SOCIAL CREDIT THEORY AND LEGISLATION IN ALBERTA

A Thesis

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CHAPTER I

THE PROBLEM AND ITS SIGNIFICANCE

The problem this thesis seeks to investigate is the extent to which the Social Credit government has been successful in implementing Social Credit principles in Alberta, and to account for the degree of success or failure that is revealed by such an analysis. When in 1935 the Social Credit party achieved victory at the polls, confident expectations by the advocates of Social Credit prompted this statement: "No Government was ever elected with a clearer mandate or with less excuse for delay."[1] Yet today, it is not uncommon to find allegations to the effect that the Social Creditors have been "pedalling away on a stationary bicycle." Critics of the party, while conceding that the Social Credit administration has provided the people of Alberta with an efficient provincial government, especially under Premier Manning, maintain that it has done nothing to put Social Credit principles into operation. Advocates of Socialism point out, by way of contrast, that the Socialists in Saskatchewan have done a good deal to implement Socialism. An analysis of Social Credit legislation in Alberta may yield a criterion whereby the validity of such charges may be gauged.

For several reasons it is desirable to attempt a des-

[1] C. H. Douglas, The Alberta Experiment. (London: Eyre and Spottiswoode, 1937), p. 62.

cription and explanation of what happened in Alberta. The Social Credit government in Alberta is the first and only Social Credit government which has been elected to office in any country. The actions of the present Alberta government should therefore arouse general interest in its activities. The second reason is the paradox that the Social Credit government's first monetary innovations took the form of dated stamp money, a rival theory to that of Social Credit. In the third place, the works of J.M. Keynes and Irving Fisher and other monetary theorists seem to have aroused a good deal of interest in the ranks of intellectual Social Creditors and it is interesting to determine the place of Social Credit theory in the realm of monetary reform. Fourthly, Social Credit in Alberta provides us with a laboratory of political, economic, and social experiment, and warrants documentation as such. The difficulties arising from an unbalanced Canadian economy which is particularly vulnerable to business cycle fluctuations are persistent enough to justify a record and analysis of the various economic solutions offered which have acquired some political significance.

Then too, Social Credit has often been called mere inflationism, a pursuit of "soft money" on the part of a debtor population. This claim recalls to mind the American silver money controversy which had such an important bearing on the presidential elections of the 1890's, and an analysis of Social Credit should bring into prominence the underlying conflict between the debtor and creditor class in our society. Indeed, Social Credit in Alberta will be shown to be the result of the intermingling of European and American influences. However, this hybrid is yet conditioned by a peculiarly native environment which makes Albertan Social Credit difficult to reproduce elsewhere in precisely the same form.

Moreover, if one examines the often bitter and contemptuous critics of the Douglas credit scheme, it will be found that within their ranks are such widely divergent elements as Socialists, Communists, and orthodox economists, all of whom are unanimous in the opinion that the Social Credit scheme is theoretically unsound and unworkable in practice. The very fact that a doctrine isagreed to be defective by people supposedly as far apart as Socialists, Communists, and orthodox economists merits inquiry into this interesting phenomenon. It is felt that a better perspective of Albertan Social Credit theory will be gained when viewed from the vantage point of other closely allied and divergent remedies proposed for common economic maladies.

The Communist believes that the source of all our economic troubles has its root in the institutions of private property and the profit system, and that any scheme for reform short of the total eradication of these institutions is bound to be ineffectual. The orthodox economic theorist, on the other hand, while readily conceding that the present economic system is in need of reform, contends that to adopt the "New Economics" as expounded by Douglas would be tantamount to poisoning the patient to cure the disease. The Socialists, for their part, believe that unrestricted individualism and the pursuit of profit has resulted in the creation of monopolistic conditions in our society and that the State has a prominent role to play in ensuring the equitable distribution of goods and services. To this end, they advocate the abolition of private property. Unlike the Communists, however, the Socialists believe they can attain their ends by evolutionary means.

It has been alleged that Douglasism is essentially a middle class protest against the difficulties in which we find ourselves.[2] Such a statement, if proved to be true, would make Douglasism as interesting politically as it is economically, for it evidences the protest of a class who, although they believe in democratic capitalism and therefore cannot easily take the Communist or Socialist road, yet

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[2] Robert McQueen, "Douglas Credit Theory," Journal of Canadian Bankers' Association. Vol. XLIII (July, 1936).

feel the need for voicing their opposition to some of the weaknesses in our present society. The possibility of middle-class movements was not envisaged by the prophet of Communism, Karl Marx, who reserved his higher destinies for a "classless society" composed of the proletariat.

The main theme which will be developed in the course of this investigation is the modifications which have to be made in a theory when it comes to be applied to a concrete, practical, situation. The thesis will generally follow two fairly distinct patterns. The one will be a factual exposition which will run in a fairly chronological sequence; the other will be devoted by and large to an analysis of theory and legislation. The narrative will serve to relate the different aspects of Social Credit in Alberta to be analysed. For example, the nature of Albertan resources has gone far in determining her political outlook. It provides the backdrop against which the subsequent events must be viewed. Accordingly, it is proposed to deal first with Alberta's historic and economic setting while bearing in mind that such a discussion must of necessity be limited in scope.

CHAPTER II

THE POSITION OF ALBERTA

The purpose of this sketch of the Albertan economy is to provide the background which shapes the thought of the inhabitants of those areas with respect to certain Canadian problems. In the course of this chapter it will be shown that the physical heritage of Alberta--the natural environment of fauna and flora--contributed greatly to the problems which confronted the provincial and municipal administrations of Alberta.

I. DESCRIPTION OF ALBERTA

Alberta has certain characteristics which are typical of the Prairie provinces in general. The geographic factors of the Canadian West have had an important influence on its development. The area is a semi-arid and sub-humid grassland subject to a short growing season. The heaviest rainfall in Alberta is from the middle of May until the end of July. However, this varies considerably from year to year. "An important fact in connection with the climatology of Alberta is that the isotherms in the summer months run nearly north and south, so that the mean summer temperature is almost as high in the more northerly regions as in the southern districts."[1]

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[1] Dominion Bureau of Statistics, Canada Year Book, Ottawa, Canada: King's Printer, 1929, p. 46.

The relative absence of large trees and broken lands made it possible to plow the virgin soil of the prairies, in order to produce that great staple of the Western provinces--wheat. Alberta, in common with her neighboring prairie provinces, had all the attributes of a pioneer economy. First, the ratio of population to resources was low. "A country or region is economically at a pioneer stage when the population in relation to its resources is obviously below the optimum made possible by the mature techniques available to it."[2] Moreover, the prairie region was forced to depend almost wholly on a single export staple in the development of a pioneer economy, for only by this means can a pioneer community acquire the products of mature communities.

II. SETTLEMENT OF ALBERTA

Alberta was settled at a comparatively later date than either Saskatchewan or Manitoba. In 1905, the Province of Alberta was set up. Alberta was slightly greater in area than either of the other prairie provinces, comprising as it did 255,285 square miles. The latest available statistics regarding the predominantly English-speaking population of Alberta show that the province is still a relatively "rural"

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[2] W.A. Mackintosh, "Some Aspects of a Pioneer Economy," The Canadian Journal of Economics and Political Science. Vol. II (1938).

province.[3] Alberta had in 1941 a total population of 796,169 of which 489,169 were classified as rural and 306,586 as urban. An important consideration in connection with the late settlement of Alberta is the consequent lack of established social classes to act as a brake on social changes in that province.

Racial origins. It would be difficult to exaggerate the significance of the fact that the racial structure of the prairie provinces is entirely different from that in Ontario, Quebec, and the Maritimes. "Nova Scotia with 10.31 per cent is the only province east of Ontario with a significant intermingling of foreign stocks. In Prince Edward Island the proportion is less than one per cent, while the proportion in the three prairie provinces range between thirty-eight and forty-five per cent."[4] The main racial origins in Alberta are as follows:

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[3] The Dominion Bureau of Statistics defines "urban" as applying only to incorporated towns and villages. The population of all unincorporated towns and villages is included in the rural population.

[4] Dominion Bureau of Statistics, 7th census of Canada. Monographs. Ottawa, Canada: King's Printer, 1931, p. 607.

TABLE I

RACIAL ORIGINS IN ALBERTA(1941)*

Racial origin	Number
English	191,934
Scottish	112,540
Irish	83,876
German	77,721
Ukranian	71,868
Scandinavian	63,494
French	42,979
Polish	26,845
Netherlands	20,429
Russian	19,316
Czech and Slovak	8,177
Austrian	7,513

* Dominion Bureau of Statistics, 1941.

The reasons for the comparative lateness of settlement are not difficult to determine. In the first place there had to be a railway, for only then could there be a profitable ratio between the price of wheat and the cost of transportation. Thus, though the Canadian Pacific Railway was completed in 1895, it was not until much later that the rise in the price of wheat coupled with reduced transport charges combined to yield a favorable ratio. In the years 1915-19 out of a total wheat export crop from Canada of 122.3 million bushels, 25.6 million bushels were exported by way of the Atlantic via Montreal and only .17 million bushels were exported by way of the Pacific via Vancouver. However, in the years 1928-31 out of a total wheat export crop from Canada of 255.5 million bushels, only 45.4 million bushels were exported through Montreal, while exports through Vancouver reached 73.1 million bushels.[5] In the second place, it was essential that early maturing wheat should be developed to offset the short growing season. It was not until nearly 1900 that the planting of Red Fife became general on the prairies. Prior to that date, frost damage to the wheat crops rendered settlement extremely difficult.[6] Finally, dry-farming practices were necessary to offset moisture deficiency. In addition to these factors, the fact that new immigrants preferred American land to Canadian meant that settlement in the Canadian West was retarded until the American frontier came to an end in the 1890's.

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[5] These figures are supplied by Joseph M. Goldstein, The Agricultural Crisis. (New York: The John Day Company, 1935), p. 97.

[6] Cf. post, Figure 1, p. 37.

With the closing of the American frontier the pressure upon the Canadian West became much greater. The Dominion policy of opening land for homestead entry was a decisive factor in the settlement of the prairie region.[7] The homestead policy was a great boon financially to the Dominion government. "The interest of the Dominion was in the revenue it can derive from the settler who makes that land productive."[8] The usual homestead unit was set at 160 acres, irrespective of climatic conditions, the nature of the soil, its location, or other considerations. The population of Alberta under such circumstances increased rapidly: in 1901 it was 73,022, by 1906 it had increased to 185,000 according to the census of that year, and by 1931 it approached the three-quarters of a million mark. The total increase in the thirty years preceding 1931 was thus more than ten-fold.

The new immigrants gravitated towards agricultural pursuits as is evidenced by the predominantly rural character of Alberta. The cities of Edmonton and Calgary being the predominantly urban areas together contain some twenty-two per cent of the population.

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[7] Cf. A. S. Morton and Chester Martin, History of Prairie Settlement and Dominion Lands Policy. (Toronto: The MacMillan Company, 1938).

[8] R. McQueen, "Economic Aspects of Federalism: A Prairie View," The Canadian Journal of Economics and Political Science. Vol. I (1938), p. 362.

To the Albertan government the speed and nature of settlement created serious problems. The Dominion government had eventually accepted the plan for building the Canadian Pacific Railway through the medium of a private company. The main branch line of that railway was built through the south-east portion of the Province, which was part of the Palliser Triangle[9] drought area. Annual precipitation in this region averaged only eight to sixteen inches. Yet after 1911, this marginal and semi-marginal land was rapidly taken up. Future Albertan generations were to reap the harvest sown in the early land-grabbing eras. Crop failures were quite frequent in this semi-marginal land.

The difficulties of the Albertan government were rendered the more exacting owing to the policy adopted by the Dominion government of granting lands to the railways. It is estimated that the selection of railway lands in Alberta amounted to approximately thirteen million acres. As a result the provincial government was burdened with tax-exempt lands. The inhabitants of these areas have not forgotten that it was their lands which were used for railway subsidies.

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[9] During the years 1857 to 1860 Palliser was commissioned by the British government to investigate the suitability of large parts of the prairie regions for settlement. In his reports, Palliser divided the country between the Laurentian Shield and the Rocky Mountains into two parts, the "fertile belt" and the "semi-arid desert". The fertile belt was the wooded and park area, while the semi-arid desert was the treeless prairie or "true prairie" as he called it.

Then too, as far as freight rates are concerned, Alberta found herself in a particularly vulnerable position. Alberta being at the apex of the transcontinental freight rate structure is subject to the highest rate on imported goods. "Alberta must sell the bulk of its agricultural products in world markets at world prices less transportation costs, and must buy the bulk of its purchases within Canada at prices...to which must be added the long haul transportation under a varying schedule that reaches its peak in shipments to Alberta."[10] The freight rate alone from Calgary or Edmonton to the head of the Lakes was 15.6 cents a bushel on wheat.[11] Alberta grain accordingly yielded its producers the lowest net value of any of the prairie provinces.

III. THE NATURAL RESOURCES OF ALBERTA

Alberta differs from Manitoba and Saskatchewan not only with respect to geographic location but also in regard to natural resources. Alberta has a much greater diversity of

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[10] Royal Commission on Dominion Provincial Relations, Report, Recommendations, Ottawa, 1940, p. 112.

[11] A.F. McGoun, "Alberta, Economic and Political," The Canadian Journal of Economics and Political Science. Vol. II (1936), p. 139.

economy than either of the other prairie provinces. It has been shown that Alberta is a predominantly agricultural province which adopted wheat-growing as its speciality, because as a commodity, wheat is compact, relatively valuable and capable of being transported for long distances in bulk form. Because it is reducible to standard grades, it formed the ideal pioneer crop. In 1930, farming accounted for 46.9 per cent of the new wealth produced. However, the province of Alberta also possesses extensive resources in the form of coal, oil and gas, and has greater potentialities for industrialization than either Saskatchewan or Manitoba.

TABLE II

NET VALUES OF PRODUCTION IN ALBERTA(1930)*

Production		Value in dollars
Industry		86,509,813
Agriculture		7,186,473
Forestry		421,258
Fisheries		999,216
Mining		30,619,888
Electric power		4,651,870
Construction		16,302,650
Custom and repair		6,990,000
Manufacturing		40,692,898
	Total	184,659,449

*Canada Year Book(1947), p. 213.

