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Major Douglas and Social Credit: A Reappraisal

J. M. Pullen and G. O. Smith

Clifford Hugh Douglas (1879–1952), more commonly known as Major Douglas, is not regarded highly by most economists. Although he was given half a column in *The New Palgrave* (Clark 1987, 920), the standard texts in the history of economics usually ignore him completely, give him only a passing mention (often critical and condescending), or dismiss him as a crank, a "funny money" man, a monetary heretic. There was a time, however, when Douglas's ideas were actively discussed and enjoyed widespread popular support. His theories were propagated through his many books and articles; his public lectures in various countries; his submissions to government inquiries in Canada (Douglas 1923), New Zealand (New Zealand 1934a, 1934b; Keynes 1935), and England (Great Britain 1931); and the activities of his followers in the social credit movement. If Douglas is remembered at all by academic economists today, it is probably because he received two brief mentions from J. M. Keynes in the *General Theory*.

This article argues that although some of Douglas's ideas are curious aberrations in the history of economics and deserve to be ignored, there are other ideas in his system that could be relevant to the economic

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problems of today. The secondary literature has generally concentrated its attention on the former and overlooked the latter.

Section 1 contains a brief outline of the three idiosyncratic ideas that are mainly responsible for Douglas's reputation as a monetary crank—his A + B theorem, his national dividend and rebate, and his conspiracy thesis. Section 2 discusses three durable themes of his system that, in our opinion, are worthy of serious consideration, namely effective demand, the problem of technology-induced long-term unemployment, and the socialization of credit. Section 3 is a critical commentary on the relevance of the socialization of credit to current economic problems. Section 4 seeks to identify Douglas's predecessors and successors, and to situate his thoughts, particularly on the socialization of credit, within an ongoing stream of discourse.

1. Douglas's Idiosyncrasies

1.1. The A + B Theorem

The basic theorem of Douglas Social Credit was that the total amount of purchasing power in the hands of purchasers is not, and cannot be, equal to the total value of the goods available for sale. This underconsumptionist thesis was based on Douglas's A + B theorem. He divided payments made in the course of production into two categories, namely "Group A—All payments made to individuals (wages, salaries, and dividends)," and "Group B—All payments made to other organizations (raw materials, bank charges, and other external costs)" (Douglas [1920] 1921, 21). The prices charged to consumers for goods currently coming on to the market have to recover both A and B payments, but, according to Douglas, the purchasing power in the hands of individual consumers will be equal to only the A payments: "The rate of flow of purchasing-power to individuals is represented by A, but since all payments go into prices, the rate of flow of prices cannot be less than A + B" (Douglas [1920] 1921, 22). Douglas thus concluded that, "since A will not purchase A + B" (22), a deficiency of purchasing power is an inevitable weakness of the capitalist system. He was in effect asserting, in common with other underconsumptionists over the years (but for his own peculiar reasons), that supply does not create its own demand. This A + B theorem was repeated many times, in one form or another, throughout Douglas's writings, and has become identi-

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fied in the minds of most commentators with the Douglas Social Credit scheme.

Douglas argued that, despite this alleged structural flaw, the capitalist system survives because the purchasing power gap is filled by either exports or bank credit. These sources of extra purchasing power supplement the A payments and enable producers to cover their total payments, thus permitting continuity of production. Exports cannot provide a permanent and universal solution for every country, and the closing of the purchasing-power gap must therefore rely, according to Douglas, on bank credit.

The A + B theorem has met with almost universal rejection from academic economists on the grounds that, although B payments may be made initially to "other organizations," they will not necessarily be lost to the flow of available purchasing power. A and B payments overlap through time. Even if the B payments are received and spent before the finished product is available for purchase, current purchasing power will be boosted by B payments received in the current production of goods that will be available for purchase in the future.

Keynes said that the A + B theorem "includes much mere mystification." He seemed to give qualified support to the argument in the case of "financial provisions" (depreciation allowances? sinking funds?): "If Major Douglas had limited his B-items to the financial provisions made by entrepreneurs to which no current expenditure on replacements and renewals corresponds, he would be nearer the truth" but found the "financial provisions" argument unconvincing: "Even in that case it is necessary to allow for the possibility of these provisions being offset by new investment in other directions as well as by increased expenditure on consumption" (Keynes 1936, 371).

1.2. The National Dividend and the Rebate

Douglas's proposed solution to the problem of an endemic inadequacy of purchasing power was to use social credit to fill the gap between purchasing power and prices. He proposed that this gap-filling could be achieved either by distributing a national dividend to every man, woman and child to boost their purchasing power, or by providing businesses with a subsidy or rebate that would enable them to reduce prices, or by some combination of national dividend and rebate. Both the national dividend and the rebate would take the form of nonrepayable, non-interest-bearing grants,

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funded by credit created by the state—"by exactly the same methods as are now used by the banking system to create new money" (Douglas 1935, 15). The private banks would act as agents for the state in the distribution of the national dividend (Douglas 1922a, 14).

Douglas recognized that opponents of the national dividend would allege that it involves getting something for nothing; that some people are not worthy to receive it; that it would be demoralizing for some people to receive money without working; that it would encourage idleness and dissipation; and that there is some virtue in poverty (Douglas 1931a, 7; 1934a, 20). He responded to this disincentive argument by observing that it frequently came from people whose sole or main source of income was dividends received on inherited money. He proposed that the disincentive effect could be avoided by setting the national dividend at a judicious level: "It is, of course, not suggested that, at first and possibly for some time to come, such a dividend should be so great that, if work was available, the worker could refuse to work" (1935, 15).[1]

He also believed that the national dividend would play an essential role in the establishment of "genuine democracy," and would provide the answer to socialism. He rejected the definition of democracy as the rule of the majority (Douglas 1934c, 10). He defined genuine democracy as "the right to atrophy a function by contracting out," adding that "the power of contracting-out is the first and most deadly blow to the Supreme State" (Douglas 1942, 55). By providing individuals with economic security, it would enable them to contract out, and to become less dependent on the state in matters such as health, pensions, and education.[2]

1. Douglas did not appear to appreciate the difficulties involved in setting a level for the national dividend that would be high enough to provide everyone with "self-respect and subsistence," but not so high as to discourage people from working altogether. He was aware of the problem, but did not venture a specific solution.

2. Douglas also sought to justify the national dividend on the grounds that it would enable everyone to benefit from society's cultural heritage (that is, the accumulated knowledge, the scientific know-how, the technology, and the educational system, etc.) that had developed over the years. This heritage, he argued, was not the property of any one individual; every member of society should benefit financially from it: "The existing economic system . . . completely denies all recognition of the social nature of the heritage of civilization, and by its refusal of purchasing power, except on terms, arrogates to a few persons selected by the system and not by humanity, the right to disinherit the indubitable heirs, the individuals who compose society" (Douglas 1934b, 7). A similar idea can be found in Edwin Cannan's 1934 article "Capital and the Heritage of Improvement." Cannan defined "the heritage of improvement" as "the net economic advantage which we and other generations who come late in the history of mankind, possess in consequence of what has been done by mankind in the past" (1934, 381). Douglas further defended the national dividend as a product of the "unearned increment in association" (1921, 19; 1922a, 13).

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In his earlier writings Douglas appeared to be conscious of the inflationary dangers inherent in his proposed national dividend. He stated that the "issue of credit must be accompanied by the regulation of prices—otherwise, the credit would simply put up prices" (Douglas 1922a, 15). But in his later writings he denied that the national dividend would be inflationary. He argued that the national dividend would merely offset the economy's endemic deflationary tendency (as "proved" by the A + B theorem); and that, if on balance any inflationary tendency was caused by the national dividend, it would be offset by his second policy proposal—the rebate on price (Douglas 1935, 15).

But, as critics quickly argued, the A + B theorem is an inadequate explanation of the lack of effective demand, and the abandonment of the A + B theorem undermines Douglas's argument that the economy has an endemic deflationary tendency. A national dividend financed by state-created credit would therefore increase aggregate purchasing power, which might or might not be inflationary, depending upon its impact on production. In a situation of less than full employment, it is possible that the increased purchasing power would stimulate output proportionately, thus preventing any inflationary effect. But if factors of production are fully employed, or if for any other reason the output response is less than proportionate, there would be inflationary consequences.

The alleged noninflationary feature of the rebate is also unconvincing. Douglas believed that the inflationary effects of state-created credit distributed to producers in the form of a rebate would be exactly offset by the price reductions that would be a condition for receipt of the rebate. But he did not seem to appreciate that the payment of a rebate would reduce (or even eliminate entirely) any incentive on the part of producers to hold costs down or to take cost-cutting initiatives. It would be virtually impossible for the public officials charged with administering the rebate to determine whether or not the costs being incurred by every firm and for every product were justified. If any increased costs are covered by the rebate, firms would have no reason to resist claims for higher wages or higher charges for other inputs. Thus, contrary to Douglas's belief, when the dynamic and incentive effects of the rebate are taken into consideration, the rebate scheme would almost certainly be inflationary.[3]

3. The rebate scheme would also involve enormous administrative problems and costs. Douglas proposed that every business should be registered, and should submit a monthly audited statement of costs, from which the adjusted price would be calculated after applying the rebate. But this would mean that new calculations would be required whenever costs changed; and a

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There is some doubt about Douglas's final commitment to the policies of a national dividend and a rebate. Although in his earlier writings the commitment appeared to be firm, he indicated in one of his later speeches, perhaps because of a growing awareness and acceptance of the logic of his critics, that his policy proposals were merely suggestions: "To meet those conditions we have put forward a number of tentative proposals, none of which, at any rate so far as I have myself any responsibility, is claimed to be final, rigid or unchangeable. They are merely suggestions" (Douglas 1935, 15).

1.3. The Conspiracy Thesis

In his later publications, Douglas spoke less and less about A + B, and became increasingly obsessed with the idea of an international conspiracy of the major banks to establish "world dominion." For example, in his 1942 publication *The Big Idea* he said: "There is an attempt in operation, to impose a World Policy. That is to say, somewhere there is a body of men claiming to be a World Government" (22). He believed that this organization for world dominion was seeking to impose a common policy on the ultimate victors of World War II, whoever they might be. The essence of this common policy was the "centralised control of life" (24). It would establish conditions under which individuals are "wholly at the mercy of institutions," these institutions being "ultimately controlled by an international junta" (8). The participants in this conspiracy were variously identified as "International Finance," "the 'Labour' or Socialist Party," "the Masonic Lodges," "Germany," "Judaism," "Zion," "the Old Testament against the New Testament," "Anti-Christ against Christ" (6–7), "an international gang of Plotters or Planners" (24), "the Secret Government" (30), "a gang of New York Jews" (39), "the Promoter" (40), "the big Operators" (43), "the Directors" (43), "the Hidden Promoters" (43), "irresistible World Police under the order of the Promoters" (44), "International Financiers, the richest body of men in the world" (49), "a

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multiproduct firm would be required to apportion its overall costs among its various products. As David Clark (1987) has said, "The anti-socialist Douglas appeared oblivious to the fact that his scheme would have required an army of inspectors to fix and supervise the huge number of individual price reductions involved." Douglas also appears to have underestimated the administrative difficulties involved in distributing a national dividend. It would be no easy matter in a populous country to ensure that every man, woman, and child received the dividend; that no one claimed more than one dividend; and that the register of dividends was adjusted in accordance with births, deaths, immigration, emigration, and changes of address.

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group of German-American Jews" (49), "international Jew Financiers" (50), "Pan-Germanism" and "Pan-Americanism" (44), "Supernational Forces" (57), the "Ruling Race" (57), and "Jewish Socialism (which is State Capitalism with monopoly control by Finance)" (63). In his 1945 publication *The Brief for the Prosecution*, the litany continued with "the Money Power" (29), "the international-collectivist-financiers and their Trades Union Allies" (47), and "an inner ring of clear-sighted and immensely powerful men . . . determined to impose . . . universal serfdom . . . on the world" (57).

Douglas was convinced that the Second World War was deliberately fomented by these financial conspirators in order to increase their profits (through loans to the combatants) and to enlarge their power over the impoverished nations at the cessation of hostilities: "We are fighting Germany and Japan," he said, "for the benefit of a third party, the Promoter" (Douglas 1942, 40). He was also convinced that the same forces, if unchecked, would lead to a Third World War (Douglas 1944).

Douglas's conspiratorialism extended even to alleging that teaching institutions, like the London School of Economics, were subsidized by the international financiers, and that their aim is "to turn out quantities of 'intellectuals' with no practical knowledge of any economics other than the rules of the Gold Standard" (Douglas 1942, 49). He saw conspiracy not only in the London School of Economics, but in the entire educational system—which he believed to be staffed largely by socialists and communists, and which "has never included even a rudimentary commentary on the subject which controls the activities of its unfortunate victims from the cradle to the grave—the money system" (Douglas 1945, 85).

