by arguing that the economic policy of money and credit had to be operated by technical social credit experts. The role of representative government, policy-making, would be reduced to an administrative transmission of the basic demands of the electorate to these economic experts. These principles informed all the advice that Aberhart received from Douglas and his organization (*Ibid*: 215).

[63] Canadian Historian W. L. Morton put it that “Wood, in effect, united the purely agrarian vote with the traditional Conservative vote of Alberta to defeat the Liberal party, laying the ground for [...] Social Credit (Morton 1951: 298).

[64] Douglas's social theory was a sort of organic functionalism. As Macpherson describes it, “the function of the electorate was to express its will for broad objectives and to demand results; the function of the experts was to devise and put into operation schemes which would give the results; the function of the elected members of parliament was simply to transmit the people's demands and compel the experts to produce the required results” (Macpherson 1962: 136).

Macpherson was influenced in his analysis of Douglasism by a fairly narrow set of British scholarship, notably the Marxist economist Maurice Dobb whom he read in the 1930s as a graduate student (Hesketh 1997: 5). In the pamphlet "Social Credit Discredited" (1936) Dobb wrote "significant for our present purposes is that the Fascists on the Continent have made a big use of ideas and demands of a Social Credit type" in so that they could create the premise for some "popular" or "pseudo-Socialist" movement (Dobb 1936: 6-7). Dobb notes that "in countries with large small-farmer populations, such as Western Canada and parts of Australia, [Douglas's] writings have had a greater vogue than in this country" (*Ibid*: 9). Macpherson associated the provincial government's critical finance stance with a longer deterioration of the democratic state in Alberta, which he compared to the assault on "Jewish finance" in Germany under Hitler (Macpherson 1962: 235-237; Hesketh 1997: 5).

In their biography of Aberhart, David Elliot and Iris Miller note that "most of the authors of the series on Social Credit... interpreted Aberhart's movement as right-wing, if not fascist," but they suggest that "this assessment [was] largely influenced by sociological methodology" (Elliot and Miller 1987: 318). There is a tendency in orthodox Marxian theory to think of monetary and credit reform as a 'socialism of fools' due to a "reflective finance" position that places such nominal phenomenon as mere expressions of real forces of production (Toprowski 2005: 2-3). Macpherson captures this sentiment: "from Proudhon to Hitler, doctrines which have singled out finance as the source of social evil have led to the plebiscitary state. And not without reason, for by seeking (or pretending) to remove the evils of which they complain by credit reform alone, they fail to resolve the class tension which... can only be covered over by [their] devices" (Macpherson 1962: 235). Macpherson's Marxian class view coupled with political science focus on the party system allowed him no room to consider this history from the iteration of ideas in monetary economic theory along centrist Keynesian and American monetarist lines.

In *The Social Credit Phenomenon* (1989) historian Alvin Finkel updated Macpherson's thesis to elaborate on the transition from the popular movement and uncertain coalition of Social Credit's first

years in office, to the sharp turn after World War II into antisocialism. Finkel suggests that "the early Social Credit movement was far more radical and diffuse than the monetary crank organization that scholars have depicted," as Aberhart and other radical members of the Social Credit organizations co-operated and competed with Communists and the CCF to define the soul of the radical left in 1930s Canada (Finkel 1989: 3-4). Finkel's contribution is an update of the Macpherson thesis and not intended to challenge the essential argument of the ideological conditioning of material class relations and its effect on variations of "right and left variants of populism" (Finkel 1989: 202-7).

What is missing in these accounts is an engagement with the ideas of Major Douglas on the endogenous property of the monetary circuit as a form of social accountancy. Macpherson and Finkel do not engage with Douglas's core concepts of the formation of purchasing power arising out of an "unearned increment in association," in other words, the construction of money as a unit of account made in a social geographic settlement (Pullen and Smith 1994: 4). It is notable that there is no reference to Keynes in Macpherson's book or a discussion of the context of changes in monetary and macro-economic theory. Douglas is related to other heterodox economists such as Veblen and Proudhon, but only for the purpose of extending Macpherson's political science thesis of "*petit-bourgeoisie* radicalism [and] false individualism" (Macpherson 1962: 234-235). Neither is there a discussion of the reception of Douglas among liberal and socialist British economists such as James Meade who had advocated for a "national dividend" or Geoffrey Crowther, editor of the *Economist*, who included an "Appendix" on Social Credit in his textbook admiring the movement's spirit of "disinterested idealism" if not its technical accounts (Meade 1936: 197, 250; Crowther 1941: 432-446).

Bob Hesketh has written an authoritative account of these relations in *Major Douglas and Alberta Social Credit* (1997) arguing that social credit as an ideology itself has been neglected in the literature. He makes the case that at the root of the connection between Douglas and the leaders in Alberta was a reading of the anti-Semitic document *The Protocols of the Learned Elders of Zion*.

Hesekth argues that the logic behind both Douglas and Aberhart's motives was to create a money space insulated from these dark forces that were coded onto the central Canadian elite. Janice Stingel has charted this dimension of the social credit movement in Alberta and the Jewish community's response, focusing on the period immediately after WWII and the purging of anti-Semitic influences under Premier Manning (Stingel 2000). Hesketh also notes that the conspiracy logic intensified during the war: "Alberta Social Credit's [attack] was directed at Finance's primary policy of pyramidal centralization, or totalitarianism... They believed they were at the centre of the conflict between Christianity and paganism" (Hesekth 1997: 204). There was a transmission of anti-Semitic conspiracy theory from the broader English-speaking progressive underground into Alberta that can be traced specifically to the influence of Douglas and members of his organizations. By charting the intentions of historical actors as they related to a wider contested field of the Keynesian frontier, these conspiracy theories can be separated from the broader anxieties with money and payment institutions, as well as Social Credit as an economic critique of the current system of bank money.

Social Credit can be placed in the framework of underconsumptionist economic and aesthetic ideas that became known as Keynesianism. John Finlay's *Social Credit: the English Origins* (1972) contextualizes the movement from the spectrum of syncretic political thought in England during the interwar era, namely the influence of John Ruskin on the Distributionists and various Guild and Christian Socialists. Finlay emphasizes that social credit was part of this "underground" of English-speaking thought not only in the sense of a consumer demand-based theory of the economy, but in terms of a deeper "repudiation of economic liberalism [that] demanded a rejection of existing political practices and social arrangements" (Finlay 1972: 2). The line between the underground and Keynes's thought was largely a matter of how far one was willing to take this revolutionary ideal. Social Credit attracted the attention of Anglo intellectuals in the interwar period who were invested in building the conceptual foundations for a new society.[65] The paradox of the doctrine was its assertion of being a

[65] Consider Douglas's claim that "a modified credit-system could transform the world in five years" with Keynes's slightly

technical, value-neutral and non-ideological view of the monetary accounting and payment system but finding an active audience mainly in the fringes of both the far left and far right who saw in it an immanent means to reach transcendental goals (*Ibid*: 243). Finlay argues that ultimately "Social Credit refused to look to a future utopia; it believed in the present possibility of plenty," and in this regard, the movement reiterated democratic faith along social gospel and Keynesian lines in the liberal present once the disturbing effects of the monetary and financial system on material life had been tackled constructively (*Ibid*: 258).

James Webb's *The Occult Establishment* (1976) discusses aspects of the heterogeneous social credit movement in Britain from its roots in *The New Age* into its transformation as a brief organized political party under the charismatic leadership of the Scouts leader John Hargrave (Webb 1976: 108). What Webb provides for the purpose of this thesis is an interpretation of social credit ideas held by both Douglas and Aberhart as utopian constructs in the sense of being drawn from imagined "other realities" that nonetheless could be incorporated into real governmental and political practice. If Social Credit was utopian, it was not transcendentalist but of an imminent and positivist kind that used techniques of modernism and realism to confront the non-natural problem of the good society in a systematic fashion (Finlay 1972: 243). This was a drive "to effect a *spiritual* revolution... found in the attempts of the monetary reformers to 'see through money' and abolish the existence of the cash nexus," and to realize the underlying potential of a situation where credit-debt accumulation and non-neutral interest would be unnecessary for living in the world (*Ibid*: 135, emphasis in original). Webb argues that the Douglas argument that costs are created faster than purchasing power had the same quality as idealistic and Christian reformers who "questioned the very idea of the fiction of money" to attempt a divine conception of the creditor-debtor social relations underpinning economic life (Webb 1976: 120).[66]

more cautious reference in his letter to Bernard Shaw of a decade long transition period into a new world order (Douglas 1922: 86).

[66] Webb suggests three such other reformers who fit this mold: the first, John A. Hobson (1858-1940) the liberal "heretic" whose critique on hoarding shaped Keynes's theory of employment; the second, Arthur Kitson (1861-1937) an inventor of lighthouse lamps and correspondent with the American inventor and money reform man Thomas Edison; and finally, Frederick Soddy (1877-1956) the Nobel-prize winning chemist (Webb 1976: 120).

Webb was a product of the same Cambridge mold as Keynes. It is curious, then, that he almost completely ignores the economist in his study save for a brief reference to the wider trends shaping social credit ideas (*Ibid*: 121). Perhaps he was unaware of Keynes's own dive into “Babylonian madness” from his quest to place the origins of “'modern money” in social historical context, the notes of which did not get published until the 1970s (Ingham 2000). Webb’s study of the underground does not engage “the academically respectable version of the underworld, Keynesianism,” and the impact of money reform thought on both popular and professional imaginations of the future (Finlay 1972: 251).

The emergence of Social Credit as a social movement in Alberta under William Aberhart can be understood from this idealistic progressive underground that simultaneously covered spiritual and economic ground in the “coupling of an illuminated political doctrine to a basic transcendental message” (Webb 1976: 125). Aberhart retained his basic transcendental message from the combination of a millennialist Christian doctrine and a reform message grounded in the language of the Keynesian frontier. As John Irving describes in detail, the movement was meticulously organized by Aberhart who trained a cadre of followers to teach standardized study groups across the province. The success of the movement was born from its promise to give meaning to the nominal price and credit-debt dynamics of a chaotic world. Through the spread of these study groups and the popularity of Aberhart's radio program, “the A + B Theorem became part of the everyday vocabulary of nearly all adult Albertans” and part of a novel imaginary of the flow of purchasing power in “fountain-pen money,” offering a framework of meaning to make sense of the depression (Irving 1959: 336-337). Building on McGoun's observations, Social Credit can be seen as a project of re-founding the moral standards of a monetary society. Aberhart took this framework one step further to develop his own Christian eschatology that linked the control of credit flow to the end of capitalist time, and hence the secular world.