Mineral production. With its great natural reserves of petroleum, natural gas, and coal, Alberta has the basis for an extensive industrial development. Though the value of mineral production is much less than the value of agricultural production, the former has become significant since 1905. Table II shows that in 1930 mineral production comprised 16.6 per cent of the provincial total wealth. The lack of markets, however, presents a definite limitation to the opportunities for developing these resources. Almost the entire production of Alberta finds its market in the prairie region, and has fluctuated in value with the declining value of farm products.

Possessing the potentialities for a diversified economy, it was small wonder that Alberta should have been eager to obtain the return of its lands. The crown lands had been transferred by the British crown to the original colonies long prior to Confederation, and they were the source from which the provinces were henceforth expected to receive the chief part of their revenue. However, when Canada bought out the territorial rights of the Hudson Bay Company, the crown lands were reserved for purposes of the Dominion. The new land thus acquired was to be held for the benefit of the whole Dominion. Accordingly, when the Province of Alberta was created in 1870 she did not receive from the Dominion the title to public lands within her borders. "No subject connected with the financial relations of the Dominion and its provinces have aroused more controversy than that of the crown lands."[12] Alberta did not gain control of her natural resources until 1930 and considered the annual subsidy in lieu of the control of the public lands as totally inadequate.

IV. DEBT SITUATION

Alberta, in common with the other prairie provinces, was burdened with debt. Indeed, it was the crux of the situation which gave rise to the Aberhart victory in the thirties. C.H. Douglas, the founder of the Social Credit movement recognized this fact when he said, "If an explanation of the causes of Mr. Aberhart's victory in 1935 were required in one word it could be given. That word would be debt."[13] It is easy to see why such a situation should initially exist. The homesteaders who took up free quarter sections of government land lacked the financial means to develop it. Canadian

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[12] Prairie Provinces. Part I (Vol. 19), Canada and Its Provinces. Toronto: Brook and Company, 1914), p. 357.

[13] C.H. Douglas, The Alberta Experiment. (London: Eyre and Spottiswoode, 1937), p. 3.

banks and financial institutions were rapidly extended from their headquarters in the east and facilitated the marketing of farm produce. A pioneer area must of necessity develop with borrowed capital imported from outside sources, for there is no local surplus of funds. "J.S. Mill may have thought that capital is the result of saving. An Albertan, however, knows better. For him, capital is the result of borrowing."[14] The farmer became a debtor in order that earning assets might eventually be acquired. The rapid development of wheat production on the prairie was facilitated through the easy loan policy adopted by the banks enabling the farmer to buy land, to equip the farm.

This policy became the mainstay of production during the developmental priod and in subsequent emergencies. The farmer secured the money necessary for seed and other agricultural implements by giving as security promissory notes which were to be redeemed when the produce of the soil was marketed. Until 1929, credit in Alberta was easy to obtain; in fact so easy that it later became a ground for complaint against creditors. The borrowers of the 1920's had been made unduly optimistic by the high prices prevailing after World War I,

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[14] D.A. MacGibbon, "The Canadian Grain Trade," (Toronto: 1932), p. 470, cited by A.F. McGoun, Canadian Journal of Economics and Political Science. Vol. II(1936).

and interest charges which had not seemed unduly burdensome with good crops and wheat prices of over a dollar a bushel, became extremely onerous when the bottom dropped out of the wheat market after 1929. Moreover, since Alberta had begun its provincial existence on the flood tide of immigration and settlement activity, high rates of interest were demanded and paid in a speculative era.

High interest rates. The Canadian banking system[15] operated on the branch banking principle. This had the avowed advantage of distributing funds throughout the country equally and thus distributing the risks involved. The Canadian chartered banks thus enjoyed comparative immunity from the adverse effects of local conditions, while enjoying a reputation for adaptability to existing conditions. Yet an examination of the rates of interest charged in the newly settled districts of Western Canada shows that often the rate of interest exceeded ten per cent.

To effect this high rate of interest the chartered banks of Canada took advantage of a loophole in the Bank Act

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[15] Cf. post, Chapter IV.

of 1923 to charge a rate of interest in excess of the maximum rate stipulated therein. The clause governing the rate of interest reads as follows: "The bank may stipulate for, take, reserve or exact any rate of interest or discount not exceeding seven per cent per annum and may receive and take in advance any such rate, but no higher rate of interest shall be recoverable by the banks.[16] This meant that the banks might charge a higher interest than seven per cent but they did so at their own risk.

The banks justified their action in charging a differential rate of interest between east and west by claiming that in a comparatively newly-settled and rapidly developing territory, the risk to be borne by the banks was substantially higher than those prevailing in well-established districts. J. M. Keynes[17] defines the rate of interest as a bribe which has to be given to persons to induce them to abstain from using their money in the present, on the assumption that people prefer a liquidity position at any given time. This agio or premium serves to equate the utility of an immediate sum of money with that of a remote one. The banks added a further premium to take care of the risk factor. The spokesmen of the chartered banks in Canada

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[16] The italics not in the original.

[17] John Maynard Keynes, The General Theory of Employment Interest and Money. (London: Macmillan and Co., 1936).

pointed out that the interest rates in Western Canada compared favorably with those in comparable sections of the United States where rates of twelve per cent were not uncommon.

This attempt to absolve from blaim the actions of the commercial banks has several serious objections. In the first place, exception must be taken to the common banking policy of requiring every branch to show an individual profit. Since the main advantage of branch banking is to diffuse risks, so too, should the profits be spread, so as to yield a uniform rate of interest. The chartered banks took advantage of their virtual monopoly position to charge "what the traffic would bear." Moreover, the contention of the chartered banks that the risk element necessitated the higher rates of interest in the west would be more plausible had not the banks pursued an unduly easy credit policy in a highly speculative era.

The political reaction against high interest rates was not long in coming. Mr. Henry E. Spenser, member of the House of Commons for Battle River, had this to say in urging financial reform in Canada: "When you consider the short term for which the loans are issued and the high rate of interest that is charged and compounded, the interest rate will easily equal ten per cent."[18] Alberta had a debtor population who were alive to the realization that deflation meant their ruin. Moreover, they were ready to listen sympathetically when told that their troubles were partly due to the "vested financial interests" operating out of Eastern Canada. The seeds of Social Credit, therefore, have found a friendly soil in Alberta.

Provincial debt. Few governmental functions are self-sustaining. Most are paid for by the taxpayer. The allotment of lands to railway companies forced homestead and other settlement largely into the remaining sections and in addition to placing a heavy burden upon the provincial administration of Alberta through tax-exempt lands, also contributed in a very real sense to the dispersion of the settlement. Alberta had to maintain 500 per cent more miles of highways per 1,000 people than Ontario.[19] The problem of providing adequate highways complicated the financial picture in Alberta, for when the province was created in 1905, the prairie trail was still a distinctive feature of the landscape.

In addition, the problem of education, the provision of

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[18] Debates of the House of Commons, (Dominion of Canada, Vol. I, 1923), p. 630.

[19] The Case of Alberta. (Edmonton: King's Printer, 1938), Part I, p. 51.

social services such as public health, old age pensions, unemployment and agricultural relief, added to the worries of the provincial administration.[20]

Accordingly, the provincial government found it necessary to float loans in external markets such as New York and London which in effect formed a perpetual mortgage on the provincial taxing power. Such a situation would inevitably be rendered worse in the midst of a business depression. Then the costs of government would remain high while the incomes of the citizens would fall and a larger percentage of incomes would have to be contributed by the government.

Municipal debt. The bond system formed an integral part of the municipal fiscal system. The necessary loans were usually sought from chartered banks and financial corporations and were granted principally on the security of the taxing power of the local authority. Generally speaking, the problems confronting the municipalities were the same as those confronting the provincial government. Both were forced to anticipate tax revenues in order to procure the necessary financial wherewithal in a rapidly growing province.

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[20] C.A. Dawson and Eva R. Younge, Pioneering in the Prairie Provinces. (Canadian Frontiers of Settlement Series, Vol. VIII. Toronto: The MacMillan Company of Canada, 1940), deals with the social side of the settlement process.

<u>Hierarchical tax structure</u>. The Albertan situation was further aggravated by the fact that the taxing powers of the Dominion were by the British North America Act of 1867 extended to the provinces so that a citizen was often subject to a hierarchy of taxation: municipal, provincial, and federal. The Rowell-Sirois Report found a great disparity in the income tax rate prevailing between provinces. For example, a married man with no children would pay on an income of $3000 the sum of thirty dollars if he lived in Nova Scotia or New Brunswick, while paying sixty-five dollars if he lived in Alberta. The construction industry especially suffered from onerous assessments on real property. This situation was so burdensome that "in such cities as Edmonton and Calgary, house property of the most modern and eligible type has been shut up and lies unused, not because it is not urgently needed, but because the taxation upon it makes it impossible for the ordinary individual to occupy."[21] The consequence was the creation of a debtor population, and the beginnings of agitation against "poverty in the midst of plenty."

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[21] <u>The Case of Alberta</u>, <u>op. cit.</u>, p. 51.

V. WEAKNESSES IN ALBERTA'S POSITION

Implicit in Alberta's dependence on wheat as its prime staple were the fluctuations in income consequent upon alternate periods of prosperity and depression. These vicissitudes were partly due to fluctuations in prices, but were chiefly due to the uncertainty of weather conditions. Droughts, frost, and disease, continued to plague the western farmer. The seeds of discontent were thus sown at an early age in the development of Alberta, and its inhabitants were alert to support any party which promised measures of "reform."

The business cycle. There are of course many types of cycles. Ropke[22] distinguishes three main types. There are short-wave fluctuations such as seasonal unemployment. In every capitalistic country a small margin of unemployment is due to these short-wave oscillations. At the other extreme, a secular trend of development is distinguished. This is the underlying trend of all economic data continuing over long periods of time. It is the task assigned to the economic historian to determine the long waves(every twenty to twenty-five years) of prosperity and depression which transcend the seasonal and cyclical variations in production, population,

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[22] Wilhelm Ropke, Crises and Cycles. (London, Edinburgh, Glasgow: William Hodge and Company, n.d., revised edition), p. 16.

the volume of business and foreign trade. Between this double rhythm of the short-wave seasonal fluctuations and the long-wave secular trend, there is distinguished what Ropke calls "the most important rhythm of economic life," the rhythm of the general trade or business cycle, sometimes called the "Juglar Cycle." A fourth main cycle may be distinguished in the historical or long secular trend encompassing perhaps a century in which behavior patterns and all data considered static in the short period of time are presumed to vary greatly.

As far as the business cycle is concerned, there are as many interpretations as to its cause as there are economists. Mitchell[23] has classified the current theories of business cycles and cites three main categories. There are theories which trace business cycles to objective factors such as physical changes in weather, crop yields, etc. which in turn react on mental attitudes towards business activity. Then too, there are theories which trace business cycles to emotional processes in which the psychological factor of error in optimism and pessimism react on one another to form an endless chain of cycles. Finally, there are the theories which attribute business cycles to institutional processes.

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[23] Wesley C. Mitchell, Business Cycles. (New York: Publications of the National Bureau of Economic Research, Vol. I, 1927), pp. 50-53.

These theories emphasize the fact that social change or innovations never come smoothly but come in waves and thus upset the equilibrium of economic processes. However, the typical course of the trade cycle is generally agreed upon and may be analysed as follows: (1) recession; (2) primary rise (3) secondary rise; (4) boom; (5) shortage of capital; (6) recession. The whole process, both the upswing and the downswing is included in the cycle which encompasses a period roughly corresponding to ten years. Of course, relapses from the common cycle are quite possible, even probable, and examples are common where one phase of the business cycle relapses into the preceding phase. The situation in Canada and particularly the position of the Albertan serves to illustrate the workings of the business cycle.

Boom. The war boom was succeeded by a short but intense boom in the post-war period. It was a common enough phenomenon in most countries and owed its vitality in Canada mainly to the credit expansion in the United States and to the dearth of goods which was particularly noticeable in Europe following the end of World War I. With plenty of credit available, the greatly exaggerated demand for commodities brought about the inevitable spiralling of prices. The increase was especially conspicuous in the prices of consumers' goods and less so in the prices of producers' goods. Accordingly, the farmer, who was a primary producer stood to gain most by the boom period.

Post-war recession. However, events soon pierced the bubble of prosperity. International trade became bogged down in a maze of national restrictions and controls. The dislocation of foreign markets had an immediate effect upon Canada through the steep decline in export prices and demand. A recession was reached in 1922 and the downward movement of prices had drastic effects upon the Canadian economy because of the great price disparities which developed. The contraction in prices was especially severe for farm products as compared with the prices of manufactured goods and the cost of living.

TABLE III

INDICES OF PRICES AND EXPORTS IN CANADA*

Year	Wholesale prices	Export prices	Farm prod.	Wheat prices	Mfg. goods	Cost of living	Exports values
1920	100	100	100	100	100	100	100
1921	71	74	64	66	74	88	64
1922	62	60	55	49	64	81	71
1923	63	59	51	43	66	81	80

*Report of the Royal Commission on Dominion Provincial Relations. op. cit., p. 114.

Table III shows that the price of wheat in 1923 was only forty-three per cent of the peak prices prevailing in 1920, whereas the cost of living had fallen only nineteen per cent in the same period. The highly fluctuating incomes made heavy fixed charges extremely burdensome to the Alberta farmers.

The upswing. There was an apparent readjustment by 1925. This was due primarily to a revival of world trade following a renewed credit expansion in the United States. With foreign exchange made available by American loans, and with Russia failing to re-enter the export market in wheat on any substantial scale, Canadian exporters were able to ship an increasing volume of wheat until the end of the boom in 1929. With the satisfactory prices and high yields in this period, prairie agriculture became prosperous and expanded rapidly. Alberta became increasingly dependent on her wheat crop. A large area of its wheat-growing region was enabled to take advantage of the opening of the Panama Canal by the decreases of two per cent in 1922 and a further ten per cent in 1923 on grain freight rates from Prairie to the Pacific coast. The boom period which culminated in 1929 served to obscure the essential weaknesses in the Albertan economy.

Depression. A sharp fall in export prices for western wheat took place from 1929 to 1932. Owing to previous accumulations of wheat, and high tariff barriers imposed by European countries, and current productive capacity far in excess of requirements, the price of wheat suffered a spectacular decline. The average price of wheat fell from $1.51 per bushel in 1926 to sixty cents in 1932, while over the same period, the total value of the crop fell from $442,000,000 to $129,000,000. In January 1930, wheat ruled at $1.30 a bushel; by December it had fallen to an average price of fifty-five cents. The following years saw a further decline, the low point being reached in December, 1932, when the average price was 42.3 cents.[24] Wheat, the staple product of the West, had fallen to a point below the cost of cultivation.

