

THE SOCIAL CREDITER

For Political and Economic Realism

Volume 78 No. 5 September - October 1999

TOWARDS A RE-EVALUATION OF THE ROLE OF FINANCE IN THE CAUSATION OF ENVIRONMENTAL DEGRADATION

Frances Hutchinson & Brian Burkitt

Abstract: This paper relates the long-neglected Douglas/New Age texts to contemporary concerns at the relationship between economic activity and environmental degradation. Although completed by the early 1920s, these texts anticipated the adverse social and environmental impacts of an increase of centralisation and globalisation of finance upon policy formation.

Recognition of the adverse impact of the industrial era upon the human and natural resource base on which our lives depend has, in the mid-1990s, given rise to acceptance that the system is not going to be corrected by minor tinkering at the margins (1). Models which incorporate the destruction of

non-renewable resources and environmental pollution within the paradigm of neo-classical economics are fraught with inconsistencies (2). An alternative theoretical framework based on local autonomy may therefore prove constructive. Many attempts have been made in recent years to create an economic analysis which could incorporate ecological issues within the basic precepts of general equilibrium theory. The present authors consider that this search could usefully be complemented by an analysis of the now largely neglected Douglas/New Age texts.

In 1922 the Douglas/New Age analysis of the capitalist process of production and distribution was deemed sufficiently important to be

reviewed, and then rejected, by a special Labour Party working group (3). These texts informed the social credit movement and were widely studied throughout Canada, the USA, Australia, New Zealand, Norway and France in the inter-war year's (4). Their core analysis of economic activity as a dynamic process accords well with Freeman's (5) liberation of Marx from the static general equilibrium straitjacket. Furthermore, some aspects of the texts offer the potential for the development of an ecological economics compatible with sustainable development based on the devolution of finance to local industry. The contemporary relevance of the Douglas/New Age texts is explored in this paper.

inside this issue

PAGES 45-51

Towards a re-evaluation of the role of finance in the causation of environmental degradation

PAGES 52-55

The Douglas Manual

The Political Economy of Social Credit and Guild Socialism

Frances Hutchinson and Brian Burkitt

Published by Routledge (1997) in its hard back series Studies in the History of Economics. Price £45.00

This book represents a very significant contribution to understanding the roots and continuing significance of the Social Credit analysis and prescription for profound economic reform. Agreeing with the authors that "following half a century of neglect, these texts possess the potential to provide the basis for a new economics of co-operation" the Secretariat has a few copies available to readers at £25.00 including post and packing, on a first come, first served basis.

Please make cheques payable to "KRP Ltd." and order from: Ronald Macintyre, Secretary, The Social Credit Secretariat, 16 Forth Street, Edinburgh, EH1 3LH.



ECOLOGY AND ECONOMICS

Although the uneasy relationship between the economy and the environment has been minutely scrutinised over recent decades, informed communication between economists and ecologists remains problematic. As Orr (6) demonstrates, it is possible for an economist like Nordhaus of the US Adaption Panel of the National Academy of Sciences to maintain that a hotter climate will "mostly affect those sectors [of the economy] that interact with unmanaged ecosystems such as agriculture, forestry and coastal activities". The rest of the economy, including that which operates in what Nordhaus has called a "carefully controlled environment", will be relatively unaffected. According to Orr, Nordhaus assumes that "shopping malls and presumably the activities of economists, will barely notice that things are considerably hotter" (7). In Nordhaus's view, "The main factor to recognise is that the climate has little economic impact upon advanced industrial societies" (8). Orr comments:

Given what is at stake, errors of fact and logic committed by Nordhaus and the Adaptation Panel deserve close attention. For example, the belief that the decline in agriculture and forestry would be of little consequence because they are only 3% of the US economy is equivalent to believing that since the heart is only 1% to 2% of bodyweight it can be removed or damaged without consequences for one's health (9).

Orr draws a parallel between experts reading different dials and applying their readings to the same problem. If there were two pilots in danger of crashing a plane, their minds would be concentrated on overcoming misapprehensions. Ecologists and economists need to learn how to take the same measurements into account. At present, biologists concerned with conservation note "the dials and

gauges reporting on the state of the world" as indicating potentially catastrophic degradation of the natural environment and a collision between economic growth and the carrying capacity of the earth. In contrast, the dials and gauges that are being read by economists give reason for optimism (10).

"Gross world product has increased throughout the twentieth century by some 1300% and continues to rise" (11). As per capita wealth continues to grow it is possible for economists to argue that technological innovation will combine with higher prices to produce substitutes for scarce resources. If the price is right the market and technology will do the rest. Orr observes that biologists are paying attention to the wider economy of the biosphere, while economists observe the "sub-economy humans have built by exploiting nature". While both sets of indicators may be "correct", Orr likens the process to a wager as to the extent to which technology is capable of rendering human society able to survive independently of healthy ecosystems and a stable climate (12). The dials and indicators of value which have served the economy throughout the industrial revolution may no longer be proving to be reliable.

ENVIRONMENTAL EVALUATION

As Mulberg demonstrates, "values for our *homo economicus* are identified with opportunity costs, and are measured in money. The higher the cost, the higher the value (13). Hence an increase of pollution-generating activity aggregates with defensive expenditures (the cost of cleaning up the environment) to increase GNP and by implication welfare. Cost-benefit analysis is an equally flawed means to evaluate the effects of economic activity which fails to register in the process of market activity. Costings of planning proposals, e.g. for nuclear installations and road construction, incorporate

estimated values for human lives judged statistically likely to be lost as a direct result of the operation of the new project. Each life is given a value (e.g. £9,000 in 1970). Logically, therefore, a life can be traded and anyone with £9,000 can purchase a life. The evaluation of environmental resources in this way is similarly problematic. "Let the polluter pay" implies the right to pollute. Equally, resources can take forms which are not commodities, e.g. clean air, and therefore cannot be priced using market mechanisms of valuation. In short, attempts to accommodate an emerging consciousness that resource depletion may constrain unlimited growth in economic activity within orthodox economic theory appear to be flawed. Such theory imputes to financial mechanisms a non-existent neutrality *vis a vis* economic decision-making processes and policy formation.

The perception that money may not be a neutral factor of economic activity emerged in the 19th century, originating with the Ricardian labour theory of value and culminating in Marx. The economic problems of the inter-war years of this century generated a further wave of economic theories, including those of Douglas, Eisler, Soddy and Gesell. Of these latter analyses, "Douglasism" provided the most coherent and complete critique of finance as the motive-power of industrial growth and capitalist production.

