

Social Credit of the Left

by Michael Lane

That there is a social credit of the Left will come as news to many social crediters. To understand it, the reader will have to disabuse himself of the notion that socialism means nationalization of the means of production. This meaning became the paradigm after 1922, when the Labour party declared that social credit was not compatible with socialism. Before 1922, the Left still had room for a Morrisian vision of economics, in which "the ordinary things men made ought to be so made as to be a `joy to the maker and the user'."

In *The Political Economy of Social Credit and Guild Socialism*, Frances Hutchinson and Brian Burkitt adopt the definition of Henry Smith: "Socialism is the economic equivalent of political freedom, equality and fellowship. Its defining criterion is the reduction to a minimum of conflict due to economic causes." When it rejected social credit, the Labour party rejected true socialism.¹

In calling attention to the origins of social credit in the trades union movement, Hutchinson and Burkitt bring a new dimension to the subject. In 1907, A. R. Orage and Holbrook Jackson formed the Fabian Arts Group as a wing of the Fabian Society and purchased a bankrupt magazine, the *New Age*. The *New Age* declared its intention to examine the philosophical basis of socialism, to which end it provided a forum for the guild socialism of Arthur Penty and S. G. Hobson and the distributism of Hilaire Belloc and G. K. Chesterton. In consequence, the *New Age* became the black sheep of the Fabian Society, and by 1909 the rupture was complete.²

In 1918, Jackson introduced Orage to C. H. Douglas.³ Of this historic meeting, Orage wrote:

"One day, about a year after the Armistice [sic], there came to my office, with a personal introduction from my ex-colleague, Mr. Holbrook Jackson, a man who was destined to affect a beneficent revolution in my state of mind. [I] had often boasted that the *New Age* owed its 'brilliance' to the rejected stones of the ordinary builders; and everything about Major Douglas made him personally and intellectually attractive. . . His knowledge of economics was extraordinary: and from our very first conversation, everything he said concerning finance in its relation to industry--and, indeed, to industrial civilization as a whole--gave me the impression of a master-mind perfectly informed upon its special subject. After years of the closest association with him, my first impression has only been intensified. In the scores of interviews we had with bankers, professors of economics, politicians and business men, I never saw him so much as at a moment's loss of complete mastery of his subject. Among no matter what experts, he made them look and talk like children. The subject itself, however, even in the hands of a master, is not exactly easy; and, in fact, it compares in economics with, let us say, time and space in physics. By the same token, Douglas is the Einstein of economics; and in my judgment as little likely to be comprehended practically. In other words, a good deal of sweat is necessary to understand Douglas; and. . . very few will be the minds to devote the necessary time and labor to the matter. . . He said many things in our first talk that blinded me with light; and thereafter I lost no opportunity of talking with him, listening to him talk. . . It was a full year from beginning to study his ideas before I arrived at complete understanding. Then all my time and labor were justified. . . Students looking for a long row to hoe may be directed to the increasing body of literature on the subject, inaugurated by the volume in which I more or less collaborated with Douglas himself--*Economic Democracy*. There followed Douglas's *Credit-Power and Democracy*, and several others."⁴

Subsequently, *Economic Democracy*, *Credit-Power and Democracy*, *The Control and Distribution and Production*, and *Social Credit* appeared, in whole or in part, in the *New Age*. These and other Douglas works from the same period (1918-24) are what Hutchinson and Burkitt call "the Douglas/*New Age* texts," the fruit of the collaboration of author and editor. The direct collaboration ended when Orage went to Fontainebleau in 1922 to study with G. I. Gurdjieff.⁵ Curiously, Gurdjieff and Douglas have something in common beside Orage: both are notorious for jaw-breaking sentences.

Hutchinson and Burkitt in fact regard "the Douglas/*New Age* texts" as still guild socialism. It is true that except for the "Draft Mining Scheme," they are not about guilds. But they are about getting the running of manufacture into the hands of people who actually know how to make things (as Xenophon's Socrates puts it, getting the flute into the hands of the flute player); and they

are about socialism if that word is allowed its Morrisian sense. The texts outline "a socialist system of finance tailored to serve socialist, rather than capitalist, ends"; "a coherent economics of socialism"; "a comprehensive body of theory coupled with practical proposals for the reform of finance as a prerequisite to establishing a socialist economy"; "a route to a socialist economy in which economic conflict is minimised."⁶

The Role of Orage

In their laudable mission to reconnect social credit with guild socialism, Hutchinson and Burkitt go so far as to suggest that Orage was more than an editor and influence, that he was actually coauthor of the works published under Douglas's name. They go even beyond that to intimate that Orage was the real genius behind the texts, Douglas merely a "vehicle" who contributed little of his own save a technical insight into the money system. In spite of that, Douglas gets all the blame for the prose style.⁷

It would require a strong case to overturn the evidence of the title pages of the books. The evidence the authors propose is (1) that Orage claimed to have coauthored Economic Democracy, (2) that the "Draft Mining Scheme" was accepted as the work of both authors, (3) that "The Labour Party and Social Credit" is written in the style of Orage, and (4) that there is no evidence that Douglas had any developed social philosophy prior to his meeting with Orage.⁸

The statement that Orage claimed to have coauthored Economic Democracy rests on the passage already quoted, in which he calls it "the volume in which I more or less collaborated with Douglas himself." Whatever is meant by "more or less collaborated," the word the indicates that this role was limited to the text in question, and the whole context (even allowing for false modesty) speaks for itself.