The connections Aberhart made between his theology and his reading of Douglas are suggested in his reply to an advocate of the CCF who attempted to elucidate on the similarities between Social

Credit and socialism: “There is as much difference between the socialization of credit, banking, etc. and the Major Douglas System of provincial or government credit, as there is between Red Radicalism and Christianity... [I] maintain that the money system must be banished entirely before the masses will be free from the power of the financiers” (Aberhart to Coldwell 15 Oct 1932, quoted from Elliot 1991: 60). Perhaps Aberhart was attracted to the underlying *nominalism* in Douglas's social credit ideas that allowed him to retain an illuminated view from the principle that social institutions can be re-written in a godly image. Even as the basic orientation of reform in the 1930s was moving from a social gospel to a secular basis, Aberhart could find in Social Credit a critique of the spiritual power of money.

4.3. The Campaign for Alberta Credit | The history of how the schoolmaster and radio evangelist William Aberhart became the prophet of the Social Credit movement in Alberta remains contested. Between the summer of 1932, when Aberhart first began to incorporate social credit ideas into his broadcasts up to the August 1935 election there was a long campaign of strategic positioning by his followers against other Social Credit groups. This section outlines the history of this transformation in the Alberta Social Credit movement led by Aberhart before the election from the differences in strategy over the installation of social credit between C. H. Douglas, Douglas's supporters in Alberta and Aberhart's own interpretation of the good news that the scarcity of money was immaterial.

Aberhart was first introduced to social credit ideas in the summer of 1932 at the encouragement of Charles Scarborough, an Edmonton science teacher with whom he had become acquainted through his work as a school administrator. Because his presence on the Alberta airwaves was already well-established, Scarborough believed that Aberhart would be able to popularize social credit ideas in a way that the existing followers in the province had been unable to achieve (Irving 1959: 47-48; Hooke 1971: 59). Aberhart initially read a less technical account of the theory in a book called *Unemployment or War* (1928) that was written by Maurice Coulbourne, an English stage actor associated with George

Bernard Shaw. He finished the book in one night, and quickly started his transition from conducting sermons on the Bible to radical economics (Elliot and Miller 1987: 107).

From the autumn of 1932 onwards, Aberhart succeeded in making Major Douglas and Social Credit household names in Alberta through radio plays, study groups and public talks. In February 1933 he published *The Douglas System of Economics* which became known as the “Yellow Pamphlet” and distributed it widely to the various social credit groups forming around the province to discuss the message as interpreted by “Bible Bill” Aberhart (Aberhart 1933). The differences between this work and the writings of C. H. Douglas created tensions between Aberhart's movement and the existing circles of Canadian intellectuals and professionals familiar with Social Credit. As these tensions over interpretation mounted, the governing UFA attempted to circumvent Aberhart's association with the doctrine by inviting Douglas to provide testimony to the government in person. However, upon his arrival in the province the Major failed to connect with Albertans, and thus failed to undermine the upstart radio preacher as the orthodox social creditors wished (Elliot and Miller 1987: 130-144).

Aberhart organized the popular response to his radio broadcasts by extending the resources of his already well-established fundamentalist movement centred at the Calgary Prophetic Bible Institute. Using the same techniques employed in the teaching of Christian dispensationalism to visualize the total problem of secular history described in the Bible, Aberhart methodologically synthesized his ideas on social reform based on the Douglas texts into charts and illustrated leaflets with titles such as “Purchasing Power in the Hands of the Consumers” that he then distributed to study groups (Irving 1959: 52). The establishment of Aberhart's Social Credit movement in the province began with the conscription of a working class base in Calgary. Aberhart first started study groups to recruit lieutenants into his cause in early 1933. As Larry Hannat puts it, “before they descended upon the unsuspecting farmers, this band of proselytizers was unleashed upon Calgary” and from the summer of 1933 onwards the conquest of the city was under way (Hannat 1985: 105). The Yellow Pamphlet underscores

this effort to attract urban support, through a discussion of the formation of consumer prices, and in the commitment to distribute purchasing power equivalent to $25 a month in "Alberta Credit" to every resident of the province. These initiatives resonated with street protests over unemployment relief and federally-managed labour camps (Irving 1959: 254; Hannat 1985: 105-107).

Aberhart interpreted the "Douglas System of Credit Power" as a policy lever that would allow "the flow of credit [to] automatically adapt itself" by eliminating money and replacing it with a system where "all payments for goods and services [are] made by cheque on the Provincial Credit House" (Aberhart 1933: 1). The proposals treated the province as a self-sufficient economic space that was to be viewed "as a gigantic joint stock company with the resources of the province behind its credit. The Bone-fide Citizens are each and all shareholders, entitled to basic dividends" (*Ibid*: 3). All citizens with an account at the chartered banks would be required to draw out cash and exchange these balances for provincial bonds accepted within its borders. The government would then use the money to liquidate public and private debts to external creditors. The pamphlet also indicated that government control of the accounting system was to ensure that all incomes received in Alberta Credit would be spent within each current month to ensure a constant flow of purchasing power (Elliot and Miller 1987: 110-111).

A controversy began to develop over a copy of the Yellow Pamphlet with Douglas's signature that Aberhart often displayed to crowds to show his movement had support from the official organization. J. Larkham Collins, a chartered accountant from Calgary, sent a copy of the pamphlet to the Social Credit Secretariat in London. The organization replied on behalf of Douglas that Aberhart's suggestions regarding the abolition of bank money, and the clearing of all unspent balances over a period of time, were not part of Social Credit doctrine (*Ibid*: 121-125).

Differences between factions began to form around two crucial questions: was Aberhart a true representative of the Douglas theory, and was the theory applicable to the constitutional limitations of a provincial setting? Collins felt that Aberhart was ignorant of the British North America Act (BNA) that

explicitly limited provincial authority to taxation and borrowing money from capital markets. Douglas, however, had made it clear that he believed that the installation of social credit in Alberta *was* technically possible, but it would require the initiation of a full scale war against international finance:

> In regard to the question as to the possibility or otherwise of instituting a Social Credit regime in Alberta... the inauguration of a Social Credit system anywhere is *really neither a theoretical problem nor an economic problem, but in the last resort, is a military problem*. The present financial monopoly has devoted at least 100 years, if not more, to obtaining control of the ultimate sanctions of civilization, such as police and military forces, and so long as this control is maintained, the question as to whether it is legal to take certain steps for the breaking of the monopoly of credit is quite academic... I should not like to give an offhand decision as to what extent a unit of the size Alberta could act alone (Douglas to Collins Oct 11 1933, quoted in Elliot and Miller 1987: 126, emphasis in original letter).

Having recently travelled to Australia where the establishment of a Loan Council to govern the finances of territories had intensified the political visibility of his ideas, Major Douglas began to see the Canadian province as one base of operations in a mushrooming global struggle. From this perspective of money-in-finance as the outcome of power relations beyond legal boundaries, he saw the question of constitutionality of any monetary program of provincial autonomy a false start (Finlay 1972: 135).

The governing UFA Premier John E. Brownlee perceived the growing discord between Aberhart and the already existing Douglas movement as an opportunity to take advantage of the situation and in the winter of 1933 he announced that the government would form a committee that would consider the Douglas proposals. On the recommendation of Collins, who was afraid that Aberhart would launch his crusade with or without the support of official Social Credit factions, Brownlee also planned to have Aberhart stand as a witness to speak on his own ideas (Elliot and Miller 1987: 128-130). In the early 1930s the support of UFA government was crumbling as farmers became increasingly unsatisfied with the orthodox cabinet system that the organization was supposed to replace after its initial election as a radical movement in 1921. Deliberation among radical and progressive Members of Parliament in the spring of 1932 led to the informal establishment of the CCF in Calgary as a federal socialist party (Irving 1959: 148-150). John Irving records in detail the extent to which the UFA had "prepared Alberta for Douglas's economic, ethical and political theories" by invoking Social Credit at nearly

every convention between 1924 and 1932 where the issue of money reform bitterly divided the party (*Ibid*: 226). By 1934 the governing UFA party was becoming increasingly divided between those who supported adoption of the CCF platform and the eventual merger of the two parties into a federally-minded socialist movement, and those who favoured movement in the direction towards a monetary reform agenda along Douglasite lines (*Ibid*: 149; Hooke 1971: 63-65).

The UFA hearings on Social Credit brought Aberhart and Douglas into personal contact for the first time. Premier Brownlee had arranged for the proceedings to begin in March 1934 and the witnesses would include Aberhart, Herbert Boyd, an Edmonton lawyer and delegate of the Douglas Credit League of Canada, J. L. Collins and G. A. Elliot, an economics professor at the University of Alberta who was the only witness not in favour of the proposed money reform. It was eventually agreed that the government would hire Douglas on a retainer to pay for his travel expenses to the province. Brownlee would chair the panel with the intention of totally undermining Aberhart's belief that social credit plans could be established in the province while adhering to constitutional law. The results would have the opposite effect. The divide between Aberhart and the already existing orthodox Douglas factions in the province was conceived by most Albertans who considered themselves as "social creditors" to be one of political leadership: more nuanced theoretical explanations of the principles behind money and banking only served to support the organizational machine Aberhart was building. The hearings marked the transformation of the movement from an educational into a political force while retaining an evangelical sense of mission (Irving 1959: 87-95).

Aberhart was visceral. On March 19 he drew upon bodily metaphors of the state as a body-space to make his case. He alluded to credit as "the blood stream of the state" that existed according to macro-dynamic rules: "just as the blood flows out from the heart, feeds, clothes and shelters every cell of the body... so the credit dividends should flow from the state credit house to every consumer and retailer, to the wholesaler and the producer and then back to the credit house to start all over again"

(Alberta 1934: 17). Aberhart made two primary legal arguments for the constitutional legitimacy of provincial Social Credit: first, the credit flow would be composed of "non-negotiable certificates" issued by the provincial government and not money in terms of transferable bank liabilities; second, he made a nascent provincial rights argument that the will of the Albertan people was outside of the scope of the constitution when legislation did not interfere with the welfare of any other province (Hesketh 1997: 90). Throughout his testimony Aberhart maintained that Douglas's signature validated his own interpretation of the Public Dividend and the Just Price (Irving 1959: 88).