"The Delusion of Super-production" was the first in an extensive series of articles, pamphlets and books published by Douglas and circulated worldwide throughout the inter-war years. From 1919 to 1922 most of Douglas's work was first published in *The New Age*. We contend that its editor, A.R. Orage, provided more than editorial guidance in the development of the Douglas/*New Age* texts. (14). When he met Orage in 1918 Douglas had little more than a hazy notion that finance distorted policy formation in

manufacturing industry (15). In contrast, Orage had collaborated with S.G.Hobson, A.J.Penty, G.D.H.Cole and other leading socialists in exploring the economics of guild socialism, and had condensed the basic themes in his *An Alphabet of Economics*. He concluded that continued dependence upon a capitalist financial system would render guild socialist [decentralist] proposals inoperable. Douglas's observations of cost accounting at Farnborough Aircraft Factory in 1916-1918 provided the key missing element for an alternative approach to finance. Thus Douglas became the vehicle for the expression of the newly synthesised economics of guild socialism. The close collaboration between Douglas and Orage continued until the rejection of the Douglas/New Age scheme by the Labour Party and Orage's subsequent departure from *The New Age* and England in 1922. (16)

THE DELUSION OF SUPER-PRODUCTION

In December 1918 *The New English Weekly* published "The Delusion of Super-production", in which Douglas examined the argument that production would have to be increased in order to meet the financial costs of the destruction of the 1914-18 war. The article neatly encapsulates the substance of "Douglasism". In view of the subsequent misapprehensions as to the purport of the Douglas/New Age texts, which gave rise to the social credit movement, "Delusions" is here paraphrased in full with extensive quotations.

The five following paragraphs are a resume of "The Delusion of Super-production" (words enclosed in quotation marks are quotes from the original Douglas texts). The original purpose of the texts emerges as a case for a sustainable economy based on a concept of sufficiency similar to that constructed by Gorz in "Critique of Economic Reason". In 1918 it was being argued that the "Great War"

could only be paid for from the taxation of earnings predicted to result from increased output. Douglas observed, however, that before the war "the world was over-manufacturing in nearly every direction" (Douglas 1918). The cost of selling a sewing machine (in terms of advertising and retail costs) had already overtaken manufacturing costs. Additionally, it was customary to produce a new model of motorcar each year "not novel in any real essential [but] automatically depreciating the value of the previous year's fashion". Efforts to stimulate absorption of surplus production at home were combined with a struggle for overseas markets in the "less developed" regions of the world. War was the logical outcome.

Allowing for the difficulty of accurate comparison, on a "gold-standard basis" manufacturing plant in the British Empire had expanded "to the value of not less than £750,000,000". Industrial America, Japan, France, Italy and no doubt Germany and Austria had expanded on a similar scale. Most significantly, "repetition-production by modern methods" increased output per head "several hundreds per cent". This extension of capacity offered great potential for peacetime use. Assuming the existence of an extensive but by no means infinite supply of natural resources, markets could potentially be flooded with any article "on which a profit in manufacture can apparently be made".

In the immediate aftermath of war, replacement and repair of damaged housing and infrastructure would extend the potential of absorption, as would provision of a higher material standard of life.

Within capitalist economies the capacity for absorption is represented by the total money and credit available in payment for goods. The assumption is that "super-production would mean high wages and high wages would mean high absorption-power and so on". However, new technology and extended production methods increase "overhead charges"

(the costs attributable to tools and methods) in relation to direct labour costs. They also increase total costs of depreciation, obsolescence, scrapped materials, spent fuels, advertising, past labour, profits and so on. All costs increase the "value" of the product. Under the capitalist financial system this "value" must be recouped from the selling price of the product. "In consequence of this the book value of the world's production is continuously growing more and more in excess of the capacity to absorb and liquidate it." Therefore "a continuous rise in the cost of living absolutely must take place" (irrespective of any inflationary pressures). Hence the banker and manufacturer hold a mortgage on the "effective effort of the world's population". Even public works can only be provided through loans or taxation.

In this situation, neither high wages nor cheap consumer products will create a stable economic framework. The most dangerous delusion is to consider production *per se* as wealth. It is "about as sensible as a statement that because food is necessary to man he should continually eat everything".

Production is a means to human ends, not an end in itself, and "the first need is for a revision of material necessities". What is required is a means to determine demand coupled with mechanisms to meet it, without the necessity for artificial stimulation of demand. So long as there is a sufficiency of resources to meet a realistic level of needs, wants are not, as the neo-classical economist assumes, infinite and insatiable. Fiat money comes into existence when banks create credit for the purpose of investment (see Galbraith, 1975 for a later explanation of this phenomenon). In deciding investment priorities, finance effectively determines what will be produced. Once money is reduced to its proper function as a medium of exchange, supply and demand will be free to follow textbook theory to determine price. Choices will cease to be constrained by the artificial question,

“where is the money to come from?”. In a future era “it may be found that the chief crime of the capitalist was that he was such a very bad capitalist, in that he neither recognised his assets, nor met his liabilities”. **In short, the Douglas/New Age texts provide an example of the anticipation by over six decades of the debate on sufficiency, sustainability and the shortcomings of the capitalist global economy.**

THE “A + B THEOREM” AND THE JUST PRICE

The concepts employed in “The Delusion of Super-production” crystallised into an analysis and a series of proposals which were (and are) incomprehensible in terms of neo-classical economic theory. Later, in a debate with the leading economist Hawtry. Douglas explained his standpoint: **“I do not regard it as being a sane system that before you can buy a cabbage it is absolutely necessary to make a machine gun”.**

In the same vein, the justification for aid tied to the export of armaments to Third World countries dominated by corrupt and repressive regimes on grounds of generating employment in the UK can be questioned. For example, the environmentally damaging Pergau Dam Project in Malaysia was funded by a British aid and trade deal on grounds that it would generate 29,000 man-hours of employment for 110 British firms. The Scott Enquiry of 1995-96 flowed from a similarly misconceived quest to generate trade and industry.

The food manufacturing industry offers further examples of an economic system designed to generate work and distribute income regardless of the social or ecological costs and benefits. In 1971 reliable estimates by the food industry established that, allowing a varied menu, total UK expenditure on food **“need only have been £1,800m”.** Actual expenditure amounted to £6,363million. “The population of this country could have

been just as well nourished, just as healthy – **and spent four and a half thousand million pounds less than it actually did”** (17). Since the processing, preservation and packaging of food provides employment and **adds** financial value, it is accounted a positive activity by capitalist economics. Examples of this type are logical extensions of the trends observed in 1918. The escalation to epidemic proportions of the production, consumption and reproduction of goods and services to which monetary value can be attached has created environmental problems in terms of resource depletion and degradation. The benefits in terms of greater welfare remain unproven save in strictly financial terms.

