FRANCES HUTCHINSON AND BRIAN BURKITT*

The Transformation of Fisher King to Robber Baron[1]

INTRODUCTION

The writings of CH Douglas gave rise to the social credit movement, popular throughout the inter-war years. In the years immediately following World War I, Douglas' earliest books, *Economic Democracy, Credit-Power and Democracy* and *The Control and Distribution of Production* (Douglas 1919, 1920, 1922) first appeared in serial form in the guild socialist weekly The New Age. Close examination of the early 'Douglas/New Age' texts and other contemporary evidence (see e.g. Carpenter 1922) reveals that the editor of *The New Age*, AR Orage, provided Douglas with a great deal more than editorial support in the formulation of the original texts. Without Orage's guild socialist contribution, Douglas' technical observations of the accounting mechanisms which underlie the role of finance in the formulation of policy on production and distribution, would have provided unpromising material for a popular debate that was sustained over two decades throughout the English-speaking world. Orange's synthesis of contemporary heterodox economic thought contributed the vital prerequisite for a revolutionary analysis of capitalist economic orthodoxy based upon the centrality of time and finance.[2] The resultant Douglas/New Age texts form the basis of a socialist economics in line with Smith's (1962:158) definition of socialism as an absence of economic conflict.

Douglas was before his time in presenting a true-to-life critique of capitalist finance. Like Veblen, he noted that economic activity cannot be presumed to bear any relationship to a physical or biological system governed by natural law. His unforgivable blunder was to shoot down elegant theory with the cannon of an uncomfortable fact; economic activity is governed by man-made institutions.

* Department of Social & Economic Studies, University of Bradford, UK.

Douglas focused upon the institution of finance and its relationship to the economic processes of production, distribution and exchange. He demonstrated that general free market equilibrium theory ignored time and money, giving rise to implausible explanations for the failure in distribution which arose from theoretically impossible unemployment. The Douglas theories accord well with non-equilibrium explorations of Marx's economics (see Freeman 1995. Freeman and Carchedi 1996), which have been reviewed in more detail elsewhere (Hutchinson and Burkitt 1997).

A key concept in the Douglas economics was the centrality of the cultural heritage of knowledge and skills. Although these could be privatised and exploited for private gain, capitalist competition did nothing to increase the total stock of wealth. Douglas recommended the adaptation of the money system to facilitate provision of a sufficiency for all without the necessity for wasteful production accompanied by the deliberate creation of scarcity. His scheme for a national dividend or basic income was designed to introduce money in to the system as credit rather than debt.

SABOTAGE AND THE CULTURAL INHERITANCE

In *Social Credit*, Douglas (1924) expanded upon Veblen's *On the Nature and Uses of Sabotage*. His chapter on "Sabotage and the Cultural Inheritance" describes the artificial money value system which promotes value in exchange over all other values.

> For instance, if it is necessary for me to cross a large river, a boat would seem to be my immediate requirement. Its utilitarian value to me consists in its ability to transport me across the river... But the generally accepted opinion of its value would be directly proportional to my ability or the ability of someone else, to submit to penalisation financially for the use of the boat, and this again would be directly proportional to the urgency of my need and would be enhanced by the absence of other boats. It should be particularly noted that this kind of value is not inherent - it is one remove away from the simple usefulness of the boat. (Douglas 1924: 44-5)

According to capitalist theory, Douglas concluded, the value of anything useful is enhanced by its scarcity. It follows that values are being created "through the agency of scarcity" i.e. "by creating a demand which is in excess of the supply... [through advertisement], and by restricting a supply so that it is always less than the demand [which] is technically known as Sabotage" (Douglas 1924:45).

As Veblen (1919:1-5) explains, employers may use lockouts as 'sabotage' just as workers drag their feet (the clog, or French wooden shoe, the 'sabot') in strikes. Sabotage is essential to maintain prices at profitable levels: "the ways and means of this necessary control of the output of industry are always and necessarily something in the nature of sabotage - something in the way of retardation, restriction, withdrawal, unemployment of plant and workmen, whereby production is kept short of productive capacity" in order to secure profit for the few at the expense of the many (Veblen 1919:8). Drawing upon Veblen (1921), Douglas observed that the objective of large capitalist corporations is "to obtain the maximum amount of money for the minimum amount of goods" (Douglas 1924:46-49) which results in periodic failures of distribution.