The testimonies of Herbert Boyd and J. L. Collins that followed used less radical language than Aberhart to offer their diagnosis and suggestions. Boyd's statement shows how social credit concepts were interpreted into a more general argument for using national accounting to manage economic growth according to an idealistic realignment of money as a public good and stabilizing influence in a commercial society:

> Now the basic proposal of the Douglas system is that... the creation, issue and control of money would be vested in the state and operated through a national credit authority... The national credit would consist of the whole assets of Canada, lands, mines, forests, fisheries, water powers, factories, etc., and also the commercial capitalized value of the population. On the basis so ascertained a national credit account would be established. The statistical department might require to be remodelled as the national credit authority (Boyd, Alberta 1934: 33).

The concept behind the guaranteed basic income as a new way to distribute purchasing power derived from observation that the growing importance of technology and automation in production processes displaced wage-incomes:

> The national dividend... I may say that it is intended to meet the displacement of labour by machinery. It recognizes that the fruits of scientific invention and the progress of knowledge are not the property of any small group of capitalists, but are the common heritage of generations of men, as knowledge is handed down from age to age; that they are known as the cultural heritage of the race, and that all men have a just claim to participate in them as rightful heirs; and everyone has consequently a right to a dividend on the national credit account sufficient to provide the necessities of life... without the stigma associated with public relief.
>
> Such provision must be made as a natural right and in the interests of society itself out of the national credit account, and not as charity through taxation of those who continue to be employed. The old notions that *work* is the sole title of money, which has run through the ages, derived from the apostolic injunction in the age of scarcity, will disappear... Money will no longer be a commodity, the monopoly of a privileged few, but as mere tickets distributed by the state to its citizens as the means of exchange (Boyd, Alberta 1934: 33-34, emphasis in original).

As a body of rhetoric in the 1930s, Social Credit was effective in being able to incorporate the conclusions from other radical traditions such as Marxism and Anarchism into a framework of the economy as a national accounting construct that created the appearance of scientific management.

On April 9 Major and Mrs. Douglas arrived in Edmonton to stand at the testimony. They were welcomed at the station by Collins, the press, and curious Albertans while a despondent Aberhart looked on from the crowds only to be publicly rebuked by Douglas in person after barely a few minutes of conversation (Elliot and Miller 1987: 139). The moment finally arrived when Brownlee could at last discredit the Aberhart movement on the premise of its deviations from the Social Credit orthodoxy. But Douglas was not prepared to make things that simple. Douglas began his testimony to the UFA committee with a distinction between the orthodox commodity view and his credit or "ticket" view that money was, first of all, an "instrument of power" (Alberta 1934: 82). The crowds who had gathered around the steps of the Alberta Legislative Building by seven o' clock in the morning heard the Major expound on the immaterial property of credit creation as "fountain pen money" and suggest that while the BNA made provincial action illegal, a revolution against the existing financial system might be possible in the outbreak of another world war (Elliot and Miller 1987: 140).

The problem with Brownlee's strategy of undermining Aberhart from the technical and/or constitutional flaws in his plans was that throughout the inquiry, in the words of the Committee summary, Douglas "advocated not so much a rigid plan of social credit, as that the essential thing was to regain complete constitutional and legal control over the institutions that sell currency or credit" (*Ibid*: 6). This ambiguous position allowed Douglas to cast the issue in terms that circumvented the niceties of limits to provincial authority, framing the objectives as a struggle in the very relations of power undergirding modern civilization. The result of the testimony was to create a deeper conflict between the various Social Credit factions but not to deter the conviction that the scheme was possible on the provincial scale if the people wanted it.

In July 1934, J. E. Brownlee was found guilty in a sex scandal lawsuit and made the decision to resign, ending his political career. Aberhart and his secretary Ernest Manning continued their speaking tours across the province while the movement gained strength. In August 1934, the vice-president of the UFA wrote to Douglas on behalf of the government asking him to prepare a Social Credit plan for the province in an effort to continue Brownlee's strategy of circumventing Aberhart's claim to the reform mantle. However, after a disagreement over remuneration the contract was shelved. In a letter from one UFA official to William Irvine the challenge was laid out clearly: "unless a clear distinction is drawn between Aberhart and Douglas... the public, when Aberhart's balloon is pricked, will be in danger of having their minds closed to the whole idea of Social Credit" (quoted in Elliot and Miller 1987: 150). But Aberhart had a gift that these other political figures for whatever reason were not able to reproduce. Through radio plays, stage drama and festive events with carnival attractions and food vendors, he used classic and modern means to consolidate the public's sense that not only were they not alone in their individual plight during the depression but that their condition was illogical and could be solved immediately. On November 13, 1934 Aberhart announced the start of a formal movement.

The rise of Aberhart to power in Alberta must be appreciated from within the political climate across North America. Aberhart was already a prominent religious figure on the Canadian and north-western American prairies in the 1920s, but his political experiment with Social Credit "baptized" the ideas of monetary reform across the continent (Stackhouse 1993: 45). On June 27 1934, Mackenzie King made a damning speech on the creation of the Bank of Canada as a private entity in no small part to politically manoeuvre the money reform vote for the Liberals in the coming federal elections:

> The Bank of Canada, as constituted by this proposed enactment, will undoubtedly be the means of vesting in the Bank of England the management and control of Canada's foreign exchange and Canada's internal credit administration... Once a nation parts with control of its currency and credit, it matters not who makes the nation's laws. Usury, once in control, will wreck any nation (quoted in Irving 1959: 153).

It was in this context of intensification in the politics of money and credit that Aberhart made the final decision to run for the provincial election under a new party in January 1935. He had been invited to

provide evidence on his Social Credit plans at the annual UFA convention. After the delegates voted against his motion to immediately adopt these ideas and then passed a motion presented by William Irvine to engage Douglas again it was clear that Aberhart's movement had been definitely rejected by the UFA. Aberhart rapidly moved his circle of teachers, church congregants and tradespeople to transform the Alberta Social Credit League into a formal political party and prepare for the August 1935 election (*Ibid*: 164-165).

A series of letters from late March to April 1935 between the secretaries of the Calgary and Edmonton Board of Trade detail the beginnings of counter-propaganda efforts in a proposed "Committee on Public Safety" run by the Chamber of Commerce "to combat the errors of social credit" (Blue to Hanna, March 29 1935 Glenbow M2260 #53). For what it was worth, the Edmonton Chamber of Commerce released a statement on the "Dangers of Aberhart's Social Credit Proposals" on August 7 1935 just a couple of weeks before the election:

> We venture to think that the hope of creating something out of nothing, which is the essence of the whole plan, rests on a fundamental fallacy as to the nature of banking credit. We have not met the banker who "with a fountain pen entry in a ledger" creates credit based on nothing. In our experience he wants security on lots of suitable assets fully pledged to the Bank and kept intact... We fear his attempt to pay "dividends" out of such intangible assets as "Cultural Heritage" and undeveloped natural resources. This is only a slight variation from the "Assignats" of the French Revolution which brought ruin to France for a generation (Edmonton Chamber of Commerce, Glenbow M2260 # 53).

The battle for the future of Alberta would be on the terrain of ideas. "Like the average man I meet," the Calgary chairperson wrote, "I have not paid much attention to this until recently, but have now armed myself with three or four text books," citing a volume edited by the British labour economist G. D. H. Cole, *What Everybody Wants to Know About Money* (1933), that dealt with "monetary heresies... [and] the arch heretic of all is Douglas."[67] He concludes with the observation that the problem was to frame the movement as a dangerous interpretation of existing property, accounting and payment institutions:

> To my mind the Douglas or Aberhart systems of social credit, apart from their inherent fallacy, are no better than the social credit under which we live today by which the banks, with their gold and silver coin and cash reserves, plus their volume of deposits from customers and their deposits created by secured loans, based on sound banking practices, carry on the financial operations of the country. It is a peculiar thing to

[67] Cole happened to be at least be sympathetic to Douglas by the 1930s, citing in an article for the Fabian *New Statesman* that his cost accounting process approach was "preferable to complacent orthodoxy" (Cole 1932: 223).

> me that ordinary people do not see that this is a system of social credit that is based on the productive energy of the nation, by which credit can... be extended only to those who are able to use the money to the advantage of the whole social community (Blue to Hanna April 22 1935 Glenbow M2260#53).

This description of the existing practices of banking and credit-debt accounting as a kind of "social credit" demonstrates that the Douglas ideology was, to a certain extent, a challenge to the existing order that remained in the borders of a liberal political economy structured around private property.

Douglas agreed to sign a two year contract with the UFA government under the position of "Economic Reconstruction Advisor" at a time when the finances of the London secretariat were in a dire position. The Social Credit movement in Britain was disintegrating. This was a moment when the cause was attracting famous names, but usually to further their own causes. Reverend Hewlett Johnson, the "Red" Dean of Canterbury, was director of revenue for the Secretariat. The Duke Hastings Russell, the Marquis of Tavistock, was another famous name who claimed to have tried to personally interest Hitler in making Social Credit the foundation of Nazi economics (*Ibid*: 185). For many older social creditors, these forces were damaging the meaning of Social Credit as a fairly conservative means to decentralize the benefits of public credit as a form of macro-economic savings within liberal society. By the mid-1930s, the movement was seen by many as "being run more like a proprietary article... than as a great public institution" resulting in a proliferation of splintering movements that faded back into study groups (Kitson 1935, quoted in Finlay 1972: 138). After the 1935 British election where activists joined forces with the League to Abolish Poverty to campaign for National Dividends, the tenure of Social Credit as a force of the progressive underground began to close rapidly (Trier 1995: 306-331).

But this was not the case in Alberta. Within the final months of the campaign after party conventions in the north and south that expanded the base, Aberhart began to change the details of his plan largely in an effort to gain support among farmers who were disdainful of any high theory of monetary economics and wanted to know where the money would come from to pay for these things. Aberhart published a second pamphlet, *The Social Credit Manual*, alternatively known as the "Blue Pamphlet" in July 1935. He introduced the concept of the "Just Price" specifically in terms of the

interests of farmers as a guaranteed return on produce (Hannat 1985: 108-109). Douglas pointed out that these ideas were closer to the administered prices thesis in the early New Deal that was also behind the political ambitions of the Reconstruction Party in Canada (Douglas 1937: 1).[68] This subsidy and the dividend, Aberhart now declared, could be paid for from a tax on price spreads in a manner that resonated with the rural public who harboured a good deal of resentment from their dependence on high prices for machine equipment from federal tariff policies. The Blue Pamphlet was written with an effort to remain within Douglas's orthodox principles of a market economy, in contrast to the more socialistic Yellow Pamphlet. Aberhart realized going into the election that he needed Douglas if he was to redeem his promises to the people who were about to make him Premier (Hesketh 1997: 94-96).