The "Draft Mining Scheme" is a four-page scheme accompanied by a sixty-one-page commentary, all of which forms the appendix to Credit - Power and Democracy. Orage gets full credit for the commentary on the title page of the book. The best evidence of Douglas's social philosophy is the works themselves, which testify to a long parturition.

As for "The Labour Party and Social Credit," Hutchinson and Burkitt are simply mistaken. There is nothing in it that could not have been written by Douglas. Several touches of irony are distinctly Douglas-like: "It is fairly safe to assert that any Works Manager would be in a position of some difficulty if called upon to find a use for Mr. Webb in his works"; "The Fabian Society has been notably successful in intercepting, sterilising and misdirecting intelligent enquiry into the causes of social unrest"; "devoted itself to the devastating problem of Privy Councillorships for Labour Leaders"; "If an attack were levelled at a treatise on the game of cricket on the grounds that the author's theory did not conform to generally accepted views on stool-ball, it would be necessary to stress some general differences between the games, if for any reason an answer to such criticism were deemed to be desirable."⁹

I do not assert that Orage could not have written these, but I am quite sure he could not have written the following:

"During the late war, there were numbers of highly placed officials both military and civil whose success was only enhanced by the chaos, intrigue and obstruction which seemed to attend their best efforts. Absurd suggestions of treachery and corruption were freely made in connection with these persons--absurd because although their safety and steady promotion were of the greatest consequence to Germany and the International organisations by which she was supported, it was obviously in every way more convenient, cheaper and more effective that they should be paid by the British Public, and if possible be encouraged to imagine themselves to be serving it."¹⁰

This elliptical and ironical way of saying that Britain was her own worst enemy is vintage Douglas.

Another proof is found in the expression "from the cradle, or before, to the grave, and after." The identical turn of phrase is found in a 1925 address by Douglas: "from the moment that he draws breath to the moment of his death, and after."¹¹ Finally, on the theory of Orage's sole authorship of "The Labour Party and Social Credit," it is odd to find the repeated use of the first person, including a description of the "Draft Mining Scheme" as "drawn up by the writer, and most ably

expounded by Mr. A. R. Orage."12

Furthermore, Hutchinson and Burkitt's stylistic argument is distinctly two-edged. Had it successfully proved Orage to be the author of "The Labour Party and Social Credit," it would only have proved Douglas's authorship of the other works, whose style they deplore. They acknowledge "the complete lack of editing" of the texts; and indeed it was Orage's policy to print articles verbatim, with no blue-penciling.

But if the words are Douglas's and Orage published them verbatim, how did the latter provide "a great deal more than editorial support"? It can only have been at the level of ideas: author found in editor what most authors and teachers long for in vain, the ideal reader and pupil. That is why the texts are enhanced by reading them in a guild socialist context. There is no reason to bring their authorship into question.13

The fact is, Orage and the New Age were the center of a rich intellectual milieu. Hutchinson and Burkitt list the "five main strands" of guild socialism as "Penty's medievalism, political pluralism, syndicalism, Hilaire Belloc's conceptualisation of the 'servile state' and a Fabian belief in reformism as a means of social justice."

But there is no reason why Douglas could not have read these authors, as well as Orage and the guild socialists, for himself, both in the New Age and independently. There is no fact that cannot be accounted for by Douglas's receptiveness to the whole milieu and no reason to doubt that Douglas was sole author of the books published under his name. "The Douglas/New Age texts" are, more simply, "early Douglas." If the content of the texts is guild socialism, it is because Douglas was the greatest guild socialist of them all.

C. H. Douglas is one of the great prose artists of the English language. His long sentences are syntactically flawless and rhythmically modulated. His elliptical and allusive style is ideal for incorporating multiple levels of meaning. It is the only way, perhaps, to express his multidimensional thought, for no one has ever put Douglas's ideas in "simple" language without diminishing them.

Paradoxically, although his sentences may be long, no author is more concise. The difficulty in reading Douglas is not looseness of conception but high intensity--too much meaning. In his mind everything really is connected to everything else, every idea immediately contiguous to a dozen more.

There is therefore a haphazard quality to the progression till you suddenly find yourself at a familiar place, having arrived by a strange route. It's an adventure, but that is also why his books are ever young and never wear out. Anyone who hasn't realized this quality of Douglas hasn't read him yet. "It's economics, for heaven's sake! Just give me a clear exposition!"

What Douglas gives us instead is high art--rich, playful, and profound. To a holistic mind like his, there's no such thing as economics. Orage read Douglas. And he must have known what he was doing, for the challenging prose didn't prevent the books from selling well and going into multiple reprints.14

Guild Socialism

Trades unions were born out of the horrible living and working conditions of the industrial working class. But they were weak because they were unnecessarily multiplied within industries and because they included only a small minority of actual workers.