The Great Depression was, of course, also deliberately engineered by the international conspirators: "The economic phenomena of the great depression were the result of conscious intention on the part of those concerned to wreck society, and could have been avoided without any fundamental change" (Douglas 1945, 83).

But perhaps the most extreme and most fanciful version of his conspiracy theory was his belief that, wherever scarcity exists, it is deliberately and artificially created by the junta: "There is no genuine scarcity which is not consciously produced, and I am beginning to disbelieve in the idea that there ever was any genuine unavoidable scarcity" (Douglas 1942, 9). For many of Douglas's disciples, his conspiratorialism is the most important and most memorable aspect of his writings. For others, however, it is an embarrassing and pathetic exhibition of advanced paranoia.

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2. Douglas's Durable Themes

We now turn to those aspects of Douglas's thought that seem to us to be worth recommending in themselves and worth considering in relation to modern economic problems.

2.1. Effective Demand

When Keynes invested Major Douglas with the rank of private in his "brave army of heretics," he did so because the major "is entitled to claim, as against some of his orthodox adversaries, that he at least has not been wholly oblivious of the outstanding problem of our economic system—The great puzzle of Effective Demand" (Keynes 1936, 371, 32). If Douglas were to be judged solely on his awareness of the role of effective demand, the following sample quotations suggest that Keynes was more than justified in enlisting Douglas in the "brave army":

> Alberta, one of the richest provinces in the [Canadian] Dominion could produce abundance for her people . . . the only reason why Alberta's people were living in poverty was the lack of purchasing power. (Douglas 1942, 31)

> [the demand of the consumer] is the source of all *economic* production. (1922a, 12)

> the common disease [is] lack of . . . purchasing power. . . . It is not physical poverty which is affecting us: it is lack of purchasing power which is preventing us from getting the physical riches which are waiting to our hands. (1934a, 10)

> the real trouble lies . . . in the effective demand system, the purchasing power . . . [not] in the actual process of production nor in the . . . administration of production. (21)

> the root factor in the whole industrial crisis and problem is lack of effective demand. (1922b, 3)

> the wealth of a community is increased by spending, not by saving. (10)

> Since fact and logic both demonstrate that we are rich, while the financial system says that we are poor, it seems beyond dispute that it is purchasing power which is lacking. (Douglas 1933, 10)

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The Keynesian character of these quotations is remarkable. There were, of course, differences. Douglas did not integrate his views on effective demand into a general theory of employment, and he did not use the concepts of marginal propensity to consume, marginal efficiency of capital, and liquidity preference to explain the inadequacy of effective demand. And Keynes did not base his underconsumptionism on Douglas's unsatisfactory A + B theorem. But although he differed from Keynes on the causes of underconsumption, Douglas saw as clearly as Keynes the importance of maintaining effective demand at an adequate level.[4]

2.2. The Problem of Technology-Induced Long-Term Unemployment

Douglas's discussion of the problem of technology-induced long-term unemployment is another theme that merits reconsideration in relation to current economic problems. The following statement was published in 1934, but is equally relevant—perhaps even more relevant—in 1994: "We have to recognise that there is an increasing number of people—a number which is bound to increase continuously up to the point where it forms the major portion of the population—which will not be required, for any considerable length of time of their lives, in the economic and productive system at all" (Douglas 1934a, 19).

The fact that, because of advances in technology, fewer and fewer people will be required to produce the nation's goods is, according to Douglas, not an indictment of the system; it is a "magnificent achievement," not a catastrophe (Douglas 1935, 14). The proper aim of the economic system should be not to find employment for these people, but "to arrange that these people can get goods without being employed" (Douglas 1934a, 19). Purchasing power would have to be distributed to the unemployed in order to provide for their welfare and to ensure that

4. This is not to imply that effective demand is the *only* point of similarity between Keynes and Douglas. They were equally concerned with emphasizing, for example, the crucial role of banks in promoting expansion, and the unfortunate tendency of banks not to renew loans when the macroeconomic situation calls for active lending. However, Douglas does not appear to have had any direct influence on Keynes, although he could possibly have been indirectly influential in rendering Keynesian thought more acceptable. As Dutton and King have concluded, "Douglas's impact on the development of Keynesian macroeconomics was negligible. Indirectly, though, his writings were rather more influential. By convincing a very large audience of the ever present danger of deficient aggregate purchasing power, Douglas may have played some part in rendering public opinion receptive to Keynes's analysis" (1986, 279).

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total purchasing power is sufficient to pay for the goods and services for sale (Douglas 1935, 14–15).

His solution to this problem was the national dividend. He saw the dole in the 1930s as society's first step toward the implementation of a national dividend. But whereas the dole is usually seen as a temporary expedient applicable to a limited number of recipients, the national dividend would be permanent and universal. Everyone would receive it, whether employed or not, and it would not be means tested. By contrast with some attitudes toward the dole, the receipt of the national dividend would be seen as a right, not as a privilege, charity, or a source of social disgrace. Over the years it would become an increasing proportion of each individual's total income, with wages becoming a decreasing proportion.

Douglas's national dividend was an attempt to grapple with the problem of maintaining adequate purchasing power in an increasingly capital-intensive industrial system. However, as argued earlier, the acceptability of the national dividend as a solution to technological unemployment will depend upon whether it can be implemented without causing inflation.

2.3. The Socialization of Credit[5]

Douglas argued that banks do not merely act as intermediaries, transferring funds from depositor to borrower, but actually create credit. He reiterated this credit creation theme time and time again throughout his writings. For example:

> the banking system is a mechanism for actually creating purchasing power. (Douglas 1934a, 14)

> No bank ever paid a dividend in the last hundred years on the process of merely lending that which it took in. There is no possible doubt at all about this thing. I sometimes wonder why it is that certain protagonists—certain defenders of the present banking system—go on arguing about this matter. There is no possible doubt about it. (14)

5. We use the term *socialization of credit* (or credit socialization, socialized credit, or socially created credit) to refer to the concept that the moral and legal right to create credit ought to belong to society, not to private individuals or private banks; and we make a clear distinction between the socialization of credit and Douglas Social Credit. We use the term *Douglas Social Credit* (or social credit) to refer to the full array of ideas contained in Douglas's scheme—which includes not only the socialization of credit, but also the A + B theorem, the conspiracy thesis, and so on.

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> Probably fifteen-sixteenths of the immediately available purchasing-power in the world arises out of bank loans or their equivalent in bills discounted. (Douglas 1924, 100)

He did not claim any originality for the idea that banks create credit; on the contrary, by numerous quotations from prominent bankers and banking authorities, he tried to show that the idea enjoyed widespread and authoritative support (see, for example, Douglas 1922b, 7; 1934a, 14; 1935, 3). But he parted company with conventional banking opinion when he insisted that credit creation by private banks produces undesirable and inequitable results. This is particularly striking, he argued, in the case of the national debt, much of which was created by the banks out of nothing and lent to the government (Douglas 1935, 9). The government (that is, the taxpayer) must now pay interest to the banks, or eventually repay the credit that cost the banks nothing to create. There is, according to Douglas, the added anomaly and inequity that the government could have provided itself with the required funds by issuing its own credit instead of relying on privately created bank credit, and could have lifted from future generations of taxpayers the enormous burden of debt servicing and repayment.

Douglas argued that this credit-creating power of the banks has resulted in selfish and antisocial behavior: "Banks and bankers can and do create financial credit, and by successful manipulation appropriate the power resident in the real credit of the community for purposes largely anti-social, as well as purely selfish" (Douglas 1922a, 30–31).

He maintained that this credit-creating power that the state has granted to the banks, or that the banks have arrogated to themselves with the acquiescence of the state, has provided the banks with tremendous wealth and power. He argued that, because business depends so heavily upon bank credit for its very survival, "there is much to suggest that bankers have a concealed lien on nearly all property" (Douglas 1945, 65). He predicted that, because of the banks' role in creating credit to fill the endemic purchasing-power deficit, "ultimately the whole of every country—its industries, its loans, its institutions—(I am endeavouring to use the most conservative phrases)—must mathematically go into the control of the financial institutions" (Douglas 1935, 10).

As an alternative to credit creation by private banks, he made the radical claim that the moral right to create credit, and the legal power to create credit, ought to belong to the community, not to private individuals or

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privately owned banks. He argued that credit is a social phenomenon, and should be owned not by private banks but by society. He said that the credit lent by a banker "is not his"; rather, it is "public property" (Douglas 1922b, 8). Bankers may like to think of it and talk of it as if it were theirs, but it is, or should be, communal property: "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" (Douglas [1920] 1921, 120).

He referred to this socially owned credit as "social credit," "national credit" (Douglas 1935, 17), "public credit" (Douglas 1934a, 17), and as "people . . . using their own credit" (Douglas 1942, 31); and he argued that "a financial system which separates the ownership of credit from the community is self-destructive" (Douglas 1931b, 109).

Douglas insisted that his argument was "an argument for socialised credit . . . not an argument for nationalised banking" (Douglas 1922b, 9). His concept of socialized credit might conceivably have led some of his followers to support bank nationalization, but Douglas himself spoke clearly and often against the nationalization of banks.[6] Paradoxically, despite his criticisms of the private banks, they would still have an important function to perform in his system. The private bank would be "the organ of credit-issue, its mobiliser." Its "most important and fundamental function" would be "to envisage the capacity of the community

6. For example, "Various well-meaning if somewhat naive organisations have stated, as though it were both axiomatic and desirable, that only 'the State' has the 'right' to issue purchasing power" (Douglas 1945, 6). "There is no evidence to indicate that a nationalised banking and currency system would be anything but more oppressive than a partly decentralised system. . . . There is no more effective claim to totalitarian power than the claim to the sole right to issue and withdraw (tax) money. . . . Those well-intentioned people who feel that nationalisation of banking, with its attribute of credit-money creation is desirable, would do well to realise what it is they are proposing, which is the Divine Right of Kings, *tout court*, without a responsible King" (65). His opposition to bank nationalization extended to a criticism of socialism in general. He argued that a socialistic abolition of private property would mean the "absolute centralisation of economic power" (1942, 49), which would result in inefficiency and tyranny: "Bureaucratic Socialism is probably the most inefficient method of conducting an economic system which has ever been devised. . . . every advance towards Socialism is an advance towards the Police State" (9, 10). He was opposed to socialism even if it was implemented by educational and democratic means. He believed that the "fundamental tenet of the Fabian Socialist is that all purchasing power shall be dispensed by the State at its discretion" (1922a, 55), and he argued that under Fabian Socialism individual freedom and initiative would be sacrificed to "the Supreme State . . . to which every man must bow, and by whose officials all human activities from the cradle, or before, to the grave, and after, shall be regulated" (23). His antipathy toward socialism is encapsulated in the statement: "Socialism is the complete rule of the individual by functions and is Satanic" (1942, 55).

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it serves, taken in conjunction with its plant and culture, to meet the demands made upon it; and under democratic control, to issue purchasing power, on behalf of the community (the true State) up to the limit of this capacity" (Douglas 1922a, 13–14). The banks would act as "the servant of the consumer, and not, as at present, the tool of the financier and the price-maker." They would be "agents" of the state in the distribution of social credit (Douglas 1942, 14). They would function as "public utility concerns" and would be licensed and supervised (Douglas 1942, 31).[7]

Although some other bank critics (for example, William Anderson and Frederick Soddy, discussed below) have compared the credit creation and/or note issuing activities of private banks to counterfeiting, deserving of the same penalties, Douglas argued that the private banks are not acting illegally or unethically in creating credit; they are playing the game according to the rules. He frequently attested to the personal integrity of private bankers, but he nevertheless insisted that their actions inflict much misfortune on the other players.[8]

7. A small 1936 pamphlet by Douglas, *The Tragedy of Human Effort*, provides details of the licensing and supervision procedures for private banks. Douglas suggested that the chief officials of all banks and other financial institutions should be licensed, with the license fee set at a moderate level—say £100. However, if the financial institutions do not achieve the policy imposed by Parliament within a reasonable time, their licenses would be withdrawn; and the license fees for the replacement officials would be very greatly increased—Douglas suggested a thousand times the original license. This penalty, or the threat of penalty, would encourage cooperation with government policy. Douglas added, however, that the government would not interfere with the details of banking (1936, 11). *The Tragedy of Human Effort* gave no detailed, systematic account of the policy or policies that the government would or should implement, and that private banks would be required to administer. But in *The Big Idea* (1942), one specific policy was spelled out. The banks would be prevented from foreclosing on home mortgages. He cited, with obvious approval, the Home Owners Security Act passed by the province of Alberta (the Canadian government disallowed it in 1938). This act would have: 1. Prohibited foreclosures or sale under mortgage proceedings of any farm home. 2. Prohibited foreclosure or sale under mortgage proceedings of any home in a town, city, or village, unless the plaintiff first deposited $2,000 with the court; this deposit would be paid to the owner, if dispossessed, to enable him to purchase another home. 3. Induced debtor and creditor alike to seek an equitable basis of settlement through mediation by a Debt Adjustment Board. 4. Enabled homeowners to enter into new contracts commensurate with their present ability to pay (Douglas 1942, 36). It is interesting to note that, despite his philosophy of individualism and despite his aversion to big government and to socialism, Douglas believed it was "the duty of any Government" to protect homeowners against banks. "It is just as much a duty of any Government to protect the homes of individual members of Society against the confiscatory practices of unscrupulous money-lenders as it is to defend its people against the invasion of a foreign aggressor" (35–36).