On August 22, 1935, Albertans voted to bring Social Credit and William Aberhart into power with a 54 percent popular majority giving them 56 of 63 seats in the legislature. Aberhart cabled Douglas two days after the election "Victorious when could you come?" and initially it appeared that there would be a reconciliation between the two men (Douglas 1937: 125). But an essential difference in political strategy would ensure the failure of this collaboration. The first problem that Aberhart faced as the Premier of Alberta was the immediate maturity of a number of debt obligations in the spring of 1936 that totalled just under $15 million and an overall public debt of $150 million. Recognizing the severity of the debt problem, Aberhart reached out to his federal counterparts and began to take measures that would alienate Douglas, who was becoming more anxious that the Alberta episode would discredit his cause among an apprehensive public in Britain and across the Commonwealth when the worst period of the depression seemed to be in the past (Hesketh 1997: 100). The battle for ideas in Alberta would be conducted over more than the intricacies of high monetary theory, but would be channeled through experimentation and the quantum problem of making money.

[68] These ideas had also inspired the 1934 *Commission on Price Spreads and Mass Buying* by the administration of R. B. Bennett, which was commissioned under the pressure by Tory MP Henry H. Stevens (Forster 1962). A pamphlet entitled *The Alberta Taxpayer* issued by the Edmonton Tax Research Bureau vehemently attacked these ideas as belonging to "tyrannical control of so-called combinations of small business men." The pamphlet suggested that the circulation of these ideas in Aberhart's "just price" were the direct result of the efforts by the Reconstruction Party led by Stevens that had splintered from the Tories over the price commission (The Alberta Taxpayer, February 1936 Glenbow M2660 # 73).

4.4. Public Debt Default and Prosperity Certificates | The spring of 1936 was defined by a breakdown of relations between Aberhart and Major Douglas all the while popular demand for government action on providing the dividends grew more intense. As the government prepared for its first legislation in March, efforts were made to study the *Interim Report* that Douglas had given the previous government for whatever practical options it suggested. The cabinet also agreed to find alternative money reform proposals. The decision to default on a series of debt maturities on April 1, 1936, was the result of a strategy to restore faith among members of the provincial government themselves in Social Credit as a critical finance movement in the face of the federal government's demand that the province subject its books to a federally appointed Loan Council. On October 14, 1935, the Liberal government led by Mackenzie King won the federal election and the Social Credit result was a disappointing 17 seats shared between Alberta and Saskatchewan (Elliot and Miller 1987: 217). The new federal finance minister Charles Dunning was in frantic negotiations with his provincial counterparts following the election over the emerging maturation of provincial debts. Dunning made the calculated risk to force the Alberta government into adjourning from some of its more radical legislation if it wanted access to the federal funds it immediately required. Aberhart did not accept these conditions and made the decision to default on the province's maturing obligations.

By the time of the 1929-1933 economic crash, the public finances of the province suffered from a number of embarrassing financial positions including liabilities on an insolvent public telephone system and guarantees on several railway and irrigation projects in the south of the province that had ended in disaster by the 1920s. Dramatic shifts in global currency relations in the early period of the depression created extraordinary burdens on bond-issuing governments like Alberta with liabilities on the New York money market; when Britain formally removed itself from the gold standard the result was that the Canadian dollar fell 10 to 20 percent against the US dollar through its premium relation to the sterling (Ascah 1999: 55-57). Facing conditions where the provincial treasury would be unable to

maintain regular civil service payroll, Aberhart left for Ottawa on September 6, 1935 to ask his old friend from Calgary R. B. Bennett for a loan (Elliot and Miller 1987: 209-211).

Aberhart was accompanied in his journey by train to Ottawa by the new attorney general, John Hugill, a former law partner of Bennett and later a Goldman Sachs employee who had been one of the few members of the Calgary elite to support Social Credit. While they were only able to secure a $2.25 million loan from Ottawa, during the trip Aberhart also hired Robert J. Magor, a Montreal financier and friend of Hugill, as an economic advisor to the province. Aberhar attempted to arrange an audience with Henry Ford, and did manage to gain a meeting with the Canadian-born radio personality Father Charles Coughlin in a detour to Detroit. Despite these gestures to monetary reformers (and outspoken anti-Semites), Douglas conceived in Aberhart's actions that he did not grasp the scope of the international conspiracy of financial interests that now had its full attention on the province (Elliot and Miller 1987: 206-212). The Alberta government desperately wanted to fulfill their campaign promise to establish a "credit house system designed to bring into being a new medium of exchange based in amount upon the value of the goods and services available in the Province for consumption" (Hooke 1971: 120). Douglas suggested that without a more militant outlook, any plan to issue dividends or increase expenditure that aimed to circumvent financial circuits would be made obsolete on arrival.

In the first session of Parliament in March 1936 many Social Credit members were frustrated at the dispute between Aberhart and Douglas and the lack of any plans to train civil servants to construct the social credit infrastructure they had promised. The servicing and payment of debts were counting for about half of the provincial budget. Furthermore, a Liberal bill was passed with enough Social Credit support that ordered the publication of the entirety of the communications between Douglas and Aberhart as a matter of public interest. The result of making public the state of disrepair between the two personalities soured the resolve of the more radical members. The budget that spring was a mix of orthodox austerity measures such as higher taxes that resulted in the radical members denouncing the

Treasurer and the Attorney General, Hugill, who had by now made clear that he regarded the whole concept to be constitutionally *ultra vires* or a power that was out of the hands of the province.

The legislature passed the Social Credit Measures Act which asserted Albertans' claim "to the full increment of their association" and empowered the government to establish any measure with or without Douglas as long as it was constitutional. On March 24, 1936 Aberhart announced that contact with the Major had ceased. As a deliberate act of solidarity between factions, the Loan Council was rejected and continuation of payment to bond holders ended (*Ibid*: 122-124; Hesketh 1997: 110).

The Social Credit cabinet had already decided by December, 1935 that an alternative scrip scheme should be researched in an attempt to ameliorate internal conflicts and establish some sort of concrete steps toward credit reform (Coe 1938: 62). On Christmas Day, 1935, Vancouver resident Eugene Sydney Woodward wrote to Premier Aberhart to recommend "an entirely new plan" for dealing with the province's "external debt" obligations (Woodward to Aberhart December 25th 1935). E. S. Woodward had become a representative figure of the *Freiwirtschaft* (Free Economy) movement in 1933 after his nomination as Executive Secretary of the Free Economy League of Canada, which was based in Vancouver, and had been in contact with various supporters of Silvio Gesell in the early thirties from around the world. His primary contacts were the heads of the movement in the United States and Great Britain, Hugo Fack, a German immigrant who published a magazine called *The Way Out* from Texas and a London-based bank accountant, John H. Büchi.[69] Woodward was impelled to impress Gesell's concept of *schwungeld* or "shrinking money" to the Social Credit government. He framed the problem to Aberhart in a manner that was convivial with Alberta's geographic needs: "with the external debt [liabilities denominated in Canadian dollars] out of the way, exchange of Alberta products with the products of other lands and climes on equal terms" (Woodward 1935, 1-11-1).

Woodward had immigrated to Victoria, B. C., from Watford, England in 1908, and opened a

69 Keynes references Büchi in the second to last chapter of the *General Theory*, as "the leader of the [Gesell] movement in England, but its literature seems to be distributed from San Antonio, Texas, its main strength today in the United States, where Professor Irving Fisher, alone among academic economists has recognized its significance" (Keynes 1936: 354).

small grocery store in 1916. He was active in local labour organization, becoming president of the Victoria District Trade and Labour Council by the end of the decade. In 1930, Woodward moved to Vancouver with his wife so his daughters could access higher learning and he could immerse himself in popular controversies in tax law, currency and banking. In 1933, Woodward published his economic pamphlet *Canada Reconstructed: Without Paternalism – Without Capitalism – Without Communism – Without Bureaucracy* from his organization's headquarters at the Free Economy Bookstore. The first sleeve hints at the place of his social philosophy on the Keynesian frontier between liberal ideals and principles of justice and money neutrality underlying a non-Marxian positive liberalism:

> The supreme task of statesmanship is to eradicate involuntary unemployment and poverty; to secure to all workers – individually and collectively – the full product of their toil; to withdraw the legislative supports of parasitism and the legislative barriers to enterprise; to protect common and individual rights, suppress predatory agencies, and abolish taxation. The accomplishment of this task calls for only scientific knowledge, political sagacity, and indomitable purpose (Woodward 1933).

The core of Woodward's proposal was based on what he saw as "the essentials of an efficient banking and monetary system" absent of any structural pathology. In this sense, Woodward began from the concept of money neutrality as a condition defined by the lack of the "sinister imports" of monetary disturbance such as deflation and inflation (*Ibid*: 14). These disturbances are traced to the realm of international balance of payments. The policy of "deflation" in the 1920s as a coordinated effort to restore the gold standard "means inflation of the most mischievous kind. It is an attempt to anchor the ever-expanding balloon of interest-bearing bonded indebtedness on to a smaller and lighter money weight" (*Ibid*: 15). Woodward's approach went beyond a mere criticism of a particular monetary policy, however, as the international project of re-establishing the gold standard was framed as an extension of the fundamental problem of imperishable money identified by Gesell and his followers. Because of the perverse construct of the gold standard, or any social value standard based around an imperishable money, "every single interest remittance is a fee for money's renewed defiance of death – the more it denies decay, the more it insists to be paid" (Preparata 2004: 113). The concept of *schwungeld* envisaged as a system where long-term monetary accumulation would be structurally impossible.

After a series of written exchanges, Woodward met with Aberhart in Vancouver on April, 1936 for an interview to discuss a possible contract. In a letter to Aberhart the next day, Woodward emphasized that any formal proposals to construct an indigenous accounting system had to be structured around "the interlocking of parts in fabricating a complete whole." The creation of the physical scrip was insufficient as the "whole system calls for quite different sets of forms" in the nature of a networked Giro system to contain the account of every member of Alberta's monetary space. To this end, Woodward sought to persuade Aberhart into recruiting "the services of J. H. Buchi... an expert banker and accountant" to supervise this task of constructing Alberta Credit as a proper form of non-material money of account (Woodward to Aberhart April 18 1936 1-11-1). The novelty of the proposed feat to construct the architecture of a complete accounting system from the ground up can be usefully compared to the formation of the U. K.'s National Giro service introduced in 1968 and run by the General Post Office to provide a cheap means to transfer money across the country.[70] In the following months, Woodward travelled to Alberta numerous times to conduct meetings with the cabinet, and specifically with Lucien Maynard who then had no title, but was an ambitious reformer and had been appointed to gather evidence on potential alternative programs under the Social Credit Measures Act.