In an attempt to explain the role of finance as the motive-power behind economic growth, Douglas devised the “A + B Theorem”. In essence, this was a statement that the productive process was dynamic (18). In an industrialised economy price is not settled by the free play of supply and demand as goods come onto the market. The goods are offered at a price which includes a series of past payments (costs) accumulated as they move from raw materials through the stages of manufacture. This price must be recouped in all but exceptional circumstances if the system is to remain operational. The extension of production processes necessitates rigid control through market research, R&D and advertising to forestall the free play of supply and demand at the point of sale. As costs are incurred in a past period, even the product of a vertically integrated firm must be priced according to past costs.

At any one time, therefore, the money in the hands of consumers will only be sufficient to cover past costs if new money is constantly being created at an accelerating rate in respect of future production (19). Hence the constant drive to expand the economy (20). State socialism, the nationalisation of industry, would provide no solution in itself, since socialist owners of a profit-accumulating economy could only

maintain that economy through capitalist mechanisms, i.e. maintenance of the link between employment and personal income to ensure the existence of a working class.

Alternatively, a “just price” mechanism could be introduced. The proposal was to control prices to the consumer through an index based on the ratio of potential production to actual consumption. The “Draft Mining Scheme” was central to this proposal. It provided a model for local control of production and distribution based on systems of common ownership. The decentralised worker-controlled producer firms would be compensated for the difference between their costs and the selling price by provision of money through a central clearing house (21). Capitalist financial institutions would supply the skills necessary to implement such a system, but those skills would be provided at cost. The element of profit from the trade in money would gradually be eliminated. Although, in common with any proposal for change, the scheme appeared alien and complicated, Douglas and Orage were merely putting a new interpretation onto a familiar scene. Douglas was familiar both with the potential of “early tabulating machines” and with the complexities of the existing system of finance. A myriad of financial transactions was recorded daily in a host of different enterprises. In Douglas’s view the system was “man-made”. It was therefore not beyond the bounds of possibility that it could be replaced by a similar method, at once less complex and more efficient, of registering the wishes of citizens as producers and as consumers. Supply and demand would operate in a free market unhindered by the artificial element of financial cost. It would no longer be necessary to count as wealth what was in fact waste (22) to pay (and therefore count as positive value) in the form of present “costs” for past depreciation in the form of depleted energy, depreciated capital, consumed past labour, waste and pollution.

NATIONAL DIVIDEND AND THE CULTURAL INHERITANCE

Through historical accident the social and ecological consciousness of a Morrisonian guild socialism combined with theories of monetary reform to produce the potential to adapt the institution of finance to serve social and ecological ends. The Douglas/New Age texts provide a crucial exploration of the relationship between work, the desire for an income and economic policy formation. Then, as now, employment was sought in factories in order to secure an income with which to purchase basic necessities. According to Douglas, the production of armaments was a force in world politics "because millions of men and women get their living, as the saying goes, by working in armaments factories... If those millions of human beings were not dependent for the means of consumption on a particular form of production, it is highly probable that the armaments business would languish" (23). In Douglas's view, factory work was not sought through a desire to produce and consume military hardware, nor were the mass of luxury items coming onto the market desired primarily for their intrinsic value. The "material requirements" of the individual at any one time were strictly limited. The financial system thrived on scarcity, artificially induced if necessary by ploughing surplus products into the ground and dumping food at sea (24). Given a free choice, the option to produce and consume less and to enjoy more "leisure" would become a realistic option. Unemployment was only unacceptable in so far as it entailed income insecurity and/or poverty (25).

The payment of a national dividend as an inalienable, non-means-tested, non-work-related right to each citizen formed part of the package of proposals for reform of the financial system (26). It removed the second incentive to participate in

capitalist growth economics, that of the necessity to secure a livelihood. Enclosure and its denial of the right to provide for basic needs from village fields and common lands fails to emerge as a significant factor in neo-classical economic theory. The option to exploit labour and the environment occurs in the absence of a common right to subsistence which would enable labour to negotiate its terms and conditions of employment without impediment. In 1992 *The Ecologist* devoted an entire issue to the history and implications of the privatisation of the commons. In a developed economy, wages like profits, have come to be deemed essential to the maintenance of economic activity (27) because the latter is assumed to generate finance. If production ceases, where is the money to come from?

When a project is deemed essential, how exactly are the finances arranged? By way of example, Douglas answered this question by analysing the finances of the 1914-1918 war. On the outbreak of war the money required to purchase supplies for the conduct of hostilities did not exist. Douglas detailed the steps whereby the government generated loans to cover wartime expenditure which could not immediately be recovered from taxation. Over the course of the war the national debt rose from £660million to £7,700million. This money was created out of nothing, mainly through Ways and Means Accounts, as described by the Committee on Currency and Foreign Exchanges, 1918 (28).

The loans (i.e. debt so created) represented neither labour expended nor consumption foregone, yet a section of the population was entitled on the basis of the wasteful, destructive activity of war to claim an unearned income drawn upon future production. The state, Douglas concluded, should lend not borrow, and use the dividends so derived to pay an unearned income for all. The principle was already established.

The concept of a national dividend

differs from proposals to pay a basic income drawn upon taxation of earned incomes under the present system (29). Douglas argued that individual effort as worker or capitalist played an infinitesimally small role in the creation of wealth in a developed economy. However strenuously applied, dedicated or concentrated the effort, the contribution of individuals paled into insignificance when considered alongside that of the collectively inherited knowledge of skills, tools and processes. The "Common Inheritance" was collective and could not justly be appropriated to the exclusive use of powerful individuals or institutions, regardless of whether those institutions were under private or state control (30). Payment of a national dividend to each citizen would enable individuals to call onto the market those goods and services they required, freed from the necessity to "earn a living" by participating in finance-generating activity. For artists, writers and innovators in science and philosophy the scheme offered financial freedom to pursue their calling. For local economies in general, and agriculture in particular, the scheme would offer a practical alternative to escalating environmental degradation from financial pressures.