The guild socialists wanted to enlarge and strengthen the movement and then use it to abolish the wage system. They sought to enlarge and strengthen it, first of all, by turning the trades unions into vertically integrated guilds where master and man would find common ground and take pride in the work, and second, by extending such guilds horizontally to include every occupation, such that there would be no one not in a guild. Hobson thought the whole nation's economic life could be pretty well covered by twenty-two guilds, chartered by the state.15

The object of attack for which this army was mustered was wages as a system of payment. In equilibrium theory, "unless or until the products of nature or the services of society become 'commodities', that is, subject to exchange on the market, as far as the economist is concerned

they do not exist." Hence, people lacking land or capital counted economically exactly to the extent that they were successful in "selling their labor" in the market. And "selling their labor" meant that they parted with it absolutely, relinquishing all further claim to its fruits.

By making labor sell itself as a commodity, the owners of land, money, and capital succeeded in appropriating two-thirds of the price of products. The guilds, having an effective monopoly of labor, would demand the whole price and distribute it, but not as wages for work.

Guild socialists proposed instead to break the artificial bond between personal income and employment: "Payment would be on a service basis, continuing through sickness and idle times, rather than as remuneration for hours worked or in relation to productivity." It would maintain not only the employed but also reserves in every occupation. Their American contemporary Charles Ferguson summed up the concept when he wrote, "Do not hire people; finance them." For this purpose, guilds would also be banks, with a labor-based monetary unit.¹⁶

The Cultural Heritage

Whereas equilibrium theory recognized three factors of production--land, labor, and capital--there was a fourth factor so huge it escaped notice, the cultural heritage. While this concept was recognized by Hobson in connection with inventions, its enormous significance was first apprehended in "the Douglas/New Age texts." It represents something whose vastness is apt to dwarf the imagination.¹⁷

What is the cultural heritage as a factor of production? The following are quotes from Hutchinson's *What Everybody Really Wants to Know About Money* (numbers are pages):

The non-money value system [sustains] economic relations among people and between communities and their local environment. . .The abundance of nature combined with human ingenuity and invention can provide an ample sufficiency for all (23). An economy based upon the production, distribution and exchange of material artifacts and the services associated with their production is unsustainable over the long term. Its existence depends upon the unseen support of forms of non-monetised social cooperation and on the natural environment's continuing ability to provide resources and absorb waste (26).

Without access to the common cultural heritage of the "intellectual commons," claims to the benefit streams of land and labour become ephemeral (62). Hunting was only able to develop into warfare and trade on the basis of communal provision of necessities, underpinned by the development and preservation of a common body of knowledge. It is impossible to over-stress the dependence of the human group on the 'steady state' subsistence economy based on knowledge of, and cooperation with, the natural world (81). The economic bedrock of human society remained rooted in the cooperative activities of gaining subsistence and rearing the next generation. . .cooperation within families and communities, and with the natural world, in the rebuilding after destruction and in the maintenance of supplies of food, fodder, shelter, clothes and fuel, coupled with the rearing of generations equipped with physical, intellectual and emotional skills (98). The formal economy is parasitical upon its foundations in the social and natural (99).

The industrial revolution had been made possible through inventions of tools and processes which were the product of the combination of human cooperative ingenuity with the common cultural inheritance of knowledge and skills acquired over untold past generations (132). The manufacturing sector of the economy drew from and was dependent on the wider community of workers, artists, inventors, consumers and citizens (135). Whatever the nominal system of economic interaction, all members of the community were in reality dependent upon. . .the land and natural resources, the fabric and infrastructure of buildings and communications, artistic traditions and the full range of "intellectual property," the knowledge of skills and process build up by countless generations of the past (135).

[The guild system] was able to recognise the work of priests, preachers, artists, craftsmen, journalists and authors as an essential contribution to the common wealth, rather than a drain upon it or a luxury to be afforded after the creation of material wealth. . .In order to encourage the free play of "idle curiosity" essential to new discoveries, certain guilds would exist to manage the work of inventors, pure scientists and any other groups, including "housekeeping women," who are normally excluded as economic agents (137). Home care, child care, knowledge,

invention, education, the web of culture and the care of soils and countryside belong to, and are the responsibility of, all the members of the community (143).

A distinction can be drawn between "internal" and "external" goods. Internal goods, like memories or the ability to speak Italian, are not exchanged on the market. [It is true that] musical skills may only be exercised through possession of a musical instrument. However, the internal goods themselves become part of the person (146f.)

Production "is 95 per cent a matter of tools and process":

Imagine one man tending a machine that prints circuits: is the value of the printed circuit his labour time? The value of the printed circuit is design value: the design of the circuit, the design of the machine. Men turn out resistors and capacitors and transistors: these would be utterly worthless curiosities did not designs exist for television sets and computers and amplifiers. . .What has multiplied the value of their work is design done once for all. [The cultural heritage] includes many esoterica: the results obtained by mathematicians long dead, the formulae of anonymous metallurgists, even, we may hazard, Brancusi's sense of form, which in a time of motorized box kites anticipated the aluminium cylinders we fly in today.¹⁸

The characteristic feature of these things seems to be that they all represent a permanent enhancement of the life-value of the community. And to a large degree they also represent creative work that is its own reward, work that may need to be financed but does not need to be compensated by a wage, needs to be made possible but does not require an incentive. It is, in other words, productive leisure. The saying goes, Time is money, measuring the greater thing by the lesser. The real saying should be, Money is time, that is, the purpose of money is to free up our time.