8. "The banks act quite automatically according to the rules of the game, and if the public is so foolish as to sanction these rules I do not see why it should complain" (Douglas 1934b, 12). In the same context, he described the banks' control of credit facilities as the "centralized, irresponsible, anti-public control of the life-blood of production."

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3. Comments on the Socialization of Credit

Of the three aspects of Douglas's system that we have described as durable themes—namely effective demand, long-term unemployment, and the socialization of credit—it is the last that is the most fundamental, the most radical, and the most neglected. In our opinion, the secondary literature on Douglas does not appear to have given sufficient attention to the full significance of the principle of community ownership of credit. In this section we explore its implications and relevance for current economic policy and consider some of its limitations and deficiencies.[9]

3.1. Can the Socialization of Credit Stand Independently of the A + B Theorem?

Douglas put forward the A + B theorem as the basis for his credit proposals, and it was therefore to be expected that the A + B theorem would be the focus of attention for both his critics and his supporters. Critics who rejected the A + B theorem believed they had discredited Douglas's entire social credit scheme, including his ideas on the socialization of credit. Their argument, quite logical in itself, was that if Douglas based his policy of social credit on the A + B theorem, and if the A + B theorem could be shown to be untenable, then the social credit policy must also be untenable.

But this raises the question of whether the A + B theorem is in fact the essential basis for the socialization of credit. Can that policy stand independently of the A + B theorem? Can it be sustained on other grounds if the A + B theorem is rejected?

To divorce Douglas's views on the socialization of credit from his A + B theorem would certainly be contrary to his intentions, but in our view such a divorce is logically possible. The concept of credit socialization is the logical consequence of a particular perception of the nature of property rights in money, and the validity or otherwise of that perception remains unaltered if the A + B theorem is rejected. According to this perception, money is a common good, not a private good. It is an

9. In directing attention in this section to the socialization of credit, we do not imply that Douglas regarded it as a totally separate policy. In his system the three durable themes were obviously interrelated. He argued that the implementation of a policy of credit socialization would facilitate the maintenance of both an adequate level and a desirable direction of credit, and thus contribute to a solution to the problems of effective demand and long-term unemployment.

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institution established by the community; and the continued viability of any particular form of money depends on its being generally acceptable as money by the community in which it operates. It follows therefore, in the context of this perception of property rights, that bank credit, being a form of money, is also a common good; and that, as with other forms of money, the community—and the community alone—has the right to create credit, to regulate its supply, to recoup any revenue from its creation, and in general to control the mechanism of credit creation in the interests of the community as a whole.

The theoretical justification for a policy of credit socialization must therefore depend not on the validity of Douglas's A + B theorem, but on the validity of his perception that bank credit is a common good. The issue is essentially one of property rights.

One can readily dismiss the A + B theorem as an unsophisticated attempt to attach an inevitability attribute to the purchasing power problem. But the issue of community ownership and/or community control of credit—and the related issue of the harmony or disharmony of interests between private banks and the community—is not so readily dismissed.[10]

3.2. Is the Socialization of Credit Irreparably Compromised by the Conspiracy Thesis?

As with the A + B theorem, Douglas and many of his followers regarded the conspiracy thesis as an essential part of his system. To divorce the socialization of credit from the Douglas conspiracy thesis would therefore be contrary to Douglas's intentions and contrary to the strict canons of textual interpretation.

But again, in our view, a divorce is logically possible and permissible, because the case for the socialization of credit stands (or falls) independently of the existence of a conspiracy of bankers. If, as Douglas feverishly alleged, a conspiracy of bankers does exist, it must considerably *enhance* the power and influence exercised by the banks and increase the need for some form of government supervision, regulation, or control in order to protect the public interest. But even if all banks act individually and do not engage in conspiratorial restrictive practices, the policy of credit socialization remains a separate and interesting issue.

10. It is not, of course, suggested that the difficulty of achieving an appropriate balance between private and public interests is unique to the banking industry.

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3.3. The Diminished Role of the Private Banks

As noted earlier, although Douglas severely criticized credit creation by private banks, he insisted that they have an important role to play in his scheme of socialized credit. Presumably, he felt that, if their role as creators of credit were taken over or regulated by the state, the banks' remaining activities would not be antisocial and exploitative.

But there remain many unanswered questions about the role of the private banks in a socialized credit scheme. The benefits currently accruing to private banks from their credit creation activities would, under Douglas's scheme, accrue to the community at large. The profits of the private banks would then be derived merely from their function as agents in the distribution of the socially credited credit. But what fee or commission would the private banks receive for their involvement? Would the fee be a sufficient inducement for them to participate? Would the work required of them be sufficiently extensive, skilled, or onerous to justify a sizable compensation? What discretionary function or exercise of financial judgment would be required of the banks? If the private banks lose the right to create credit, and if their loans are limited to the amount of funds lodged by external depositors, would this provide them with adequate profits? What transmission mechanism would be introduced to distribute the state-created credit among the private banks? Would the credit be transferred as a grant or a loan? If as a loan, what rate of interest would be charged by the state, and what controls if any would apply to the rate of interest charged by the private banks to the borrowers? What compensation, if any, would be paid to the private banks for the loss of their credit-creation privileges?

Questions such as these were left unanswered in Douglas's publications. It is clear that the private banks are not to be nationalized and are not to be abolished, but the precise nature of their role in Douglas's system of socialized credit, and the profits they might expect from performing that role, are not at all clear. But it seems fairly clear that their role and profits in a socialized credit system would be much diminished by comparison with what they are at present.

The principle of social ownership and control of credit thus runs counter to some of the most fundamental principles and practices of our financial system and would obviously be vigorously opposed by the private banks. Douglas appears not to have appreciated the extent to which such opposition would limit the practical execution of his proposal.

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3.4. International Money Movements

If the principle of community ownership of credit is accepted, it would have foreign exchange implications. It would mean that the community must then assume both the right and the responsibility to control not only the quantity of credit created domestically, but also the quantity of credit moving in and out of the country. There would be little point in regulating the quantity of domestic credit if international money movements were left unregulated. A completely deregulated foreign exchange market would therefore seem to be inconsistent with the notion of community-created credit.

3.5. Private Interference versus Government Interference

A further implication is that if the minting of coins, printing of bank notes, and creation of bank credit are all considered to be community-owned activities, then instead of regarding state-owned banks as a form of state interference with the private sector, one would have to think of credit creation by non-state banks as an interference by the private sector in the legitimate activities of the public sector.

The private banks are generally assumed to be safe houses for depositors' funds. But it is interesting to speculate about what might happen if one or more of our major banks became bankrupt. What could the Reserve Bank or the Treasury do to protect depositors? One possible solution would be to issue bank notes or Treasury notes to depositors; or, in other words, issue socialized credit. The protector of last resort in the system of privately created credit would be publicly created credit; the private banking system would be rescued by its own worst enemy.

3.6. The Invisible Hand in Banking

According to Douglas, the socialization of credit is necessary because the interests of the private banks are not necessarily in harmony with the interests of society; in other words, the invisible hand has not been a reliable guide in the sphere of banking. He saw evidence for this conflict of interests in the failure of the banks to bring the world out of the 1930s depression—a failure which he attributed to the artificial and antisocial restriction of credit by the private banks. If Douglas had lived to witness the problems of the 1980s, he probably would have supported his

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conflict thesis by accusing the banks of excessive and unsafe credit creation, inflicting the hardship of inflation on the economy as a whole, and the hardship of foreclosures and bankruptcies on individual borrowers. He would probably have said that banks can cause as much harm by lending too much as by lending too little. In both periods, however, the fundamental issue is the same—namely whether control of the aggregate money supply can safely be left to the private banks.

3.7. The Direction and Allocation of Bank Credit

The arena of potential conflict between the private banks and society includes not only the aggregate amount of credit that is created, but also the avenues into which it is directed, and the means by which it is allocated. Although Douglas was mainly concerned with the aggregate level of purchasing power and of bank credit, he did at times focus on the issue of the direction and composition of investment. For example, as noted earlier, he questioned the powers enjoyed by banks to foreclose on some mortgages. And elsewhere he stated that the current banking system "*leaves the banker the decision as to whether the production is desirable production*" (Douglas 1921, 32; emphasis in original).

This is another area in which Douglas could still have some relevance today. His proposal for the socialization of credit, as well as ensuring a sustained but not excessive flow of purchasing power, could be a means of bringing community aspirations to bear upon the direction and composition of the credit provision process. For example, there must surely be some doubt about the desirability of large quantities of bank credit being directed toward company takeovers, and speculation in shares and real estate, including trading up by existing homeowners, while a wide range of socially useful long-term investments have been crowded out. Has the exercise of the banking prerogative meant credit deprivation in the home-building and industrial sectors, and in the financing of social infrastructures? When the speculative ventures fail, as has happened in recent years, are the home-building and industrial sectors obliged to carry artificially high interest rates, so that the banks can recoup their losses in the speculative sectors? Is it in the best interests of society that banks should continue to enjoy their discretion in determining the direction of credit? If credit is a social phenomenon, should society through its government have the right or the duty to identify priorities for the provision of credit, and to oversee the process by which people gain access

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to that credit? Such questions open up possibilities that are in the spirit of Douglas but are generally not taken into account.

3.8. Nationalization and Socialization

As noted in section 2.3, Douglas insisted that his reform involved the socialization of credit, but not the nationalization of banking. And his writings provide an extensive list of admirably turned quotations suitable for speeches attacking nationalization and public ownership, and supporting private ownership.

But the precise nature of the distinction between nationalization and socialization was not clearly defined. In his scheme all citizens would be "joint shareholders" rather than "common owners," but he did not explain how an owner differs from a shareholder, or the distinction between common and joint holdings. On one occasion he argued that capital should be "vested in the community" (Douglas 1922a, 13) but did not explain the difference between vesting and nationalization. And on another occasion he was reported as saying that the nationalization of banking was a possibility, and that banking might eventually become a state service—a concession that "hardly seems compatible with his generally scornful attitude to the state" (Davis 1978, 117, 130).

For many of his readers, the distinction between the nationalization of banking and the socialization of credit must be rather subtle and nebulous—in effect, a distinction without a difference. How could he, with logical consistency, attack nationalization, but at the same time advocate the socialization of credit, which in effect abolishes the right of private banks to create credit and vests it in the state?

It would seem that Douglas's opposition to nationalization and socialism was directed not against public ownership as such, but against collectivism or centralization in all its forms, private as well as public. He seems to have opposed public ownership not because it is public, but because it is collective and centralist and therefore anti-individualist and evil. According to Douglas, "the conflict in the economic world" is not between capitalism and socialism, but between cartels, monopolies, and nationalized industry on the one hand and small business and privately owned property on the other (Douglas 1935, 37). Collectivism "is at the root of all the world's ills" (Douglas 1945, 64); "it has no chance whatever of success, but it has a real chance of setting back the clock of human happiness by hundreds of years" (Douglas 1942, 57).

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His philosophy of individualism—a philosophy that estranged him from interventionist socialism and endeared him to the far Right of the political spectrum—was a prominent feature of his writings, especially in later years. Indeed, some commentators of the Right seem to remember him only for his political individualism, and tend to forget the radical and redistributionist aspects of his proposals for the socialization of banking and for a universal national dividend.[11]

3.9. Structural and Behavioral Inevitability

Douglas attempted to argue, on the basis of his A + B theorem, that there is an inherent structural defect in the capitalist system that renders the deficiency of purchasing power inevitable. If the A + B theorem is dismissed, then its consequence—the structural inevitability of a purchasing power deficiency—must also be dismissed.