<u>Variability of income</u>. The factor of variability of income has been one of the outstanding weaknesses in Alberta's economy. This was mainly owing to the almost complete dominance of agriculture, especially wheat, as the farmers' source of income. In wheat production there is a considerable proportion of costs which bear little relation to the resultant yield. For example, taxes and interest charges continue when crops are poor as well as when they are high. It has been estimated that interest charges on public debts in 1925 amounted to about six per cent of the available national income and did not during the ensuing boom fall much below five per

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[24] Bank of Nova Scotia, <u>Monthly Review</u>, May 1937, p. 20.

cent.[25] Taxation had increased greatly and it is estimated to have taken fourteen per cent of the national income in 1925. Even in the event of a succession of good crops and good prices for farm products, the problem of debts incurred during bad times seemed hopeless. The omnipresent fear of a mortgage company or other creditor eventually foreclosing, deprived the western Canadian farmer of confidence in the future and tended to preclude the adoption of the scientific farm improvement which was necessary.

Weather fluctuations. Highly variable factors were hail, frost, temperature, and precipitation. "Probably in no other large area of the North American Continent is the dependence of the people on the behavior of the weather so marked, if there is a succession of grain crop failures, the economic life of the area is paralyzed."[26]

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[25] D.A. MacGibbon, The Canadian Grain Trade, op. cit., p. 470. He adds that these prices are for No. 1 Northern wheat in store at Fort William and Port Arthur, and that at Edmonton, prices ruled twenty cents a bushel lower owing to high freight rates.

[26] The Case of Alberta, op. cit., p. 8.

TABLE IV

INFLUENCE OF PRECIPITATION ON WHEAT YIELD IN ALBERTA(1921-1933)*

Year	May-June Precipitation (inches)	Wheat Yield per Acre (bushels)
1921	2.9	10.4
1922	3.3	11.3
1923	8.2	28.0
1924	2.9	11.0
1925	3.9	18.3
1926	4.1	18.5
1927	6.9	27.4
1928	5.3	25.5
1929	3.3	12.3
1930	4.6	20.5
1931	4.9	17.7
1932	5.1	20.4
1933	4.1	13.0

* Reprinted in part from the Quarterly Bulletin of Agricultural Statistics, (July-September, 1941), p. 19.

Table IV shows that the drought of 1931 was not unprecedented. In 1924 the yield was very low, chiefly as a result of insufficient moisture. Moreover, there is a high correlation between precipitation and the resultant yield.

Rigidities. The lack of elasticity in Canada's economic system contributed to the weakness of Alberta's position. There existed the contrast between the exposed and sheltered industries. The agricultural producer, who, on the supply side, represented most completely the small individualistic unit engaged in simple competition, usually had to market his product through a few powerful corporations who tended towards semi-monopoly. As a result there were two groups of prices, those of the exposed industries were highly flexible and those of the sheltered and concentrated industries were highly rigid. The depression thus fell with exceptional severity on the exposed agricultural group, the wheat farmer, and the unorganized laborer.

Lack of self-sufficiency. The dependence of the Canadian economy on prices prevailing in foreign markets rendered the Dominion of Canada especially vulnerable as it linked the internal economy of Canada to the disastrous effects of depressions in other countries. A decline in the level of export prices for western wheat involved the necessity of widespread re-adjustment of the economic structure of the Canadian economy, with consequent unemployment and general stagnation. The significance of this extreme dependence cannot be overestimated in discussing any economic problem pertaining to Canada.

With the incidence of the depression after 1929, the

Albertan farmer was hard hit. The Wheat Pools were glutted with an unmanageable surplus, and the desire of the banks to increase their liquid assets led the farmer to defer the inevitable collapse by contracting mortgages of every description, whose redemption, in view of the circumstances, proved to be impossible. Nor could the farmer sell his land or turn it to some other use. Often a richly endowed area may be technically capable of only one use. It was practically impossible for the Albertan farmer to turn his soil to alternate uses. The breakdown of international trade upset the equilibrium of the various kinds of production in Canada. Agriculture and raw material production felt the greatest break in the prices so that the producers of these commodities could not buy even the relatively scant output of the factories at prevailing prices.

<u>The depression and the debt situation.</u> As the result of the depression the financial position of the municipal governments and the provincial government of Alberta was an unenviable one. In a business depression the costs of government remain high while the incomes of citizens fall and a larger percentage of incomes has to be contributed by the government.

TABLE V

GROSS BONDED DEBT IN ALBERTA*

1934	Municipal govts.	Per cap.	Prov. govts.	Per cap.
B.C.	$127,172,942	$245	$129,163,236	$178
Alta.	67,886,011	103	129,055,260	166
Sask.	55,692,110	61	112,868,207	124
Man.	90,767,215	130	90,024,908	124
Ont.	483,952,700	148	600,484,102	165
Quebec	565,218,160	192	126,518,007	49

* The following statistics are taken from the Canada Year Book of 1936 and give a comparison between the provinces west of the Maritimes for the fiscal years ending 1934.

Table V shows that in 1934 Alberta's per capita debt of the provincial government was second only to that of British Columbia. From 1929 to 1933 borrowing from financial institutions was not resorted to in Alberta. Instead, large amounts of loans were made from the Dominion government. The net effect of Alberta's financial relations with outside investors was a constant drainage of money by way of interest payments. It was on this ground that many speakers asserted that finance was impoverishing the country.

APPENDIX TO CHAPTER II

GROSS CASH INCOME FROM THE SALE OF FARM PRODUCTS EACH YEAR EXPRESSED AS A PERCENTAGE OF 1926*

TABLE VI

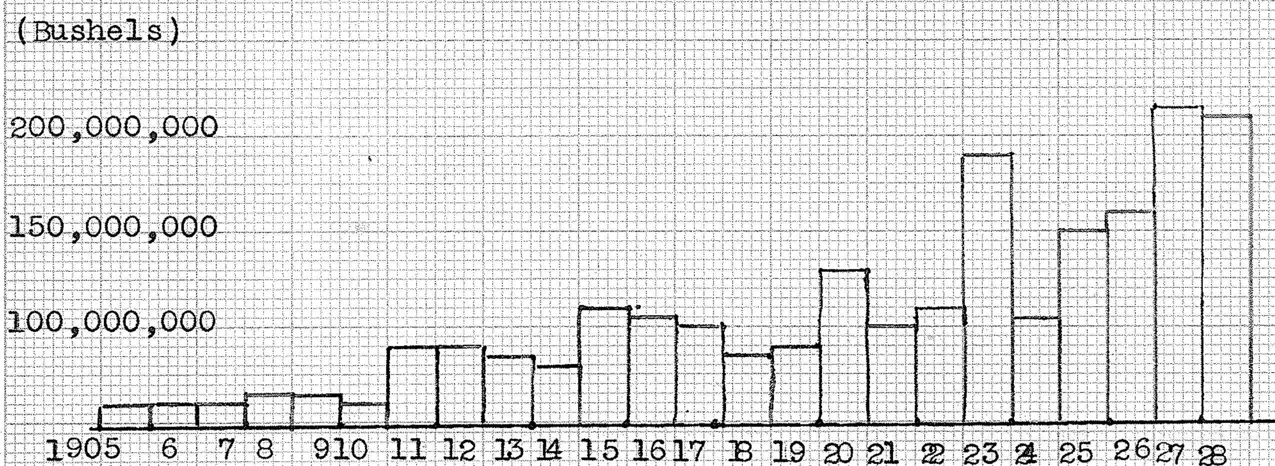
Year	Quebec	Ontario	Manitoba	Saskatchewan	Alberta
1926	100.0	100.0	100.0	100.0	100.0
1927	100.5	99.2	87.6	93.3	104.7
1928	112.2	105.8	91.6	110.5	131.0
1929	106.9	104.0	80.8	84.0	105.1
1930	85.6	84.0	52.6	42.3	57.0
1931	64.7	63.8	53.8	23.9	42.0
1932	49.1	48.3	31.3	25.1	40.3
1933	49.1	50.7	35.1	25.1	39.9
1934	62.9	57.1	48.2	31.4	56.4
1935	67.5	60.8	38.8	37.0	58.8

* J.B. Rutherford, (Dominion Bureau of Statistics, Ottawa), <u>The Canadian Journal of Economics and Political Science</u>, Vol. 4, 1938, p. 425.

Table VI shows the extent of the total loss in income in the Prairie Provinces after 1929. However, equally important was the severity of the reduction in the 1930 income compared with the 1929 income. In Alberta income for 1930 was fifty-four per cent of that in the previous year.

FIGURE I

Alberta Wheat Production 1905-1928*



*D.A. MacGibbon, "The Canadian Grain Trade", op. cit., p.21.

It will be noted from Figure I that it was not until 1910 that Alberta began to show promise as a province producing wheat. The explanation of the great increase in production since that date is largely due to the success of plant breeders and the development of marquis wheat--a variety which was an early maturing wheat and thus forestalled the danger of being ruined by an early frost.

VI. POLITICAL REPERCUSSIONS IN ALBERTA

It has been shown that owing to the inherent situation of Alberta certain economic problems were certain to arise. The difficulties of the western farmer were to find expression in political agitation for mitigation of their distress.

Political disillusionment. It was at a relatively early stage in its development that the citizens of Alberta first became disillusioned with its "status quo" governments. In 1909 a scandal broke over the Rutherford government's connection with the Alberta and Great Waterways Railway Company which had been designed to connect Edmonton with the regions of the Peace and Athabaska Rivers. Investigation later revealed that the favorable terms granted by the Alberta government was at least partly the result of the connection of certain members of the government with the railway company. Confidence in the innate honesty of governments was shattered beyond repair in Alberta.[27]

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[27] The Alberta government guaranteed the railway bonds at $20,000 per mile. The bonds were to bear interest at five per cent and were to mature in fifty years. The bonds were sold to J.P. Morgan and Co. at par and thus realized tremendous profit for that company because the bonds sold at far more than par in Alberta.

However, it was not until after World War I that the difficulties of Alberta stimulated concrete action. There was a constant agitation for the re-establishment of the Wheat Board; farmers' organizations grew rapidly, and voluntary wheat pools were established during 1923 and 1924. There followed the post-war recession[28] a reaction against the "old-line" Liberal and Conservative parties and the election of 1921 resulted in the election of a majority of U.F.A. members and "independents." Eventually, the anti-traditionalist parties coalesced to form a Progressive Government under Mr. Greenfield.[29] The Progressive government promised to substitute co-operation for competition. Such a programme appealed to the Albertan farmer who had been exposed to the rigors of a supposedly self-regulating economy envisaged by the laissez-faire economists.

Subsequently, federal members bearing the same party

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[28] Cf. ante, p. 27.

[29] The mentor behind the Progressive Party was Henry Wise Wood, the founder of the United Farmers of Alberta, and an influential leader in agrarian protest movements. He declined, however, to accept political office.

label were elected to Ottawa. Prominent amongst the federal representatives of the Progressive Party were Mr. William Irvine and Mr. Woodsworth.[30] The Progressives, being a "grass-roots" party, were quite aware of the dissatisfaction prevailing in their Albertan constituencies.

Mr. Irvine soon made the decennial revision of the Bank Charter Act an opportunity for bringing the subject of finance before the Canadian public. During the parliamentary session of 1923, he moved that a representative committee should be appointed to investigate the basis, the function, and the control of financial credit. He proposed to"...find out what credit was, how it was controlled, its indispensability to modern society, how inflation and deflation is controlled by the banks; that the present industrial paralysis is due largely to a lack of purchasing power."[31]

The gist of Mr. Irvine's argument was as follows: Canada was in a state of business depression in 1923 owing to a policy of deflation pursued by the Canadian banks. He quoted statistics showing that in October 1920, the amount of money in circulation was $249,000,000, but that in the space of a few months, this total was reduced by $43,000,000, and by

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30 Mr. Woodsworth later became the leader of the C.C.F. party and Mr. Irvine one of the party's leaders.

31 Debates of the House of Commons. op. cit., p. 630.

June 30, 1921, the banks had taken another $10,000,000 out of circulation. The effects of this sudden deflationary action was "appallingly detrimental" to the well-being of the Canadian economy. Mr. Irvine felt that since credit was the very "life-blood" of industry, its control should be taken out of the hands of a small clique with vested interests and should be subject to social control.

Mr. Maclean, member for Halifax, thereupon replied, "...the only system I know of comparable to that which he(Mr. Irvine), is advocating is the Douglas system..."[32] Indeed, the upshot of the whole matter was that Mr. Douglas was prevailed upon to testify before a Select Standing Committee on Banking and Commerce in 1923. His evidence ran counter to the orthodox opinion of the Canadian Bankers' Association.[33] Moreover, the outlines of Douglas Social Credit were for the first time officially brought to the attention of the Canadian government as a possible remedy for economic afflictions.

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[32] Ibid, p. 631.

[33] Proceedings of the Select Standing Committee on Banking and Commerce of the House of Commons on Bill No. 83, (Ottawa: King's Printer, 1923). pp. 487,444.

<u>Monetary policy</u>. It was the lack of a consistent monetary policy on the part of the Dominion government which affected adversely the Albertan farmer. Monetary policy is a phrase which is open to many interpretations and actions. The volume of money available for use or the interest rate prevailing may be varied. Foreign exchange ratios, and borrowing and expenditure through special fiscal measures of taxation, are also within the realm of monetary policy.

Prior to World War I, Canada was on the gold standard. Internally this meant that the note issue was backed fully by gold. Externally this meant stable foreign exchanges, since the gold standard was supposedly to ensure a self-regulating mechanism. If Canada had an adverse balance of trade for any length of time with another country this meant that gold would flow from Canada to the other country. The result would be a contraction in the money supply in Canada, since the gold basis would be reduced, and a fall in prices. The net result would be to remove those causes which made originally for an adverse balance of trade.

It was realized during the twenties that a stable foreign exchange ratio based on the gold standard precluded a stable domestic economy. Accordingly, the Canadian government, although paying lip service to the gold standard proved unwilling after the war to depreciate its currency, when the trade situation warranted it. The Albertan farmer prior to 1933 felt that depreciating Canada's currency in terms of other exchanges would benefit them by making it more profitable for foreign countries to buy Canadian wheat. Lack of action along this line was yet another grievance nurtured by Alberta against the federal government. It caused them to be more amenable to action in the provincial sphere. When Mr. Aberhart appealed to provincial autonomy he found heartfelt support in Alberta.