What has happened, however, is that the cultural heritage has been sectioned off and turned into monopolies. In the words of Frederic Howe:

"If you want to get rich (that is, very rich) in this world, make society work for you. Not a handful of men, not even an army of men, but society itself;...for by a simple process of addition, the pennies of the millions make up the millions of the few...All a railway has to do is offer the service, and the growth of population and business makes money for them. They cannot get away from it. While they sleep, society is at work for them...Every immigrant who landed in the city, every child that was born, made money for us.¹⁹

However, mere maldistribution of fruits is not the half of it. The real crime is sabotage of industry itself, as Howe also observes:

Monopoly palsies industry, trade, life itself. It encloses the land and the nation's resources. It limits opportunity to work. It erects its barriers about our resources; not to use them, but to exact a monopoly price from those who do. Monopoly denies to man opportunity. It fences in millions of acres of soil, of coal and iron mines, and of city lots. It closes the door to competition and to labor.²⁰

Of the \$99 price of Microsoft's Windows 95, \$96 was sheer tribute based on intellectual property right protection of Microsoft's license.²¹ As exorbitant profit is the incentive, the solution Douglas proposed was to restrict profit to a percentage over cost (varying for different industries based on risk). Because it is concealed in his compensated price proposal, this concept often escapes notice.

Sufficiency

The concept of the cultural heritage leads in turn to the concept of sufficiency: The abundance of nature combined with human ingenuity and invention can provide an ample sufficiency for all. The problem is not so much to increase production as to limit it to meeting the demand for sufficiency without having devastating effects upon the real economy (the natural environment and the people who rely upon it for their livelihoods).

The existing money system is incapable of handling inventions designed to create a pleasing sufficiency. By eliminating built-in obsolescence, superfluous packaging, transportation and waste, a sufficiency of high-quality local food, clothing and other essentials could be produced for local markets.²²

I think Hutchinson and Burkitt overstate the difference between their sufficiency and leisure on the one hand and plenty or age of plenty (appearing in many social credit writings) on the other. Bear in mind Thomas Robertson's generous reading of Basic Needs to include personal adornment; space, beauty, and privacy in a living space; amusements, hobbies, cultural pursuits, variety at work, friendship, marriage, sex, children, education, travel, aesthetic enjoyment, intellectual pursuits, and even "mild alkaloids" and his insistence that our standard for social services should be that of "the man of means."

Bear in mind that they themselves speak of an "ample sufficiency" and "consumer-determined sufficiency." Bear in mind their dictum that what priests, preachers, artists, craftsmen, journalists and authors provide is to be considered essential service, not luxury. Bear in mind that plenty is the constant refrain of the later writings of their favorite guild socialist, Orage.

Finally, bear in mind that "the Douglas/New Age texts" cited H. L. Gantt (associate of Charles Ferguson) to the effect that the U.S. industrial system was operating at 5% efficiency. If the benefits accruing from the elimination of 95% waste were distributed, is plenty too big a word for the leisure that would result? What they mean, of course, is that compulsive consumption would no longer be necessary to make the economy work and that there is an opportunity for a renewal of values.²³

Arthur Penty is quite right to point out that what is wealth and what is waste is not always obvious: "If a man has to travel from New Cross to the City every day for employment he helps the tramway to pay its dividends, but he is the poorer for having to take the journey. He is perhaps richer by the time he saves as compared with the time he would lose in having to walk. But the fact that a man lives in one part of the town and works in another is itself...a liability."²⁴

This, by the way, answers the people who think the unanswerable argument for Planning is traffic laws. How many people are on the road because they want to be on the road? How much of the volume of traffic actually serves no one's wants either directly or indirectly?

If 95% of the activity of the industrial system is dead-waste, then 95% of the road traffic directly or indirectly set in motion by it is probably dead-waste. Eliminate that, and then we'll see where we really stand. I could imagine a society in which traffic rules were merely courtesy rules, with liability in the case of actual collisions. At what point in the history of the automobile did collisions become a serious problem?

There are many examples of anomalies. In Canada a bushel of corn sells for less than \$4, a bushel of cornflakes for \$133. Car accidents and oil spills add to the national wealth because emergency services, insurance claims, hospital care, cleanup operations, and replacement of vehicles and property all register as positives. The Depression saw newspaper headlines of the type "Herring glut threatens starvation," "France `welcomed mildew'," "Hurricane `helps' sugar position," and "International plan for destruction of cocoa."²⁵

Then there is apple-sauce:

Apples grow well throughout the U.K. It takes a few seconds to core an apple and pop it next to the roast in the oven. Within minutes the skin can be peeled off (and composted, no waste) leaving a delicious, flavoursome apple sauce to go straight onto the table. Yet, at the height of the apple harvest and during the following seven months during which apples are easily stored, supermarket shelves display jars and packets of apple sauce. Not only have these apples been stored and transported, often from the far side of the world, but the processing and packing, transport, distribution and retail processes involve work and environmental costs which add nothing to the quality of the product in terms of flavour, convenience or nutritional value.²⁶

Yet by "a process of arithmetical legerdemain known as cost accounting," value is added in the amount of all the labor, overhead charges, selling charges, and profit.²⁷

The Draft Mining Scheme

The Draft Mining Scheme of Douglas and Orage was written in 1920, when the government was getting ready to relinquish its wartime control of the coal-mining industry. It was this scheme that the

Labour party considered and rejected in 1922 in favor of nationalization.