TOWARDS LOCAL ECONOMIC AUTONOMY

The guild socialists' texts which pre-date the Douglas/Orage collaboration, recognised the necessity to disentangle industrial policy formation from national and international finance. As early as 1913 the guild socialist S.G.Hobson noted that finance operated on an international scale and was subject to fads and fashions. "Today it may be rubber, yesterday it was nitrates or cycles, tomorrow it may be oil" (31). The guild socialists observed that decisions affecting productive and commercial activity at local level were determined by financial factors relating to the financial fashion of the moment and bearing little relationship to local

needs. The Douglas/New Age proposals, which arose out of these observations, sought to transform the relationship between finance and policy formation.

In the 1990s, as in the 1920s, the physical effects of financial decisions occur at a local level, in specific locations. Although financiers are, like the users of mobile phones, everywhere and nowhere at any one time, the availability of finance remains the determining factor for local economic activity. At local level, people are dependent upon the availability of finance to settle questions of employment, productive methods (e.g. organic farming or agribusiness) or whether a local woodland can be protected or destroyed for a motorway. Issues of social need or environmental protection are accommodated uneasily as "externalities", acceptable to the extent that they cause relatively minor "distortion" of the market. The Douglas/New Age texts took the unusual step of reviewing the origins of money and observing the financial mechanisms involved in its circulation. Others have since elaborated the subject, most notably Galbraith (1975) but also Freeman (1995) in respect of Marx, and Niggle (1990) from an evolutionary economics perspective.

Like Niggle (1990), the Douglas/New Age texts suggested that the ways in which money enters the economy are crucial to the entire process of production, distribution and exchange. In a pre-industrial economy, with low division of labour and single-stage production, a commodity money could function purely to facilitate exchange. In such an economy, exchange was one step from barter: money came close to being a pure *numeraire* and markets cleared at each stage of production. In an advanced industrial economy, however, money was constantly being created in respect of **future** production. The process, undertaken by banks and monitored by economists, was conducted as if the rules of the pre-industrial barter economy held good under conditions

of industrial production. According to the texts, nationalisation of the banking system would merely provoke a shift of private bankers to the nationalised banks, which would be operated on the same suppositions. The proposal, as outlined in the Draft Mining Scheme (32) was to adapt the present system to take account of present reality. Essentially, the proposal was to devolve responsibility for finance to the most local level on an industry basis. The idea followed from guild socialist theories of industry-based trade unions where manual, clerical and managerial workers combine to run an industry as a co-operative venture. In these guild socialist proposals the term "industry" was very loosely interpreted to include not only mining, as in the Draft Mining Scheme, but also the medical "industry", teaching, transport workers and so forth (33). The common factor was a locally based, vertically integrated guild, overseeing all stages of production through control over its financing, supported by a national clearinghouse.

THE DOUGLAS/NEW AGE TEXTS IN THE 1990S

Although the detail of the Draft Mining Scheme is no longer relevant, the principle of local finance for local industry as a mechanism to check environmental degradation appears to merit further study. Finance administered locally for local purposes, overseen by a central clearinghouse, is a novel alternative to the debt-driven growth economics of global finance. Although theoretically compatible with both Local Exchange and Trading Schemes (LETs) and ethical investment (Sparkes, 1995), local "industry" based finance extends these initiatives into a broader context in which ecological sustainability can become economically feasible.

Changing the relationship between financial mechanisms and policy formation may appear as politically infeasible in the 1990s as when they were first discussed in the 1920s. However, a range of initiatives are

tending towards economic change, not inconsistent with the proposals examined here. The potential for the small and medium enterprise (SME) to incorporate local environmental factors within business strategy on a bio-regional basis is being examined (Hutchinson & Hutchinson, 1995).

Additionally, a range of schemes, offer participants the opportunity of an alternative relationship with the financial mechanisms of the formal economy. Credit Unions, LETs (Dauncy, 1988), the New Road Map Foundation Board (Dominguez & Robin, 1992) and similar ventures are questioning the value of escalating economic growth and environmental degradation. They offer a means to remove the domination of finance over industrial decision making and economic policy formation. For this type of initiative the Douglas/New Age proposals provide a theoretical framework. They also contain the potential to inspire broader institutional reform through essentially minor adjustments to tried and tested financial mechanisms. (emphasis added)

Note: An article entitled *The contemporary relevance of Clifford Hugh Douglas* will be appearing in the autumn edition of the *The Political Quarterly*.

Notes

1. KORTEN, 1995
2. PEARCE et al., 1989, 1991
3. LABOUR PARTY, 1922; BURKITT & HUTCHINSON, 1994
4. HUTCHINSON, 1995
5. FREEMAN, 1995
6. ORR, 1994
7. ORR, 1994, p 80
8. QUOTED IN ORR, 1994, p 80
9. ORR, 1994, p 83
10. ORR, 1994
11. ORR, 1994 pp 74-75
12. ORR, 1994
13. MULLBERG, 1992, p 4
14. HUTCHINSON, 1995; HUTCHINSON & BURKITT, 1996
15. DOUGLAS, 1934
16. DOUGLAS 1922a
17. KING & BULLMORE, 1971

18. FREEMAN, 1995
19. DOUGLAS, 1922b, p 141;
FOSTER & CATCHINGS, 1925,
pp 308-311
20. DOUGLAS, 1922; Mehta, 1983
21. DOUGLAS, 1920, Appendix
22. DOUGLAS, 1919, p 68
23. DOUGLAS, 1920, p 83
24. DOUGLAS, 1920, see also LANG
& HINES, 1993
25. DOUGLAS, 1919, 1920
26. BURKITT & HUTCHINSON,
1994
27. MEADE, 1938; COLE, 1994
28. DOUGLAS, 1924, pp 156-157
29. PARKER, 1989, JORDAN, 1992
30. DOUGLAS, 1919, 1920, 1924
31. HOBSON, 1919, p 176
32. DOUGLAS, 1920, pp 147-212
33. HOBSON, pp 152-169

References

- BALL, M. (1979) Cost-benefit analysis: a critique, in: F. Green & P. Nore (Eds.) *Issues in Political Economy* (London, Macmillan).
- BURKITT & HUTCHINSON, F. (1994) Major Douglas's proposals for a national dividend: a logical successor to the wage, *International Journal of Social Economics*, 21 pp 19-28.
- COLE, G.D.H. (1944) *Money; its present and future* (London, Cassell).
- DAUNCEY, G. (1988) *After the Crash; the emergence of the rainbow economy* (UK, Green Print).
- DOMINGUEZ, J. & ROBIN V. (1992) *Your Money or Your Life; transforming your relationship with money and achieving financial independence* (USA, Viking Penguin).
- DOUGLAS, C.H. (1918) The delusion of super-production, *The English Review*, pp 428-432.
- DOUGLAS, C.H. (1919) *Economic Democracy* (London, Cecil Palmer).
- DOUGLAS, C.H. (1920) *Credit -Power and Democracy* (London, Cecil Palmer).
- DOUGLAS, C.H. (1922a) *These Present Discontents and The Labour Party and Social Credit* (London, Cecil Palmer).
- DOUGLAS, C.H. (1922b) The Douglas theory: a reply to Mr. J.A.Hobson, *The Socialist Review* (March) pp 139-145.
- DOUGLAS, C.H. (1924) *Social Credit* (London, Eyre & Spottiswoode).
- DOUGLAS, C.H. (1934) Social Credit History: address to Canadian Club, 1923, *The New Economics*, 9th.November.
- Ecologist* (1992) Whose common future?, pp 22/4.