Tariff policy. The Albertan farmer felt also that the tariff policy pursued by the Dominion government impinged unduly upon the prairie economy. He agitated constantly for reduced trade barriers. It was argued that the production of the Province of Alberta contained a large proportion of those agricultural products, the prices of which were determined in export markets. The producers of these products could not secure any compensation for the higher internal costs imposed upon them from all sides by the direct and indirect effects of the tariff. Thus the manufacturing industry in Canada was being protected at the expense of the Western Canadian farmer. This tariff agitation was at the source of the various Grain Growers movements which sprang up in the prairie regions at the turn of the century.

A further example of the disadvantage of the western farmer was contained in a Report of the Committee on Price Spreads.[34] It showed clearly the existence of two price structures in the Canadian economy and the growing concentration of economic power in the hands of monopolistic or semi-monopolistic corporations. Unfair trade practices, while existing even in times of prosperity were thrown into bold relief by the depression. By revealing the flaws in the Canadian economy, the Price-Spreads Report contributed to the development and success of the Social Credit party led by Mr. Aberhart in the province of Alberta. The theoretical foundation of the social credit movement was laid by Major C.H. Douglas.

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[34] On February 2, 1934, a Select Special Committee was appointed by resolution of the House of Commons "to inquire into and investigate the causes of the large spread between the prices received for commodities by the producer thereof; and the price paid by the consumers..."

CHAPTER III

DOUGLAS SOCIAL CREDIT THEORY

Organized advocacy of Social Credit theory is associated chiefly with the views of Major C.H. Douglas. Mr. Douglas is a Scottish engineer who has had a broad practical experience in science, business, and economics. He never held an academic appointment in economics, but his unorthodox and "heretical" views have won him public recognition in a good many countries. In 1923, he was called upon by the Opposition in the House of Commons to give evidence at Ottawa before a Banking and Commerce Committee.[1] Here, for the first time, Social Credit views were expounded in a Canadian environment. Major Douglas has subjected the capitalist economy to a rigorous analysis and has evolved several basic principles therefrom.

I. THE ECONOMY

Distribution. Production and consumption are viewed by Major Douglas as the two sides of a ravine which are connected by a bridge called the distributing mechanism. As long as the bridge is functioning properly, there is free and

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[1] *Supra*, p. 41.

healthy intercourse between production and consumption, and the economy functions properly. The prime mover in the whole scheme of things is money. Money is conceived as being merely a ticket system for goods in existence. Money is the *sine qua non* of a healthy economy. The bulk of modern money however, is not made of metal or paper, but exists in the form of financial credit which is rendered extremely liquid by the medium of cheques. The logical extension of this fact is that whoever has control over the creation of money and credit possesses very real powers for better or for worse in the life of a nation. Major Douglas contends that the distribution mechanism whereby money reaches the consumers is at fault, so that there exists a chronic shortage of money.

Production. As far as production in the modern world is concerned, Douglas Social Credit theory assumes that it is practically limitless and that "the world's ability to produce has, compared with the world's population increased by such leaps and bounds, especially in the last quarter of the century, that it is throwing everything--people, machines, nations, money systems, out of gear and will continue to do so at an accelerating rate until the world does something about it."[2] The argument follows from the primary truth

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[2] Maurice Colbourne, *Economic Nationalism.* (London: Neill and Co., second edition, 1934), p. 36.

that the cost of producing a given article is the total cost of production divided by the number of units of that article that are produced. Under modern circumstances the fixed charges, that is the cost of the plant and equipment, interest and depreciation, are considerable, while the variable costs, consisting principally of wages, are relatively less important. The result is that the greater number of units produced the smaller the unit cost of production. This principle was evolved with the industrial revolution and the factory system was based on division of labor with mass production the consequence. With the mass production techniques the age of scarcity, Douglas argues, is an artificial one, and need not continue because the Machine, if operated under more "enlightened" conditions could satiate the wants of the world. In essence, this is a refutation of the long established orthodox views on scarcity.

> "The fact of scarcity, that is the fact that things which men want are not available in such quantities that they can *all* satisfy *all* their wants, makes imperative some form of "rationing," i.e. some method of restricting consumption to that amount, or rate, which is consistent with the existing stocks, or rates of supply."[3]

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[3] V.W. Bladen, *An Introduction to Political Economy*. (Toronto: The University of Toronto Press, 1941), p. 19. The italics are in the original.

Mechanical energy, therefore, is regarded by Douglas as the source of wealth and power which permits the masses to share in the comforts of life and this technological progress lies at the very basis of our civilization. The big stumbling block is that the Machine, if utilized to its fullest capacity, would replace labor on such a scale as to create widespread unemployment of the human power which has in the past been man's moral claim to sustenance. The task for economists, as Major Douglas sees it, is to devise some mechanism to enable the utmost utilization of the wealth in the world without leaving anyone "a penny worse off."

Consumption. The purpose of all production is eventual consumption. The Douglas Social Creditors find nothing wrong with this phase of our economy. The contention is, however, that people are prevented from the laudable act of consuming by a faulty distributing mechanism so that they cannot purchase all they wish to consume. Several principles and concepts are formulated by Major Douglas in explaining the existence of a chronic shortage of purchasing power.

II. THE A PLUS B THEOREM

The case for the contention that there is a chronic deficiency of purchasing power rests on the A plus B theorem. This theorem has been stated in many books of Major Douglas and has been reiterated in those of his disciples.[4] It runs as follows:

> "In any manufacturing undertaking the payments made may be divided into two groups: Group A includes all payments made to individuals in the form of wages, salaries, and dividends. Group B includes payments made to other organizations, raw materials, bank charges, and other external costs."[5]

Now since the rate of flow of purchasing power to individuals is at all times represented by A, and since both A and B payments enter costs and are therefore entered into prices, Douglas argued that A as income will not purchase A plus B, and accordingly a proportion of the product at least equivalent to B must be distributed by a form of purchasing power which is not comprised in the description grouped under A. Douglas proceeded first to show by numerous illustrations that there is such a shortage of purchasing power, and then goes on to discuss his proposals for supplementing this chronic shortage of purchasing power. Douglas declared this theory to be

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[4] Chief works by Douglas: _Economic Democracy_. First published 1920.
Credit-power and Democracy. First published 1920.
Social Credit. First published 1924.
The Control and Distribution of Production. First published 1922.
Warning Democracy. First published 1931.
The Monopoly of Credit. First published 1931.
The New and Old Economics. First published 1933.

[5] C.H. Douglas, _Credit-Power and Democracy_. (London: Palmer, third edition, 1931), p. 55.

"incontrovertible," and admitted that the soundness of the remedy he proposed rested upon the validity of his analysis.[7]

Criticism of the A plus B theorem. Nevertheless, there is general agreement among economists that the A plus B theorem is fallacious.[8] Unfortunately, Douglas' terminology is very ambiguous and this allows of more than one interpretation of his A plus B theorem. The "orthodox" economists as a rule have understood Major Douglas to meanthat the costs of production, which he calls the "rate of flow of prices" must include all the A payments plus all the B payments made in respect of an article from the very beginning of the production of its raw material until it is a finished product on the retailers' shelves. If this is really what Douglas meant, then it is evident that the rate of flow of purchasing-power is much less than the rate of flow of prices owing to the non-availability, as purchasing-power, of the whole of group "B" payments. However, it is not difficult to show the serious fallacy in this conception of the A plus B theory.

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[7] The Douglas System of Social Credit: Evidence taken by the Agricultural Committee of the Alberta Legislature, (Edmonton: King's Printer, 1934), p. 105.

[8] H.T.N. Gaitskell in What Everybody Wants to Know About Money, ed. by G.D.H. Cole (London: Victor Gollancz, 1933), c.8.
R.G. Hawtrey, Capital and Employment. (London, New York, Toronto: Longmans, Green and Co. 1937), c.10.
F.J. Docker, Douglas Delusions--A critical examination of the Douglas Social Credit Proposals. (Australia: Angus and Robertson, 1933).

Douglas claims that the rate of flow or purchasing power is represented by A. Let it be assumed that this is $500. Moreover, payments to other organizations, the B payments, enter the flow of prices and may be represented by $2500. According to Douglas, the rate of flow of prices cannot be less than A plus B, that is $500 plus $2500 or a total of $3000. But Douglas is saying that since only A($500) is available in the form of wages, salaries, and dividends, to purchase consumable goods represented by A plus B or $3000, a proportion of the product at least equivalent to B, that is $2500, must be distributed to the consumers by some form of purchasing power other than A or else there will be a chronic shortage of purchasing power.

If Douglas means that the total spending power of the community on consumption goods need equal the aggregate value of the total output of all classes of goods, consumption and production goods, he is clearly in error. It can and need only equal the flow of consumption goods.[9] For example, consider the production of bread. In the first stage, that is the primary production phase where the farmer harvests his wheat crop.

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[9] John Lewis, Douglas Fallacies--A critique of Social Credit. (London: Chapman and Hall Ltd., 1935), p. 6.

In order to do so the following payments might be required:

Wages--A Payment = $75
Profit--A Payment = $25
Total............ $100

Sales(price times quantity sold) = $100

Now the wheat is taken to the mill to be processed into flour and at the second stage, i.e. the processing stage, the schedule is:

Wages--A Payment =$120
Materials(B Payment, i.e. Sales price of farmer = $100
Profit--A Payment =25
Total.....................$245
Sales(price times quantity sold) =$245

In the third stage, the flour is sold to the baker from whence it emerges as a finished product, that is, bread. The final product schedule is:

Wages--A Payment =$185
Materials(B Payment, i.e. Sales price above =$245
Profit(dividends)--A Payment=$70
Total.................................... $500
Sales(price times quantity sold) = $500

In the absence of a wholesaler, the bread goes to the retail store, and the schedule for the retail trade is:

Wages--A Payment=75
Materials(B Payment, i.e. Sales price above=$500
Profit(dividends)--A Payment--$125
Total........................$700
Sales(price times quantity sold)=$700

Accordingly, the final sales price to consumers of bread is $700, and the A payments in the hands of the consumers are as follows:

	Wages	Profit(dividends)	Total
Primary prod.	$75	$25	$100
Processing	$120	$25	$145
Final prod.	$185	$70	$255
Retail	$75	$125	$200
	$455	$245	$700

Thus in the final stage the product sells for $700, which represents the rate of flow of A payments. But the rate of flow of A plus B from the initial stage to the retail level would be $1545. Nevertheless, it is evident that Douglas is mistaken in stating that the consumers should have enough money to cover the payments between producers, for these are made at the earlier stages in the production of consumption goods. He forgets that since the goods are passed on from hand to hand and emerge only on the consumers' market once, it is not necessary for their complete purchase to distribute the sum total of all the values for which they have changed hands, but only a sum equal to the final cost. Considered from this point of view, it is fallacious to assume that it is necessary for the consumer to have purchasing power to buy intermediatory products as well as the final product. The Douglas money issue, when conceived in this light, would be like turning on both faucets in a tub already full.

It may be, however, that Douglas is not arguing that the deficiency in purchasing results from the failure of the

A payments to equal the <u>total</u> A plus B payments of the system, but merely that the total A payments do not equal the A plus B costs of the retailer. Nevertheless, even considered from this point of view, Douglas is clearly in error. The retailer's B payments are simply an aggregate of all the A payments in the preceding stages. Thus in our example, in the final stage the product sells for $700 and there is $700 distributed to consumers in the form of A payments. There is thus no deficiency in purchasing power.

Major Douglas, however, emphasizes the important element of time. A time lag arises with respect to what Douglas calls the "rate of flow" which is the rate at which the purchasing power is being distributed to the consumer in the process of production. The essence of the financial misfit is that the incomes distributed in the course of production do not synchronize with the appearance of the output. Incomes are being generated from the very beginning of a productive operation whereas the product emerges only at the very end of the cycle of production. Even if it is conceded that the money has been paid out in the past, Douglas argues that it is precisely for this reason that it will not be available to buy present output. The money representing the B payments of intermediate products has been spent by its recipients and is therefore not available in the present. A bakery distributed wages, salaries and dividends, all of which are immediate purchasing power, but Douglas would say that most of the wages thus distributed in this year's production of bread are used by their recipients to buy last year's production of consumers' goods, so that the consumer never really catches up. Even if the production of bread is increased substantially in order to distribute more purchasing power in the form of wages, dividends, etc, the current production of bread will remain unsold until new purchasing power is created to consume it.

Major Douglas himself takes the case of a man employed in the production of linen. To produce a certain quantity of linen requires six weeks of this man's labor and he is paid for his services at the rate of a pound per week. Assuming that there are no other costs, the cost of the linen is six pounds.

> "Obviously the cost of the linen must be six pounds, and this will be the price, plus profit, which the capitalist would place upon it. Quite obviously one-sixth of the purchasing power necessary to buy the linen has been distributed although "at some time or other" all the six pounds has been distributed." 10

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10 C.H. Douglas, Monopoly of Credit, p. 34., cited by H.T.N. Gaitskell in What Everybody Wants to Know About Money, op. cit., p. 353.

It is evident that in practice production is not static and that all stages of production are in operation simultaneously, so that if the entrepreneurs of the "earlier" stages of production continue to produce the same raw materials and semi-finished goods as heretofore, and employ the same manpower, there will be no dearth of purchasing power. It is only when the employers at the "earlier" stages tend to diminish their utilization of intermediate products that there will be a tendency towards a deficiency of purchasing power in the next period of time. Most economists would concede Major Douglas this point. However, it must be added that at certain other times the reverse is true, and there is a tendency for entrepreneurs to increase their utilization of producers' goods so that the net result is a surplus instead of deficit in the next period of time. This is precisely what Major Douglas does not appear to concede. To him the <u>bete noir</u> of our society is a chronic lack of purchasing power.

However, Douglas has other arrows in his quiver and does not hesitate to use them. There is one B payment upon which Major Douglas lays particular emphasis as a source of deficiency of purchasing power. He argues that the depreciation charge necessary in all production involving capital outlay is another factor causing a chronic shortage of purchasing power in the modern economy. Investors expect to receive back in their incomes sufficient money to compensate them for the decline in the value of their capital. Thus if certain plant equipment is expected to last twenty years, its owners would expect to receive during this period of time a sum of money equal to its original cost plus interest on this amount. Douglas submits that the charging of depreciation by adding a new cost to goods will cause a shortage of purchasing power. Moreover, he contends that depreciation funds are destined to be idle funds which are put aside as a reserve and hence do not appear as purchasing power. Thus the existence of fixed assets is an indication to Douglas that there is a deficiency of purchasing power accruing to the consumer.

