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A NEW POLITICAL ECONOMY

An Alternative to Capitalism and Labourism

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In 1922 the Labour Party stood accused of colluding with capitalism in its rejection of the 'Douglas-New Age Credit Scheme'. The Labour Party Report, *Labour and Social Credit: A Report on the Proposals of Major Douglas and the New Age* [1], was described by Major Douglas and A.R. Orage as a "concrete instance" of the "defective working" of the Labour Party in that "the aims of the rank and file and the Central Executive have not so much in common as those of the Central Executive and their alleged adversary the 'capitalist'" [2]. The present paper seeks to evaluate these substantial claims by reassessing Douglas' analysis and the response of the Labour Party to it.

The Douglas/New Age Texts

The texts published in Douglas' name in the years immediately following World War 1 (1918-1922) purport to originate in the author's observations of business accounting in the course of his work as an engineer [3]. Detailed examination however, reveals a comprehensive body of radical economic thought in close harmony with the guild socialist tradition. It includes proposals which accord with Smith's [4] definition of socialism as the elimination of economic conflict.

Douglas envisages a fundamental restructuring of banking and finance designed to minimise economic conflict. Payment of a national dividend to all citizens on the basis of the collective ownership of the common stock of intellectual progress and natural resources forms an integral component of the proposals. There are striking similarities between Douglas' work and the earlier writings of A.R. Orage, in particular Orage's *Alphabet of Economics* [5]. It would appear that Orage, editor of *The New Age* in which Douglas' work first appeared, provided a great deal more than elementary editorial support. Further, the Douglas/New Age texts [6] contain all the elements of a comprehensive critique of capitalism.

Four premises underlay the Douglas/New Age texts. First, the objective of industrial activity should be the delivery of goods and services to the consumer. It should not be employment. Nor should "High Finance or members of the Labour Party Executive (however great their moral or intellectual qualifications might be)" appropriate to themselves the right "to arbitrate on what is or is not 'useful work'" or withhold a share in economic prosperity from 'non-workers' as thus arbitrarily defined" [7]. Second, 'financial credit' was a "mere device which can have no significance apart from 'real credit'". The latter was defined as "the correct estimate of the ability to deliver goods and services as and when required" [8]. Third, banks and bankers can and do create financial credit. By successful manipulation they appropriate the power resident in the real credit of the community for purposes which are "largely anti-social" and self-interested. Fourth, a "satisfactory" determinant of prices would be:-

$$P(av) = \text{Cost} \times \frac{\text{Rate of consumption}}{\text{Potential rate of supply}}$$

$$= \frac{\text{depreciation}}{\text{goods produced + real credit produced}}$$

Price should be linked to the ratio of production to consumption in such a way as to ensure that neither over-production nor under-production occurred. Douglas' attempts to develop this relationship through the medium of the 'A+B Theorem' persistently failed to elicit comprehension, and were the subject of constant misinterpretation. The theorem demonstrates the finance-driven pressures to economic growth, to expand production (and export) of material goods beyond a consumer-determined sufficiency [9].

Academic and Official Reactions in the 1920s

It is important to note that interest in the Douglas/New Age proposals was not confined to socialists. In the early 1920s the Douglas/New Age texts attracted the attention of Cambridge economists. R.F. Harrod reports a conversation between Keynes and the philosopher H.W.B. Joseph. which took place in 1921. Keynes endorsed Joseph's "long and complicated refutation of Douglas' arguments" as "the most clear and admirable exposure of Major Douglas' fallacies I have ever heard" [10].