But there is another kind of inevitability which cannot be so easily dismissed. In the 1930s it was inevitable, in a behavioral sense, that the private banks—exercising their responsibility to their shareholders to pursue profits and avoid bad debts—should have restricted the supply of credit, and thus exacerbated the shortfall of purchasing power. Faced with an increasing number of existing borrowers who could no longer service their loans, and potential borrowers whose profit prospects and creditworthiness were increasingly doubtful because of the unfavorable outlook for sales and revenue, the banks had no alternative but to restrict credit. With reserves only a fraction of loans, and therefore of the money supply, the alarm of either banks or borrowers at the current state of indebtedness led to a process of liquidation that effectively caused an implosion of the money supply. Falling prices added a further stimulus to this desire for liquidity, which in turn kept interest rates relatively high and discouraged expansionary investment projects. As Lloyd W. Mints

11. Evidence of his individualism can be seen in statements such as, "The human individual is the highest manifestation of divine attributes with which we are in day-to-day contact. What differentiates him from the lower orders . . . is his initiative—the fact that he manoeuvres under his own steam" (Douglas 1942, 7). "I am confident that there is an organized attempt to drive [the individual] down the scale of existence, so that he becomes primarily a number on a card index, by taking away any recognisable initiative, his potentially divine attribute" (6–7). "*The supreme aim of evolution is differentiation, and . . . the determined effort to present human beings, and to treat human beings, as a collectivity, is the Sin against the Holy Ghost*, for which there is no forgiveness" (19).

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has said, "Prior to 1934 it was inevitable that the banks should vary their lending perversely, and that they should thereby aggravate, and possibly even initiate, periods of disturbance. . . . There is no force within the banking system which tends at any time to adjust the volume of bank loans spontaneously to the requirements of monetary stability" (1950, 6). A similar behavioral inevitability prevailed in the 1980s when overlending by banks resulted in either mortgage foreclosures and forced sales or the credit destiny of borrowers being left in jeopardy. The banks argued that it was government monetary policy in the 1980s that raised flexible interest rates to unexpected levels and caused borrowers to default. But at the same time, it would seem that the lending formulas used by the banks in assessing borrowing capacity did not incorporate a sufficient margin for interest rate movements. Competition between banks to obtain loan customers, combined with the banks' lack of experience and foresight in the prediction of monetary policy (they apparently do not enjoy the omniscience required under the perfect competition model), and a lack of due prudence on the part of the customers appears to have once again produced, with behavioral inevitability, a situation that has not been in the best interests of the economy as a whole.

3.10. A Priori or Utilitarian?

Quite apart from the administrative difficulties involved in the implementation of his policies, the a priori nature of Douglas's arguments might be considered by some readers to be a sufficient reason for their rejection. His unprovable a priori claim that private banks do not have the right to create credit elicits the equally unprovable a priori claim that the state does not have the right to create credit. The case for the socialization of credit would have been more persuasive if it had been based on utilitarian or consequentialist grounds—in other words, if Douglas had shown that, for reasons of economic growth or financial stability or social welfare, society would be better off by switching from privately created credit to socially created credit. In the absence of such evidential arguments, the case for credit socialization remains speculative and unproven. At the same time, it has not been disproved. In Douglas's defense, it could be argued that his critics have not produced evidential arguments to show that social welfare will be greater by *not* switching from privately created credit to socially created credit.

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4. Predecessors, Contemporaries, and Successors: Douglas's Place in the History of Economic Thought

With respect to his three contributions that we describe as durable themes—namely effective demand, technology-induced long-term unemployment, and the socialization of credit—it would be interesting to identify which authors (if any) influenced or preceded Douglas and which (if any) were influenced by him or independently developed ideas similar to his, and thus situate his contributions on these themes within an ongoing stream of discourse. It would be beyond the scope of this article to undertake a comprehensive study of all predecessors, contemporaries, and successors of Douglas's three durable themes. In this section, after a few brief comments about the lineage of the first two themes (effective demand and long-term unemployment), we direct our attention to a more detailed discussion of the third theme (the socialization of credit), one that appears to us to be Douglas's most radical and neglected contribution.

4.1. Effective Demand

Douglas appears to have been unaware that his views on the importance of effective demand were not original, and that on this topic he was adding his own contribution to a long tradition of underconsumptionist thought. Because he was very willing to cite previous writers to support other aspects of his system—notably, on credit creation and the powers of banks—we can only assume that his failure to refer to the underconsumptionist ideas of, for example, the Earl of Lauderdale, T. R. Malthus, Jean Simonde de Sismondi, and Thorstein Veblen must have been due to his ignorance of their work rather than to a desire to claim originality.[12] He also seems to have been unaware of contemporary writings that stressed the importance of effective demand. Thus, for example, although Keynes recognized Douglas's contribution on effective demand, there is no record of Douglas having recognized Keynes's writings on effective demand. And although he engaged in a public controversy with J. A. Hobson, who commended Douglas in certain aspects,

12. On the history of underconsumptionism, see Bleaney 1976. This work deals briefly (204–6) with Douglas's ideas. It recognizes that Douglas made a contribution to the history of underconsumptionist thought, but rejects the A + B theorem and attributes Douglas's success to his "ability at mobilising popular prejudices." It does not refer to Douglas's ideas on the socialization of credit.

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Douglas did not commend Hobson for his views on effective demand. Nor does he seem to have been aware of the views on effective demand being put forward in the 1920s by W. F. Foster and W. Catchings (1924, 1925, 1927, 1928). Like Douglas, they emphasized the importance of consumption and purchasing power:

> Current consumption is the chief incentive to current production; deficiency of current consumer buying is the chief cause of unemployment;
>
> inadequate consumer income is the chief obstacle to economic progress;
>
> consumption does not long keep Pace with Production. (Foster and Catchings 1925, 234, 364, 399)

They recognized the need to ensure that consumption grows in step with productive capacity and production.

> Since underconsumption is the chief cause of our troubles, adequate consumer income is the chief remedy. (1927, 20)

And they argued that the market mechanism could not be relied upon to achieve the adjustment of consumption to production (1928, 100). Their solution to this problem of underconsumption involved the establishment of a board to assemble information and advise the government on the fiscal and monetary measures to boost consumption to the required level. This new board would be charged with regulating consumption in the same way the Federal Reserve Board regulates production (1928, 188–91).

Like Douglas, Foster and Catchings believed that the economic system contains an underlying defect, which means that, in the absence of counteracting policies, the level of consumption can never be sufficient to buy all the goods that industry is capable of producing. But whereas Douglas attempted to explain this endemic defect by means of his A + B theorem, Foster and Catchings attributed it to a combination of two factors:

> There are two main reasons why people cannot long continue to buy things as rapidly as they can make them. The first reason is that the processes whereby goods are produced for sale at a money profit do not yield to consumers enough money to buy the goods. As industry increases its output, it does not, for any length of time, proportionately increase its payments to the people. Consequently, whenever the

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> country begins to prosper, the total flow of money to consumers does not keep pace with the flow of consumers' goods. The second reason for a deficiency in consumer buying is that the people, under the impelling necessity of saving, cannot spend even as much money as they receive. (1927, 19–20)

> Savings cause a shortage of consumer buying. (1928, 89)

They argued that, although savings are usually deposited in banks and are available to be borrowed and spent, there is no guarantee that they will be borrowed: "The fact that somebody *may* borrow the money and pay it out as wages, is immaterial as long as nobody *does* borrow it" (1928, 135). Thus—because either customers are unwilling to borrow or banks are unwilling to lend—Foster, Catchings, and Douglas all argued that the banking system, as presently constituted, could not be relied upon to overcome the economy's systemic deficiency of purchasing power.

Although Douglas ignored Foster and Catchings, they commented on his work, their attention being directed mainly to a refutation of his A + B theorem (for example, Foster and Catchings 1924, 336–39).

4.2. Long-Term Unemployment

On his second durable theme (technology-induced long-term unemployment), Douglas was again apparently unaware of the existence of predecessors and/or contemporaries, such as D. A. Wells, Hobson, and Rexford Tugwell, who also addressed the problem.

He would, however, surely have been gratified to know that, despite being ignored or rejected by many critics on other aspects of his work, his idea of a national dividend as a solution to technology-induced long-term unemployment has persisted, as a practical policy as well as an idea, although often under other names and without acknowledgment of his contribution. For example, the development of welfare systems to include items such as child allowances, family allowances, family income supplements, education allowances, and pensions could be seen as an approach to a Douglas-type national dividend, the main difference being that these welfare benefits are often means tested, whereas Douglas's national dividend was proposed as an equal payment to all without restrictions according to age, income, or wealth. H. I. Dutton and J. E. King (1986, 278) have argued that steps taken by the political Right to privatize public enterprises and to foster a property-owning and

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dividend-earning democracy, or "people's capitalism," could be seen as a move toward the implementation of a national dividend. Other proposed solutions currently under discussion include the "living wage" concept—a special earmarked tax imposed on the employed (over and above the taxes required for other purposes) in order to fund a living wage for the unemployed, thus giving legislative recognition to the concept of work sharing. Likewise, proposals for a "guaranteed income," or "basic income," or "citizen's income" being put forward by writers such as J. E. Meade, André Gorz, and David Purdy could be interpreted as close relatives of a Douglas national dividend.[13]

Meade proposes a "tax-free Social Dividend or national dividend or Basic Income or . . . Citizen's Income." It would be paid "to every citizen regardless of whether they are in work or unemployed . . . [and] regardless of all circumstances other than age—children, adults of working age, and senior citizens would receive Citizen's Incomes set at different rates." The Citizen's Income would also "where necessary be supplemented by conditional benefits, e.g. by a disability allowance." The Citizen's Income would be set at "the Minimum Acceptable Level required for civilised living" (Meade 1993, 405–6, 410).

There are some important differences between Meade's Citizen's Income and Douglas's national dividend. The latter would be paid equally to all citizens, and would not involve any age or disability adjustments. And whereas Douglas thought that the national dividend could be financed effortlessly without extra taxation by government-created credit, Meade recognizes that the proposed Citizen's Income would be "hideously expensive," and suggests that the extra budgetary revenue could be obtained by taxes, such as a wealth tax, gift duties, and death duties, while exempting savings from tax in order to encourage savings and make it possible for all citizens to receive additional financial returns from a wider ownership of property. Meade's proposal is part of a complex package that includes the possibility of a reduction in wage rates in order to achieve full employment, the reduction being offset by the Citizen's Income. He has also suggested having a tax on capital, the proceeds of which would be used by the state to purchase substantial share holdings in private companies. The management of the companies would remain in private hands, and the dividends on its shares would enable the state "to fulfil its proper social role without the immoderately high

13. For further examples of how Douglas anticipated later ideas on technological unemployment and personal income security, see Burkitt and Hutchinson 1994.

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rates of taxation which would destroy private enterprise and initiatives" (Meade 1989, 2).

Without underestimating the importance of these differences, Meade's Citizen's Income could be seen as a resurrected version of Douglas's national dividend. They would both be paid to all citizens, rich or poor, without means testing; they are both conceived as a right, rather than a discretionary welfare payment; they would both act as a normal supplement to wages; and, as neither would be withdrawn if the citizen earns other income, they both claim not to destroy incentives to work.

Gorz's views on the inevitable trend of modern society toward mass unemployment reflect the warnings expressed by Douglas fifty years earlier. "In the context of the current crisis and technological revolution it is absolutely impossible to restore full employment by quantitative economic growth. . . . A society based on mass unemployment is coming into being before our eyes. It consists of a growing mass of the permanently unemployed on one hand, an aristocracy of tenured workers on the other, and, between them, a proletariat of temporary workers carrying out the least skilled and most unpleasant types of work" (Gorz 1982, 3).

To provide for this "neo-proletariat," or this "non-class of non-workers," Gorz recognizes, as did Douglas, the need to "dissociate the right to an income from the 'right to a job' " and to establish "new mechanisms of distribution independent of the law of the market" (Gorz 1982, 4, 7, 69). He proposes "a social income guaranteed for life," which he defines as "the right of each citizen to receive . . . the product of the minimum amount of socially necessary labour which he or she has to provide in a lifetime," and he acknowledges the connection between this concept and Douglas's national dividend (1985, 41).[14]

Purdy defines "basic income" as "an unconditionally guaranteed minimum income allocated regularly to every single member of the entire population permanently resident within the jurisdiction of the nation state" (1988, 193–95). He notes that it is a new name for an old idea—previous names include citizen's wage, social wage, social dividend,

14. He also uses the terms *social income* or *social dividend* (see Dutton and King 1986, 278). We are not, of course, attempting here to provide a full account of Gorz's views, and do not wish to imply that a guaranteed social income is either the only or the most important element of his social policy. Nor do we wish to imply that, because he shared with Douglas a concern for the problem of technologically induced, long-term unemployment, he can be classified as a Douglasite. Although the notion of social income is similar to Douglas's national dividend, Gorz did not suggest that the social income should be financed by government-created credit.

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and universal grant (the last being a translation of the French *allocation universelle*). The basic income would be set at "some consensually determined standard of subsistence," but would be adjusted according to age and disability. It would be independent of current employment status—being payable to the full-time employed, part-time employed, and unemployed—and independent of other income (that is, it would not be means tested). It would consolidate all existing direct social security payments, indirect financial benefits, and other state grants to persons. And it would be financed by taxation.