Nineteen-twenty was the year of Montagu Norman, deflation, industrial unrest, and the Emergency Powers Act. The coal-mining industry was particularly hard hit, and in 1921 when government control ended, a wage cut provoked a three-month strike. These simmering troubles were to precipitate a general nationwide industrial strike in 1926.²⁸

Orage used the term social credit in the Draft Mining Scheme, but credit for coining it must go to Charles Ferguson, who used it five times in *The Great News*, published in 1915.²⁹

The scheme proposed to turn the Miners Federation of Great Britain into a vertically integrated guild with branches in each geological mining area and including all workers and managers both active and retired. Thus, each branch would represent a mining community. Mining communities considered as a factor of production would be the credit basis for a guild bank with branches in each geological mining area.

This bank would be served by a national bank acting as a clearing house. The colliery owners would continue undisturbed in their dividends and privileges except for price making. They would publish a periodic financial statement showing the cost of production of coal. The government would keep track of figures of national production (including appreciation) and national consumption (including depreciation) in general.

Unconsumed production (i.e., net increase in the national wealth) in any given period would be the signal for the issue of new credits by the clearing house. The credits would be issued in the form of a subsidy on the price of coal for home heating (the compensated price). The full price of coal would be cost plus a percentage (the profit rule).

The percentage of the price subsidized for the home user would be equal to the percentage of the national production in general that remained unconsumed. The industrial user would pay the full price, and the home user would enjoy a discount based on the increase in the national wealth.³⁰

Improved efficiency in any industry would go to reduce the figure for national consumption and so swell the subsidy for home use of coal. However, only half of improved efficiency in the coal industry would be so counted. The other half would be paid in new credits from the clearing house direct to the colliery owners and the guild bank (the dividend). This would be a stimulus to invention and a particular benefit of participation in the scheme, which, however, is designed to be extendable to all industries.

Finally, the mining community (through its bank) and the colliery owners would have the privilege of financing new improvement and expansion (and receiving dividend-producing shares of new capitalization) in proportion to the size of their contribution to the industry as measured by their proceeds, that is, as payroll is to dividends, or about 9:1.

There was a crying need for such investment, and Orage calculated that in this way, in ten years' time, the guild bank would own half the capital of the industry. Over time in this manner, the mining community and the colliery owners would become one and the same.³¹
Hutchinson and Burkitt lay great emphasis on the Draft Mining Scheme:

Employees leaving the industry would retain their voting power in the producers' [i.e., guild] bank, serving to create local industry-community links, a vital aspect of the Scheme. As producers' banks developed they would come to represent the community at large, rather than merely those employed in the various industries to which the banks were attached. As new processes and technologies were introduced, displaced worker-producers should retain their economic rights.

As time progressed, the majority of shareholders in an industry would be retired workers or heirs of former workers. In this way share ownership would be spread throughout local communities, enabling producers' banks to replace payment for specific productivity by payments of dividends on communal work.

The final stage of the Scheme involves the steady withdrawal from active industry on the part of pre-existing shareholders of the banks. In this way, shareholders would consist mainly of economically passive recipients of the social dividend as proprietors of the industrial plant of the community. As the community was placed in effective control of its economic resources wage-

slavery would become redundant.

The Credit Scheme could be applied to any institutions providing employment within a local area. Wherever people work together for money, whether in industry, the arts, education, farming, medicine, retailing or any other essential service, their pooled financial resources [i.e., monetized real credit] could provide the basis for recovery of control over their own work. Guild socialists adopted a reformist approach, seeking to unite all who work as producers of goods and services within a locality with each other, and with local consumers. Through a gradual dispossession of the "profiteers" and absentee bureaucrats of the centralist state, local communities could reclaim control over their own resources. 32

The A+B Theorem

The A+B Theorem is C. H. Douglas's great philosophical poem about time, history, civilization, life, and death and is susceptible to many levels of interpretation. It reads as follows:

In any manufacturing undertaking
the payments made
may be divided
into two groups:
Group A: Payments made
to individuals
as wages, salaries, and dividends;
Group B: Payments made
to other organisations
for raw materials,
bank charges,
and other external costs.
The rate of distribution
of purchasing power
to individuals
is represented by A,
but since all payments go into prices,
the rate of generation of prices
cannot be less than A plus B.
Since A will not purchase 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.33

Hutchinson and Burkitt's treatment of the A+B Theorem is informative and accurate except for the following:

Without the `B' payments (which may be spent on wages, salaries and dividends in the production of intermediate products) people could not buy the existing volume of consumable goods...`B' payments are a form of new purchasing power which stimulates demand and hence prices in the present period without simultaneously increasing supply in that same period. However, current investment increases the supply of consumer goods in the future period. Hence `B' payments of the right amount must be undertaken in the future...Increased production must be of a type paid for by `B' payments.34

A consumer good on the shelf is the culmination of a series of intermediate products and capital goods that led up to it. Hutchinson and Burkitt here correctly observe that intermediate and capital production is assigned two separate and conflicting purposes. One is the common-sense one of leading to consumer goods on the shelf tomorrow. The other is through its payroll and dividends to finance purchase of consumer goods on the shelf today. However, the difference between A- and B- payments is not that of outlay of consumer- and intermediate-production firms, respectively. Rather, both types of firms make both types of payment:

A is for Allowances

To buy Apples and Ale,

B is for Back-Bursements

To buy Blubber and Ball-Bearings.