The *Economic Plan* that Woodward eventually wrote for the government was distinct from the Social Credit propaganda that characterized the Aberhart administration in its emphasis on the voluntary foundations of the proposals. The plan was organized around a "self-help, mutual-service Society" whose members would agree to "keep the financial resources of the province subject to the demurrage pressure of 1% a week," which would translate into a tax of 52% a year on held deposits and cash (Woodward files 1-11-2). This was the principle of the Gesell reform to establish a negative interest rate on money as a nominal vehicle of real credit (goods and services) with a carrying-charge

[70] The term "giro" is a German invention referring to a system of transferring a means of payment between social accounts. A "Giro, then, is basically a system of circular credit in which money circulates between account holders within the system," and typically allows for withdrawals on demand to release this bank money as a monetary standard, such as pound sterling in Britain's National Giro system or Canadian dollars in the proposed Alberta system (Grady 1967: 122).

tax called demurrage. Those familiar with Gesell have commented that this rate of 1% a week was "near-absurdity," where Gesell had envisaged 12% demurrage per annum, or 1% per month as a norm (Preparata 2004: 142). Because the provincial government would probably not have the legal authority to impose such a levy, Woodward suggested that "there is nothing however to prevent members of a society from imposing levies on themselves" (Woodward files 1-11-2). Woodward also idealistically believed that this system could function within the current banking infrastructure. This had become an unavailable option for Aberhart after he promised the establishment of an Alberta-based system, although it was probably naïve of Woodward to believe that banks would accept the demurrage money.

The first scrip notes in Alberta emerged in 1932 when the southern dry land town of Raymond began to complement its scarce Canadian dollars with a local means of payment. The majority of the town's population were Mormon and as one of the organizers of the plan stated at a UFA committee, the plan resulted from experiences in Utah where "county scrip" was paid to school teachers. Once the teachers in Raymond accepted to take part of their salary in scrip, the town arranged with the "stores who acted as a kind of bank for us to allow merchandise to be paid out for any scrip issued." Significantly, the proposition that the scrip had created any sustained profit beyond dollars saved was labeled "ridiculous," as the scrip was issued in a quantity that would be "absorbed right there in our midst for the benefit of the people," and the total issue was returned in taxes by the end of the year (Agricultural Committee April 8 1935. Glenbow M1157 #140).

The witness goes on to stress that the measure was successful because it was pragmatic. In the context of the ongoing Social Credit crusade, the mild tone of the Raymond scrip experiment described to UFA officials speaks to a spectrum of monetary innovation beyond the rhetorical skills of Aberhart and the promises of his movement:

> It has not done anything that would be magic. It has been a straight business proposition. We knew we had taxes coming in to back what scrip we issued, or thought could reasonably be issued, and be taken up by the merchants and the people of the town… It was not a fabulous thing, but done with the idea if we would handle this business ourselves we could save, and since the 8th of May, 1932, we have not borrowed a single dollar from the Bank (Agricultural Committee April 8 1935. Glenbow M1157 #140).

By January 1933, the municipal government of Calgary was pushing for the issue of its own scrip. This was at the behest of labour leaders in the city, the announcement to start the plan being made by the mayor at a dinner for the city's division of the national Federation of Labour. A document from the city's Special Scrip Committee shows proposed plans to issue just shy of $100 000 in notes for civic salaries, teachers and maintenance work in the City of Calgary, but the mayor's scheme was eventually rejected by the local government (Finkel 1989: 38; Glenbow M2660 #51).[71]

A diffuse cottage industry of local barter and scrip experiments sprung up in North America in the early 1930s. These movements were not just a natural or evolutionary response to the great reflux of money from the economy in the Great Depression, in some cases they also became templates for an ideological critique of capitalist society. A 1932 issue of the *New Republic* observed in reference to the growth of hundreds of barter and scrip meet-ups across the United States that “it is just possible that the exchange movement is a rough foreshadow of the coöperative commonwealth coming in the back door unannounced” (Weishaar and Parrish 1933: 15). In describing this episode as a brief “challenge to territorial currencies,” Eric Helleiner notes that groups in Utah also explicitly linked regional extra-legal monies to the concept of a “cooperative commonwealth” that drew from the experiences of early American provincial credit (Helleiner 2005: 198). The Mormon aptitude for self-organized rules-based social accounting aside, these cases display the general problem of geographic autonomy in a financial world that Social Credit and other money reform movements brought to political attention.

These experiments in local currencies and attempts to monetize barter exchange across North America were usually short-lived but intense in the degree of public interest and communication between government officials and other interested parties that they ignited. On May 18 1933, the secretary of the Calgary Board of Trade received from the federal US Department of Commerce a

[71] In May 1933, Fisher wrote to the mayor of Calgary with a detailed outline suggesting “that your city should make use of Emergency Self-liquidating Relief Scrip” (Fisher 1933, Glenbow M2660 #51). The same month he wrote to Franklin D. Roosevelt encouraging him to adopt an “anti-hoarding tax” through the device of “postage stamps attached weekly on money [as a] sales tax... which will accelerate rather than retard business” (quoted in Allen 1977: 573-4).

bibliography of recorded examples of organized barter and scrip exchanges in the United States that had been prepared by the Bureau of Agriculture in February 1933. This booklet was sent because the supply of the department's own bulletin on the subject had been "completely exhausted" by requests from municipal officials across the continent (Glenbow M2660 #51).

Woodward advised the Alberta government from April to July 1936. At this time he was in contact with Ezra Pound who had taken great interest in the situation in Alberta and the possibilities of popularizing a synthesis of Douglas and Gesell (Surette 1999: 193-197).[72] In an April 17 1936 letter Woodward begins "Dear Ezra Pound... the local situation [is] bewildering." Woodward conceived himself as the anchor of economic sense for Aberhart – "to know him is to hate him" – and the Alberta radicals in government (Woodward 1-11-5). Pound had previously written to Fack complaining about an article that Woodward had written that he called an "IGNORANT attack on C.H. Douglas... E.S.W.'s account of Douglas is simple bull shit." Despite this disagreement, Pound hoped to recruit Fack and Woodward as allies in his own peculiar mission (Pound to Fack Sept. 26 1934, quoted in Preda 2007: 118). Pound was attempting to persuade "Doug/ and Orage, to get 'em to see SS [stamp scrip] as the proper medium in which to pay the div/" and to combine the Social Credit and Gesell movements for reform from their shared position that the cause of monetary disturbances was a structural pathology in the banking system (Pound to Fack October 30 1934, quoted in *Ibid*: 122).

The first public announcement about the scrip plan was made by Lucien Maynard on April 10 1936, and apparently rumours began to spread in newspapers that the issue would be used to pay for road work (Coe 1938: 66). Although the State Credit House provided for in the Social Credit Measures Act was never established, by June 1936 Maynard authorized the issue of up to 2,000,000 prosperity certificates in denominations of one and five dollars (*Ibid*: 67).[73] Maynard made another announcement

[72] In the notes of his archival fonds, Woodward's daughter writes "Dad had no idea of Pound's literary status when the correspondence started, and in the end was so angered and offended by his fascist politics and support for Mussolini (plus offensive language) that he trashed them all. I arrived on the scene just too late to urge that the letters he saved for historic record)" (Woodward Files 1-11-5).

[73] In May 1936 documentation the scrip was still called "Alberta Bonds" and the authorization was of up to 12,000,000 notes of one, two, and five dollar denominations. The date of issue was set for June 1936 (Maynard files PAA 94.271).

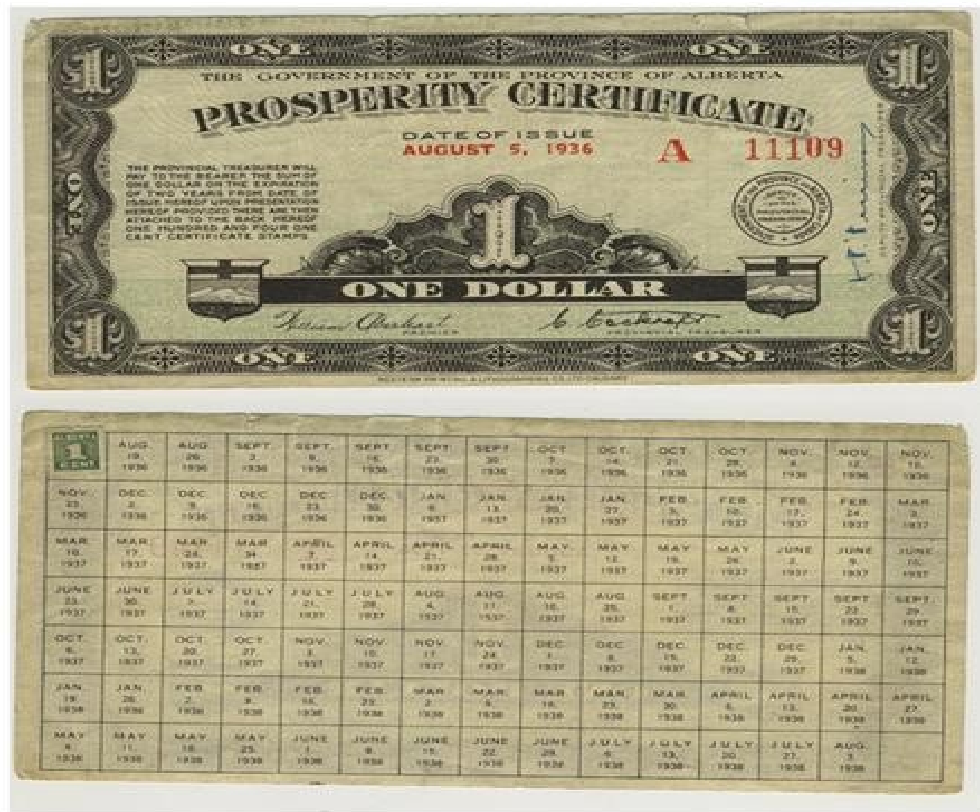
on June 22 to clarify how the device was supposed to function: “as these certificates circulate, it will be necessary for someone to stick a one per cent stamp on the back thereof every week for a period of two years. The fund for redeeming these certificates will be built up from the sale of stamps to redeem… at their face value and also to pay the costs of administration” (PPA 94.271 #106). Maynard rightly noted that if every Alberta note was backed by Canadian dollars there would be no effect on aggregate purchasing power (Coe 1938: 72). On June 17 Aberhart said that the government would operate a circulating fund of real money to redeem the notes of wholesalers who did business outside the province, which was later expanded to include some retail merchants. No clear policy was developed for how Alberta Credit could be settled for Canadian bank money on demand (*Ibid*: 77-78).