Although differing on the method of financing and on some other details, these proposals currently being put forward by Meade, Gorz, Purdy and others have in common with the Douglas scheme a deep dissatisfaction with the free market distribution process, a reassessment of the relative roles of the public and private sectors, and a conviction that the problem of long-term unemployment requires the decoupling of income from employment.

4.3. Socialization of Credit

For the third of Douglas's durable themes—the socialization of credit—there is also a considerable pedigree. Douglas was not the first (nor the last) to advocate reforms to the power of banks to issue notes or create credit. His predecessors, contemporaries, and successors on this theme can be conveniently discussed under three headings: British economists, American economists, and other writers.

4.3.1. British Economists The reaction in Britain to Douglas's ideas has been researched and recorded by Dutton and King (1986). Whereas their concern was with the reaction in general, in this section we aim to supplement their research—at the same time making full acknowledgment of it where appropriate—by analyzing in more detail one particular aspect of the British academic reaction—namely the reaction to his credit socialization proposal.

Soon after the publication of his first two books, *Economic Democracy* (1920) and *Credit-Power and Democracy* (1921), Douglas came into open conflict with some of the leading academic economists of the political Left. A committee was set up by the Labour Party of Great Britain to inquire into his scheme. Its members included Sidney Webb, G. D. H. Cole, Hugh Dalton, R. H. Tawney, and J. A. Hobson. Their

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report (Labour Party 1922; see Dutton and King 1986, 267–68) rejected his view, based on the A + B theorem, that the economy suffers from an inevitable deficiency of purchasing power. They did, however, support Douglas on the importance of bank credit, the dangers of bank amalgamations, the need for social control of credit—"Social control of credit is essential"—and the concept that the creation of credit should be a state function—"the provision and control of legal tender currency is essentially a State function. . . . The issue of cheque money is one department of the business of issuing money, and as such should be in the hands of a *State* banking system" (9, 13). But although agreeing with credit socialization as an end, the committee disagreed with Douglas on the means, preferring the nationalization of banking. They also did not accept Douglas's view that the reform of banking would by itself bring about all the wondrous improvements predicted by Douglas.

The committee met first on 24 May 1921, and invited Douglas to attend its second meeting on 1 June to discuss his scheme. Douglas declined, but later published a response (1922a) to its report. He argued that the committee would not be impartial, as some of the members had "publicly pronounced" against his scheme and were "already pledged to the support of economic dogmas which are expressly challenged by the theory of the Scheme." As an alternative he proposed a committee of twelve members, six nominated by himself and six by the Labour Party, a proposal that was unacceptable to the Labour Party. In his published response he acknowledged the committee's support for his views on the importance of credit and banks, but devoted his attention mainly to an attempt to vindicate his A + B theorem (39, 40).

Despite the hostility of the committee to some aspects of Douglas's scheme, and despite differing on the method of achieving credit socialization, their report can in fact be seen as an endorsement in principle of the socialization of credit. It is somewhat surprising therefore that, on that score, he was not more warmly welcomed by the Labour Party of Great Britain in 1922, or by other labor parties in Britain and elsewhere. Their reluctance to be associated with Douglas could be explained partly by the unacceptable logic of his A + B theorem, partly by the rather racist and paranoid nature of his conspiracy thesis, and partly by the rigid and doctrinaire adherence of the labor movement to the policy of bank nationalization, which excludes the Douglasite possibility of a banking system in which credit is created by a government agency but distributed by private banks.

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The Labour Party committee's criticisms were less vigorous than those of an editorial in the *New Statesman* of 18 February 1922, which described his scheme as "the most innocuous of all religions," "the most harmless religion that has ever invaded these islands," "a strange mixture of elementary truths and elementary fallacies," "moonshine," "a preposterous fraud," and "schoolboy errors"; and stated that his scheme "is not quite so insane as it sounds, but very nearly." Nevertheless, the editorial paradoxically supported what we consider to be one of Douglas's major insights, namely the tendency of the banks, in pursuing their own interest, to act in a way that is not in the best interest of the economy: "The undoubted fact remains, that, potentially at least, the banks have much too much power, and it is almost certain that by their policy of too rapid inflation they have seriously aggravated the present industrial depression" ("The 'Douglas Credit Scheme' " 1922, 553).

The same ambivalence toward Douglas characterized the comments of Maurice Dobb. In his article in the *Communist Review* of May 1922, mainly devoted to a criticism of the A + B theorem, Dobb condemned Douglasism as a "quack remedy"; as a "pitiable attempt of the petit-bourgeoisie and the bourgeois-serving 'intelligentsia' to save Bourgeois Democracy by fettering the power and depredations of Imperialist Finance Capital"; and as one of the "petit-bourgeois currency theories" that would lead the working class astray (38, 41). But at the same time there were some striking similarities between Dobb and Douglas. Dobb asserted that "Finance Capital . . . controls governments . . . [and seeks] to indemnify itself by using the State machine for predatory Imperialist aggression," and feared that "an international consolidation of capitalism . . . would inevitably strengthen the capitalists in crushing the workers' organisation and in binding them in a kind of serfdom" (1922, 40–41). Although he does not go as far as Douglas in suggesting an international conspiracy, these remarks on the role of "finance capital" bear a striking resemblance to those of Douglas on the "money power" and "international financiers" (1942). And, more importantly, Dobb supported Douglas on the theme that we regard as one of Douglas's main contributions—namely "the necessity of a Communal Control of Credit" (Dobb 1922, 38)—although he argued that the Douglas scheme is not the best way to get it.

The idea that Douglasism would be a threat to the working class by drawing them away from Communist or Socialist alternatives was taken up again by Dobb in a 1933 article in which he stated that "the 'national

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dividend' is to be used as an instrument to weaken trade unions and to coerce individual workers" (557).[15] And in a 1936 pamphlet he argued that monetary reformers like Douglas distract the working class from the real problem and "attempt to stabilise monopoly-capitalism" instead of removing it (1936, 7). A large part of the pamphlet is directed toward a refutation of the A + B theorem and the notion that there is a chronic deficiency of purchasing power. Dobb regarded the A + B theorem as the essential basis of the chronic deficiency thesis, and of all the Douglas policy proposals. Without the A + B theorem the proposals "have no point or reason." If there is no basis for the alleged chronic deficiency, there is "no basis for proposals aimed at repairing this deficiency." Dobb criticized those social credit advocates who "when confronted with a refutation of the 'A + B' formula . . . evade the issue by saying that their proposals do not necessarily depend on this" (1936, 10).

Contrary to Dobb's view, we maintain that, far from being an attempt to evade the issue, the separation of the credit socialization issue from the A + B theorem is a logically valid and sustainable position. Dobb implicitly admitted as much when he elsewhere supported the socialization of credit, despite rejecting the A + B theorem. And, again contrary to Dobb, we would argue that the notion of a chronic deficiency of purchasing power in times of depression (and a chronic excess in times of boom) can be maintained independently of the A + B theorem, not because of a Douglas-type structural necessity, but because of what we have called a "behavioral necessity," which induces banks pursuing their own interests to act in a way that is not always in the best long-term interests of the economy.

In 1922 Douglas's proposals were also criticized by the Cambridge economist F. P. Ramsey, who preferred to use as his starting point the pamphlet *Dividends for All* by W. Allen Young (1921) instead of Douglas's own publications. According to Ramsey (1922, 74), Young's pamphlet possessed "distinct advantages both in brevity and clarity over the expositions of Major Douglas himself, who is always obscure and often absurd." But, despite the greater brevity and clarity, Ramsey found that the A + B theorem was not convincing. Using integral calculus he argued that there is no justification for Douglas's claim that the "just price" is less than the cost price. As far as we are aware, neither Douglas nor

15. On Dobb 1922 and 1933, see also Dutton and King 1986, 268–69.

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his followers ever responded to Ramsey's arguments, which implies that they found them either incomprehensible or incontrovertible. From our point of view, however, the most interesting feature of Ramsey's article is that he made no reference to Douglas's proposal for the socialization of credit, and apparently believed that in demolishing the A + B and just price arguments he had effectively demolished the case for all of Douglas's policy proposals, including the socialization of credit.[16]

The year 1922 also saw an interesting exchange between Douglas and Hobson. In addition to being a member of the Labour Party committee that reported in 1922 on the Douglas scheme, Hobson criticized Douglas in an article in the *Socialist Review*. Hobson's position, by comparison with Dobb's, was closer to Douglas's. Whereas Dobb had denied that there was a chronic deficiency of purchasing power, Hobson agreed with Douglas that the current depression was attributable to a failure of consumption, or effective demand. "With a part of his diagnosis of the trouble, I find myself in cordial agreement with Major Douglas. I agree with him in attributing trade depression to the failure of consumption, or effective demand, to keep pace with potential and actual production. The full product cannot be produced because, if produced, it could not be marketed at the price required under our actual system to make production profitable" (Hobson 1922a, 70).

However, Hobson, in common with Dobb, criticized the A + B theorem. He did not accept that the deficiency of consumption could be explained by the A + B theorem. For Hobson the deficiency was due "not to any lack of the monetary power to purchase all the commodities that could be produced, but to the refusal of those in possession of this power of purchase to apply enough of it in buying consumables, because they prefer to apply it to buying non-consumables, in other words, to buying capital-goods" (70).

Thus whereas for Douglas the cause of the depression lay in an endemic deficiency of income or purchasing power, for Hobson the cause lay in a misdirection or maldistribution of income or purchasing power. "The facts, that the whole of this income is not so applied in effective demand and that overproduction of unsold goods consequently occurs, are not attributable to any lack of income wherewith to purchase them, but to the fact that an undue proportion of this income is saved . . . the origin

16. For further details of Ramsey's article, see Dutton and King 1986, 266–67.

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of [the] evil is a distribution of income which causes a disproportionate amount of the effective demand to be directed to employing capital and labour in producing capital goods" (73–74).[17]

Douglas replied to Hobson in a subsequent issue of the *Socialist Review*. He defended his A + B theorem and argued that the deficiency of effective demand is due not to an excess of saving, as Hobson believed, but to a deficiency of credit. He accused Hobson of thinking that "banking is simply a private pawnbroking transaction between borrower and lender," whereas every credit transaction affects others "either through the agency of prices, or by the diversion of the energies available for production purposes." He reasserted that, although bank credit is "public property," he was advocating "socialised credit," not "nationalised banking" (Douglas 1922b, 143–44).

In a rejoinder, Hobson reasserted his underconsumptionist or oversaving thesis—namely that the trouble comes from a "disproportion between saving and spending" arising from "the unequal distribution of income"—and, even more forcefully, argued that "a better distribution of income is alone required to maintain industrial activity and full employment" (Hobson 1922b, 196, 194). But he also added—somewhat inconsistently, given his use of the word "alone" in the preceding quotation—the following "condemnation of private banking": "It is unsafe and uneconomical that the financing of trade should be left in the hands of a small number of imperfectly competing, private, profit-making banks . . .; these banks charge too much for the services they render . . .; [and] vesting in a private enterprise . . . the making of the effective money of the nation . . . is the most retrograde policy in the evolution of a modern state" (197).[18] This concession to Douglas amounts in effect to an eloquent support for his policy of credit socialization.[19]

17. Hobson's views on underconsumption and maldistribution of course were not confined to this 1922 exchange with Douglas. They can be found throughout his many publications. For example, in *Rationalisation and Unemployment*, he argued that the current maldistribution was due to "too much purchasing power in the hands of the richer classes, who allow it to accumulate for investment, [and] too little in the hands of those who desire to raise their standard of living. The necessary effect is to evoke a monetary saving which is found to be excessive, in that the increased goods it is intended to produce cannot actually get produced, because there is an insufficient market for them" (Hobson 1930, 55–56).

18. On Hobson 1922a and 1922b, see also Dutton and King 1986, 268. Similar criticisms of the banking sector can be found elsewhere in Hobson's works. For example, "Among entrepreneurs the financier or manipulator of fluid capital is at present in a position of such vantage that his share of the surplus is out of all proportion to his services" ([1909] 1969, 142).

19. The first edition of Hobson's *Economics of Unemployment*, also published in 1922,

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Other contemporary British academics to criticize Douglas included Lionel Robbins, Hugh Gaitskell, E. F. M. Durbin, Dennis Robertson, R. G. Hawtrey, and G. D. H. Cole; but, with the possible exception of the last, none of them paid any systematic attention to Douglas's credit socialization policy. Robbins, who had taken up the study of economics in response to the support given to Douglas by socialists (1971, 66–67; see also Dutton and King 1986, 269–70), devoted his criticisms mainly to the A + B theorem, and to the idea that under capitalism the amount being spent in purchasing products will always be less than the value of the products. Robbins said of Douglas: "I do not know any writer on these subjects who enunciates so distinctly the exact opposite of what seem to me to be correct views on these matters" (1932, 414). But he referred only briefly to Douglas's credit policy: "It is easy to see that if credit were issued on the lines suggested, the condition of the area in which the experiment was made would soon be as bad as that of Germany during the worst stages of inflation" (1932, 415).