Thus, the payments they are speaking of are A-payments of intermediate and capital production to be reimbursed by B-payments at the next stage; and the payments required in the future are not B-payments but (as the Theorem says) an amount equivalent to B.

While they reject the concept of a deficiency of purchasing power found in many social credit writings, the difference appears to me to be purely verbal. Their point remains that the production of "Blubber and Ball-Bearings" has been assigned the very unnatural purpose of financing the purchase of "Apples and Ale," which otherwise could not sell for lack of money. Production is thus overworked to make up a latent deficiency of money. True enough, the economy could not function if the deficiency were not made up, and even as it is, it only "functions" with a regular crop of bankruptcies. Orage in his later writings does not hesitate to use the term deficiency.³⁵

The Boots Example

I would now like to look at some of Douglas's examples and why they are unsatisfying. I will consider the boots example from Economic Democracy, the Figure from The Monopoly of Credit (reproduced by Hutchinson and Burkitt), the ship from Warning Democracy, the house from The Control and Distribution of Production, and the linen-making machine from The Monopoly of Credit.

The boots example concerns three stages of production: a tanner, cobbler, and boot seller. If it was one vertically integrated company, transfer from one stage to the next would take place without money. As it is three separate companies, a social bank acting as a clearing house is needed to facilitate the transfer.

The bank is custodian of the national real credit. The bank knows that new hides exist when the tanner gets a shipment of them and turns the invoices over to the bank. The new hides represent an appreciation of the national real credit, of which the bank is the custodian. Therefore the bank writes up the national credit account by the value of the hides and issues financial credit to the tanner to facilitate the transfer.

The tanner produces the leather, adds up all his costs plus a percentage (the profit rule), and delivers it to the cobbler, who in turn submits the invoice to the bank. The bank then knows that the hides no longer exist but that leather exists in their place. So it writes up the national credit account by the value of the leather and issues financial credit to the cobbler, who pays it to the tanner, who returns the price of the hides to the bank, which writes down the national credit account by their value.

The end result of the tanner-cobbler transfer is that the national credit account is written up by the value of the leather and down by the value of the hides, which no longer exist because they are part of the leather.

The cobbler-boot-seller transfer results in the national credit account's being written up by the value of the boots including the boot seller's wages and commission (I don't know why) and down by the value of the leather, which no longer exists because it is part of the boots.

Based on this, the boot seller needs to collect £2500 from the public. Just as in the Draft Mining Scheme, the price will be subsidized based on the excess of national production (including appreciation) over national consumption (including depreciation).

For example, a general consumption rate of 40% would justify the bank's writing up its account by 60% of £2500, or £1500. The simplest way to subsidize the price would be to wipe out £1500 of the boot seller's debt and let him collect £1000 from the public. When this is collected and returned to the bank, the bank writes down the national credit account by that amount for the boots taken off the market.

Since it wrote the account up by £2500 and down by £1000 and all other transactions cancel out, the bank shows in respect to the boots business a net appreciation of £1500, being a share of the

national unconsumed production.36

To be fair, Douglas offers the boots example as an illustration of the national credit account and the compensated price, not of the A+B Theorem. He stipulates that "of the total work of the community for one month 60 per cent remains for use during a subsequent period" without pretending to show how such a situation would come about. The fact that the boots example resembles the Monopoly of Credit Figure, which does claim to explain A+B, makes it tempting to use the boots example in the same way. Yet the endeavor runs into trouble.

Assuming the best case that all profits count as dividends, the price of £2500 consists of wages, salaries, and dividends (A-payments) of £1400 plus a net B-payment of £1100, which was the tanner's expenditure of £600 for hides and supplies augmented by the cobbler's £500 for supplies. Now all three businesses are operating all the time, and boots are being sold all the time. Therefore, in any given cycle, £1400 is paid out in wages, salaries, and dividends; £1100 is a net B-payment (£4450 against £3350 received); and boots go on the market for £2500.

If this was a closed system and people in the boot industry actually had to buy all the boots, the price subsidy would be £1100. Because it is part of a national system, the price subsidy is based on the national rate, and it becomes £1500.

The problem with this is that at least three unnamed businesses are counted as generating costs but are not counted as distributing current purchasing power. They are the unnamed suppliers to the tanner and cobbler, the businesses responsible for £1100 in costs. If the tanner, cobbler, and boot seller are operating all the time and paying out wages all the time, so are these. In any given cycle, they pay out £1100, partly in wages which are purchasing power and partly in B-payments to yet other businesses operating all the time whose wages also have to be counted.

It is an interesting question where this sequence ends, but in any case it seems that virtually the whole of the £1100 should be available unless something changes. Thus, while the boots example embodies fascinating insights about the relation between money and things, it does not show how it comes about that production runs ahead of consumption. It merely stipulates it.

The Figure

The Monopoly of Credit Figure is very similar. A consumer good is produced in five months by five companies. In January, labor is applied to material to make a product (e.g., hides). The left-curving arrow marked B represents the purchase of that product by the next stage (February), which in turn adds more material and more labor to make a new product (e.g., leather). B increases from stage to stage because it is cumulative, just as in the boots example.