- FOSTER, W.F. & CATCHINGS W. (1995) *Profits* (London, Houghton Mifflin).
- FREEMAN, A. (1995) *Marx without Equilibrium, Capital and Class*, No. 56 (Summer), pp 49-89
- GAITSKELL, H.T.H. Four monetary heretics, in G.D.H.Cole (Ed) *What Everyone Wants to Know About Money* (London, Gollanz).
- GALBRAITH, J.K. (1975) *Money; whence it came and where it went* (London & New York, Penguin).
- GESELL, S. (1920) *The Natural Economic Order* (San Antonio, TX Free Economy Publishing).
- GORZ, A. (1989) *Critique of Economic Reason* (London, Verso)
- HAWTRY, R.G. & DOUGLAS, C.H. (1933) A report of debate, Birmingham, *The New Age* (6 April) pp 268-279.
- HIRSCH, F. (1977) *Social Limits to Growth* (Cambridge, MA, Harvard University Press).
- HMSO (1994) Hansard (21 March) Pergau Dam Question 42-44, pp18-19.
- HOBSON, S.G. *National guilds: an inquiry into the wage system* (London, Bell).
- HUTCHINSON, A & HUTCHINSON, F. (1995) Sustainable co-operative innovation and localized economic development in the UK Economy – bio-regional regeneration modelling (BRM), *World Resource Review*, 7 (4) pp 615-631.
- HUTCHINSON, F. (1995) A heretical view of economic growth and income distribution, in: Kuiper & Sap (Eds.) *Out of the margin: feminist perspectives on economics* (London & New York, Routledge).
- HUTCHINSON, F. & BURKITT, B. (1996) An economic silence: women and social credit, *Women's Studies International Forum* (forthcoming).
- JORDAN, B. (1922) Basic income and the common good, in P.Van Parijs (Ed) *Arguing for Basic Income* (London, Verso).
- KING, S & BULLMORE, J. (1971) *Tomorrow's Food* (London, J.Walker Thomson).
- KENNEDY, M. (1995) *Interest and Inflation-Free Money* (USA/Canada, New Society Publishers).
- KORTEN, D. (1995) *When Corporations Rule the World* (New York, Kumarian Press).
- LABOUR PARTY (1922) *Labour and Social Credit: a report on the proposals of Major Douglas and the New Age* (London, Labour Party).
- LANG, T. & HINES, C (1993) *The New*

- Protectionism: protecting the future against free trade* (London, Earthscan).
- MEADE, J.E. (1938) *Consumers' Credits and Unemployment* (Oxford, Oxford University Press).
- MEADE, J.E. (1993) *Liberty, Equality and Efficiency: apologia pro agathotopia mea* (London, Macmillan).
- MEHTA, G. (1983) The Douglas theory: a new interpretation, *Indian Journal of Economics*, 64, pp 121-129.
- MULBERG, J. (1992) Economics and the impossibility of environmental evaluation, unpublished paper.
- NIGGLE, C.J. (1990) The evolution of money, financial institutions, and monetary economics, *Journal of Economic Issues*, XXIV (2), pp 443-450.
- ORAGE, A.R. (1917) *An Alphabet of Economics* (London, T. Fisher).
- ORR, D.W. (1994) *Earth in Mind: on education, environment and the human prospect* (Washington DC/Covelo, CAA, Island Press).
- PARKER, H. (1989) *Instead of the Dole: an enquiry into the integration of the tax and benefits systems* (London, Routledge).
- PEARCE D., MARKANDYA, A. & BARBIER, E.B. (1989) *Blueprint for a Green Economy* (London, Earthscan).
- PEARCE, D., BARBIER, E., MARKANDYA, A., BARRETT, S., TURNER, R.K. & SWANSON, T. (1991) *Blueprint 2; greening the world economy* (London, Earthscan).
- SPARKES, R. (1995) *The Ethical Investor* (London, Harper Collins).

This paper was first published in *Local Environment*, Vol.2, No.1, 1997.

Frances Hutchinson is a member of the European Association for Evolutionary Political Economy and is attached to the University of Bradford. She is author of *Environmental Business Management* and, with Brian Burkitt, *The Political Economy of Social Credit and Guild Socialism*, as well as a wide range of academic papers on Social Credit, environmental sustainability and feminist economics.

Brian Burkitt is a Senior Lecturer in Economics at the University of Bradford. He is the author of *Trades Unions and Wages* (1995), *Trades Unions and the Economy* (1979), *Radical Political Economy* (1984), and *There is an Alternative: Britain and its Relationship with the EU* (1996). He has written over 150 articles in academic journals.

THE DOUGLAS MANUAL

Philip Mairet

Quite a large part of our readership today may well be unfamiliar with the great range of Douglas's writings in the form of books, pamphlets, articles and speeches which are the Douglas contribution to those texts referred to in the research Paper - *Towards a Re-evaluation of the Role of Finance in the Causation of Environmental Degradation*.

His complete "texts" make up a very long list indeed and many are now out of print or may be difficult to locate. It is fortunate therefore that in 1934 Philip Mairet, with Douglas's approval, published *The Douglas Manual*. His intention was to "provide a completely representative and authoritative statement of the principles of the New Economics formulated by Major Douglas" in a single volume of extracts taken from Douglas's own writings. They were designed by Mairet "to give, in an order convenient for reference, the main principles of this system of economic thought, and at the same time serve as an introduction for the general reader".

Because those texts are being seen again as increasingly relevant, within academia and the wider world, we shall, commencing with this issue, reproduce from time to time selected excerpts from *The Douglas Manual*. In this issue we begin at the beginning with:

THE NATURE AND ORIGIN OF MONEY.