The apparently simplistic underconsumptionist message is, however, given a subtle twist by Douglas. Seven years before the 1931 UK financial crisis, which brought down the Labour government (Bassett 1958/ Hutchinson and Burkitt 1997: 110-111), Douglas observed that no government can continue in power without money, which it is powerless to create under the present system.

> (I)t is not necessary to labour the point that the visible government of a country is obliged to take its orders and to shape its policy, and particularly its financial policy, in accordance with the instructions of the dealers in this indispensable implement, so long as they [money dealers] hold a practical monopoly of it (Douglas 1924:48).

Douglas argued that although land, labour and capital were essential to the wealth-creation process, the vital ingredient "may be expressed in the words of Mr. Thorstein Veblen (although he does not appear to have grasped its full implication) as 'the progress of the industrial arts"' (Douglas 1924:49). Ownership of cultural and intellectual social resources should by rights be held in common, unrestricted by powerful capitalists or a dominant state bureaucracy. The collective 'cultural inheritance' enables people to associate together in industry to gain the 'unearned increment' of such association. In this way goods and services can be created with far less effort than through 'isolated endeavour' (Douglas 1920:19). Referring to *The Engineers and the Price System* (Veblen 1921), Douglas observed that control over the vital collective element of wealth creation had been wrested from the community by the institutions of finance.

To Veblen, the "Captains of Industry" were mere "captains of business... those absentee owners who control the country's industrial plant and trade on a restricted output" (Veblen 1923:105) through sabotaging the progress of the industrial arts. According to popular misconception, these 'captains' amassed great fortunes through workmanship and "creative insight into the community's needs". In reality, they "came in for large gains through shrewd investment and conservative undertakings, such as would now be called safe and sane business" (Veblen 1923:104). Veblen notes the rise of "corporation finance" and the later shift of competition from industry to finance (Veblen 1923: 102). Douglas, however, links the corruption of industrial progress directly to the institution of finance. ("An institution is of the nature of a usage which has become axiomatic and indispensable by habituation and general acceptance. Its psychological counterpart would presumably be any one of those habitual addictions that are now attracting the attention of the experts in sobriety" Veblen 1923: 101fn).

MONEY AND PRODUCTION

Douglas illustrated the relationship between money, time and price through his 'A+B' theorem. Then (1920s) as now the economy would cease to operate if financial institutions did not provide "a source of purchasing power, or new money, in the form of bank loans and credit instruments, which does not arise out of wages, salaries or dividends, paid for past production. By the exercise of this technique, however, industry becomes mortgaged to the banking system" (Douglas 1924: 95). Money is not a commodity manufactured by the productive process to be spent, saved, stored or invested in future production. Production does not generate supply to meet demand, and *vice versa*, through some mysterious Say-like balancing act behind the scenes. The economy is dynamic and is driven by man-made (sic) money mechanisms which can be observed and analysed rationally. Douglas' 'mistake' was his failure to recognise that he had strayed onto sacred ground and broken every taboo by seeking to discuss money rationally.

General free market equilibrium visions of the economy are based upon the assumption that the total supply of money is static (for a detailed non-equilibrium review of neoclassical theory see Hutchinson 1998: 173-193). There is a certain amount of money in existence to be spent or saved or saved and invested. It is true that 'supply' can mean 'the amount in existence at that point in time'. However, supply can also be dynamic, indicating a flow like a water supply. Like water in a pipe, money comes into and out of use in a continually varying stream. The fact that the supply of money may be regulated in an attempt to maintain an optimal relationship with other factors in the economy cannot merely be taken as 'read', a point of little account. It is fundamental to an understanding of a capitalist economy. To repeat: money is constantly flowing into the system (normally in the form of debt) and going out of the system (as the debt is repaid). Failure to analyse these processes, i.e. how money is fed into the system, for what purposes a loan (debt/credit) is created, and on what terms that loan exists and ceases to exist, has rendered general competitive equilibrium theory null and void for analysing actually existing economies in any meaningful way. The movement of money into and out of the economy occurs for specific purposes. The existence of money and the purposes for which it is created are determined by human agents. Industrialists do not 'make' money: money is made by banks.