Thus, the May stage makes a very large B-payment that reimburses all labor and material to date (four units of each), adds a unit each of material and labor on its own account, and costs the final consumer good at ten units. The A-payments would be the five units of labor alone.

It might appear as if Douglas conceived of the A-payments as saved until May, but such is not the case. This is just Douglas's shorthand way of expressing that all five companies are operating all the time and paying out wages all the time and putting goods on the market all the time. Every month five units are paid out for labor and ten-units worth of goods go on the shelf. Five cannot buy ten.37

The problem here is the same one we ran into in the boots example. The cost of ten units consists of five units distributed as wages for labor (A-payments), plus a net B-payment of five units, which is for materials, and about these materials, we can ask the question Whence?

We then find that (as with the boots example) they represent unnamed businesses that are counted as generating costs but are not counted as distributing current purchasing power. Every month they pay out five units, partly in wages (which are purchasing power) and partly in B-payments to yet other businesses operating all the time whose wages also have to be counted. Therefore, virtually the whole of the five units should be available unless something changes.

The Ship

The government contracts the construction of a ship for one million pounds. The shipbuilder has a

half-million and borrows a half-million from the bank. He pays out £900,000 for materials and "overheads" and £100,000 in wages. The government pays one million for delivery of the ship, and the shipbuilder repays the bank, which cancels the money.

Douglas comments, "You will see quite clearly, I think, that a ship priced at £1,000,000 exists, but the equivalent purchasing power in respect of this ship has not merely changed hands, half a million of it has absolutely disappeared."38

At first blush it might be objected that since the ship is already purchased, there is no reason for any of the purchasing power to exist. The answer to this is that the government is not the ultimate consumer.

The government therefore resembles the boot seller, whose receipt of the boots resulted in the national credit account's being written up by the value of the boots and down by the value of the leather. Just so, the government's receipt of the ship should have the result that the national credit account (having already been written up by the value of the materials) would now be written up by the value of the ship and down by the value of the materials.

That would be the fund from which purchasing power would be released to finance purchase by the ultimate consumers, citizens. Remember that the national rate of consumption (including depreciation) is the basis of the compensated price on all consumer goods.

The simplest way for citizens to purchase the ship would be for the national credit account to be written down at intervals as the ship depreciates. That would increase the national rate of consumption and so decrease the price subsidy during the life of the ship, with the result that the ship (or its consumption, which is the same thing) would be paid for through prices in general.

What happens instead is that there is no writing up of the national credit account, and the ship has to be paid for by taxes, which depletes existing purchasing power and prevents the sale of existing goods.

Does this illustrate the A+B Theorem? The million-pound price consists of wages, salaries, and dividends (A-payments) of £100,000 plus a net B-payment of £900,000 for materials and "overheads."

This leads to the same problem we encountered with the boots example and the Figure, for these companies also operate all the time and pay wages all the time. Or do they? The answer may lie in the question asked earlier, Where does the sequence end?

Douglas stabs at it here when he points out that taxes toward the reduction of the national debt leave goods on the shelf to pay for articles that no longer exist. In the same way, Douglas implies, the price of the ship is swelled by a whole history of payments to companies that no longer exist and so pay no current wages.

Alternately, it is suggested that part of the charges have not even this relation to real costs but are simply rent charged on the basis of monopoly. As Howe put it, "Every immigrant who landed in the city, every child that was born, made money for us." If such charges "were not applied to reserves and so forth in accordance with what is called 'sound finance', they would be distributed in dividends, and would be available as purchasing power."

Instead, they are allocated to "reserves, depreciation, etc." as if they were real costs. If the market permits the high price, these charges are allocated to fictitious costs; if not, the fictitious costs make a loss on paper.

The implication is that "sound finance" results in money simply withheld from circulation for the sake of withholding it. Douglas concludes, "If you are going to ask the consumer to pay for depreciation, etc., you must give him the money with which to pay."

Hutchinson and Burkitt rightly observe that Douglas's was an intuitive mind (Political Economy, p. 12). He here intuits something that he has not quite brought to the surface, and that is that if you make an example that covers an extended period of time, new features begin to appear that you do not see in examples like the boots example and the Figure. That is why the boots example and the Figure do not work. The new thing that enters in is the cultural heritage, and a heritage is

not a cost but a gift.

The House

The house example sheds light:

If A ordered a house off B, and B, having built it, lived in it for ten years and then insisted on charging his rent to A in a lump-sum addition to the price, A would probably complain; but when B put his overhead charges, the rent of his control of production, into the price of bricks for A's garage...A is being asked to pay, in prices, for something--viz. a period of use-value, past, and therefore destroyed and non-existent--of which the effective purchasing power never was distributed either as wages, salaries, or dividends...What may remain is the credit-value of this period of use, its assistance to future production, which may form a solid basis for a distribution of purchasing power possibly much in excess of the use-value charged into prices.³⁹

The key here is that depreciation is not an additional cost on top of the price of a house or a factory, it is the price. Thus, B cannot argue that the house cost him so much to build, and then on top of that he had to bear the cost of ten years' depreciation.

By that logic, once the house was a rotten hulk, it should sell at double the price! So, in the actual case, suppose that when the brick maker was paying a mortgage on the brick works, he charged the mortgage as overhead into the price of bricks. Now he owns the works free and clear and has completely recouped its price from his customers but still charges what the brick market will bear and records a cost for "depreciation."