Distribution of Co-operative Production

The distinguishing feature of the modern co-operative production system, depending for its efficiency on the principle of the division of labour, is that the production of the individual is in itself of decreasing use to him, as the sub-division of labour

and process is extended. A man who works on a small farm, can live (at a very low standard of comfort and civilisation) by consuming the actual products of his own industry. But a highly trained mechanic, producing some one portion of an intricate mechanism, can only live by casting his product into the common stock, and drawing back from that stock, a portion of the combined product through the agency of money.

Soc Cr 131.

Looked at from this point of view, money is simply a ticket. A railway ticket is, in the truest sense, a limited form of money and differs only from any other sort of money in that the owner believes, and is justified in believing, that he will receive in return for it a particular form of service, i.e. transportation.

Warn Dem 15.

Money is only a mechanism by means of which we deal with things - it has no properties except those we choose to give to it. A phrase such as "There is no money in the country with which to do such and so" means simply nothing, unless we are also saying "The goods and services required to do this thing do not exist and cannot be produced, therefore it is useless to create the money equivalent to them". For instance, it is simply childish to say that a country has no money for social betterment, or for any other purpose, when it has the skill, the men and material and plant to create that betterment. The banks or the Treasury can create the money in five minutes, and are doing so every day, and have been doing it for centuries.

C and D of Prod 9-10.

In order to meet the primal necessities, men work for money, having always at the back of their

mind that so much money represents so much satisfaction of primal needs. It should be particularly observed that it is this faith, this credit, which gives money its value, and it is therefore true to say that all money is, or is fundamentally dependent upon, credit.

TPD & LP 8-9.

Definition of Money

Money in its various forms of cash and financial credit, so far as they are convertible, has been defined by Professor Walker in his *Money, Trade and Industry* as any medium which has reached such a degree of acceptability that no matter what it is made of, and no matter why people want it, no one will refuse it in exchange for his product. So long as this definition holds good, it is obvious that the possession of money, or financial credit convertible into money, establishes an absolute lien on the service of others in direct proportion to the fraction of the whole stock controlled, and further that the whole stock of financial wealth inclusive of credit, in the world, should by the definition be sufficient to balance the aggregate book price of the world's material assets and prospective production.

Ec Dem 28.

Wealth and Money Independently Produced

Having got it firmly fixed in your mind that while to the ordinary man there is no wealth without money, and yet that there exist either actually or still more potentially enormous quantities of wealth, for which there is no equivalent amount of money, I should like to bring to your attention another simple, apparently obvious, but very frequently overlooked fact, and that is that you do not make

money by making goods. In other words, the industrial system, which makes goods, is not to blame for poverty - it is the financial system.

Warn Dem 128.

Purchasing power is not, as might be gathered from the current discussion on the subject, an emanation from the production of real commodities or services like the scent from a rose, but on the contrary, is produced by an entirely distinct process, that is to say, the banking system.

Monop of Cr 23.

There is extant in the world, a common, if somewhat nebulous, idea that whoever, for instance, grows a ton of potatoes grows thereby in some mysterious way, the purchasing power equivalent to a ton of potatoes... If I grow a ton of potatoes and exchange those potatoes for five currency notes of one pound each, held at the moment by my neighbour next door, all that has happened is that I have five pounds which he had before. My ton of potatoes has not increased the number of pounds, although it *may* have, but probably has not, increased the purchasing power of each pound. If we imagine this five pounds to be the only five pounds in existence, and money to be the only effective demand for goods, no one will be able to exchange any goods until I part with, at any rate, a portion of my five pounds.

Soc Cr 130-131.

If you will bear this simple but very important idea in mind you will rapidly get a much clearer idea of the real nature of money, and I think that for ordinary purposes the simplest and most satisfactory conception of money is that it is simply a ticket which enables the holder to obtain goods and services upon demand.

Warn Dem 129.

Money not a Measure of Value

There are few people who would claim that the monetary systems of the world are perfect, and the number

of such persons is decreasing daily. But when asked to define the various defects in the monetary system, it is quite remarkable to notice with what monotonous regularity the ideas of "justice" and "value" are paraded. It is claimed that money is defective because it is not an accurate measure of value, or that it results in an unjust "reward" for labour. But when such critics are asked to suggest a method by which the relative value of a sunset, and say, Venus di Milo might be assessed on the one hand, or, on the other hand, what is the "just" return for a given amount of labour, their answers are not usually very helpful from a practical point of view.

Soc Cr 60.

Perhaps the most important fundamental idea which can be conveyed at this time, in regard to the money problem - an idea on the validity of which certainly stands or falls anything I have to say on the subject - *is that it is not a problem of value-measurement. The proper function of a money system is to control and direct the production and distribution of goods and services.* It is, or should be, an "order" system, not a "reward" system. It is essentially a mechanism of administration, subservient to policy; and it is because it is superior to all other mechanisms of administration, that the money control of the world is so immensely important.

Soc Cr 61-62.

Money is Properly the Agent of Distribution

The analogy of the "Limited" railway ticket is for all practical purposes exact, a railway ticket being a limited form of money. The fact that a railway ticket has money-value attached to it is entirely subsidiary and irrelevant to its main function, which is distribution of transport. A demand for a railway ticket furnishes to the railway management a perfect indication (subject, at present, to financial limitations) of the transportation, which is required. It

enables the programme of transportation to be drawn up, and the availability of a ticket issued in relation to this programme enables the railway traveller to make his plans, in the knowledge that the transportation that he desires will probably be forthcoming.

Soc Cr 62.

The measurement of productive capacity takes place, or should take place, in regions other than those occupied by the ticket office, or its financial equivalent, the bank; and the proper business of the ticket department and the bank is to facilitate the distribution of the product in accordance with the desires of the public and to transmit the indication of these desires to those operating the industrial organisation, to whom is committed the task of meeting them.

They have no valid right to any voice in deciding either the qualifications of travellers, or the conditions under which they travel.

Soc Cr 63.

The Remedy for Shortage of Money

We have to realise that there exists, and is being exercised for anti-social purposes, a monopoly of the ticket supply, without which distribution cannot be carried on. That monopoly has to be broken. How it is to be broken is a very serious problem, a problem which has got to be faced and solved, or the civilisation with which we are acquainted will shortly cease to exist.

B of Em Syst 9-10.

You will no doubt be anxious to know the remedy for this situation. There is such a remedy. It is not the easy one which might at first occur to you of merely printing more bank notes, since unfortunately that is a method which defeats its own end. The method is a technical one. It consists in a simple adjustment, by use of the technique of credit, of the relation between the average price

level and the available purchasing power; and, under existing conditions, the responsibility for making this adjustment most undoubtedly rests with the banking system.