Exactly which version of the Douglas/New Age texts informed these discussions is not known. A publication by Ramsey (also at Cambridge) drew on an early misinterpretation, *Dividends for All* [11], which Ramsey describes as "a sixpenny pamphlet possessing distinct advantages both in brevity and clarity over the exposition of Major Douglas himself, who is always obscure and often absurd" [12]. In the same article, however, Ramsey admits that "Mr W.A. Orton, late of Christ Church . . . regards the Douglas-Orage analysis as the most searching critique of the existing order which has appeared, and there is no doubt that the enthusiasm aroused in certain quarters by the two books *Economic Democracy* (6/-) and *Credit-Power and Democracy* (7/6) requires some explanation" [13]. Ramsey's use of integral calculus to explore the relationship between selling prices and cost prices of consumer goods was not only novel, at the time, but also inexplicable. The misleading "sixpenny pamphlet" upon which Ramsey based his refutation of Douglas was too insubstantial to merit such serious attention. Throughout the interwar years the simplified misinterpretation served to discredit the Social Credit movement and the Douglas/New Age theories upon which it was based.

Academic interest in the Douglas/New Age texts was extensive in the early 1920s. The two earliest books, *Economic Democracy*, and *Credit-Power and Democracy*, were "set as text books for Economic Honours at Sydney University in 1921" [14]. In their treatise on *Money*, Foster and Catchings [15] refer, albeit dismissively, to the writings of Douglas. The similarity between their description of the factors affecting economic growth, presented in *Profits* [16] and the analysis of the 'A+B Theorem' in the Douglas/New Age texts is so strong as to be, perhaps, more than coincidental.

Further 'official' interest was taken in the Douglas/New Age approach to banking and credit creation when Douglas was invited to present evidence to the Select Standing Committee on Banking and Commerce of the Canadian House of Commons in Ottawa in 1923. Douglas outlined his theories in over 80 pages of closely-typed text and amplified them under questioning. Speaking largely without notes, he presented a prestigious body of experts with a remarkably coherent account of the central concepts of the Douglas/New Age analysis [17].

The Douglas/New Age Scheme and the Labour Party in the 1920s

The rejection of its analysis by the Labour Party in 1922 [18] proved decisive to the subsequent history of Douglas/New Age economics. For Douglas and Orage, as for many socialists at the time, the alternative economic framework presented in the Douglas/New Age texts was in close accord with a socialist critique of capitalism. 'Labourism', as propounded by the Labour Party, challenged "not a single proposition of the capitalist system". Rather, "every strike has been a fight for position in the system", whilst individuals aspire to positions of status and power *within* the system which they might as socialists be expected to challenge [19]. According to Douglas, by opting for class-based politics, the Labour Party failed to capitalise on the lessons of the 1914-18 war, which indicated how to create a socialist political economy offering the potential for a united society and international peace [20].

Instead the Fabians sought modifications to the existing system on grounds of greater efficiency. The rights and duties of individuals to be offered and to find work as a condition of subsistence formed the dominant consideration. Further, as Booth [21] explained, the role of finance in the capitalist system was neither understood nor questioned. *Labour and the New Social Order* [22], based on the 1889 *Fabian Essays in Socialism*, presented a programme of minimum wage legislation and social planning which demonstrated a failure to grasp the elements of capitalist finance or external trading relations. "Until Labour understood the financial workings of capitalist economics, its programme of transition to socialism could always be threatened by capitalist crisis" [23].

The abolition of capitalism and its (peaceful) replacement by a 'Social Credit' state proposed in the Douglas/New Age texts, could have proved appealing to the Labour Party. In Orage's words, the results of the introduction of social credit were "immediate social relief" with a "minimum disturbance of existing social arrangements. No attack is made upon property as such . . . No confiscation is implied, nor any violent supercession of existing industrial control . . . Nor are men expected, as a condition of the practicality of the scheme, to be better than they are" [24]. However, the Fabians were already committed to endorsing, and merely reinterpreting, neoclassical orthodoxy through three decades of intellectual development, crystallised in the sponsorship of the London School of Economics [25]. Pressures from within the Labour Party to consider alternative ideas were therefore ignored.