In fact, he has the use of the works free for the remainder of its productive life, and what he charges for "depreciation" is actually pure profit. This also gives him an incentive to divert his attention from quality and production to commercial competition and manipulation of the market.

Now B, the builder, has to buy bricks at the market price and has to pass this cost on to A. Nevertheless, A is still thereby being asked to pay "depreciation" on a brick works over and above the purchase price of the works (which has already been redeemed) and therefore over and above all wages, salaries, and dividends paid out in the building of the works.

Thus, the unencumbered brick works is one of two things: (1) the absolute property of the brick maker, which absolute ownership he can use in the right market conditions to inflate his profit margin or (2) the property of the brick maker but also a part of the cultural heritage, since the public has redeemed its purchase price.

In the latter case, the bricklayer's profit must be based on his costs, the unencumbered brick works being a plus on the national credit account and justifying either a discount on the price or a dividend to pay it. Selling something according to cost is one thing, selling it according to value (which varies with the market) is something completely different.

The social credit solution to economics is in principle the same advocated by Ruskin: it is not just to allow price to be determined by the market; price is determined by cost, and the market says yea or nay; if it says yea, it will be yea to a fair price; if it says nay, the product is not made at all.

The Linen-Making Machine

The linen-making machine example is different from all the others. It is also the only one that explicitly incorporates a machine. A textile manufacturer owns flax fields and linen-making equipment.

There are two phases. In the first phase, the owner hires a man to turn the flax into linen, resulting in a batch every six weeks. The hired man's wages are a pound a week. The cost to the owner of a batch of linen will be the man's wages for that period, six pounds. The owner further offers the man lodging and the use of a potato patch for a pound a week, an offer the man accepts.

Every six weeks a batch of linen has to be sold for at least six pounds, and six pounds has indeed been distributed. Yet if it is a closed system, the man has only a pound. In the second phase, the man is replaced by a robot (which was made by the man in place of a batch of linen).

The robot burns potatoes for fuel and uses the house as its shed. The cost to the owner of a batch of linen will still be reckoned at the rental value of the house and land, six pounds. Every six weeks a batch of linen has to be sold for at least six pounds, yet no money at all has been distributed.⁴⁰

In the first phase, suppose (as with the brick maker) that the land, house, and equipment are owned outright and have long since paid for themselves so that recouping the purchase price is not an issue.

Then by our logic, they are part of the cultural heritage and the public has a beneficiary interest in what they produce. Just as the brick maker must base his profits on real costs and is not permitted to rent out a bit of the property with every brick, so the textile manufacturer may not rent out a bit of the property with every batch of linen. But if that is so, how do we escape the conclusion that he may not rent it for money at all?

He could only charge for costs that he actually bears, such as upkeep. Just as the arbitrary rent of the brick works is the B-payment for which no corresponding wages, salaries, or dividends exist, so is the arbitrary rent of the house and potato patch. In the example, the linen could actually be sold for one pound, because the other five pounds have already been recouped in "rental."

In the second phase, the cost of the robot is the wages of the man to make it, or six pounds. Therefore, as soon as that is recouped, it too is part of the cultural heritage. At that point, in this abstract example, there are no costs, and the linen can and should be given away. "Sound finance" would have the textile manufacturer allocate six pounds' worth of house-rent and land-rent as a cost. Ruskin would not. Douglas would say that either it must not be counted as a cost or if it is, you must give people the money to pay it with.

Civilisation as a Manufacturing Undertaking

The distinguishing feature of the cultural heritage, I have suggested, is that it consists of permanent enhancements of the life-value of the community. Can we not make this a little more precise? It has become tiresomely repetitious to say that Anthony Cooney has anticipated us:

About 50,000 years ago a new technology appears--pressure flaking. Flint tools were made by applying pressure to a piece of flint, the core being discarded after flakes of various sizes and shapes had been obtained.

This new method enabled knives, arrowheads, scrapers, etc. to be made, which in turn made it possible to shape bone and wood into usable shapes--fish-hooks, needles, even combs...The evidence of cave-paintings is that men, as a result of the new technology, had leisure.

The observation of the natural world, which the cave-paintings testify to, had what people like to call "practical" results; the discovery that the fruits and grains of plants were in fact their seeds. To discover this was to discover that a supply of food could be maintained within the immediate area of the dwelling place...The discovery of agriculture greatly increased human potential.

About 10,000 years ago another new technology appears; the grinding and polishing of flint. This enabled large pieces of flint to be shaped as hammers, axe heads and so forth. Co-incidental with this is the discovery of the lever principle and its application in the form of handles to hammers and other tools, and ultimately to the wheel.⁴¹

Thus, hammers, axes, and wheels depend on a dividend of leisure owing to agriculture, and agriculture depends on a dividend of leisure owing to carving, which depends on pressure flaking. Painting, of course, is not merely testimony to observation, it enhances it.

Therefore, painting is a productive part of the process on which hammers, axes, and wheels depend; but the fact that it is productive does not make it labor, does not make it a cost. Labor, in Ruskin's definition, is "the quantity of `Lapse', loss, or failure of human life, caused by any effort...Labour is the suffering in effort, [and] the `Cost' of anything is the quantity of labour necessary to obtain it."⁴²