> "The public does not buy machinery, industrial buildings, etc., for personal consumption, but it pays the price of them, since they form an overhead cost added to the price of ultimate products." [11]

However, Douglas seems to overlook the fact that in mature economies the process of capital investment in fixed assets has been spread over centuries of time so that the current addition to capital equipment is made without much difficulty out of current voluntary savings. Moreover, most reserve depreciation funds are not idle funds. The reserve

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[11] C.H. Douglas, _Economic Democracy_, _op. cit._, p. 68.

funds <u>are</u> part of the purchasing power of the community, for at the time a new plant is constructed, the purchasing power is distributed in the process. The spending of depreciation reserves to replace machines that are wearing out is a continuous process.

> "When Douglas speaks of the outflow being less than the inflow, he is disallowing, quite reasonably, the purchasing power distributed in advance and consequently already spent; but he is also disallowing, quite unreasonably, the advance payments which are now available for spending. He assumes an abrupt termination when he is looking forward." [12]

Douglas develops the additional argument that in saving we have a factor that eventually leads to a dearth of purchasing power. The existence of fixed capital of a durable character implies that "saving" must at some time or other have taken place, that is, individuals must have refrained from buying consumers' goods and instead saved their money for investment in fixed assets.

Now it is true that when there is a <u>relative</u> increase in saving there must eventually be a depression in those industries which produce consumers' commodities since less money is being spent on consumers' goods than formerely. Either, as Major Douglas would have it, the goods remain unsold on the counters of the retailers, or prices fall, and the

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[12] W.R. Hiskett, <u>Social Credits or Socialism</u>--An Analysis of the Douglas Credit Scheme. (London: Victor Gollancz, 1935), p. 14.

goods are sold at less than the normal price. If there is no increased investment in capital goods there results a definite deficiency of purchasing power. However, the reverse is quite possibly the case also.

> "Major Douglas agreed that an excess of demand for consumable goods can be caused by making a large quantity of goods which are not intended to be sold to the public and using the purchasing power distributed in making the goods to buy consumable goods. That happens in war time. However, an excess of demand is equally caused by the production of semi-manufactures of any kind."[13]

Then too, there are "savings" in our economy in the form of investments in government bonds, etc. The investment by business concerns of depreciation funds is an example. These fundswould soon find their way into circulation through government expenditure or the expenditure of the seller of the bonds.

Nevertheless, it must be admitted that saving will often take the form of "idle funds." In such a contingency there will be a lack of purchasing power available to the community. But it is not on these lines that Major Douglas is arguing his case. He takes it for granted that the money saved will be actually invested on the production of capital goods. He contends that when a sum of money is saved and is used in capital equipment, there must be a deficiency in

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13 R.G. Hawtrey, <u>Capital and Employment</u>, <u>op. cit.</u>, p.300.

purchasing power because the equipment made had no purchasing power to offset it. Douglas assumes that when saving is increased society will go on producing the same amount of consumers' goods as before in addition to producing new capital goods.

> "It is frequently urged that consumption and production can both expand together, this is of course true, but it makes no difference to the fact that whatever resources are diverted into the channels of capital equipment must represent a corresponding lessening of the resources devoted to consumption goods, so that the expansion of consumption goods cannot be as rapid as it would be if less production goods were being made."[14]

The orthodox economist would argue that there need not be an effective demand for consumption goods equal to the total production of both consumption and production goods. "Capital goods are produced instead of consumers' goods and not in addition to the old amounts of consumers' goods."[15] Providing that depreciation funds are used to purchase the new capital equipment, there is involved a transference of resources from the consumption goods trades to the production of machines. Consequently the A payments of the consumption goods producers are reduced by precisely the amount which

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[14] John Lewis, Douglas Fallacies, op. cit., p. 16.

[15] Robert McQueen, "Douglas Credit Theory," Journal of the Canadian Bankers Association. Vol. XLIII, No. 4 (July, 1936), p. 438.

they set aside for depreciation and eventually spend on the purchase of capital assets. Douglas is able to make a minor point here, however.

> "To a certain extent an increased volume of capital will involve an increase in the funds held idle for replacement and therefore a constant excess of the total of the depreciation charts over the total money spent on machines. Here it seems is the core of truth which lies within the highly confused and much misunderstood Douglas analysis." [16]

But Douglas goes on to say that there is still a source of difficulty in that interest is a new item of cost which must be added to prices, and that there is no purchasing power distributed to cover this new cost, so that some of the goods produced will remain unsold indefinitely. The answer to this appears to be that the introduction of the new equipment will not only involve a fall in the cost per unit of output but also involve a change in the proportion of the total cost between capital and labor. In other words, capital displaces labor by being more efficient, so that there will be a fall in the money earnings of labor as well as in the price of the product, so that real wages do not change. That this is really the case is evident from the effect of more capital in all countries which use it. The net result has been to lower

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[16] H.T.N. Gaitskell in _What Everybody Wants to Know About Money_, _op. cit._, p. 365.

the price of goods. If this were not necessarily so, capitalistic methods of production would neverhave supplanted the handicraft economy of the medieval era. "Capitalism has surely meant that each worker is backed up with ever-increasing supplies of instruments and machines which make his labor much more productive, and out of this increased production the capitalist has truly enough taken his interest toll..."[17] The conclusion reached at this stage is that there is no question of a chronic shortage of purchasing power involved.

Other flaws in Major Douglas' reasoning are stressed by his critics. "The unqualified statement that, owing to technological improvements and inventions and to accumulations of capital, there is a tendency for production to outgrow the capacity for consumption--this is the under-consumption theory in its crudest form and can be dismissed as wholly unfounded.[18] It is admitted, however, that very frequently, "under-consumption" is used to mean the process by which the purchasing power of a community is in some way lost to the economic system, and therefore fails to become income and to appear as demand in

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[17] Robert McQueen, "Douglas Credit Theory," op. cit., p. 439.

[18] Gottfried Haberler, Prosperity and Depression. (Geneva: League of Nations Publication, 1941), p. 120.

the market for consumers goods. Used in this sense, "under-consumption" is just another term for deflation. Deflation is of course, a plausible explanation of the breakdown of the boom and the advent of the depression, but as such, it is fully covered by the monetary explanation of the business cycle.[19] However, the Social Creditors believe that under-consumption is a chronic or permanent phenomenon and not a cyclical process.

Another fact that seems to have been overlooked by Douglas is that many sales are not cash sales. Through credit accounts, payment for such sales are usually deferred for quite considerable periods. This distinction between immediate and deferred payments is not brought out in the Douglas exposition of the A plus B theorem.

Then too, admitting the general validity of the A plus B theorem, it is held that Major Douglas underestimates the extent of his Group B payments, that is, payments between producers. Instead of being only a small fraction of the total payments, recent research has shown them to be an enormous proportion of such payments. Durbin[20] estimates that if what Major Douglas appears to say is valid, consumers' incomes would need to be multiplied by 900 per cent to make up the deficiency, since this is the amount necessary to equal group B.

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[19] *Infra*, p. 148.

[20] E. F. M. Durbin, *Purchasing Power and Trade Depression*. (London, Cape, 1933), p. 179.

Finally, Major Douglas' theory is open to the logical attack of proving too much. If it were true, as he alleges, that the capitalist system is beset with a large and constant deficiency in consumers' purchasing power, then it would have ceased to function a long time ago. There would have been a progressive and cumulative depression, and not, as is actually the case, periods of boom and prosperity followed by periods of depression. Douglas has failed to embark upon an investigation to explain recurrent booms and depressions through the A plus B theorem.

So vulnerable does the A plus B theorem become when subjected to a thoroughgoing scrutiny, that the Social Creditors have ceased to emphasize it. Instead, a second concept has been introduced. This is the banking theory, which forms a second basic social credit maxim.

III. BANKING THESIS

Douglas Social Creditors have always opposed the orthodox conception of money and banking. The present financial system is deemed inadequate as a distributor of sufficient purchasing power to the community. The Douglasites have their own peculiar conception of money itself:

> "The thing that gets the goods over from the producer to the consumer is finance. It is the ticket system; and what I want to reiterate again, at the cost of being

redundant about it, if you can put the tickets on the table, the production system will hand you over the goods."[21]

Money then, is viewed as being fundamentally nothing but a ticket system to wealth in existence. Douglas is quite specific in stating this. "Money is nothing whatever but a ticket system and has nothing to do whatever with all those abstract descriptions of it such as a medium of exchange, or a storehouse of value or any of these other things. It is a ticket system and nothing else."[22]

It is the banks, the custodians of the nation's money supply, that bear the full brunt of the Social Creditor attack. The advocates of Douglas credit theory refute the notion that "financial credit" as issued today should be based on a calculated multiple of the gold possessed by the banking system, and advocate instead that the "real credit" of a country should be based not on gold but on goods. Douglas sidetracks the relatively moderate proposals for credit expansion. Such expansion may be brought about by an economical use of gold reserves, by a reduction of cash ratios of the commercial banks, or by a reduction of the reserve ratios of the central bank. The gold standard is bitterly attacked by the Social Creditors as being artificial and unreal. They condemn it

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[21] Major Douglas speaking before the Select Standing Committee on Banking and Commerce, 1923, op. cit., p. 444.

[22] The Douglas System of Social Credit: Evidence taken by the Agricultural Committee of the Alberta Legislature, op. cit., p. 78-79.

as the most dishonest standard of value in the world. Gold as a backing for the amount of paper money in circulation has ceased to have any meaning, they contend. Moreover, gold is not stable, but is bought and sold feverishly as a commodity. The amount of gold held as a reserve has fluctuated greatly, varying from five per cent to as high as forty per cent. For these reasons, the Douglasites contend that the true basis of a monetary system should be a reality and not a fiction, and that the national wealth in terms of the monetization of natural resources should be the base of the national credit of Canada. The criticism is not directed against the creation of money *per se*, but against the monopoly of the power to create it, a monopoly held by the banks.

Moreover, the creation of "debt money", that is, the creation of bank money through loans on which interest is charged, is another question at issue. The Douglas Social Creditors argue that "interest makes debt grow because the world cannot repay more money than hasbeen loaned it..."[23] Since business depends upon the "debt money" of the banking system, every dollar loaned to business must be recorded in prices. The business man must pay to the banks not only the amount of the loan but an additional amount which constitutes interest.

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[23] Maurice Colbourne, *Economic Nationalism*, (London: Neill and Co., second edition, 1934), p. 147.

"Bank loans are charged onto prices in order that they may be repaid, but they are then cancelled by the bank who thus destroys purchasing power needed if the goods so priced are to be sold."[24]

An example might elucidate this phase of the argument. Suppose a producer has borrowed $10,000 to install a new machine in his plant. This amount must be paid back to the banks plus accumulated interest. The producer must recover his money by including in the price of his finished product not only repayments on the loans but also the interest. So the public has to pay more than the producer has borrowed by the amount of the interest. Now when the producer repays the loan, $10,000 goes out of existence, and the shopping public is left without a corresponding buying power. Thus the theme of chronic under-consumption is still the basis of Douglas Social Credit theory.

In addition to the creation of "debt money" by the banks, Douglas is convinced that the creation of money is brought about "by a stroke of the banker's pen." He contends that the banks credit the account of the customer with the amount of an authorized overdraft. Suppose ten depositors deposit £ 100 each with a bank, so that the capital of the bank is £ 1000. Now suppose that one of the depositors requires £ 200

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[24] J. Crate Larkin, From Debt to Prosperity. (P.Q: Garden City Press, n.d.), p. 91.

to pay off an outstanding debt. He asks the bank for a £ loan. The bank grants the loan and credits the depositor with £ 100. Douglas contends that this overdraft of £ 100 is a credit to the account of the depositor concerned, who can now draw £ 200. Douglas says then, "The banker's liabilities to the public are now £ 1100, none of the original depositors have had their credits of £ 100 each reduced by the transaction, nor were they consulted in regard to it, and it is absolutely correct to say that £ 100 of new money has been created by a stroke of the banker's pen."[25] Douglas argues that the banks through monopoly control of the creation of money(in the form of bank deposits largely) makes huge profits.

Criticism of the banking thesis. Although it is admittedly true that the movements of gold during and after World War I radically altered the prevailing conception as to the amount of bullion necessary for the "backing" of paper and other token money, there has been no example of a stable currency being permanently maintained with no bullion basis at all. Thus the Douglas argument that the gold standard or any other standard being valueless, is only valid with certain limitations.

Turning to the second argument outlined in the banking thesis, that is, the creation of "debt money" by the banks

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[25] C.H. Douglas, The Monopoly of Credit. (London: Chapman and Hall Ltd, second impression, 1933), p. 17.

through creation of interest bearing loans and the subsequent cancellation of the loans, it is evident that this too must be modified. Douglas' argument that "when a given sum of money leaves the consumer on its way back to the point of origin in the bank it is on its way to extinction,"[26] fails to give the whole story. Douglas forgets that business is a continuous process and that reserves and repayments of loans are always pouring into the present market to enhance the purchasing power of the community. Accordingly, the banking system need not be a cemetary for credit, and in the normal course of events, as fast as one person liquidates his loan, other loans are being issued to other borrowers. Otherwise, banking business would stagnate and shareholders' dividends decline since without loans, banking business could not show a profit. "Douglas has never satisfactorily answered the objection that, if his proposition were true, the total volume of bank credits would continually decline."[27]

As far as the third phase of the argument is concerned, that is, the allegation that bank deposits are in reality

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[26] Ibid, p. 36.

[27] Erich Roll, About Money. (London: Faber and Faber, 1934).

fictitious, a careful examination show that Douglas has used fallacious reasoning. In the example cited by Douglas in his book the Monopoly of Credit, he insisted that a bank credited the account of the customer with the £ 100 of authorized overdraft, while the same £ 100 added to the liabilities of the banker. The bank debits the customer's account with the amount of the cheque drawn by the customer, and although in the first instance the loan granted is a liability of the bank, it is offset by the fact that the overdraft or note to be repaid by the depositor is considered as an asset and not a liability by the bank which lent the money. It follows that the bank cannot increase its deposits indefinitely, since it does not create any phantom credit. The rate at which deposits are being created by the bank must bear some relation to its liabilities to the public since the bank must maintain its liquid position at all times.

From the standpoint of one bank amongst many, it is apparent that a bank can lend little more money than it receives, since it is liable to lose cash to otherbanks as well as the normal drain on cash deposits through withdrawal by customers via cheques. Two methods of creating deposits must be distinguished. The one is the active creation of deposits by lending and investing; the other is the passive creation of deposits through receipt of liquid resources from its depositors. Accordingly, to the extent that the borrowing customers pay away their deposits to customers of other banks, these other banks find their liquid position enhanced, at the same time that the first bank has been weakened with regard to its cash reserves.