By July 11 1936 Woodward confided to his colleagues that the government’s commitment to Social Credit principles made cooperation impossible: “Manning still wants to abolish taxation, defray all govt. expenses by issue of scrip, pay… basic dividends… by the same means, and still avert the depreciation of money.” In a prophetic statement, Woodward noted that “if the scrip thus given away and not accepted for taxes it would be valueless except as souvenirs of attempted magic in the realm of science” (*Ibid*). On July 15 1936 Woodward received notice from Aberhart that his services were no longer required (Woodward July 15 1-11-1).

On August 6, 1936 after numerous delays and uncertainty about the plan’s permanence and its relation to Social Credit, about $175 000 of one dollar denominated scrip was mailed to the constituencies for a maximum emission of $239 391 from August to October 1936 (Coe 1938: 81). The Canadian monetary economist V. F. Coe wrote a detailed survey of the prosperity certificate in Alberta during 1936 and 1937 funded by the Rockefeller Foundation. The essay, entitled “Dated Stamp Scrip in Alberta,” begins with a reference to the “general interest” in the provincial government's actions as “the only Social Credit government which has been elected to office in any country” (*Ibid*: 60). The other point of interest is that the first “monetary innovation” entertained by the province was not based on the

principles of Douglas "but the adoption of a rival monetary reform, the dated stamp scrip money of Gesell... The interest of many people, including the *monetary theorists*, J. M. Keynes and Irving Fisher, in the economic ideas of Gesell seems to make an investigation of the Alberta episode worthwhile, even though Gesell's device was not introduced in exactly the manner he would have adopted" (*Ibid*, emphasis added). Coe provides the greatest available detail of the Prosperity Certificate's lifespan and its circulation. Reviewing local newspapers, he writes that "above everything else, the discussion emphasized the social nature of money" as everyone in the province was required to chart in their heads relations of payment to consider the essential problem: "who will take it?" (*Ibid*: 68).

The design of the Alberta note (Figure 1) is an excellent example of "articulation of state sovereignty" which Emily Gilbert and Eric Helleiner have shown was often the major purpose behind the establishment of homogenous territorial currencies (Gilbert 1998: 42; Helleiner 2005). On August 23, Ernest Manning prophesized over the air that "the promised land is now on the horizon," but the speed of this inevitable movement depended on the demands and actions of Albertans. The government could only evangelize the good news, such as the iconography of the bill that was designed to invoke the sense that the province was a coherent economic unit (quoted in Hesketh 1997: 135). Coe notes that the available newspaper reports of circulation were "not very illuminating" and that the Free Economy League (i.e., Woodward) had criticized the scheme, but "made no effort to study the actual reception" (Coe 1938: 82). Coe notes that for a brief while after the establishment of a clearing house for the scrip in Lethbridge, other organized efforts began across province to facilitate the efficiency of brokering transactions with certificates for claims on goods. However, in the September 1936 redemption of the first monthly emissions $144,280, or over 60 percent, was redeemed for Canadian money (*Ibid:* 85). The plan to establish credit houses to formally support a separate wholesale system was put on hold in response to the failure of the prosperity certificates (Hesketh 1997: 137-138).



(Figure 1) Alberta Prosperity Certificate, front and back. Source: www.aberhartfoundation.ca, accessed on March 15 2013.

The government actively registered businesses who agreed to sell the stamps needed to be affixed on each note once a week to keep the scrip eligible for redemption into Canadian currency. The idea was that the fund to pay for this redemption would accumulate through the selling of the necessary one cent stamps to the stores that would buy them in bulk from the government. The endeavor to construct a competing financial arrangement was "standard praxis of monetary uprising, which, in its essentials, simply consists in a more or less refined plan designed to bypass altogether the capillary mass of the banking network, duplicating it on a regional basis... [the prosperity certificates] were to form the lifeblood of the alternative Alberta monetary circuit" (Preparata 2004: 134, 141). Cabinet ministers gave mixed signals to the public on the capacity to convert the regional Alberta credit into world or bank money. Maynard would write in a press report to clarify the nature and goals of the plan that the government would "always be liquid" in their position so as to attract the widest possible faith in the Alberta money across businesses (June 22 1936 PAA 94.271 #106).

Much of the Cabinet's effort to promote the dated stamp scrip among retail merchants was directed at combating the news media representation of the scheme as "funny money" (Figure 2.). In contrast to later attempts to pass Social Credit legislation that were disallowed by the Supreme Court, there was a decision among institutional interests not to challenge the prosperity certificates. Clifford Clark, the Deputy Minister of Finance, suggested to the CBA that the provincial government should "learn from actual experience that it (dated scrip) could not be operated successfully" (quoted in Ascah 1999: 66). There was a great deal of uncertainty about the nature of the demurrage scrip in relation to the promised dividends in Alberta Credit. Maynard framed the scheme as an exercise in expanding relief lines, but constantly stressed the "legal tender backing of the certificates issued," where the one cent stamps to keep the vehicle of payment operable would add to a redemption fund, which raised the question of how this all would increase Albertans' purchasing power (June 22 1936 PAA 94.271 #106).

(Figure 2) Lucien Maynard performs a purchase with scrip for the camera at a retail store in Edmonton. With no legal basis or connection to an established common transactions-and-payment system, the demand and acceptance of the scrip was entirely dependent on psychological factors of trust and ideological belief in the Social Credit concept. Source: Edmonton 1991: 37.

Upon its initial emission, the turnover of the prosperity certificates between retail merchants was intense, and the amount of businesses who would accept the notes grew rapidly for about six weeks (Coe 1938: 84). In a letter to Pound describing the situation, Woodward listed the businesses who accepted scrip in Edmonton: “one is the local branch of a chain of stores. The other is a store which specializes in buying and selling fire and bankrupt stock” (Woodward to Pound Jan 27 1937 1-11-5). According to Coe, “the dated stamp scrip was in the end little more than a small nuisance” and on April 7, 1937 the program was officially ended (Coe 1938: 85). Within the orthodox Douglasite ranks of the government, the association of the plan with the rival monetary reformer Gesell limited support for the program. The certificates divided the Social Credit caucus into two dissident factions facing the Aberhart cabinet operating day to day government: an “Alberta-first” group led by Maynard interested in conjuring a provincial unit of account and credit system to support regional producers and an orthodox Douglasite group who resented the muddling of concepts (Hesketh 1997: 1290-130).

The final rupture from the Gesell ideas began when John Hargrave arrived in Edmonton from Britain in December 1936 on the mission to unite the factions in the Alberta government for the sake of the worldwide movement. While Woodward had emphasized the importance of the voluntary and liberal basis of any plan, Hargrave added to the scene an esoteric and anti-materialist agenda based on his own illuminated politics that stressed subversive action and performance (*Ibid*: 139). Woodward wrote to Pound bemoaning how Hargrave's proposed economic plan “was not true to the facts of life and experience” (Woodward to Pound Jan 27 1937 1-11-5). Woodward and Hargrave represent the polar opposites of the progressive underground: the former was a store clerk, labour and trades organizer, municipal politician turned journalist concerned with the peculiar problem of money as a social institution; while the latter was an idealistic renegade who presided as tyrant over the woodcraft brotherhood of the Kibbo Kift, led the Social Credit Party of Great Britain in the 1935 election on a platform of dividends for all, and patented the navigating device that was used in the Concorde in 1938.

No other individual involved in the Alberta Social Credit phenomenon embodied the belief in the individual's power to enact a spontaneous transformative change in the world like Hargrave, as he put it in his biography of the medieval occultist Paracelsus: “It is obvious to anyone (or ought to be) that, but for the few freaks, cranks, originals, and odd-men-out, mankind in the mass would still be without [the] *god-like faculty of imagination,* [so that] *by means of Resolute Imagination, man can accomplish all things*” (Hargrave 1951: 15, quoted in Webb 1976: 513, emphasis in original). Hargrave won the support of Maynard and the rest of the cabinet to draft a plan for revolutionary autonomy from the established credit system, which he suggested could be ready by January 1937 (Hesketh 1997: 139).

The influence of Douglas orthodoxy grew, though, and in March 1937 the province was shaken by a “backbencher’s revolt” of Members of Parliament who publicly rebuked the cabinet and began a reinvigorated Douglas agenda centered around the newly established Social Credit Board. Hargrave left the province admonishing the provincial activists, but Douglas sent two “lieutenants,” G. F. Powell and L. D. Byrne, to Alberta in his stead to guide the insurgents. Macpherson argues that “in Alberta as in England it was failure of social credit action that led to extension of theory,” in terms of the transition from an economic reform argument into a political theory of finance leading towards a universal and homogenous state (Macpherson 1962: 175). The arrival of the “experts” from Britain cemented the influence of Douglas's idiosyncratic political theory of international conspiracy that he had developed in order to explain the failure of Social Credit as a mass movement at home (*Ibid*: 193). If the quality of political discourse in the English-speaking world deteriorated in the 1930s as the debates between socialism and liberalism were pulled under the surface of uniting against totalitarianism, the changes in Douglas's thinking by the mid-1930s encapsulated this phenomenon (Freeden 1986: 330).

Content in his analysis of the systematic economic problem, Douglas's view degenerated as he was driven to explain his failures up unto the point where he claimed that Social Credit was Christian, and ultimately opposed to Judaism which was seen as a “Satanic policy” of worldwide control

(Douglas 1948, quoted in Macpheson 1962: 185; Webb 1967: 133-134). After the collapse of the prosperity certificate scheme derived from a hybrid of Gesell's demurrage principle and American voluntarist barter-exchange ideas, the Alberta cabinet moved to definitely endorse Douglas's support.

In a letter to E. S. Woodward in late 1936, John H. Büchi argued that the future of the Free Economy movement would be interpreted through Keynes's *GT* as "a very fine exposition of *our* interest theory" as a monetary phenomenon. "One thing, of course, is clear, Keynes uses the traditional slang of economists" (Büchi to Woodward November 9 1936 1-11-1). It was the basic idea of establishing neutrality in the institutional structure of money that attracted professional economists and officials who were interested in the new economics associated with Keynes.[74] The broader interest in Gesell among professional economists and civil servants is evident in the correspondence between Woodward and Charles Dunning, the Minister of Finance under the Mackenzie King government.