At its Annual Conference in 1919, Philip Snowden advocated a "National Bank for national service with branches in all centres", following the inept handling of wartime finances whereby "fictitious credits" had been created and thousands of millions of pounds borrowed at high rates of interest. Snowden's resolution was adopted, along with one to examine the State Bonus Scheme advocated by Dennis Milner. Milner's scheme contains proposals similar to the Douglas National Dividend. Considerable popular support existed for a system of basic remuneration by virtue of citizenship rather than a guarantee of the right to employment. Nevertheless the Labour Party Executive ignored the views of much of its membership and rejected further consideration of the Milner Scheme in 1920 [26].

Orage described the circumstances of the Labour Party's inquiry into the 'Douglas-New Age Scheme', and analysed the outcome in *The Labour Party and Social Credit* [27]. Following the shelving of the Sankey Report

the Scottish Labour Groups were favourably disposed to the *Draft Scheme for the Mining Industry* [28]. Drawn up by Douglas and Orage, the scheme offering an alternative to nationalisation was published as an Appendix to *Credit-Power and Democracy*; it subsequently became more generally available as a pamphlet. Its proposals were well received when Douglas addressed a sub-committee of the Scottish Labour Advisory Committee (SLAC) in September 1920 [29] and in January 1921 the Central Executive Committee of the Miners' Federation (MF) was formally requested by the SLAC to investigate "Major Douglas' scheme for introducing credit reform via the mining industry" [30], [p20-21] with a recommendation that it receive serious consideration. This did not happen. Instead the matter was referred to the national Labour Party Executive. This body appointed a Committee and set its own terms of reference without consulting the SLAC [31].

Douglas and Orage afterwards contended that the Committee from its constitution "could not logically submit any other description of report than that which it did in fact submit" [32]. None of the members were familiar with finance. The Committee therefore had "the advantage of the active co-operation of an experienced Bank official" [33]. The evidence from a bank might be useful, taken in conjunction with evidence from other sources, but no other advice was taken. The rest of the Committee was, according to Orage, either unfamiliar with the theories presented in the Douglas/New Age texts or had publicly stated their opposition to Social Credit (with the possible exception of G.D.H. Cole). The Committee comprised: Sidney Webb, Arthur Greenwood, J.A. Hobson, R.H. Tawney, C.M. Lloyd, Sir Leo G. Chiozza Money, Frank Hodges (ex-miner, member of Coal Industry Commission), F.B. Varley (miner elected to Labour Party Executive), R.J. Davies (ex-miner, MP), Hugh Dalton, G.D.H. Cole and the unnamed 'experienced Bank official' [34]. The central character and driving force was Sidney Webb.

The ability of the Webbs to see their opinion carried by every organisation through which they worked has been the subject of frequent comment (see remarks by Woolf, Galton and Pease in Cole, M, [35]). Their key role in the formation of practical socialist policies for the assorted band of middle class visionaries and trade unionists catapulted into the role of His Majesty's Opposition at the close of the 1914-1918 war is generally acknowledged. Equally, their sterling dedication to the abolition of "the right of every Briton to be free to starve" [36] has been widely, and rightly, acclaimed. However, their brand of socialist thought which dominated the pattern of social legislation from the publication of the 1909 Poor Law Commission Minority Report to Beveridge and beyond was but one of the rich variety of forms of socialism which abounded in the immediate post-war years.

While the 1922 Report of the Labour party accorded with the Webbs' view and their distinctive brand of socialism, the extent to which the complex theories of the Douglas/New Age texts were evaluated by the other members of the Committee on behalf of the wider Labour movement is less easy to assess. The majority of the Committee's members had worked within the Fabian Society or the London School of Economics (LSE). Both these bodies were influenced by the Webbs and followed policies congenial to them. Greenwood, Lloyd and Money were members of the Fabian Society, while Tawney and Dalton lectured at the LSE [37]. Hobson, whose under-consumptionist theories achieved wide popularity, had already declared unfavourably on Social Credit. He engaged in an exchange with Douglas in the *Socialist Review* before the Labour Party Report was published [38].