In the case of a banking system taken as an entity, the ability to create credit is largely determined by banking experience and is usually around ten times the amount of a primary deposit within the system."[28] In other words, if a primary deposit of a hundred dollars is made, the banking system can create credit of one thousand dollars, providing the cash reserve ratio is ten percent. The banking system must at all times preserve public confidence in its ability to pay off its liabilities, therefore Douglas' contention that a bank acquires its securities for nothing by creating money with a "stroke of the pen" is erroneous.

IV. SOCIAL CREDIT PROPOSALS

The main proposals of the "new economics" can be put in fairly simple language. However, the claims made on their behalf are certainly not modest. "Social Credit will free

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[28] a primary deposit differs from a derivative deposit in that it constitutes a net addition to the bank's cash reserves, whereas the latter does not, since it will soon be withdrawn.

men from drudgery, and make possible leisure for the development of the Arts and Sciences. It will usher in a new Renaissance--the flowering of human values in a world of material prosperity."[29] Should their proposals be accepted, it is promised that the specter of want and privation would be banished forever. The paradox of "poverty in the midst of plenty" would be resolved. The following are the remedies proposed:

<u>The national dividend</u>. Consequent upon Major Douglas' proposition that there is an inherent and continuous deficiency of purchasing power because there is a blockade in the transfer of wealth produced to the consumer, he proposes that the difference between price and cost shall be made up to the producer by an "imbursement" from the community. This payment would be based on the community's real wealth and would not cost the community anything except the expense involved in printing and distributing money "tickets." The national dividend would be tax-free in perpetuity, and would not be taken into consideration in making any return for taxation purposes should such be needed. Since this proposal is one of the basic features of the Douglas plan, it deserves amplification and clarification.

The State is to create and issue "debt free" sums of money to the people in the community to supplement the avowed

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[29] J. Crate Larkin, <u>From Debt to Prosperity</u>. <u>op. cit.</u>, p. 20.

shortage of purchasing power in the community. "Those entitled to share in the national dividend would be every man, woman and child of approved length of residence, whose independent income does not amount to more than four times their share of the national dividend."[30] To this end, the "real credit" of the community is to be utilized. All the material wealth of the community is capable of monetization. That is to say, for every building, for every block of land, for all the vast mineral deposits, for all the natural resources, there would be represented money equal to the total money value of these things. Douglas suggests that such information may readily be obtained from the balance sheets of private companies, land-registration companies, and the insurance companies. Even the present commercial capitalized value of the community is defined by Douglas to be, "the financial estimate of the potential capacity to deliver goods."[31] Douglas is explicit in his views that the classical conception of wealth as arising out of the interaction of the three factors of land, labor and capital is insufficient because it lacked a fourth important element, that of "the unearned increment of association." He is of the opinion that the appreciation of wealth in any given year is beyond question on balance

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[30] Evidence taken by the Agricultural Committee, 1934, op. cit., p. 41.

[31] C.H. Douglas, Credit-Power and Democracy. (London: Cecil Palmer, 1920), p. 137.

greatly in excess of the depreciation and obsolescence of material assets.

In order to facilitate the issuing of national dividends, Major Douglas proposes the setting up of a National Credit Account. A committee of experts would be established to draw up a national balance sheet showing the position of the community at a given time in respect to its real credit, that is, to indicate whether the natural resources of the realm had appreciated or depreciated in value.[32] Essentially, the natural resources of the community are to be assessed in terms of money.

On the very important question of the method of recalling the national dividend, the Douglasites are not very specific. Supposing the issue of "tickets" is to be made on the basis of a per capita allotment, some medium of clearing these "tickets" would have to be devised. Douglas suggests that the recall could be accomplished by way of an income tax levy or some similar device. Since the national dividends themselves are not liable to taxation, any taxation found to be necessary would take the form of a flat non-graduated taxation of net income or a percentage <u>ad valorem</u> tax upon

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[32] <u>Ibid</u>, p.41.

sales or both forms of taxation together. However, Douglas regards taxation as a necessary evil and as a "dividend in reverse." Presumably, the Social Creditor would argue that the national dividend did not have to be withdrawn at all until aggregate national consumption equalled total national production.

Criticism of the national dividend. In the first place, an estimate of the money value of wealth of the community involves almost insuperable problems. Quite apart from the practical difficulties of determining the money value of consumable goods, expert knowledge is required in ascertaining the value of semi-manufactures. Nevertheless, the Douglasites take upon themselves the impossible task of determining the money valuation of services as well as goods. Services, which are repeated frequently defy translation into monetary terms. The figures Douglas would arrive at would accordingly be quite arbitrary.[33]

In the second place, Douglas has rejected two well-known methods of increasing purchasing power in the hands of the community. An increase in bank credits would not do for Douglas' purposes because it would involve an increase in costs to the entrepreneur and would be reflected in higher prices to the consumer. For the same reason a direct increase

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[33] Douglas says that the capitalized value of population varies with the actuarial expectation of life and is something like fifty-thousand dollars for a citizen of the United States at the age of twenty-five.

in consumers' incomes, that is, by a rise in money wages to labor, would lead to a rise in prices and therefore to a fall in the real income of the consumer. Douglas believes he has found a method of by-passing the rise in prices as a result of giving purchasing power to the consumer. Yet it is on this very issue that Douglas' reasoning is fallacious. Douglas rejects the velocity of circulation as a relevant factor. In his proposal to equate effective demand with the total value of consumable goods, Douglas is putting forth the crude quantity theory argument.

Suppose that the inhabitants of a community produced consumable goods to the value of ten million dollars. Douglas would give that community circulating media to the extent of ten million dollars. He omits to mention that owing to the velocity of circulation, deficiency in the quantity of money could be offset. Thus if one million dollars changed hands ten times during a year, it would mean that ten million dollars was available to purchase the goods produced.

On the method of recalling the dividend, Douglas is underestimating the task involved. As the national dividend is to form so large a portion of the income of the people and be tax free, other sources of income will bear an extremely heavy burden of taxation, and the administration of the issue of such dividends will be extremely onerous.

The just price. Even Major Douglas admits that in the event that producers were left untrammelled in their price fixing and left things to the operation of the law of supply and demand, inflation would ensue. Hence the "just price" is also required as a device to check the inflation that might otherwise result from the distribution of the national dividend, thereby nullifying the additional purchasing power in the hands of the community. In his book, Economic Democracy[34] he defines the Just Price of an article as the "price at which it it can be effectively distributed in the community producing it," and describes it as "bearing the same ratio to the cost of production that the total consumption and depreciation of the community bears to the total production." The Douglas formula may be expressed thus.

$$\frac{\text{Just Price}}{\text{cost of production}} = \frac{\text{total consumption(including depreciation)}}{\text{total production}}$$

The term "rate of depreciation or consumption" of a community's output is taken to mean the amount of goods and services actually utilized during a given period, say a year, which is not left over for the subsequent period. In other words, if the "rate of depreciation or consumption" in a community were seventy-five per cent per year, this would mean that twenty-five per cent of the community's work for this year would remain to be utilized during the following year.

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[34] C.H. Douglas, Economic Democracy. (London: Cecil Palmer, 1920), p. 134-5.

Accordingly, in the example above the Just Price of Consumers' goods during the year following would be seventy-five per cent of their financial cost, that is consumers would buy goods from retailers at seventy-five per cent of the usual price. The producers who sold their goods at the lower prices would be entitled to credits supplied by the State equivalent to the difference between the prevailing price of an article and the "Just Price" as a means of keeping the cost of living down. In the Control and Distribution of Production, Douglas says"...with wages at their present level the cost of living ought to be one fifth or less of what it is."[35]

Nevertheless, Douglas does not intend to keep the money wage at the same level as formerly. For example, business which sold goods directly to the consumer and producers' goods industries would receive authority by the State to lower the money wage paid to labor by as much astwenty-five per cent. The theory being that with a greatly reduced cost of living as the result of the Just Price scheme, the real wages of labor would remain as high or higher than formerly.

The doctrine of the Just Price receives further development, however, in a subsequent book written by Douglas called Credit-Power and Democracy. Here the ratio of the Just Price to cost is defined as the ratio of "consumption-

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[35] C.H. Douglas, Control and Distribution of Production, op. cit., p. 70.

credit to production-credit."[36] This may be written as follows:

$$\frac{\text{Just Price}}{\text{cost of production}} = \frac{\text{consumption-credit}}{\text{production credit}}$$

The numerator in the fraction, that is, the consumption credit of a nation in a given period of time, say a year, is composed of the final products disposed of to the consumer. This would include depreciation of plant and equipment as well as the intermediate products used up. The denominator will be equal to the gross turnover of goods from stage to stage moving towards the consumer(exclusive of duplication). Thus the ratio of the Just Price to the actual cost of production will be in proportion to the net increment of capital during the year. In other words, in any given year, goods are continually being utilized in various stages from primary products to finished goods, while at the same time goods are also being produced in the same stages. This followsfrom the Douglas assumption that the net national production is more than net national consumption in any given year.

Major Douglas conceives this automatic price control to be the ideal solution for keeping the price level down. According to this scheme, a commission would assemble from time to time to ascertain the actual cost of production and

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[36] C.H. Douglas, Credit-Power and Democracy. op. cit., p. 98.

to examine the ratio of consumption to production. If consumption were found to be lagging behind production, the commission could allow a discount off the total cost to increase the consumption. This discount would be paid to the retailer by the state credit house or allowed directly to the consumer upon the latter's presentation of his invoice at the state credit house. Such a scheme, by assuring the retailer a greater volume of sales, and fewer defaults of outstanding payments, would indirectly lower prices.

Criticism of the Just Price. Douglas claims that his subsidy is unusual in the fact that it is not to be paid from taxation. However, in reality the subsidy will be to the detriment of the relative position of the creditor. The result will be a very low liquidity preference, and since the new credit created will have to circulate like any other medium of payment, the consequent rise in prices as the result of the increased preference for goods and services will act to depreciate the currency.

Then too, in spite of Douglas' repeated assertion that the adoption of Social Credit theory will be contingent upon acceptance by the majority of the community, coercive powers would have to be employed. If the price of each commodity were to be set by law and if the producers of all goods were assured of cost plus a fair commission, the danger would appear that the producers would not cater to the wants of the people of the country. A controlling agency would need to be set up to determine the type of commodities which should be produced and in what quantities and by what method this production was to proceed. Also, Major Douglas does not show how the refusal to renew the subsidies on the part of the government would differ in its effects from the refusal of the chartered banks to renew credit expansion.

The question of nationalization. The question of ownership has been relegated to a comparatively insignificant position by the Douglas Social Creditors. What concerns the Douglasites is the policy which is adopted by the central bank, and this is regarded as in no way involved with the question of nationalization of the banking system. Skepticism is expressed by Major Douglas that a publicly owned bank would necessarily carry out a policy in the general interest of the public. "I don't believe myself that the question of private ownership, so called, of a central bank, is a matter of any importance."[37] He would not entrust the vitally important power of money-credit to politicians, be they amateur or professional. "In Respect of Nationalization therefore, the proposal of reform here outlined may be said to be a direct challenge to all the collectivist and social-

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[37] Evidence taken by the Agricultural Committee, 1934, op. cit., p. 88.

ist in schemes anywhere current."[38]

Unemployment problem. Douglas rejects the socialist remedy for dealing with unemployment problems caused by depression. He makes it clear that the issue of new money for public works projects was not essentially Social Credit. Public works would merely tend to increase the surplus of goods in existence, and aggravate the deficiency of purchasing power in the community. If, again, it is suggested that employment might be provided through the medium of non-productive work such as digging holes and filling them up again, the result would be merely to increase debts. The object of Social Credit is not the elimination of unemployment as such. It is proposed to deal with the unemployment problem indirectly, that is, by increasing consumption, and thereby stimulating production to its full capacity, which in turn will reduce unemployment. However, the Douglasites are aware that inthe age of science, new labor-saving devices will displace a large number of the working population. The advantage of the national dividend was such that it would ultimately supersede wages as the medium through which the distribution of purchasing power would be achieved. The Douglas Social Creditors feel that the problem of unemployment is resolved if it is called "leisure."

[38] Maurice Colbourne, Unemployment or War, op. cit., p. 286.

External trade. The adoption of the social credit system in any country would have the same effect internally as a subsidy would have. Suppose Canada were to adopt Social Credit. Then, with a compensated price for wheat internally, it would be possible for the western farmer to market his surplus wheat in foreign markets at a price with which foreign producers of wheat who did not live under a Social Credit government could not compete. The same effect, that is a rise in exports and a fall in imports, could however, be accomplished by the depreciation of the Canadian currency in terms of other foreign exchange.

V. DOUGLAS SOCIAL CREDIT AND UNDERCONSUMPTION THEORIES

The Douglas theory that there is an inherent and continuous deficiency of purchasing power in the hands of the consumer, is not a radical innovation in the realm of economic theories, since underconsumption in various aspects has long been the subject of debate.

The classical economists and underconsumption. The classical economists dating from Adam Smith and John Stuart Mill were of the almost unanimous opinion that a glut on the market was impossible. Say's law was quoted to the effect that all that was produced would be consumed. Malthus however, had vehemently opposed Ricardo's doctrine that it was impossible for effective demand to be deficient. The neo-classical economists of today, such as Marshall, Edgeworth, and Professor Pigou following in the tradition of the classical economists are also of the opinion that no <u>chronic</u> lack of purchasing power in the hands of the consumer could exist. However, some modifications in the original theory held by the classical economists have been found necessary in view of the depression following 1929. They have come to regard the rate of interest as the factor which brings the demand for investment and the willingness to save into equilibrium with one another. Knowingly they maintain that it is this disparity between investment and saving which is held to be responsible for the booms and depressions which are recurring frequently and in ever greater severity. They have by and large come to the conclusion that the common economic checks upon excessive saving through the automatic falling rate of interest and the infallibility of the price system without interference by the State, is inadequate. The effect of the regulation of the volume of credit through the medium of commercial banks is not always dependable. Indeed, it hasseemed in the past that when it was most imperative that an easy credit policy should be produced, the reverse was usually the case. Such prominent economists as Alvin H. Hansen and R.G. Hawtrey have come to the conclusion that booms and depressions receive their impetus through the process of banking. It is this realization which has led most countries to adopt some form of central banking system to control the operations of commercial or chartered banks. There are two principal meansby which the central bank exerts control over the chartered banks. These are by buying and selling securities in the open market, and by rediscounting.