In a June 6 1939 letter to Woodward, Dunning underlines his rejection of the *schwungeld* proposals; "if money was taxed [money substitutes] would crop up, especially for the well-to-do… More significant would be the possibilities of people holding American money" to escape the demurrage tax burden (Dunning to Woodward June 6 1936 1-6-1). In a follow up letter, Dunning begins by saying that "Gesell's ideal, a healthy, free economic system that will not be subject to depression nor to regimentation… [and] the spirit in which he urged his ideas was admirably liberal." But the problem was in the simplicity of Gesell's proposals as they were being translated through Keynes in the *GT* and his emphasis on interest rate differentials. "Experience since [Gesell's] death," Dunning notes, "has shown that a reduction in interest rates is not as effective as had previously been believed." Dunning was clear that he had little faith in the power of monetary policy alone to establish the neo-liberal agenda of saving capitalism; "prosperity in our form of free society depends upon the

[74] In a 1943 essay "Post-war Tax Policy" for the *Canadian Journal of Economics and Political Science*, the Canadian Keynesian economist Benjamin Higgins wrote in favour of establishing a demurrage carrying-charge tax on money. He notes that "most professional economists have damned the hoarding tax by faint praise. Lord Keynes accepts the idea of stamped money as sound, but points out that bank money, debts at call, foreign money, government securities, and even jewelry may satisfy the desire for liquidity." Echoing the arguments made by Büchi, he says that "such criticisms apply, not to the principle of the tax, but to the incompleteness of concrete proposals for legislation" (Higgins 1943: 555).

enterprise and courage of those who have capital to invest," the Gesell plan was flawed in Dunning's mind from the concept that it could achieve this through penalizing investors who hold "ultra-liquid" assets such as cash (Dunning to Woodward July 14 1939 1-6-1).

The basic reason for installing the demurrage tax in the first place, however, was not to penalize enterprise, although this may be the micro-economic impression given to the tax payer. The goal was to alter the pathological effects of long term accumulation and polarization that emerge from the non-neutral institutional structure of bank money (Gesell 1929; Suhr 1989). Outlining this rationality to Ezra Pound, Woodward argued that the purpose was for "the application of the demurrage gadget [to alter] bank money from an usurious, debt creating instrument into a non-usurious, debt-free, socially beneficial instrument" (Woodward to Pound Jan 27 1937 1-11-5). If Douglas's Social Credit had become less important in shaping the circulation reform agenda by the mid-1930s, then Gesell's status was rising in this formative period of English-speaking macro-economic theory centered on John M. Keynes. The Alberta Credit phenomenon was a mess of ideas and visions for the future but the contours of economic thought at work in the province reveal its place in a wider Keynesian frontier.

4.5. Conclusion: Alberta Social Credit in Space and Time | The possibilities for the experiment in the prairie province envisaged by the Free Economy movement are examined in an August 11, 1936 letter from Büchi to Woodward: "There would be something of a dual currency system. Alberta scrip circulating alongside of legal tender. The only question arising is the probable disparity between the two and the cost thereby incurred by importers into the Alberta area and for the payment of debt due to outside Alberta of the premium on Canadian (discount on Alberta) currency" (Woodward Files 1-11-1). In this sense, in the variations of both Social Credit and the Gesell plan entertained in Alberta the crux of the matter was a question of new *monetary spaces* and not just the *macro-dynamics* of an already established money unit of account and processes of an economic system. While Social Credit and

Gesell's economics both touched on monetary space and the dynamic qualities of capital-time, these underground monetary theorists of the interwar period spoke to particular viewpoints of the underlying issue of the neutrality of money from these distinct dimensions.

The problem of defining monetary space as a field of social autonomy was at the core of Social Credit's transformation from an urban intellectual reform idea into a minor but worldwide movement that had greatest success in the peripheral English-speaking regions of the world market economy. The intellectual history of Social Credit is, in large part, a story of a collective effort to make the riddle of money's neutrality an immediate political problem at a moment of revolutionary change in macro-economic theory and policy. Aberhart's public mission to uncover the spiritual power of money and bring it into the realm of local technical control was a particularly extravagant iteration of this Keynesian frontier that Douglas and Gesell each had an integral part in shaping. The continuation of social credit ideas in the province after the tumultuous early period, most notably the Alberta Treasury Branches, was marked by this concern with Alberta as its own monetary space that could be conceptually separated from Ottawa's economic policy. The Treasury Branches, owned and operated by the Alberta government, were intended to create the impression of the promised Treasury-run Alberta Credit institution, but is completely integrated into the national settlement system (Hesketh 1997: 204).

The focus of the Free Economy movement in support of the demurrage carrying-charge tax on money began from the internal dynamics of the existing monetary system itself. While the Douglas analysis also began from a concern with processes of value appreciation and depreciation, the lack of a clear theory of capital and interest to define the alleged deficiency of purchasing power meant that Social Credit did not become a relevant heterodox idea in economic theory. On the other hand, as Dietar Suhr (1989: 98-101) shows, the Free Economy movement did receive a considerable positive reception from establishment monetary economists such as Irving Fisher (1933), Ralph Hawtrey (1944) and Maurice Allais (1947). These economists recognized that there was an underlying pathology in the

use of money as a commodity or market object, which results in the accumulation of interest-bearing credit-debt in national economies. The prosperity certificate scheme might give the impression of gimmickry, but the essence of the plan to alter the monetary standard following the demurrage concept of a user cost on money shares direct connections with contemporary reform ideas in banking and finance theory (Buiter 2005; Illgmann and Menner 2011).

Bob Hesketh argues that the development of Douglas's ideas on an inherently non-neutral monetary system was a direct response to his conspiracy theory. James Webb makes a similar point in writing about a shift in the atmosphere in the underground towards the end of the 1930s: “The youth movements, the vast majority of the Guild Socialists, the Social Creditors of the period before Douglas went wild, or the followers of Hargrave – all seem to have avoided the pitfall” of this “illuminated anti-Semitism” that replaced objectivism to explain macro-dynamics with a mental world of spinning together conspiratorial “other realities” (Webb 1976: 133; Hesketh 1997: 6). These strands of thought came to fruition in Alberta in the years during WWII as the influences of political Douglasism (as opposed to an earlier technical Douglasism) became embedded in the government. In November 1942, Aberhart initiated a series of radio broadcasts aimed at restarting the Social Credit agenda: “Listen carefully, Ladies and Gentlemen... for the sake of everything you hold dear, oppose, expose and resist by every means in your power this audacious and evil conspiracy by the Money Powers to set up a World Slave State” (Aberhart 1942, quoted in Hesketh 1997: 205). Aberhart and Manning began to conceive the workings of this dark conspiracy in the welfare state agenda for comprehensive social insurance. The death of Aberhart in May 1943 saw the continuation of this message with Manning's turn to linking a tradition of anti-finance populism with an explicit anti-communism (*Ibid*: 207).

What is missing in the literature on Social Credit in Alberta is a proper analysis of what Douglas had to say about the formation of purchasing power and the place of social credit ideas in the development of a “New Economics” between the cranks, heretics and professionals in the 1930s. The

Keynesian frontier is an effective heuristic metaphor to frame the history of Alberta Social Credit in the context of changing perceptions of the place of money in macro-economic theory and the social geography of accounting-and-payment institutions. The attack on social insurance followed directly from ideas around endogenous money and the A + B Theorem to criticize the scarcity principle implicit in income transfer mechanisms and the problems inherent in removing a greater share of current income from an already purchasing power starved public.

Conclusion
Keynesian Geographies of Non-Neutral Circulation

5.1 Money and Human Geography | Social Credit as an idealist revolutionary movement with worldwide appeal in the 1920s and 1930s was a minor but important fragment of the Keynesian frontier of monetary theory and the division between micro- and macro-economics as unique fields of inquiry. The conceptual language of Social Credit was a precursor to the quantum theory of production and money emissions developed by Bernard Schmitt to extend and move beyond the insights of Keynes's principle of effective demand. The core of the Social Credit – the A + B Theorem of an inherent deficiency of purchasing power – was a statement of a *structural disorder* in a monetary circuit based around a double-entry book-keeping statement of the national economy: income is equal to output. The premise of an absolute difference between total supply in the net costs of final output and total demand in current incomes was revolutionary in the interwar era when neoclassical equilibrium thinking refused the possibility of such a situation ever occurring. Both Social Credit and the theory of money emissions share the quality of being explanations of a complex real world that start from very simple deep structures and casual relationships that constitute phenomenon such as income, profits and the pathological disturbances that creep into the circuit as numerical deviations in supply and demand.[75]

The challenge for a circuitist human geography is to show how these deep structures relate to historical institutions and the metaphorical structures necessary to provide the imaginative fictions to make these nominal book-entries a common invariant standard across space and time. The principle of money of account that Keynes and other historical actors emphasized as the core of an approach to money as being endogenous to social creditor-debtor relations cannot be separated from a political geographic construct of assigning rights to appropriate assets and obligations to be responsible for

[75] Circuit theorist Claude Gnos situates this approach: "Profits have been considered as the result of a transfer of income from consumers to firms, occurring when prices exceed factor costs. This approach was initiated by James Steuart, an eighteenth century writer, who promoted the notion of 'profit upon alienation'. This was also Keynes's approach in formulating the principle of effective demand by which 'entrepreneurs will endeavour to fix the amount of employment at the level which they expect to maximize the excess of the proceeds over the factor cost' (Gnos 2003: 334).

liabilities. I have limited my concern to drawing out the broad outlines of what such a monetary approach to human geography might look like, with special reference to interwar monetary regime changes and the Keynesian frontier as a particularly rich case study for an inquiry into the conflict over the meaning of payment and settlement as the institutional foundations of economic activity.

Social Credit and other money reform concepts contesting the Keynesian frontier can be thought of as iterations of a form of "monetary mercantilism," associated with an "anti-quantity theory of money" tradition in political economy (Kam and Smithin 2012: 37). As an instituted social reality, money is coterminously a material and subjective construct. As Emily Gilbert emphasizes, these dimensions are mutually reinforcing and inseparable, making it necessary to draw out "the paradoxes of money as always a symbolic referent, a social system *and* a material practice. The symbolism that money represents defines and limits what money can be and can do, just as the forms that money assumes resonate in terms of what functions money can perform or what kind of symbolic power it can represent. Neither dimension is sustainable without the other" (Gilbert 2005: 361). Having no invariant property in itself but rather relying on the interplay of symbol and power relations, the structure of monetary payments has to be understood from the specific manifestations of an instituted common invariable standard. Following the indeterminism of the endogenous money view, this thesis has attempted to chart how the ideas and personal conflicts of Social Credit in Alberta compounded the promises and uncertainties of monetary theory in the province and Canada, while showing how the rhetoric and concepts of this local history related to a worldwide conflict over economic terminology.