He did not consider the possibility that Douglas's case for credit socialization could be argued independently of his A + B theorem, and did not address Douglas's argument that if government-issued credit were a *substitute* for credit issued by the private banks, and if the credit were issued in a situation of less-than-full employment, it would not necessarily have inflationary consequences.

Likewise, Gaitskell, the future leader of the Labour Party, saw little justification for either the A + B theorem or its corollary (a permanent tendency toward a deficiency of purchasing power), and concluded that "Major Douglas must be regarded as a religious rather than a scientific reformer" (1933, 375). But Gaitskell's twenty-nine–page discussion (347-75) makes no mention of Douglas's credit socialization policy.

At about the same time as Robbins and Gaitskell were writing their critiques, another was being prepared by E. F. M. Durbin. Durbin (1933a and 1933b, 11, 13) acknowledged the help of his friend Gaitskell (who in turn acknowledged Durbin's help), and dedicated the book to Robbins (who praised Durbin's conclusions as independently reached and more exhaustive than his own). It is not surprising, therefore, that Durbin's criticisms of Douglas, like those of Gaitskell and Robbins, concentrated

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contained a chapter on the Douglas theory (1922c, chap. 8, 119–27). However, it was largely a compilation of extracts from Hobson 1922a and 1922b, and again was mainly concerned with the A + B theorem and ignored the credit socialization issue.

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mainly on the A + B theorem and the threat of inflation, and virtually ignored the credit socialization proposal.[20]

Similarly, Dennis Robertson, in a 1933 radio debate with Douglas, totally rejected the A + B theorem and the notion of an inevitable deficiency of purchasing power, and predicted that Douglas's credit policies would be inflationary. The question of whether the government, rather than the private banks, should create credit was not debated (Douglas and Robertson 1933; see also Dutton and King 1986, 274).[21]

Another eminent English economist of the time who engaged in a public debate with Douglas was R. G. Hawtrey.[22] He agreed in principle with Douglas's views on effective demand and the role of bank credit: "Major Douglas . . . deserves credit for insisting on the principle that the incomes which are generated by the process of production are the source of demand for products, and that their magnitude is governed by the supply of money through the banks. . . . The principle itself is of fundamental importance, and is sometimes given insufficient prominence in monetary theory" (Hawtrey 1937, 292).

But he opposed Douglas's A + B theorem, his definition of the just price, his belief in an inherent deficiency of demand, and his concept of real credit; and he did not in this 1937 publication advance any comment either for or against Douglas's proposal for socialized credit, perhaps because he also believed that the credit socialization proposal was essentially dependent upon the rejected A + B theorem. His assessment of Douglas's standing in the eyes of the profession was encapsulated in a brilliant understatement: "Major Douglas has not succeeded in gaining the good opinion of economists" (292).

Another of Douglas's contemporary British academic critics was G. D. H. Cole. He had been a coauthor of the adverse Labour Party report of 1922, but by 1944 it appears he had developed a greater sympathy toward Douglas. He continued to reject the A + B theorem and the concept of an endemic deficiency of purchasing power, but some of his ideas on banking and credit show a close affinity with Douglas's. Like

20. Similar criticisms were made by Geoffrey Crowther in a series of four articles in the *News Chronicle* in May 1934, reprinted as an appendix to *An Outline of Money* (1940, 432–45). Crowther rejected the A + B theorem and the "over-simple panaceas of Social Credit," but did not discuss the socialization of credit as a policy independent of the A + B theorem. On Durbin and Crowther, see also Dutton and King 1986, 270–71.

21. However, Robertson did agree with Douglas's proposal that the state should give money to people as a cure for depression.

22. See Hawtrey and Douglas 1933 and Dutton and King 1986, 275–77.

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Douglas he argued that, whether private banks are socialized or not, the banking system should ensure a socially desirable distribution of credit—"the conformity of the distribution of credit with the needs of the general economic plan"—and low interest rates—"the cheapest practicable conditions of credit supply" (Cole 1945, 203). He fully endorsed Douglas's view that the existing banking system causes great instability: "The system of bank credit, as now administered, introduces an intolerable factor of instability into the economic system, because it permits the creation out of nothing of bank money ranking equally and indistinguishably with consumers' money arising out of production" (316).

And, without accepting the panacea qualities of Douglas's national dividend, Cole supported the idea of a universal and unconditional social dividend for reasons similar to Douglas's concept of cultural heritage and Edwin Cannan's heritage of improvement: "Production is an essentially social process, based on the accumulated resources and knowledge of the community as a whole, as well as on current productive effort, and . . . this social character ought to be recognized in the system of distribution by the institution of a social dividend available for all citizens on equal terms" (316).

However, although Cole gave this strong support to some of Douglas's policies, he made it quite clear that, in his view, such policies by themselves would not be sufficient. He concluded *Money: Its Present and Future* with the statement: "*In other words, I am a Socialist, though not of a very orthodox brand; and I do not believe Social Credit can be made to work without the institution of the socialistic measures which I have outlined*" (317; cited by Dutton and King 1986, 274).[23]

23. Dutton and King state that the "socialistic measures" involved central planning of production, distribution, and prices. Cole's attitude toward the commercial banks was much more benign—surprisingly benign, in fact, for a confirmed Socialist—than Douglas's. "The joint stock commercial banks are not entirely like ordinary companies. They do not . . . go all out to make as much profit as they can, regardless of consequences. . . . Their very profitableness has rendered them immune from the need to be guided by considerations of profitability: like the Bank of England, they are run, not so much to make profits for themselves as to guarantee, within their lights, that the conditions of profit-making shall be secured for others" (Cole 1945, 198–99). This preoccupation of British critics with Douglas's A + B theorem to the virtual exclusion of his credit socialization policy is well illustrated in the writings of John Strachey. He wrote a pamphlet (*Social Credit*, 1936) that, by attacking the A + B theorem, condemned Douglas's system, but in his *Revolution by Reason* (1925) and *The Banks for the People* (1940) he advocated the socialization of credit, without acknowledging that it was also advocated by Douglas. A similar preoccupation with Douglas's nondurable themes, and an unwillingness to acknowledge his contribution to the case for the socialization of credit, can be seen in the socialist critiques of John Lewis (1935) and W. R. Hiskett (1935; also see Hiskett and Franklin 1939).

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4.3.2. American Economists In the 1930s a number of American economists put forward a proposal for monetary reform, certain aspects of which bore marked similarities to Douglas's credit socialization plan. Known then as the Chicago Plan, it was devised most notably by economists at the University of Chicago in 1933, but is now more generally associated with Irving Fisher and known as the 100% Money or 100% Reserve Plan.[24] The Chicago originators were Henry C. Simons, Aaron Director, Frank H. Knight, Garfield V. Cox, Lloyd W. Mints, Henry Schultz, Paul H. Douglas, A. G. Hart, and others. Their plan was circulated in a mimeographed memorandum in November 1933, and later reproduced in a pamphlet by Simons (1934).

The origin and subsequent development of the 100% Money Plan has been traced by R. W. Dimand (1993), and does not need to be repeated here. We are concerned in this section with comparing the 100% Money Plan with Douglas's plan for the socialization of credit. In making this comparison we look at the views of four leading proponents of the 100% Money Plan: Henry C. Simons, Irving Fisher, Milton Friedman, and John H. Hotson.

In advocating the Chicago Plan, Simons put forward views very similar to some expressed by Douglas on the socialization of credit, although Simons doesn't actually use that term. He argued strongly for government control of the quantity and value of money: "The major responsibility for the severity of industrial fluctuations, however, falls directly upon the state. Tolerable functioning of a free-enterprise system presupposes effective performance of a fundamental function of government, namely, regulation of the circulating medium (money)" (1948, 54).[25]

He described the existing monetary system as one in which there was a "usurpation by private institutions (deposit banks) of the *basic state function* of providing the medium of circulation." The private bankers

24. Although Simons said that the memorandum was prepared by "several Chicago economists," Aaron Director stated that it was written primarily by Simons. See Friedman 1967, 2. Hart (1934-35, 104) states that the same notion was at the same time independently developed by Lauchlin Currie (1935) and a Mr. Bostrom at the University of Texas, and by economists at several other centers.

25. This insistence on government control of the currency was repeated in a 1936 journal article: "In the past, governments have grossly neglected their positive responsibility of controlling the currency; private initiative has been allowed too much freedom in determining the character of our financial structure and in directing changes in the quantity of money and money-substitutes" (Simons 1936, 3).

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are not to blame—"they have only played the game (and not so unfairly, on the whole) under the preposterous rules laid down by governments." At fault is the "evasion or repudiation by governments of one of their crucial responsibilities." And he predicted that, unless the state reassumes and discharges its responsibility for controlling the circulating medium, bigger depressions would occur, and capitalism would not survive (54–56; emphasis added).

In his "main elements in a sound liberal program," he included "abolition of private deposit banking on the basis of fractional reserves" and "creation of a system under which a federal monetary authority has a direct and inescapable responsibility for controlling (not with broad discretionary powers, but under simple, definite rules laid down in legislation) the quantity (or, through quantity, the value) of effective money." Deposit banks would maintain reserves (either in currency or in Federal Reserve deposits) equal to 100% of their deposits, and would not be able to create or destroy money; the loans made by lending institutions would be limited to the amount of the funds raised by the sale of their stock (63–64).

Simons was not a natural supporter of expansionary government programs, but he thought that, when such programs are undertaken, it would be more effective, more transparent, and politically safer to finance them with currency issues than with bank loans (223).

He was therefore not as enthusiastic as Douglas in advocating credit creation by governments, but he was clearly in agreement with Douglas in holding that control of the money supply is a "basic state function" and that private banks should not be permitted to create credit. Simons was apparently unaware of this similarity.[26]

26. Simons must have been equally unaware of the similarity between his "free-income" concept and Douglas's national dividend. In his 1934 pamphlet he wrote, "On the expenditure side, we may look forward confidently to continued augmenting of the 'free income' of the masses, in the form of commodities and services made available by government, either without charge or with considerable modification of prevailing price controls. There are remarkable opportunities for extending the range of socialized consumption (medical services, recreation, education, music, drama, etc.) and, especially, for extending the range of social welfare activities" (Simons 1948, 68). A further close similarity existed between Simons and Douglas in their attitudes toward monopoly and the concentration of power. Although Simons did not see a grand conspiracy at work, he argued in his 1934 pamphlet that "the great enemy of democracy is monopoly, in all its forms: gigantic corporations, trade associations and other agencies for price control, trade-unions—or, in general, organization and concentration of power within functional classes" (43). He believed that such groups "possess tremendous power for exploiting the community at large and even for sabotaging the system" (43). However, Stein (1987) has argued that Simons later substantially altered his views on monopoly.

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Simons was as adamant as Douglas in asserting that his plan was not socialistic (a charge he described as "intellectually beneath notice"), arguing that it would serve to minimize rather than increase government controls: "The so-called 100 per cent scheme was suggested, at least by its Chicago proponents, largely, if not primarily, with the notion that reform along such lines would serve to minimize the danger of increasing political control over the direction of investment, i.e. the danger, both of socialization of banking in its present form and of 'financial planning' administered by organizations of private banks" (Simons 1936, 21).

As the title of his 1934 pamphlet indicates, Simons regarded his banking reform proposal as consistent with a policy of laissez-faire, a view reiterated by Hart, who saw the Chicago Plan as "part of a larger programme of economic reform along liberal lines" (1934–35, 104). But, in contrast with Douglas, Simons opposed the idea of applying government controls to the *direction* of credit, because that implies "a much broader range of political interference" (1936, 20).

Another important difference was that Simons saw the 100% reserve system as only the first step in a program of financial reform, not as an isolated and sufficient reform. "The so-called 100 per cent scheme of banking reform can easily be defended only as the proper first step toward reconstruction of our whole financial organization. Standing by itself, as an isolated measure, it would promise little but evasion—small effects at the price of serious disturbance—and would deserve classification as merely another crank scheme" (19). His 100% Reserve Plan thus lacked the alleged panacea attributes of Douglas's scheme.