It must be emphasized however, that Major Douglas is not speaking of a temporary shortage of purchasing power through the operations of the business cycle. His theory is that there is a chronic and continuous shortage of purchasing power and his remedies would presumably hold true in the case of a boom period as well as in one of depression.

The socialists and underconsumption. The socialist economists[39] attribute the deficiency of purchasing power in the economy to the maldistribution of the capitalist economic system, and their remedy would be to abandon the present profit motive. Their explanation of the business cycle is that consumers do not obtain sufficient purchasing power to enable them to buy all the goods produced, and that consequently there is bound to be a periodic breakdown owing to

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[39] J.A. Hobson, The Economics of Unemployment. (London: George Allen and Unwin Ltd, revised edition, 1931).

W.R. Hiskett, Social Credits or Socialism--An Analysis of the Douglas Credit Scheme. (London: Victor Gollanca Ltd, 1935).

overproduction. This breakdown they findto be inevitable and it could not be remedied without the abandonment of the capitalistic system. J.A. Hobson contends that at any given time there exists a proper proportion between the production of consumers' goods and that of capital goods. In other words, an economically sound ratio between spending and saving is feasible. It is this excess of capital formation which is disruptive and it accounts for the normal under-employment of both capital and labor in the industrial system and the cyclical depressions. "This normal failure of consumption to keep pace with actual and potential production is manifestly responsible for the periodic gluts, stoppages, under-production and unemployment, which precede and constitute cyclical depressions."[40] It is only the disparities of income between the rich and poor that Hobson finds responsible for chronic over-saving and the tendency towards disequilibrium. He concludes:

> "There can be no real remedy except a removal of the surplus elements in large incomes which brought about the disproportion between saving and spending."[41]

In actuality, the proportion a person spends on consumers' goods is higher in direct relation to his finan-

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[40] J.A. Hobson, The Economics of Unemployment. op. cit., p. 140.

[41] Ibid, p. 141.

cial means. A poor man may find his whole income spent on the necessaries of life and no saving possible, while a rich man spends less than his income on the necessaries of life and accordingly, a large portion of his income is saved. However, the socialist emphasis is on redistribution of income and a planned economy. As such it stands in contrast to the Douglas social credit scheme which would operate within the framework of the present capitalistic system. Douglas believes that the free enterprise system can be made to function properly with the addition of his scheme. The Labour Party, on the other hand, has examined the Douglas scheme and has published its findings in a special report.[42] They conclude their findings with the following comment: "The scheme is theoretically unsound and unworkable in practice."

J.M. Keynes and the Douglas Credit Theory. John Maynard Keynes for many years was the principal exponent of neo-classical economics. In 1936, however, he made a radical departure from the views he had held for so long. His General Theory of Employment Interest and Money was an epoch making book.[43]

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[42] The Labour Party, Labor and Social Credit: A Report on the Proposals of Major Douglas and the "New Age." (London, n.d.). The Commission of Enquiry consisted of such prominent socialists as G.D.H. Cole, Hugh Dalton, J.A. Hobson, R.H. Tawney, C.M. Lloyd, Sydney Webb, Arthur Greenwood, and Chiozza Money.

[43] J.M. Keynes, The General Theory of Employment Interest and Money. (London: Macmillan and Co., 1936).

In it he contended that the postulates of the classical theory were only applicable to the special case of full employment which was the exception rather than the rule in modern capitalistic society. Keynes puts forth the contention that sufficient "effective demand" or purchasing power is not distributed, as the classical economists assumed, in wages and dividends, so as to keep production and purchasing power in equilibrium. The determinants of the economic system, as far as Keynes is concerned, are the "propensity to consume," and the schedule of "marginal efficiency of capital" and the rate of interest. The "propensity to consume" concept is largely a psychological phenomenon. The psychology of the community is such that when total real income is increased total consumption is increased but not proportionally. Accordingly, in order to ensure full employment, an amount of current investment must be resorted to. The amount of current investment will in turn be dependent upon the inducement to invest what has been saved, that is, what has not been consumed. This inducement to invest will in turn depend upon the schedule of the "marginal efficiency of capital" in relation to the prevailing rate of interest. Keynes defines the "marginal efficiency of capital" as being "equal to that rate of discount which would make the present value of the series of annuities given by the returns <u>expected</u> from the capital-asset during its life just equal to its supply."[44] In other words, the rate of return expected from capital investment must not fall below the rate of interest or there will be no inducement to invest.

To Keynes the answer to the riddle lies in preventing people from living on the rate of interest which he considers tantamount to hoarding. Accordingly, Keynes would have the State act to ensure that the rate of interest was below the "marginal efficiency of capital," since the schedule of the former gives us the terms on which funds are being supplied and the latter governsthe terms on which funds are being demanded for the purpose of the new investment. The reason why interest rates cannot be negative is that the rate of interest is the "price" or reward for parting with liquidity for a specified priod of time. He would also have the government controlling the quantity of money, since ceteris paribus an increase in the quantity of money may be expected to reduce the rate of interest. It is because the "propensity to consume" is largely pre-determined at different levels of income, that Keynes would have the State acting on the rate of interest. However, although Keynes desires a large extension of the

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[44] Ibid, p. 131.

traditional functions of government, it is evident that according to his views there will remain a wide field for the exercise of private initiative and responsibility.

There has been some controversy over the position of Keynes _vis-a-vis_ Douglas. The Douglasites infer from the Keynesian analysis a justification of their contention that there exists a failure of effective demand in our society. They hold that Keynes' analysis raises the Douglas analysis now heresy to respectability among economists.

It is evident, however, that from the point of view of technology, Keynes and Douglas differ. Keynes ignores in his analysis the technological unemployment problem. Douglas would argue that employment is not really a problem and that if machines displace human labor, national dividends will fill the gap left by the reduction in the wages of labor. To the one, the problem of ensuring full employment is paramount, to the other, it is not a real problem.

Keynes, for his part, brushes aside Douglas with a few brief comments. He comments on the A plus B theorem very unsympathetically, as including "much mere mystification," and concludes:

> "Major Douglas is entitled to claim, as against some of his orthodox adversaries, that he has at least not been wholly oblivious of the outstanding problem of our economic system. A private but not a major in the brave army of heretics." 45

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45 _Ibid_, p. 371.

The Marxists and underconsumption. Karl Marx borrowed extensively from the classical economics of Smith and Ricardo, so that the labor theory of value receives full emphasis among the Marxists. Marx was specific in claiming that a portion of the annual product was but a renewal of the community's fixed assets in the form of plant and machinery or what he called the "constant capital." Accordingly, it could not appear as revenue in any shape or form, since the capital of a nation cannot be consumed. It was only the work done by labor which enhanced the value of the final product, the "constant capital" lived up to its name and remained "constant", that is, it underwent no enhancement in value through the process of production. Accordingly, the annual revenue would be equivalent only to the added value during the year as the result of the production of labor, and therefore income would never approach the gross value of production.

In view of this fact, wages, dividends, and salary(what Douglas calls A payments) are not required to purchase the whole of the total product, since the final product contains a portion which represents the reproduction of machinery and capital equipment and this does not appear as income. Marx in his Analysis of Production in the third volume of Capital discovered the A plus B theorem but categorically rejected it when he commented:

"The entirely false dogma to the effect that the value of commodities resolves itself in the last analysis into wages plus profits plus rent, expresses itself in the assertion that the consumer must ultimately pay for the total value of the total product, or that the money circulated between producer and consumer must ultimately be equal to the money circulation between the producers themselves. All these assertions are as false as the axiom upon which they are founded." [46]

<u>The contribution of Douglas Credit Theory</u>. Thus far it has seemed that the heretical theories expounded by Douglas were so fallacious and so prone to criticism that the contribution made to economic theory must be negligible. This however, is not necessarily so. The Douglas Credit theories have made some contribution to the realm of economics.

Right or wrong, Douglas has succeeded in making the world money and credit conscious. His repeated attacks on the banking system hasforced the orthodox exponents of banking and sound money to admit the main contention of the Douglas Social Creditors. In the September, 1934 issue of the <u>Monthly Review of the Bank of Nova Scotia</u>, in an article entitled "Further Reflections on Credit," the bank authorities finally acknowledged that the banks create deposits by making loans and thus have an effect on the economic life of the nation. Bank authorities had previously categorically denied such allegations by saying that banks only loaned the moneys deposited with them by the public.

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46 cited by John Lewis, <u>Douglas Fallacies</u>, <u>op. cit.</u>, p. 981.

CHAPTER IV

MR. ABERHART AND SOCIAL CREDIT

At the date of his entry into the political arena as the Albertan champion of Social Credit, William Aberhart was fifty-four years of age. He was born in Ontario and was of German extraction. Aberhart was a graduate of Queen's University at Kingston, and a high school teacher and principal at Crescent Heights High School at Calgary.

Disappointed in an early ambition to become a Presbyterian minister, Aberhart started to teach a Bible class, and eventually became Dean of the Prophetic Bible Institute, an organization devoted to the dissemination of fundamentalist doctrines. Eventually, through the medium of the radio, Mr. Aberhart's evangelistic sermons reached an audience that became practically Province-wide. His technique of the trained teacher, combined with a quite remarkable self-confidence rapidly established him in the forefront of successful radio orators. For several years he talked to steadily expanding radio audiences. Then he read a book explaining the social credit theories of Major C.H. Douglas. Thereafter, he talked to radio audiences with the Bible in one hand and social credit literature in the other. However, in the course of time, Mr. Aberhart was able to formulate his own peculiar notion of Social Credit.

I. DOUGLAS AND ABERHART

Douglas was the founder of the Social Credit movement, Aberhart was the man most responsible for its interest to the general public of the province. The one was a theorist, the other a practical demagogue.

Distinction between principles and plans. Mr. Aberhart had issued a booklet called the "Douglas System of Economics." This pamphlet, he believed, represented the essentials of the Douglas Social Credit system. This eight-page pamphlet, bound in a yellow cover and known as the Yellow Manual[1] was published in 1933. However, he was in for a rude jolt when the Douglas Social Creditors disclaimed the attempts to modify the theories worked out by Major Douglas. When this pamphlet had been disclaimed by the London Secretariat of the Social Credit League and by Major Douglas himself, Aberhart was reluctantly forced to accept the facts:

> "I feel I have been practically ruled out of court as far asthe Douglas system is concerned, but as this book was autographed "C.H. Douglas, with his regards," and he told the man it is a fair outline of his work, he sends me this "in recognition of outstanding labor." I think he must be a jolly good fellow to string me along, all the time knowing I had written a plan which was my own and not in accord with him at all." [2]

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[1] Infra, p. 100.

[2] The Douglas System of Social Credit: Evidence taken by the Agricultural Committee of the Alberta Legislature, (Edmonton: King's Printer, 1934), p. 62.

However, Mr. Aberhart had something to say in his defence.

> "We must learn to distinguish the principles or system of social credit from the plan of adaptation to any unit or State. So, the principles of social credit are the same wherever applied, but the plan of adaptation varies with the land, the people or the conditions." [3]

Aberhart excused his pamphlet by stating that it was not intended as a full and complete plan for Alberta but was written merely to stimulate interest in the study of Social Credit.

The question of scope. The advocates of Douglas Social Credit theory were extremely skeptical as to the possibility of implementing their theories within the narrow confines of Alberta itself.[4] It was held that the constitutional status of the province entirely prohibited the establishment of social credit in Alberta alone. Under the provisions of the British North America Act of 1867, the Dominion government was vested with exclusive jurisdiction over banking and currency. This would rule out the possibility of creating and issuing the national dividend by the province of Alberta. It was anticipated that the chartered banks in Alberta would make representations to Ottawa on the grounds that their functions which were guaranteed by Dominion legislation were usurped

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[3] Ibid, p. 14.

[4] In his First Interim Report on the Possibilities of the Application of Social Credit Principles to the Province of Alberta, submitted in May 23, 1935, Major Douglas conceded:
"there is room for considerable action on the part of the Province without placing the Province in dangerof the invocation of legal sanction against it, by the banking system, acting on the premise that it has sustained a tort."(p. 5-6).

in the province of Alberta.

In addition to the constitutional problem, there would be the problem of coping with an influx of needy and destitute people from the other provinces who would have to have their basic necessities provided for even if Alberta imposed a qualifying term of residence for those eligible for the national dividends. Then too, difficulties were envisaged with Dominion-wide enterprises such as the railways which were likely to object to control of their rates on their Alberta mileage. Such restrictions, it was feared, would force many large national and international concerns to withdraw their subsidiaries from the province of Alberta. For these, among many other reasons the application of the Douglas system to Alberta alone was held to be impractical. Many of the outlined difficulties would, however, resolve themselves, if such a scheme were to be applied to the Dominion of Canada.

Mr. Aberhart for his part, advanced many reasons for the immediate adoption of a social credit scheme in Alberta. He held that no system could succeed without public opinion behind it. "The Dominion of Canada is too large a field to get the people all to understand it."[5] Moreover, even from

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[5] Report of the Agricultural Committee, 1934, op. cit., p. 19.

a constitutional point of view, Aberhart contended that it would be practically impossible to expect ten legislatures(nine provinces and the Dominion) to agree to one thing. Aberhart also considered that the opposition consequent upon the introduction of a social credit plan in Alberta would be nothing compared to the opposition to be expected from foreign countries such as Great Britain and the United States if such a plan were given Dominion wide application. Moreover, the time factor was a relevant consideration. Aberhart felt an immediate and pressing need to alleviate the problems of the Albertan people, then in the throes of the Great Depression. One province at a time would adopt the Social Credit plan and Alberta would be the first experiment. Upon the success of Social Credit in Alberta would depend its success on a national scale. Mr. Aberhart would leave the drawing up of a social credit plan for Alberta to the experts.

The prospects. From the constitutional point of view the prospect of the successful implementation of social credit principles in the Province of Alberta were indeed slim. Even Major Douglas admitted that "the power of printing legal tender money, or that which passes as money, undoubtedly belongs to the Dominion."[6] Yet the main controversy centered on the

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6 First Interim Report on the Possibilities of the Application of Social Credit Principles to the Province of Alberta, op. cit., p. 5.

interpretation to be given to the phrase "property and civil rights" contained in Subsection thirteen of Section ninety-two of the British North America Act, which relegated such matters to the provinces. Would this latter clause over-ride the power conferred upon the Dominion in the same Act in matters pertaining to money and banking. Douglas repeatedly sought legal advice on this matter, but was unable to obtain definite satisfaction. The Attorney-General's department held that it must have before it something concrete in the way of a draft of proposed legislation before it would venture to express an opinion as to the validity of the proposed legislation.