The position of G.D.H. Cole on this Committee is enigmatic. At this period in his life he distrusted the Webbs [39], having co-operated with Orage in the attempt to establish guild socialism in the UK. In March 1914 he moved a resolution seeking to capture the Fabian Society for guild socialism, to reorientate the Society purely to research and to sever connections with any political party. 'Sidneywebbicalism' won by a single vote, whereupon Cole resigned from the Fabian Society [40]. Although he later endorsed most aspects of the Douglas/New Age texts, including the concept of a national (or social) dividend [41], he gave priority to establishing worker control, believing that consumer control would inevitably follow [42]. The Mining Scheme, based upon the philosophy of social credit, sought to combine worker and consumer control on a local scale. Although the Webbs believed that workers had neither the skills nor the desire to control their own productive processes [43], Cole may be expected to have taken a more sympathetic view of the proposals. Nonetheless he never declared support for social credit

The particular definition of 'socialism' adopted was crucial to the debate. In 1926 Orage reviewed the blend of beliefs which provided the basis for 20th century socialism. In the early 1900s socialism was "more of a cult", embracing "theosophy, arts and crafts, vegetarianism, the simple life. Morris had shed a mediaeval glamour over it with his stained-glass News from Nowhere. Edward Carpenter had put it into sandals. Cunningham Grahame had mounted it on an Arab steed to which he was always saying a romantic farewell. Keir Hardie had clothed it in a cloth cap and red tie. And Bernard Shaw, on behalf of the Fabian Society, had hung it with innumerable jingling epigrammatic bells - and cap" [44]. Following the translation of Marx into English, Marxism had been rejected by the Fabians in favour of their own brand of socialism. They accepted Wicksteed's critique of the labour theory of value. Socialism could be achieved gradually through incremental extensions of public ownership. The adaptation of marginal utility theory to provide a theory of economic rent was their triumphant justification for a policy of working within a mixed economy to guarantee greater equality through central planning and a slow reduction in the profit motive's

sphere of operation [45].

In Orage's view, the Fabians translated the word 'socialism' to mean "the Supreme State (to which every man must bow, and by whose officials all human activities from the cradle to the grave, and after, shall be regulated)" [46]. The Fabian faith in the power of central planning, coupled with their close association with the LSE, that "unimpeachably orthodox institution" [47], may have constituted an obstacle to the abolition of economic conflict.

Orage and Douglas produced convincing evidence that the Labour Party Committee headed by Webb (who also became chairman of the Labour Party at this time) had no serious intention of embarking upon a comprehensive investigation of the "Douglas-New Age Scheme". Repeated requests from the rank and file for a review of the 'new economics' since the publication of *Economic Democracy* in 1919 had been ignored. Only the formal request from the SLAC, reinforced by one from the South Hampshire Divisional Labour Party [48], had forced some action. A full investigation would have required the co-operation of the authors of the scheme. However, Douglas was sent an invitation to attend one meeting of the Committee, at barely a week's notice. The terms of reference of the inquiry indicated in this letter were brief to the point of obscurity. To the Committee's evident satisfaction [49], Douglas and Orage jointly declined the invitation. The Committee sat on their findings for almost a year, whilst the suspicion grew that no report would be issued [50].

At this juncture Sidney Webb drew on a further institution under his control. The Webbs had been instrumental in founding *The New Statesman* modelled on *The New Age*, the first and very successful socialist weekly. Under Orage, the editorial policy of *The New Age* did not accord Fabianism priority, so that the creation of a Fabian weekly became necessary [51]. *The New Statesman* duly advised against publication of a report on Social Credit [52] but under renewed interest aroused by the continuing crisis in the mining industry in 1922, it was quietly published.