Fisher stated (1936a, xiii) that he had obtained many of the ideas embodied in his book *100% Money* from the Chicago memorandum of 1933, and acknowledged the help of Simons in particular.[27] Fisher's 100% Money Plan involved terminating the power of the private banks to create money, and restoring to government the exclusive right to do so—thereby limiting private banks' activities to clearing checks and lending money deposited with them in savings accounts without creating further deposits by loans. He proposed that reserves held by banks should be equal to the amount of loans they provide, instead of the fractional rev-

27. Professor Hotson refers to the plan as the "Fisher-Simons Revolution," and contends that it was a more important revolution than the Keynesian Revolution that forestalled it. According to Hotson, "Fisher saw clearly what Keynes had missed: it is a grave error to finance increased government spending by loans in a depression when the government can create all the money needed for free" (1987, 187–88).

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enue system currently in operation. He believed that the requirement of a 100% reserve would significantly reduce the volatility of bank lending, and thus help to restrain cyclical movements: "I have come to believe that that plan, properly worked out and applied, is incomparably the best proposal ever offered for speedily and permanently solving the problem of depressions; for it would remove the chief cause of both booms and depressions, namely the instability of demand deposits, tied, as they now are, to bank loans" (xviii).

The "currency commission" proposed by Fisher to implement the scheme would adopt a policy of stabilization, inflation, or deflation, depending on the circumstances. He admitted that he originally had some misgivings as to the practicability of the plan, but in the light of later comments (for example, Lehmann 1936) he came to believe that the technical difficulties of introducing the plan were not great (Fisher 1936b, 236–37).

In words that closely echoed Douglas's, Fisher argued that creating and issuing money is "a prerogative of Government," but that this function had been usurped by private banks, which therefore effectively control the quantity and value of money: "Virtually, if not literally, every checking bank coins money; and these banks, as a whole, regulate, control, or influence the value of all money" (1936a, 19, 158, 203).

He described the private banks as "irresponsible private mints" (7). Because of their fractional reserve system, they have the power to rapidly increase or decrease the volume of money in circulation, and thus have an inordinate and dangerous effect on business activity and employment. The fractional (10%) system "either creates credit too easily, or shuts it off too drastically. It either inflates or deflates the circulation, causing either a boom or a depression" (174). The 10% system results in either over-lending or under-lending (178–79). He described as "monstrous" the idea that private bankers have the right to manufacture and destroy money and so to lower or raise the value of the monetary unit of our nation" (215). It is the "mob rule of twenty thousand private mints" (220).

In his *100% Money*, Fisher did not refer explicitly to Douglas's credit socialization proposal. In preparing the book he sent mimeographed copies to 150 persons for criticism, and "Major C. H. Douglas, author" is cited as one of "the many whose suggestions have been very helpful" (xiv–xv). But in *100% Money* Fisher did not acknowledge any direct influence, or indeed any explicit awareness, of Douglas's similar plans for the socialization of credit. There is perhaps a further, implicit refer-

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ence to Douglas in Fisher's discussion of the profits that would accrue to the government from the issue of credit. He stated that these profits might eventually constitute the main revenue of the government, and that from this revenue there was the possibility of "a veritable 'social dividend' as proposed by certain writers approaching the subject from another angle" (209). This is perhaps an oblique reference to Douglas's national dividend. But, despite Fisher's relative neglect of Douglas,[28] and despite some obvious differences on other matters, on the question of the socialization of credit their views were remarkably similar. What Douglas called the "socialisation of credit," Fisher called the "nationalization of the monetary function." Both wished to terminate the power of the private banks to create credit, but both also wished the private banks to retain their banking function, in other words, their strictly banking business.

Although their proposals involved the socialization of the credit creation function (Douglas), or the nationalization of the monetary function (Fisher), neither saw his proposal as a general nationalization of banking. "So far from nationalizing the banks, the 100% system might afford the banks the only escape from nationalization. For if, in another decade, we should have another depression like the one we have just been passing through, the banks would probably find themselves permanently in the hands of the Government. It would be better for the banks to give up gracefully their usurped function of minting money (in the form of bank notes and check-book money) and be content to conduct their strictly banking business, unmolested and uninterfered with by booms and depressions—so largely of their own making" (Fisher 1936a, 201, 203). Fisher (like Douglas) believed his proposal was the "best available safeguard against the overthrow of capitalism" (219).

The Chicago Plan has at times received support from Milton Friedman.[29] He had been a student at Chicago University in 1933, where his

28. Fisher was apparently more drawn to Gesell than to Douglas, stating, "I consider myself an humble student of Silvio Gesell" (cited by Wise 1945, 1). Keynes (1936, 355) said that, in the United States, Fisher "alone amongst academic economists, has recognised [Gesell's] significance." Some commentators, however, have not been enthusiastic about this aspect of Fisher's work. Referring to Gesell's "stamped money" plan and Fisher's 100% Money Plan, Spiegel says, "All these plans, of dubious value, came to naught, and Fisher's backing of them added little to his stature" (1991, 626).

29. It has been reported that Friedman still prefers the 100% Money Plan above all other monetary reforms but, having grown tired of "tilting at windmills," now prefers not to speak about it much (Hotson 1987, 188, 216; 1991, xxii).

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teachers included Simons, Knight, and Mints,[30] and later was a research assistant to Schultz at Chicago. He departed from the original Chicago Plan in only one respect, namely in adding a recommendation ("of great importance") that interest be paid on the 100% reserve (Friedman 1960, 65–66). He argued that the monetary and banking system should be reformed so as "to eliminate both the private creation or destruction of money" and that perhaps the best way to achieve this is "by adopting the 100 per cent reserve proposal, thereby separating the depository from the lending function of the banking system" (Friedman 1953, 135).

This separation would mean that the present commercial banks would be divided into two separate types of institution. The first would be a purely depository institution, "a literal warehouse for money," accepting demand deposits, transferring deposits by check, and holding for every dollar of deposits a dollar of Federal Reserve notes or deposits. The only funds it would have available for lending would be the capital of its proprietors. The second would be an "investment trust or brokerage firm" that "would acquire capital by selling shares or debentures and would use the capital to make loans or acquire investments," and would not have any power to create or destroy money. (Friedman 1960, 69–70). Following this separation, "the chief monetary function of the banking system [would be] the provision of depository facilities, the facilitation of check clearance, and the like," and "the chief function of the monetary authorities [would be] the creation of money to meet government deficits or the retirement of money when the government has a surplus" (Friedman 1953, 146).

Friedman, like Fisher, argued that the implementation of the 100% Reserve Plan is technically practicable: "There is no technical problem of achieving a transition from our present system to 100% reserves easily, fairly speedily, and without any serious repercussions on financial or economic markets" (1960, 70). Against the charge that the 100% reserve scheme is unrealistic, he pointed out that as of 1954 the commercial banks held government assets (in currency, or Federal Reserve deposits,

30. Mints argued that the elimination of fractional-reserve banking would remove "the chief reason for undesirable variations in the volume of bank loans" and would assist in achieving "a high degree of monetary stability," but did not insist on a full 100% reserve: "It would be very helpful if reserve ratios were raised to a much higher level than those now prevailing, even though this level were considerably short of 100 per cent." In Mints's view, "fractional-reserve banking serves no useful purpose that could not be served equally well in some other manner." He referred to "the perverse monetary influence of the banks" and "the perverse creation and destruction of bank money" (1950, 186, 177, 223).

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or interest-bearing government securities) equal to half of the deposits made by the public in the banks (76).

In eliminating the power of the commercial banks to create money, Friedman's proposal is a replica of Douglas's.[31] However, there are features of Friedman's scheme that distinguish it from Douglas's. Douglas advocated the abolition of privately created credit and its replacement with publicly created credit. For Friedman the implementation of a 100% reserve would mean the abolition of privately created credit, but would be accompanied by restrictions on the freedom of public authorities to create credit. He has recommended the elimination of the "discretionary control of the quantity of money by central-bank authority" (1953, 135), and has even proposed that the money-creating powers of the Federal Reserve should be abolished, and the quantity of high-powered money frozen (Friedman 1985, 12). Friedman's primary concern thus seems to be the benefits to be derived from monetary stability, whereas Douglas's primary concern was the benefits to be derived from the public creation of credit.

Also, Friedman's adherence to the 100% reserve scheme appears to be based on pragmatic considerations rather than on the principle that the right to create money should belong exclusively to the government. He has argued that the 100% reserve is "essential" if the result (that is, the elimination of the private creation and destruction of money) is to be entirely automatic and nondiscretionary, but that "the same results could, in principle, be achieved in a fractional reserve system through discretionary authority" (1953, 136). Unlike Douglas, Friedman warned of the possible dangers of government control of the quantity of money: "Explicit control of the quantity of money by government and explicit creation of money to meet actual government deficits may establish a climate favourable to irresponsible government action and to inflation" (156).

Hotson has been perhaps the most vigorous academic exponent in recent years of a Douglas-like policy of government-created money. He distinguishes between "good money" and "bad money." Good money is

31. Another interesting similarity between Friedman and Douglas can be seen in Friedman's proposal for "a universal floor to personal incomes"—"It may be hoped that the present complex structure of transfer payments will be integrated into a single scheme co-ordinated with the income tax and designed to provide a universal floor to personal incomes" (1953, 137)—which could be interpreted as a version of Douglas's national dividend, although it seems that Friedman's "floor" does not depend for its financing on state-created credit.

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money issued by the Treasury or the Reserve Bank that "can be spent into circulation interest and debt free, and ever after perform the useful functions of money for the minor cost of replacing worn out bills and coins." Bad money, or debt money, is money created by private banks, or "near-banks," that "must be lent into circulation at interest, and . . . only remains in existence so long as someone is willing and able to pay the interest and the banks are willing to continue to lend" (Hotson 1985b, 59). Hotson argues that, because of the great increase in the quantity of bad money in recent years in the United States, there has been an enormous increase in interest payments, both in absolute amounts and as a proportion of GNP, and that, if this trend to an ever-increasing interest burden continues, the capitalist system will not survive. He points out that conventional wisdom attributes inflation to the increase of wages (19-fold in the United States from 1946 to 1985), but ignores the inflationary effect of the increase in interest (159-fold from 1946 to 1985). The goal that Hotson sets up and that Douglas would surely have endorsed is to end "our present nonsense policy" under which society "pays endless tribute to private organizations for performing an essentially, and essential, government function" (1985a, 49; 1987, 205).

4.3.3. Other Writers Although Douglas's proposal for the socialization of bank credit has received relatively little attention and little explicit support from academics, there have been some nonacademic writers who appear to have arrived independently at views similar to Douglas's credit socialization proposal. Earlier writers who opposed the creation of money by private banks (to an amount beyond the value of the gold and silver deposited with them) include not only socialists, Marxists, and Communists, but also upholders of free-enterprise democracy such as the American statesmen Benjamin Franklin, Thomas Jefferson, and John Adams. Karl Marx stated: "Nine-tenths of the [bank] deposits in the United Kingdom have no existence beyond the record in the books of bankers. . . . The entire immense extension of the credit system. . . is exploited by bankers as their private capital." And in 1803 Adams said, "Every dollar of a bank bill that is issued beyond the quantity of gold and silver in its vaults represents nothing, and is therefore a cheat upon somebody" (quoted in Hixson 1987, 50, 60).[32]

32. Their concern was with the issuing of bank notes, but their comments would be equally applicable to the creation of credit by private banks.

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Douglas's proposal for the issue of government-created money had actually been put into practice in some of the American colonies. In Maryland in 1733, for example, £48,000 was distributed on a per capita basis, with every individual subject to taxation receiving 30 shillings. This early equivalent of a national dividend thus anticipated Douglas's scheme by some two hundred years (Hixson 1993, 56).

Reform proposals similar to Douglas's can be found in a number of obscure and forgotten pamphlets, for example, those of William Anderson and Richard Foster. In his *Iniquity of Banking*, Anderson argued that "the banker as certainly robs every other man in the society, by circulating his notes, as by levying a tax, or by putting his hands into their pockets and taking out a part of their money." And comparing the "professions" of counterfeiting and note issuing (he would no doubt have wanted to combine note issuing with credit creation), Anderson asked: "Is it not surprising then, that the law should regard those two professions so very differently, that while it hangs the poor man, really in want, for fabricating money, it should suffer the rich man, who has got a great quantity, to fabricate still more with impunity?" (1797, 15, 20).[33]

Foster likewise argued strongly in favor of the socialization of the note issue: "The privilege of issuing notes, (mere paper without *intrinsic* value) bearing interest, ought not to be vested in the hands of a few individuals, acting for their own advantage only, and not directly for that of the public. The privilege of making the national money, ought to belong to the nation, and be conducted entirely for its benefit. Besides, the management of the circulating medium of a country, is of too much consequence to be left entirely at the discretion of persons who are subject to no control, but guided solely by what appears to be their own interest" (Foster 1814, 159).