To understand the significance of this observation, it is necessary to take a circuitous route. In single-stage production barter-like conditions exist in which markets clear. Money, in the form of gold or some other commodity money, remains in relatively fixed supply. These conditions, assumed by general equilibrium theorists, cease to exist with industrial development, technological advance, the division of labour and multiple-stage production. Historically, industrial development coincided with the growth of banking and trade. In turn, banking evolved from the predatory activities of warfare and overseas trade. As Galbraith (1975) and Davies (1994) show, the process of fractional reserve banking is as old as banking itself. Early bankers advanced loans which were mere paper transactions, not only for trade, but also for the manufacture of textiles, clothing and other manufactures. As paper loans came to be issued far in excess of the original holdings of precious metals, the interests of the bankers were legally guaranteed by the founding of the Bank of England in 1694. This basic pattern was followed by most national banking systems. Hence bankers were guaranteed rights of repayment on loans issued, whether to William of Orange waging his war against France, to owners of ships raiding the high seas and dealing in slaves, or to merchants procuring luxury goods for overseas trade. The familiar story has profound implications for political economy. Economic activity came into existence through warfare and its peaceful resolution, trade. The creation of money loans for specific purposes developed on grounds of profitability. However, what is profitable is not necessarily socially just or environmentally sustainable.

Throughout the history of economic thought the vast bulk of money has continued to be created as loans for specific purposes deemed profitable by banks and financial institutions (see Niggle 1990), which are backed by legal safeguards. Whether the reserve is held in gold or in deposits of some specific currency matters little. It is relevant only in relation to governing the total amounts of money in existence in an economy. As debts/loans are created and repaid, it is the flows to and from specific purposes which are of greater significance.

Douglas demonstrated that banks and financial institutions create money, whilst the operations of these private institutions are sanctioned by the law of the land. Further, the purpose for which banks and financial institutions create and define money are not necessarily in accord with the interests of the mass of people in the community. Finally, Douglas noted that, by analysing the existing relationship between production and distribution in the light of the operations of the financial system, it is possible to adapt this man-made system to meet socially just and environmentally sustainable ends.

THE PREDATORY ECONOMY OF FREE MARKET COMPETITION

Douglas' analysis flows from the Veblenian recognition that the significant institutions of capitalism originate in predation. In *The Theory of the Leisure Class* Veblen noted that ownership "began and grew into a human institution on grounds unrelated to the subsistence minimum" (Veblen 1899:36):

> Wherever the institution of property is found, even in a slightly developed form, the economic process bears the character of a struggle between men for the possession of goods. It has been customary in economic theory, and especially among those economists who adhere with least faltering to the body of modernized classical doctrines, to construe this struggle for wealth as being substantially a struggle for subsistence. ... It has not been unusual for economic theory to speak of the further struggle for wealth on this new industrial basis [beyond a subsistence minimum] as a competition for an increase of the comforts of life - primarily for an increase of the physical comforts which the consumption of goods affords (Veblen 1988:34-5).

"Property," he continues, "set out with being booty of the successful raid" (Veblen 1899:36). The capitalist economy is founded on the desire of the powerful to accumulate wealth in order to be accorded status. The leisure class aspires to achieve the ability not to work. Whether wealth is seized or inherited from ancestors who seized it, the leisure class defines itself by its non-work activities of sport, culture and learning.

> Gradually, as industrial activity further displaces predatory activity in the community's everyday life and in men's habits of thought, accumulated property more and more replaces trophies of predatory exploit as the conventional exponent of prepotence and success (Veblen 1899:37).

Forcefully deprived of the means of subsistence through enclosure of land and knowledge, the non-leisure class must undertake menial but essential tasks to survive. The workers are keyed into the system through "emulative consumption" which enables them to imagine they approach the status of the leisure class. Hence women who are not adorned as symbols of success may often be left with the most menial tasks, the non-performance of which accords some status even to the lowest ranking men. In similar vein Sahlins demonstrates that trade evolved out of warfare. He quotes Mauss: "In order to trade it was necessary to lay down the spear" (Sahlins 1974:176).