War Dem 133.

MONEY AND CREDIT

The Quantity of Money

It is necessary to be clear as to the origin of what passes for money, and to understand the remarkable powers which are vested in the banking system and the financier. Consider first, legal tender, which in this country, consists of gold, silver and copper coinage, and Treasury Notes, to the approximate value of say, £400,000,000. It may be noticed, in passing, that this money has only value by the consent of the community of individuals we call the nation; that is to say, by their willingness to accept it in return for goods and services. It will at once be obvious, from a superficial examination of the accounts of banks, that there is a good deal more money in the country than there is legal tender. The deposits of the "Big Five" banks and their affiliations alone represent about £2,000,000,000, and overdrafts and bills discounted represent about £1,000,000,000 more. For practical purposes, all this money is homogenous - the average individual would draw no vital distinction between ten pounds in his pocket-book and ten pounds in his current account with one of the great banks. But it must also be obvious, on a little consideration, that something curious must have happened to enable say, £400,000,000 of legal tender to become at least £3000,000,000 of money, because, as far as can be seen on a cursory examination of the phenomenon, however much £400,000,000 changes hands in the course of trade, it still remains £400,000,000.

Something curious does happen - it is the creation of new money,

which ranks equally with legal tender as purchasing power, by banks and financial institutions.

B of Em Syst 6-7.

Mechanism of Credit Creation

Since the mechanism by which money is created by banks is not generally understood, and the subject is obviously of the highest importance, it may be as well to repeat here an explanation of the matter. Imagine a new bank to be started - its so-called capital is immaterial. Ten depositors each deposit £100 in Treasury Notes with this bank. Its liabilities to the public are now £1,000. These ten depositors have business with each other and find it more convenient in many cases to write notes (cheques) to the banker, instructing him to adjust their several accounts in accordance with these business transactions, rather than draw cash and pay it over personally. After a little while, the banker notes that only about 10 per cent of his business is done in cash (in England it is only 0.7 of 1 per cent), the rest being merely book-keeping. At this point depositor number 10, who is a manufacturer, receives a large order for his product. Before he can deliver, he realises that he will have to pay out, in wages, salaries, and other expenses, considerably more "money" than he has at his command. In this difficulty he consults his banker, who, having in mind the situation just outlined, agrees to allow him to draw from his account not merely his own £100, but an "overdraft" of £100, making £200 in all, in consideration of repayment in say, three months, of £102. This overdraft of £100 is credit to the account of depositor No.10, who can now draw £200...

The Power of the Banker's Pen

The banker's liabilities to the public are now £1,100. None of the original depositors have had their credits of £100 each reduced by the transaction,

nor were they consulted in regard to it, and it is absolutely correct to say that £100 of new money has been created by a stroke of the banker's pen.

Depositor No.10 having happily obtained his overdraft pays it out to his employees in wages and salaries.

These wages and salaries, together with the banker's interest, all go into costs. All costs go into the price the public pays for its goods, and consequently, when depositor No.10 repays his banker with £102 obtained from the public in exchange for his goods, and the banker, after placing £2, originally created by himself, to his profit and loss account, sets the £100 received against the phantom credit previously created, and cancels both of them, there are £100 worth more goods in the world which are immobilised - of which no one, not even the banker, except potentially, has the money equivalent.

Monop of Cr 16-17.

Definitions of Credit

Real credit is a correct estimate of the rate, or dynamic capacity, at which a community can deliver goods and services as demanded. *Financial credit* is ostensibly a device by which this capacity can be drawn upon. It is, however, actually a measure of the rate at which an organisation or individual can deliver money. The money may or may not represent goods and services.

C and D of Prod 10.

Financial credit is simply an estimate of the capacity to pay money - any sort of money which is legal or customary; it is not, for instance an estimate of capital possessed; and its use as a driving-force through the creation of loan-credit is directly consequent on this definition. The British banking system, since the Banking Act of 1844, has based its operations on the ultimate liability to pay gold, but in actual fact the community, as a whole, has dethroned gold, and bases its acceptance of cheques and bills on its

estimate of the bank credit of the individual or corporation issuing the document, and for practical purposes not at all on the likelihood that the bank will meet the document in gold. This bank credit simply consists of certain figures in a ledger combined with the willingness of the bank to manipulate those figures, and at call to convert them into legal tender. What, then, is likely to induce a bank to increase credit by the creation of loans, etc., of an applicant for that favour? The answer is contained in the definition: the capacity to pay money; and the credit will be extended absolutely and solely as the officials are satisfied that this condition will be met.

C and D of Prod 52-53

Centralised *financial* credit is a technical possibility, but centralised real credit assumes that the desires and aspirations of humanity can be standardised, and ought to be standardised. Since financial credit derives its power from its nexus with real credit (a correct estimate or belief of the individual that something *desired* will be delivered), centralised financial credit-control will break up this civilisation, since no man or body of men, however elected, can

represent the detailed desires of any other man, or body of men.

Cr P and Dem 57-8

True Function of Credit in a Modern Economy

There is no doubt whatever that the first step towards dealing with the the problem is the recognition of the fact that what is commonly called credit by the banker is administered by him primarily for the purpose of private profit, whereas it is most definitely communal property. In its essence it is the estimated value of the only real capital - it is the estimate of the *potential* capacity under a given set of conditions, including plant etc., of a society to do work. The banking system has been allowed to become the administrator of this credit and its financial derivatives with the result that the creative energy of mankind has been subjected to fetters which have no relation whatever to the real demands of existence...

Now it cannot be too clearly emphasised that *real credit* is a measure of the reserve of energy belonging to the community and in consequence drafts on this reserve should be accounted for by a financial system which reflects this fact.