In the twentieth century the case for state-created credit has been strongly advocated by Silvio Gesell, Frederick Soddy, and—currently—William Hixson. Gesell argued that "a medium of exchange, from its very nature, is only possible as State money, or at least social money," and that "money requires the State; without a State money is not possible; indeed the foundation of the State may be said to date from the introduction of money" (1934, 44). He also argued that, as the foundation and proprietor of money, the state should have the right and responsibility of controlling money: "State control of money is indispensable" (59); "money must be

33. For further details on Anderson, see Pullen 1987.

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managed in the interests of economic life as a whole, not in the interests of individuals" (65). Although Gesell was mainly concerned with coins and bank notes, it would be reasonable to assume that these remarks would also be applicable to bank credit. Keynes devoted five pages of his *General Theory* to Gesell, and included Gesell in his "brave army of heretics"—along with Bernard de Mandeville, Malthus, Hobson, and (at a lower rank) Douglas. He at first regarded Gesell as a "crank," but later described him as "the strange, unduly neglected prophet . . . whose work contains flashes of deep insight and who only just failed to reach down to the essence of the matter" (Keynes 1936, 353). The significance of Gesell's ideas became apparent to Keynes only after he had reached his own conclusions in his own way. He described Gesell's *Natural Economic Order* as "an anti-Marxian socialism" (355), adding, "I believe that the future will learn more from the spirit of Gesell than from that of Marx" (355).

Frederick Soddy shared with Douglas, Gesell, and others the basic philosophical position that the right to create money should belong exclusively to the state, but that this right is usurped by private banks through their creation of credit. The following summary is given in his main work, *Wealth, Virtual Wealth and Debt*, first published in 1926:

> The banks have usurped the Prerogative of the Crown with regard to the issue of money, and corrupted the purpose of money from that of an exchange medium to that of an interest-bearing debt. . . . These powers have fallen to them in consequence of the invention and development of the cheque system, unforeseen before it became an established fact. It has been connived at by politicians of all parties, who have betrayed the people and without their knowledge or consent have abdicated the most important function of government and ceased to be the *de facto* rulers of the nation. The issue and withdrawal of money should be restored to the nation for the general good and should entirely cease from providing a source of livelihood to private corporations. Money should not bear interest because of its existence, but only when genuinely lent by an owner who gives it up to the borrower. (Soddy [1926] 1933, 296–97)

This theme recurs throughout his writings; for example:

> Without democracy knowing or allowing it, and without the matter ever being before the electorate even as a secondary or minor political

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> issue, the power of uttering money has been taken out of national hands and usurped as a perquisite by the moneylender. (1934, 23)

Soddy saw this usurpation of credit creation by the private banks as the source of most of society's economic ills:

> The primary mistake, to which the wrecking of the system has been traced, is the passing, with the development of modern banking, of the prerogative of the issue of currency from the nation to private hands for usury as a mode of livelihood, and the fatal dislocation consequent upon money being destroyed when production outruns markets and issued when demand outruns supply. (Soddy [1926] 1933, 258)

To replace this "present dishonest system," he advocated "the restoration to the several nations of their traditional sovereign powers over the creation of money" (Soddy 1950, 2).

Soddy described the credit created by the private banks as "purely fictitious money, which the nation has not authorised the issue of" (quoted in Wise 1946, 4), and he claimed that "the profits of the issue of money should belong to the community" (Soddy 1931, 35). He maintained that the government should use the profits to "defray national expenditure in lieu of taxation, or redeem interest-bearing National Debt" ([1926] 1933, 297).

Like William Anderson, he compared the banks to counterfeiters: "A counterfeiter issuing money is punished if convicted for treason rather than for theft. But the banks, by the cheque system, have invented a means of issuing money without coining it or even issuing a bank note, and this form of money makes the whole of the rest insignificant" (Soddy 1931, 35). And like Fisher, he considered that "the banks are now in reality private mints, lending money manufactured by themselves" (1950, 5).

Soddy was aware of the Douglas scheme and was quite complimentary about it, describing it as "this very interesting new school of economic thought," and adding that "much more will be heard of it. It possesses vision and may one day become a real driving force in politics" ([1926] 1933, 260); but he nevertheless sought to distance himself from it: "It must be said at once that, although there are obvious points of resemblance between many of the points of view set forth in this book and those of the Douglas School, especially as regards the diagnosis of the industrial deadlock and the existence of fundamental errors in national as distinct from individual accountancy, the resemblance ends there" (255).

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In particular, Soddy disagreed with Douglas's underconsumptionist A + B theorem. He thought that economic growth could be achieved only by greater abstinence and increased savings. And unlike Douglas, he argued that a wider distribution would require progressive taxation. He saw the core of the money problem not as "who issues it, whether State, bank or counterfeiter," but as the maintenance of a constant price level (1950, 9). And he did not believe that a national dividend financed by government credit would add significantly to per capita income: "the something-for-nothing got by the issues of money is of little moment relatively" (9). He criticized Douglas and his followers for mistakenly thinking that the issue of credit by the government would remove the need for taxation revenue and still leave something for free distribution. He pointed out that if the price level is to be kept constant, new money will be issued only when there is an increase in the rate of production and consumption (1934, 53). He did not object in principle to the idea of distributing the profits of any government issue of new money to consumers as a national dividend, but contended that "the amounts would hardly be worth while." He preferred to see the profits used "for the general relief of the taxpayer" (54).

But, despite these differences, Soddy and Douglas appear to have been in agreement on the fundamental issue of the respective roles of the government and private banks in the credit-creation process.

More recently, the policy of government-created credit has been persuasively argued by William Hixson, a retired engineer. He argues that governments seeking finance for public purposes should create money themselves instead of borrowing money created by the banks and paying interest on the borrowings. According to Hixson (1991, 159), 93.3% of money created in the United States in the 1947–87 period was made by private financial institutions and only 6.7% was made by the government. This reliance on privately created credit has produced a continual upward bias in interest rates, and has contributed to the increase in the ratio of interest payments to national income—a ratio that, according to Hixson (177), increased by a multiple of 4.26 over that period.

Hixson is critical of Keynes for not having based his employment policies on publicly created credit:

> *There is nothing so criminally insane as a government, which has the power to create interest-free money for itself, going into debt to private banks and paying them interest on money it licenses them to create. As*

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> *obvious and elementary as this may be, it is a point that Keynes seems to have missed entirely.* . . . What is a great mystery is why Keynes would make a proposal which involved the government spending of money created by private banks, money on which the government would have to pay interest, and not include in his proposal government spending of money it created for itself and on which it would not have to pay interest. (Hixson 1986, 203, 206)

The pressure on interest rates associated with deficit financing both thwarts the expansionary intention and generates a source of income for those who lend at interest: "What came to be called the 'Keynesian Revolution' thus amounted in practice . . . to a *coup d'état* by private money-lenders and private money creators" (209).

According to Hixson, although Keynes argued for a greater role for government in the economy, he failed to break the dependence of governments on private banks for deficit financing, and thus made it difficult and perhaps impossible for governments to play that role.

Hixson stands the conventional "crowding out" thesis on its head. Instead of private enterprise being restricted because of the increase in interest rates generated by the competition of governments for bank loans, public enterprise has been restricted because of the increase in interest rates resulting from the failure of governments to create their own funds. In other words, an unnecessary and undesirable intrusion of private credit creation into the revenue raising of the public sector has resulted in a crowding out of public credit creation and an unnecessary restriction on the scope of government programs. Hixson describes the credit-creation process in terms very similar to those used by Douglas. He refers to bank-created money as "the newly created money—the previously nonexisting money—which private banking organizations create out of thin air through the operation of a system of fractional reserves" (1991, 24). He criticizes those who state that every purchase involves a transfer of income from one person to another; according to Hixson (1988, 45–46), this ignores the fact that the newly created money of banks enables purchases to be made without transferring any of the purchaser's income. Hixson further argues that the problems associated with bank-created money are exacerbated when, as happened in the 1980s, that money is used for short-term speculation in titles to financial securities, real estate, and other forms of existing wealth. This bank-financed speculation produces another crowding-out phenomenon—namely the

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crowding out of investment in projects leading to an increased production of physical goods and to an increased longer-term productive capacity.

Douglas had made the same proposal for financing government expenditure, but went even further in advocating that *all* credit creation, whether for private or public purposes, should be the prerogative of government. Hixson's proposal could be described as a *partial* socialization of credit.

4.3.4. Summary This review of Douglas's predecessors, contemporaries, and successors, although not intended to be comprehensive, is probably sufficient to show that Douglas was not an originator of each of the three durable themes, even though—because of his apparent ignorance of earlier contributions—he might have seen himself as an originator (or, if feigning ignorance, he might have wished to present himself as an originator). It is clear that, on these three themes, Douglas's proposals can be situated within a context of similar proposals over many years.

The review also reveals a strange contrast between the British and North American academic reactions to Douglas. British academics discussed Douglas, but virtually ignored his credit socialization proposal. North American academics discussed a variant of the credit socialization proposal (the 100% Money Plan), but virtually ignored Douglas.[34]

Douglas emerges as a lonely figure in the history of economics. With regard to his three durable themes, no economist of any note appears to have influenced him, nor has any economist of note admitted being significantly influenced by him. His ignorance of predecessors can probably be explained by his lack of formal training in economics and the history of economics. But it is more difficult to explain like-minded successors' almost total lack of admission that they were influenced by Douglas, or even any recognition that Douglas was a predecessor if not an influence (with some exceptions, notably Keynes). If lack of acknowledgment and recognition is a subtle form of persecution, then Douglas's paranoia might be justified to some extent. One possible explanation of this lack of recognition could be that, even if successors were aware of his durable

34. Arguments for the socialization of credit could also include Knut Wicksell's statement that "the banks' prime duty is not to earn a great deal of money but to provide the public with a medium of exchange—and to provide this medium in *adequate measure*, to aim at stability of prices. In any case, their obligations to society are enormously more important than their private obligations, and if they are ultimately unable to fulfil their obligations to society along the lines of private enterprise—which I very much doubt—then they would provide a worthy activity for the State" (1936, 190).

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themes, they were repelled by the naiveté of his A + B theorem and the racism implicit in his conspiracy thesis, and have therefore not wished to show their awareness of, or have their own writings associated with, his writings, even if only by way of a bibliographical reference. However, another possible explanation might simply be that his successors have been unaware of his durable themes, and unaware that on these matters they are in fact successors. They have probably accepted the conventional opinion that Douglas was a monetary crank whose ideas are not worthy of serious consideration, and have therefore never seriously studied his writings and have never realized that, on his three durable themes, his ideas are a very respectable input to an ongoing discussion that could have important policy implications.

5. Conclusion

Despite the widespread condemnation of Douglas's theories by economists and bankers, the evolution of financial systems throughout the world has provided, until recently, some vindication of Douglas's policy of socialized credit, if not of his theories. The conversion of the privately owned Bank of England into a publicly owned corporation, the creation of other nationalized reserve banks, the abolition of the right of private banks to print their own bank notes, and the adoption of supervisory functions by the reserve banks in relation to the financial system could all be interpreted as steps toward the socialization of credit.

However, the movement toward bank deregulation in many countries in the 1970s and 1980s has been a movement away from socialized credit. It has enhanced the prerogatives of the private banks in the provision of credit, and has diminished the degree of social control or socialization of the credit process. The trend in credit management in the recent past could be described as anti-Douglas.

But bank deregulation has not provided the panacea expected by its supporters. It has not succeeded in establishing economic growth and employment at socially acceptable levels. On the contrary, critics of deregulation argue that it has been directly responsible for low levels of growth and employment. They believe that bank deregulation is an experiment that has failed. They call for some degree of reregulation and the imposition of limits on the uninhibited exercise of discretion by private banks in the extent and direction of lending. The problem Douglas grappled with in the 1930s was the responsibility of the banks

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for the deficiency of general purchasing power. The problem of the 1980s was the responsibility of the banks for overactive and misdirected bank lending. The perennial problem is an apparently inevitable tendency for the banks to behave at times of crisis in ways that are in their own interests but not in the interests of the public. It is a problem of the degree of discretion enjoyed by banks in the dispensing of credit, and the degree of congruence between the interests of the bank and the public. At a pragmatic (as distinct from ideological) level, the perennial problem is the determination of the *optimum degree* of socialization of credit, or the *optimum mix* of regulation and deregulation, within the framework of socially determined macroeconomic objectives.

It is in this context that, in our view, Douglas is still relevant and deserves reconsideration. If his idiosyncratic beliefs in the A + B theorem and the grand conspiracy are put aside, his distinctive notion of the social ownership and control of credit provides a counterbalancing and moderating constraint to the policy of excessive deregulation of the banking system. But the preoccupation of Douglas and his critics with the technicalities of the A + B theorem and with the alleged structural inevitability of purchasing-power deficiency has meant that the literature has failed to give due consideration to his broader notion of the social ownership and control of bank credit and to the problem of bringing community aspirations to bear upon the process of credit provision.

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