The much-delayed report concluded that the Douglas-New Age Scheme was "out of harmony with the trend of Labour thought, and . . . indeed fundamentally opposed to the principles for which the Labour Party stands" [53]. The proposals were dismissed in eleven pages, in which the 'A+B Theorem' was discounted on the same misunderstanding contained in Ramsey's [54] analysis. This subsequently became the 'standard misinterpretation' [55]. The concept of Producers' Banks was declared unworkable on the grounds that it did not accord with current banking practice and would merely prove to be inflationary [56]. Part II of the Report agreed that the Labour Party would have "effectively refuted Major Douglas' proposals" unless it could be shown that "the Labour Party had a policy for dealing with the admitted dangers of the control of credit by profit-making interests". Nationalisation of the banking system and the development of municipal banks was therefore proposed, although how these would effectively alter the relationship between production and distribution was not examined [57].

The effect was, according to Orage, to reinforce t' capitalist *status quo*. The working of orthodox finan in arbitration between costs and price was endorsed, occasional malfunctions in the system being attributed to excessive profits. The Report "goes out of its way to state that, whether sound or not, a scheme which would give the worker higher wages, cheaper living, real control of both policy and conditions, and an incomparably wider outlook on life, and these both at once and progressively, 'is fundamentally opposed to the principles for which the Labour Party stands'" [58].

The popularity of the Douglas/New Age texts is indicated by contemporary publications. Douglas' first three books, originally printed in *The New Age*, found external publishers and went into reprints which circulated throughout the English-speaking world. Although *The New Age* was the central periodical in the debate, discussions appeared over a wide range of journals, including *Clarion* and the Marxist paper *Plebs Magazine*, which concluded that social credit would reduce working class solidarity and hence prove a threat to socialism [59]. Writing in *The Communist Review*, Maurice Dobb [60] asked, "Does the World Need More Money?". Even *The New Statesman* was stung into a response, albeit derogatory, through pressure of readers' letters [61]. Rank and file Labour Party interest in t Douglas/New Age texts was encouraged by such publications as Cousens, *A New Policy for Labour: An Essay in the Relevance of Credit Control* [62].

In the 1918 Constitution for the Labour Party based upon *Labour and the New Social Order* (LNSO), (ostensibly the report of a special committee of the Labour Party, but generally recognised as the work of Sidney Webb), the "democratic control of industry" (nationalisation) formed a central plank [63]. Adoption of social credit at this stage would have involved a complete revision of policy within a few years of the publication of LNSO.

Conclusion

In 1922, following the rejection of the proposals by the Labour Party, the close collaboration between Douglas and Orage ceased. After that point, neither Douglas nor Orage expected to make any headway with the 'opinion formers' in politics, economics or business. They concentrated their appeal on the dispossessed. Until his death in 1952 Douglas maintained a prolific output of books, articles and speeches, and became *faux de mieux* the focal point in the social credit movement. However his post-1922 activities failed to enhance the origin body of thought, added little by way of clarification, and if anything served to obscure the original themes. Throughout the history of the social credit movement there was little discussion of the body of thought as a

whole. Critics of all persuasions isolated aspects of the Douglas/New Age texts in order to refute them and establish their inconsistency with economic orthodoxy. The possibility that the science of orthodox economics is but one of a series of equally valid sciences, as suggested by King [64], did not enter the debate.

The Labour Party accepted neoclassical thought as the science of economics. Ironically, it fell to the Labour movement to endorse and defend dependence upon waged labour as the sole legitimate means of access to an income for the mass of citizens.

The right to an income irrespective of work status on grounds of the collective ownership of the Cultural Heritage was rejected as a capitalist concept. 'Sidneywebbicalism' set the scene for subsequent socialist economic thought. As Elizabeth Durbin [65] demonstrated, Fabians favoured the short-term amelioration of the workers' conditions within capitalism. The Fabian economic thought which guided policy formation in the Labour Party was a series of reactions to the evolution of orthodox economic theory.

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united on one subject only - the determination to make the old one as uncomfortable as possible for everybody" [p3]. Pages 3-16 are written in this unmistakable style of Douglas!

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