Ec Dem 120-12

We have already seen that the only possible basis of *real* credit is a belief, amounting to knowledge, in the correctness of the credit - estimate of a society, with all its resources, to deliver goods and services at a certain rate. If we make this basis our *financial* basis, then the credit-structure erected on it can only be destroyed by social suicide - by the refusal of the community to function. Now, one of the components of the capacity of a society to *deliver* goods and services is *the existence of an effective demand* for those goods and services. It is not the very slightest use, under existing conditions, that there are thousands of most excellent houses vacant in this country, when the cost of living in them totally exceeds the effective financial demand of the individuals who would like to live in them. The houses are there, and the people are there, but delivery does not take place. *The business of a modern and effective financial system is to issue credit to the consumer, up to the limit of the productive capacity of the producer, so that either the consumer's real demand is satiated, or the producer's capacity is exhausted, whichever happens first.*

Cr P and Dem 106-7

REFERENCES TO BOOKS QUOTED

Title in Full	Abbreviation
<i>The Monopoly of Credit</i>	<i>Monop of Cr</i>
<i>The Control and Distribution of Production</i>	<i>C and D of Prod</i>
<i>Credit Power and Democracy</i>	<i>Cr P and Dem 106-7</i>
<i>Social Credit</i>	<i>Soc Cr</i>
<i>Economic Democracy</i>	<i>Ec Dem</i>
<i>The Breakdown of the Employment System</i>	<i>B of E Syst</i>
<i>These Present Discontents and the Labour Party</i>	<i>TPD & LP</i>
<i>Warning Democracy</i>	<i>Warn. Dem</i>
<i>The New and the Old Economics</i>	<i>N & O Econ</i>
<i>Macmillan Report (1)</i>	<i>Mac Rept</i>

(1) Minutes of Evidence taken before the Committee on Finance and Industry, 1930, Chairman the Rt. Hon. H.P. Macmillan, K.C. References in this book are to the Statement of Evidence submitted by Major Douglas, also reprinted as an appendix to the *Monopoly of Credit*.

Copyright © 1998. Permission granted for reproduction with appropriate credit. If you wish to comment on an article in this, or the previous issues, or discuss submission of an essay for a future issue of *The Social Crediter*, please contact the Editor directly:
 Alan Armstrong,
 Gilnockie, 32 Kilbride Avenue,
 Dunoon, Argyll,
 Scotland PA23 7LH.
 Tel/Fax: 01369 701102
 E-mail: alan@gilnockie.freeserve.co.uk

If you do not wish to cut the coupon on the back page, please forward your subscription with your address details.

The Social Crediter is the official journal of the Social Credit Secretariat. It promulgates the analysis and prescription for radical change to the current financial/economic system developed by C. H. Douglas in the 1920s. At the centre of our concern is the need for radical reform of the international fractional reserve, debt-money system. Only then might other major socio-economic changes, including the introduction of a National Dividend, follow and to help ensure that all of the world's people have the potential to enjoy economic sufficiency, while simultaneously living a full and satisfying life in harmony with each other and the natural environment. It is our conviction that whatever is **physically possible and socially desirable** CAN be made financial possible. This should be everyone's concern and radical reform, is urgent, so that this potential may be realised.

SUBSCRIPTIONS

Annual rates:
 UK inland £6.00
 Airmail £9.00

In Australia, subscriptions and business enquiries should be addressed to
 3 Beresford Drive, Draper,
 Queensland 4520.

Published by KRP Ltd,
 16 Forth Street, Edinburgh EH1 3LH.
 Tel 0131 550 3769

THE SOCIAL CREDITER

Please send me *The Social Crediter* for one year.
 (Cheques/Money Orders payable to KRP Ltd,
 16 Forth Street, Edinburgh, EH1 3LH, Scotland)

Name _____

Address _____

Post Code _____

Enclosed £ _____

Recommended Reading

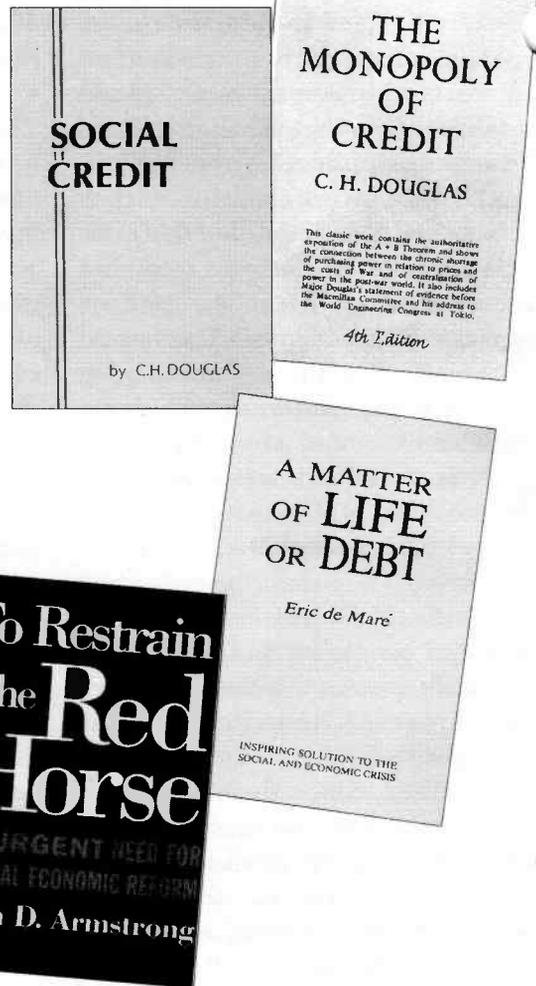
Books by Major C.H. Douglas

- Social Credit*
- The Monopoly of Credit*
- Economic Democracy*
- Warning Democracy*
- Credit Power and Democracy*
- The Control and Distribution of Production*

Frances Hutchinson and Brian Burkitt
The Political Economy of Social Credit and Guild Socialism
 (See front cover)

Eric de Maré
A Matter of Life or Debt

Alan D. Armstrong
*To Restrain the Red Horse**
The Urgent Need for Radical Economic Reform (1996)



Books and booklets on the subject of Social Credit are available from Bloomfield Books, 26 Meadow Lane, Sudbury, Suffolk, England CO10 6TD.

* Also available from Towerhouse Publishing, 32 Kilbride Avenue, Dunoon, Argyll, Scotland PA23 7LH.

NEW WEBSITE <http://www.ecn.net.au/~socred/>

E-MAIL ADDRESS: socialcredit@FSBDial.co.uk

SECRETARIAT	
Chairman and Editor	Alan D. Armstrong BA (Hons) Econ
Deputy Chairman and Treasurer	J. A. Murray McGrath FCOptom, DCLP
Secretary	Ronald Macintyre BSc (Hons)
Research Officer	Alister Lawrence
Correspondent to Vatican	Anthony Cooney BA
Historian	Richard Brockett, Wellers Hill, Australia
Director, Social Credit School of Studies	Vic Bridger, Samford, Australia
Correspondent in Canada	Wallace M. Klinck, Sherwood Park, Alberta

THE SOCIAL CREDITER BUSINESS ADDRESS
 Subscribers are requested to note the address for all business related to KRP Limited and The Social Credit Secretariat is: 16 Forth Street, Edinburgh EH1 3LH. Telephone 0131 550 3769 e-mail: socialcredit@FSBDial.co.uk