The dominant form that the monetary standard takes as a social link between the individual and a permanent community in both the 1930s and today is "fiat money [that] both embeds and hides sovereignty" under the premise of central bank neutrality, and which since the breakdown of the international gold standard has extended the working fiction of a monetary invariant in the form of nominally risk-free government bonds (Cartellier 2011: 101). The function of central banking since the

1930s “has been to sustain the popular belief in money's capacity as an independent numeraire,” but not to outline a proper ontology of money from its own properties as a genuine mode of circulation that subordinates agents and things to a general equivalence (Bryan and Rafferty 2011: 171).

To attain this goal, modern central banking has followed Keynes to define money from its function of liquidity realized as a particular kind of financial asset, government money, or cash, and its bonds that form the social value standard. This project has taken place in a state of exception from democratic government to the extent that “money works best when it can be taken for granted and its social construction is hidden,” so that the form that money takes in time and place is often extended even if the functions this physical form once provided become obsolete (Carruthers and Babb 1996: 1556; Mann 2013). Social Credit expressed a tradition of monetary mercantilism from its objective to define money proper in concrete terms of a pure credit economy in a way that did away with the classical dichotomy between real and monetary forms where productive services are exchange for an equivalent value of a substantive money-thing. The premise of starting a theory of production and distribution from double-entry book-keeping in a closed accounting system means that the formation of purchasing power – real credit – is cast as a process of workers filling nominal monetary containers with physical output, and a genuine act of creation in a social order following certain rules of the game.

The transition in the English-speaking progressive underground from an endorsement of Guild Socialism into Social Credit as an even more fragmented and heterogeneous political cause can be interpreted as part of the revolutionary changes in the human geography of money during the interwar period. One of the deeper connections between the Social Credit movement and the post-WWII world of Keynesian economics is the continuity of the public dividend or guaranteed basic income as a policy concept (Trier 1995). In a review of the British economist and national accountant James Meade's 1938 book *Consumers' Credits and Unemployment*, Keynes distinguishes between the policy idea of issuing new money in the form of consumer credits and the dogma behind Social Credit proposals:

> Mr. Meade has performed a useful service in bringing into the picture consumers' credits – or rather consumers' subsidies, for this, and not aids to instalment purchasing, is what he has in view – not as a magical specific, but as one of the possible means of levelling out fluctuations in effective demand… Mr. Meade is not what is usually called a 'social credit theorist', but he thinks that subsidies (as I should prefer to call them) to consumers have not received the attention which they deserve as a weapon in our armoury against fluctuations (Keynes 1938: 67).

The endorsement of an "equal 'social dividend' to all members of the community" by Keynesian economists such as Meade indicates how the principle of associating money with an institutional public good required its own social geography of the monetary standard, and with this the political conflict over the meaning of neutrality in a macro-accounting circuit. There is no basic model for a guaranteed incomes policy that can be separated from the social context of the geography of rights and obligations that shapes its emission (Meade 1936, quoted in Trier 1995: 352).

5.2. Canada Post Keynes | If there is a Canadian discourse of the Keynesian frontier, it begins from the oscillation between the heterodox monetary macroeconomic ideas of C. H. Douglas and Silvio Gesell across the peripheral western provinces and the metropolitan professionals who guided governmental and institutional responses to crises in the 1930s. Although the history of anti-Semitism and conspiracy thought in Alberta Social Credit has been well researched, the import of the spectrum of Douglasism as an anti-quantity theory of money argument into the Canadian landscape of political economic thought in the 1930s has been neglected (Hesketh 1997; Stingel 2000). The ideas of demand management associated with Keynes were less popular among economists in Canada. Instead, the development of the new creed from the late 1930s into WWII was largely supported by political and corporate leaders associated with the federal Liberal party who were concerned with building institutions to manage national unity (Owram 1986: 374-376). The advent of the Keynesian revolution in Canada supplanted Social Credit as a syncretic third way position, capturing the sense of a centrist political economy based on an inductive and statistical technique. Social Credit's claims as a monetary science had been utterly discredited by the mid-1930s and were firmly associated with an irrational populism.

Douglas's claim to provide a methodology based on cost accounting has significant parallels with Post Keynesian alternatives to the neoclassical theory wherein prices are formed in spontaneous market supply and demand. The sequential view instead argued that price formation was due to a deliberative mark-up by firms above the costs of production. In this sense, the premises of Douglas's theory have direct relevance to the history of monetary economic policy in Canada in the second half of the twentieth century. The concept of an administered Just Price parallels strands of Anglo-American Keynesian thought embodied in figures such as James Meade, Alfred Eichner and John K. Galbraith that have emphasized the role of a prices and incomes policy to contain macro-economic fluctuations. The content of these ideas were most notably expressed during the 1970s period of stagflation when following the economic ideas of Galbraith, Pierre Trudeau attempted to implement an anti-inflation program based around administered price and wage controls (Firestone 1977). Social credit ideas have also been extended by the Committee on Monetary and Economic Reform (COMER) founded by the University of Waterloo economist John Hotson with a focus on "monetary sovereignty" and public finance. The connections between Social Credit and modern monetary theory in Canada are also present in the literature of Post Keynesian camps across the continent and Francophone circuitist theorists in Quebec (University of Ottawa 1997; King 2003: 151-152; Lavoie and Seccareccia 2006).

More recently, since the 1990s interest in Gesell's demurrage ideas have resurfaced in modern monetary theory to explain the social reality of a liquidity crisis. These principles have gained most attention in Japan where deflationary conditions at a zero bound nominal interest rate have prevailed for the past two decades. "Following Gesell and the Social Credit movement in the second and third decades of the 20th century, [it is claimed] that a carry tax on currency holdings may allow the emergence of negative nominal interest rates," which would in turn open up new frontiers of business profitability relative to the social standard of the monetary rate of interest (Fujiwara *et al* 2005: 477).[76]

[76] "Gesell taxes (or taxes on money holdings) [are] a way to avoid liquidity traps. A Gesell tax can be interpreted as a negative interest rate on money. Because the opportunity cost of holding money is given by the difference between the nominal rates of return on bonds and money, a Gesell tax allows the opportunity cost of holding money to be positive

Gesell has come back into fashion since the 2007-2008 financial crisis, where the problem of the "liquidity trap" is no longer a Japanese phenomenon but increasingly the basic condition of monetary life around the advanced capitalist world (Illgmann 2010: 2). That economists working for the Bank of England such as Willem Buiter would reference in their writings on liquidity crisis Alberta Social Credit and "the Prosperity Certificates introduced in 1936 by Premier William Aberhart [as being] pure gesell" gives further intellectual credence to this view (Buiter and Panigirtzoglou 1999: 21). Gesell's demurrage concept has emerged from neglected history back into contemporary monetary theory.

Despite the large differences between Douglas and Gesell in terms of method of inquiry and proposed solutions, as ideologies Social Credit and Free Economy shared a concern with bringing the basic rhythm of money and monetary expectations into the real world of decay. The continuity between the two approaches is grasped in Keynes's reference to Gesell in the *GT* on the nature of liquidity assets being defined by the absence of carrying charges. The quantum-theoretical insight that can be imperfectly found in Douglas and Keynes's writings is that the investment into fixed capital and its carrying charges in amortization entails a loss to all income holders. In other words, the wear and tear of capital equipment and infrastructure creates a category of user costs which have to be understood and accounted for on their own terms.[77] The imperishability of liquid outside money as the symbolic token to claim property rights over goods means that a confusion in the National Accounts between money, credit-debt and capital can create discrepancies in supply and demand by assigning real worth to what is in effect a purely nominal sum to keep up with entropy.

What remains relevant in Social Credit is the basic issue of the social neutrality of money creation, initial distribution and destruction in a demand-driven monetary production economy. In

when nominal interest rates on government bonds are negative. Thus, if a liquidity trap is understood as a situation in which the opportunity cost of holding money becomes zero, then a Gesell tax clearly does not eliminate liquidity traps but simply pushes below zero the nominal interest rate on bonds at which they occur" (Benhabib *et al* 2002: 559).

[77] "Fixed capital, the constituent component of firms, is physically destroyed as it is used: it loses its value by contributing to the creation of output. Contrary to what Marx in particular thought, the degraded part of capital is not recouped either physically or in value in current output. The 'user cost' of capital is truly a net loss for firms and for the community as a whole: capital is not converted into income" (Bailly 2012: 115).

contrast to what became the orthodox Keynesian focus on the absolute growth of national income, there is an odd continuity between Hawtrey, Gesell and Douglas from an underlying faith in beginning from the contested issue of the neutrality of money to end the depression and post signs for a future economic democracy. The fundamental problem raised in the Keynesian frontier was the ontology of money as an explicitly geographic unit of account for containing incomes in a monetary circuit of production-consumption. Breakdowns in a market-based financial order such as in the early-1930s and the late-2000s have the impact of disturbing the spatial and temporal effects of money that bind social relations of an economic sort in place. In both instances, the demand for liquidity casts doubt on market prices and raised the previously hidden Leviathan of the sovereign state back into the economic picture. The current situation is one where, by definition, the evocation of the sovereign factor of production is arbitrary and discretionary as such activity of the lender of last resort is contingent on the unpredictable disruption of financial relations. The chief aim of the Keynesian frontier, and what made it in essence a political geographic imperative, was to redefine money away from the idea that it is a circulating object and to present a coherent framework of endogenous money as a nominal circuit and body of accounts.

By addressing the creation and destruction of money in processes of social accountancy which follow a certain conceptual logic that can be objectively improved, the underground reformers shared a common normative ground with professional heterodox economists. The goal of the Keynesian frontier was to use the modern fiscal state to embed liberal values of individual autonomy and social neutrality into the monetary circuit so as to conserve the current order of private property and market-based production. The issue of money neutrality across Social Credit, Free Economy, and Keynesian theory became the constitutive metaphor for an alternative progressive monetarism with a neo-liberal agenda to secure the social control of money as the institutional foundation to economic activity. The underlying goal for each was to transform the pathological economy into post-capitalism defined by the total ownership of national output by households, where impersonal banks and firms are intermediaries.

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