A century after the publication of *The Theory of the Leisure Class*, adherents to 'the body of modernised classical doctrines' in economics continue to assume a positive relationship between the financial success of the few and the ability of the many to secure their subsistence needs. Yet as Chossudovsky (1997), Freeman (1998) and other contemporary writers demonstrate, the 'economic reforms' being implemented by the Bretton Woods financial institutions and enforced by the World Trade Organisation (WTO) and the Multilateral Agreement on Investment (MAI) are establishing a legal framework designed to outlaw national planning and meaningful democracy, whilst undermining welfare programmes and promoting inequality. The vast majority of people are being consigned to powerless poverty through the creation of international institutions that promote the interests of narrow sectors of privilege and power. Under the WTO national economic sovereignty is eroded through the legal obligation to free capital movement. Intellectual Property Rights (IPRs) outlaw trade in many products except as determined by the current owner of the technology. New forms of protectionism consolidate a system of trading blocks based upon the dominant capitalist countries (Freeman 1998:171). Predation on so grand a scale creates its own illusion of legitimacy. It is, nevertheless, as Chossudovsky (1997) skilfully documents, common piracy undertaken under the threat of force on a global scale, leaving ruin and desolation in its wake.

THE FISHER KING AND THE WASTELAND

In exploring the origins of the Grail legends, Weston (1919) detected a common pattern of mythological beliefs in "countries so widely separate as the British Isles, Russia, and Central Africa" (Weston 1919:113). The thread which unites these stories is that of the Fisher King, upon whose strength and vitality depends the health of the land and the welfare of the people. Weston's work, which provided the inspiration for Eliot's poem *The Wasteland*, uncovers the central role of a symbolic leadership which unites the community in common purpose. Violation of the rights of others through the lust and greed of powerful individuals leads to the disappearance of the court of the Fisher King. The springs dry up, the land becomes waste and is no longer filled with plenty.

In Veblen's world ownership and acquisition rooted in the pursuit of money through business enterprise are necessarily opposed to the interests of the community (Veblen 1923). What is good for the community is 'disserviceable to the individual'. Veblen touches upon a Polanyi-style theory (Polanyi 1944) of pre-industrial communism (see e.g. Veblen 1899:26-33), but fails to recognise the extent to which the predatory instinct is parasitic upon cooperation between people and shared access to the land. In common with Marx, Veblen provides a brilliant critique of aspects of capitalism. However, it was left to Douglas to attempt the construction of a viable alternative institutional framework for reform of finance. We have described Douglas' work more fully elsewhere (Hutchinson and Burkitt 1997a, 1997b, 1997c; Hutchinson 1998). It seeks to circumvent the power of 'absentee ownership' by removing pecuniary control over industry from the 'captains of industry' and restoring it to the community.

CONCLUSION

In *Absentee Ownership* Veblen described the "common practice... [of] partial employment of equipment and manpower on terms satisfactory to the owners" as a "legal right of sabotage" (Veblen 1923:66-67). By virtue of this right the owners dictate the terms of industrial cooperation "so that they come in for the usufruct of the community's industrial knowledge and practice, with such deductions as are necessary to enforce their terms and such concessions as will induce the underlying population to go on with the work" (Veblen 1923:67).

Douglas presented the case for decentralisation of control over communal resources and the operation of industrial plant and processes (Douglas 1920: Appendix). He forcefully predicted a drying up of resources, especially the frustration of the development of science and technology for the enhancement of the common good, in the event of continued centralisation (globalisation) of the ownership and control of industry. To Douglas, progress in 'the industrial arts' is dependent up "freedom from employment forced by economic necessity". Douglas, Orage and the early social crediters advanced Veblen's vision of a rich development of culture and learning in the arts and sciences, freed from the corrupting power of centralised finance. Their prophetic work deserves further study in the light of the contemporary quest for socially, and environmentally, sustainable alternatives to global capitalism.

NOTES

1. A draft version of this paper was presented to the Thorstein Veblen Conference on Institutional Analysis of the Economy Today, Oslo, 18-19 June 1998.
2. See Hutchinson and Burkitt (1997a) for a detailed analysis.

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