The Social Creditors, seeking to implement their principles in Alberta, contended that since the dividends proposed were in the nature of non-negotiable instruments, they were beyond the sphere of Dominion jurisdiction in monetary matters. However, it was pointed out that Section two of Section 138 of the Bank Act specifically stated, "the intention to pass the same as money shall be presumed unless such instrument is not designed to circulate as money or as a <u>substitute for money</u>."[7]

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[7] <u>The Constitutionality and Economic Aspects of Social Credit</u>. Evidence of Dean Weir, Faculty of Law, University of Alberta, Before the Agricultural Committee of the Alberta Legislature, Session, 1935. p. 10. The italics are not in the original. It should be noted that cheques by chartered banks were specifically excluded from the prohibition.

It was also pointed out to the Social Creditors that, while they might impose a consumers' tax on goods actually consumed in the province, any sales tax which would effect goods not consumed in the province, would infringe on Dominion jurisdiction in matters pertaining to interprovincial or foreign trade.

Perhaps the greatest obstacle to the implementation of Social Credit doctrines in Alberta was the lack of any concrete plan. Major Douglas admitted as much. "There are not, I think, any such rules and regulations laid down in my book on the subject. My books on the subject have been very largely devoted to the explanation of certain principles."[8] Indeed, the Commission appointed to hear the evidence pertaining to the implementation of Social Credit in Alberta came to this important conclusion, "...the evidence given disclosed the weaknesses of the present system and the necessity for controlled Social Credit, it did not offer any practicable plan for the adoption in Alberta under the existing constitutional condition."[9]

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[8] Report of the Agricultural Committee, 1934, op. cit., p. 58.

[9] Ibid, p. 4. Subsequently, in a letter from Premier Reid to Major Douglas following receipt of the Interim Report, dated June 1, 1935, the Premier complained that the recommendations madeby Douglas were not ultimate objectives but merely preliminary steps in the direction of reform.

Election platform. From the foregoing it would seem that the Albertan experiment was foredoomed to failure owing to the constitutional limitations and the lack of any concrete scheme for implementing it. Nevertheless, the Aberhart Social Creditors did draw up a platform on which they successfully contested the 1935 elections. To the people of Alberta, described by Mr. Aberhart himself as starving, eating gophers and dressed in gunny sacks, the Social Credit Party promised: (1) twenty-five dollars a month to every bona fide citizen; (2) recall proceedings;[10] (3) reduced taxation. Then too, the Yellow Book,[11] despite being repudiated by Douglas, was regarded by some voters as being part of the Aberhart platform. Its proposals included (1) the prohibition of hoarding wealth; (2) the possibility that the government would draw on cash values in the insurance policies of citizens; (3) the possibility that the government would take over mortgages in order that mortgagors could make payment to the government in credit; and (4) the imposition of heavy taxes on residents refusing to deal with the "credit house."

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[10] Infra, p.111

[11] While the Yellow Book bore no name to indicate its author, Mr. Aberhart admitted that he was its author, when asked by newspapermen in June 1935 on the occasion of its repudiation by Major Douglas as an erroneous presentation of Social Credit ideas.

Election results. In the elections of August 24, 1935, the route of the government party, the United Farmers of Alberta, was complete. They failed to retain a single seat in the sixty-three seat legislature. Premier R.G. Reid and his U.F.A. government resigned immediately, and it was understood that Aberhart, as Social Credit leader, would be called upon to form a government.[12] The new government was in its novitiate since not one of the ministers had ever sat in a legislature before, let alone a cabinet. In fact, not one of the Social Credit members had ever sat in a legislature before, a record for Canada.

II. THE REASONS FOR THE SOCIAL CREDIT VICTORY

At this point it would be well to assess the part played in the Social Credit victory in August 1935 by economic and other factors. Clearly, a complete explanation of the election requires a detailed and comprehensive study of the Alberta scene at the time of the election.

Monetary tradition. There had been a tradition of monetary agitation in Alberta which traced back to the followers of the American Populist movement who settled in the province of Alberta. The Populists had fought a losing battle in the

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[12] Aberhart had repeatedly stated that he did not wish to enter politics. In the August elections he was not a candidate, but subsequently, he won an acclamation in Okotoks-High-River constituency.

cause of bi-metalism[13] and some sought refuge in Alberta which was the last frontier environment on the North American continent. Henry Wise Wood came into Alberta about the turn of the century and began the propagation of Populist theories. The tradition of monetary agitation played a large part in the Social Credit victory.

> "Probably no idea has been more widely propogated during the last few years than that a way out of the depression in Canada could be easily won by a thorough-going dose of inflation. In parts of western Canada, the pursuit of cheap money has become not merely a cult, but, with many of the characteristics of mass hysteria, has all the intolerance of an evangelical movement; anyone who ventures to disagree with the devotees of social credit is regarded by them as being either stone blind to the master evil in our present economic situation or woefully recreant to the obligations of human society."[14]

The demand for inflation rests on three main premises. Inflation would mean depreciated currency and depreciated currency would be an aid to the country's export business. The farmers of Alberta, having failed in their attempt to influence the government to depreciate its foreign exchange directly, would be prone to consider any similar measure which would have the same results indirectly. Since Canada

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13 Bryan fought a presidential election in the 1890's on the Silver Money platform. Bi-metalism meant that both silver and gold would be used as a backing for note issue and entailed a vast increase in purchasing power.

14 D.A. MacGibbon, "Inflation and Inflationism," Canadian Journal of Economics and Political Science, Vol. IV, 1938, p. 19.

depended primarily on its export market for wheat, it was held that depreciation of currency would mean a rise in exports, since foreign countries would find it relatively cheaper to buy Canadian wheat.

Secondly, that the decline in prices which had made the debt burden intolerable must be reversed. The Albertan population, as has been shown, was by and large a debtor population. This situation was aggravated by the incidence of the depression. This meant that the borrower of money had to pay back to the creditor far more, in terms of purchasing power, than he had originally borrowed. Failure to do this, caused debt to accumulate through interest charges.

Thirdly, it was felt that some artificial stimulus would be necessary to stimulate business in general from the depths of depression and well along the road to recovery.

Since Social Credit promised an enhanced purchasing power through the issue of dividends to the consumer and subsidies to the producer, the Alberta citizen was prone to view it with a great deal of favor. The theory was not a new one; it was well in line with the Populist traditions.

The United Farmers of Alberta. Henry Wise Wood was the moving spirit in the organization of the United Farmers of Alberta and later the uncrowned czar of the movement. In the war years, the U.F.A. decided to go into politics. In

1921 they swept the Liberals out of office and took over the government to hold it for fourteen years. The Progressive government had promised to substitute co-operation for competition. For a time it gave the province able and cautious government. It did not, however, avert the Great Depression. Neither was it able to live up to its campaign pledge of substituting co-operation for competition. When the transformation of society failed to take place according to schedule, the rural voters were disappointed, and began to look for other leaders who would take action against the "financial interests" who were always blamed for Alberta's hard times.

The U.F.A. indirectly laid the groundwork for the Social Credit party headed by Aberhart by assiduously breaking down loyalties to the old established parties, and substituting loyalty to individuals for loyalty to parties. "Individuals who have broken relations with parties are compelled to rely on new policies, and the United Farmers of Alberta flirted in turn with left-wing Labor elements, and with monetary schools."[15]

In the last year of the U.F.A. government, the Premier, J.W. Brownlee was involved in a sensational seduction case,

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[15] H.A. Innis, "For the People," The University of Toronto Quarterly. (Vol. V. No. 2, Jan. 1936), p. 281.

and the Minister of Public Works, Mr. O.L. McPherson, in an equally sensational divorce case. In addition to this, Henry Wise Wood, for so many years the dominant personality of U.F.A. activities retired from the U.F.A. in 1931.

The Acts passed by the last U.F.A. government in April 1935, reflect the dilemma of the government. Outstanding among the problems which confronted the U.F.A. legislature since the beginning of the depression was the necessity of raising taxes in order to pay relief, and the question of the establishment of new industries. To a large extent these problems demanded incompatible solutions. In the proportion that taxpayers and debtors secured relief the flow of capital to new industries was impeded. The U.F.A. government did adopt palliative measures such as exemption from seizure which were dealt with in at least three Acts. The Distress Act Amendment Act(25 Geo. V. c. 12) prohibited from seizure for rent a list of necessaries to the value of $300. The Exemptions Act(c.24), and the Agricultural Industry Act(c.25) are further examples of palliative measures which the U.F.A. adopted. The farmers, however, demanded a more drastic policy than the U.F.A. offered, and the failure, or inability of the government to meet the demands for social security resulted in the swing to Mr. Aberhart and his Social Credit party.

Economic distress. Alberta's disaster fell in 1930.[16] Though Alberta was not the worst stricken of the Prairie Provinces, the net value of its agricultural products, the chief source of income was little more than a third of the high 1927 value, and the distress of large parts of the population was severe. Large borrowings from outside had resulted in heavy private debts, and continued low income had wiped out the acquired rights of many in their farms as foreclosures became common. Public finance was in a deplorable situation. In many districts customary public services had to be discontinued. Buildings and roads were allowed to fall into disrepair. The year 1931 was one of drought, and it was an unenviable task for the provincial government to combat a combination of depression and drought.

Mr. Aberhart showed no fear of the economic difficulties. He promised to lower the cost of living and to pay a monthly dividend of twenty-five dollars to every bona fide citizen, and the revenues he proposed to find were the "peoples' own credit." Aberhart gave the social credit movement concreteness and "made it popular by appealing to one of the baser instincts in humanity, that of getting something for nothing. In periods of depression such seed falls upon fruitful ground.

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16 Supra, p. 35.

People are told, and come to think, that conditions are so bad they could not be worse. They are ready to try anything that promises improvement."[17] Small wonder that a debtor population elected all but seven of the sixty-three members from the Social Credit Party.

The personality of Aberhart. In the final analysis, however, the personality of Mr. Aberhart himself, would seem to be the outstanding factor in the election of the Social Credit Party in Alberta. Douglas himself was not unaware of the spellbinding gifts of Mr. Aberhart and concluded that, "Mr. Aberhart at no time understood the technical foundation of Social Credit propaganda but he was able to canalize popular support to win a resounding victory."[18] His lack of political sophistication was an asset rather than a drawback in the frontier environment in which he found himself. Certainly his oratorical ability when imbued with the spirit of a prophet of a new world gave him a following which a less colorful leader might not have attained. Aberhart and his Social Credit Party had to face the organized opposition of nearly all the newspapers and the financial interests, yet his personality was disarming.

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[17] D. A. MacGibbon, "Inflation and Inflationism," *op. cit.*, p. 133.

[18] C. H. Douglas, *The Alberta Experiment.* (London: Eyre and Spottiswoode, 1937), p. 222.

He was variously described in the press as combining the doctrines of Aimee Semple Macpherson and Dr. F.E. Townsend, was dubbed "Bible" Bill and given hyphenated descriptions such as educationalist-economist-evangelist. Aberhart forbade his followers to debate Social Credit with his opponents. "They simply took Social Credit on faith."[19] On that exalted basis, and without real elaboration of the party platform, the Social Credit Party won the Albertan elections in the fall of 1935.

A commentary by Bruce Hutchinson appeared in the <u>Winnipeg Free Press</u> which goes far in explaining the personal magnetism of the Albertan Social Credit leader.

> "Not until you have talked with Mr. Aberhart do you begin to understand what has happened in Alberta, what is likely to happen. The man is unique, incredible--destined beyond doubt to prove the most remarkable leader or the most spectacular failure in modern Canadian history. He is the revolution. Forthe moment he holds the farm folks out yonder in the palm of his large, fleshy hand.
>
> It is easy to see why. The childlike confidence of the man, the religious certainty. The utter complacency, unquestioning and rather godlike, overpowers you, bears you down, makes your ordinary judgement falter, makes you think that he must be able to perform the economic miracle for which the world has been waiting. With Mr. Aberhart it is all so simple, so natural, so obvious, so free of any sort of legal or economic difficulty that you find yourself beginning to believe in Santa Claus, too.
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> "...There is a curious, mystical quality in the politics of Alberta just now, which seems to defy experience,

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19 D.A. MacGibbon, "Inflation and Inflationsim," <u>op. cit.</u>, p. 133.

orthodoxy and reason, a blind faith which springs, not from any plan, not from any system, but from him alone."[20]

Unity of purpose. Prior to the election there was a very definite swing of the "Douglasite" group to Mr. Aberhart's side. The Douglasites would not accept the modifications of Major Douglas' theory as worked out by Mr. Aberhart. However, immediately prior to the Social Credit victory, Aberhart had announced that he would bring down "experts" to work out the Douglas Credit theories into practice. The real power of Douglas' appeal in Alberta did not lie in the intricacies of his theory, but in the general idea that the adoption of a Social Credit system would result in a generous distribution of purchasing power to the people. As Professor Copland points out: "His conclusion that additional money should be made available seems perfectly reasonable and sound to the average man, who merely observes that this conclusion is reached after a considerable show of learning. He accepts the conclusion without really understanding the reasoning."[21]

Middle class protest. The view that Social Credit is essentially a middle-class movement is a cogent one. Merchants

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[20] editorial in the Winnipeg Free Press, December 2, 1935.

[21] D. Copland, Facts and Fallacies of Douglas Credit, op. cit., cited by D.A. MacGibbon, "Inflation and Inflationism," op. cit., p. 189.

headed the Social Credit list, with farmers a close second in the ranks of the Social Credit candidates elected to the Albertan legislature. Others included teachers, ministers, lawyers and members of the medical profession. This merchant-farmer coalition was to remain the main support behind the Aberhart administration.[22] It is the middle class that insists on immediate action and discards the Liberal and U.F.A. administrations. A choice had to be made between socialism as represented by the C.C.F. and Social Credit which promised to reform capitalistic society while retaining the structure of free enterprise.

Deus machina. Another element deserving consideration in any discussion regarding the precursors of Social Credit in Alberta is the assumption prevalent for a long time, of the perfectability of society. There was a widespread belief that the frictions and inequities of society were temporary and could be resolved if left to some master mind who would iron out such difficulties. Mr. Aberhart seemed to qualify, his confidence and self-assurance that he could profoundly alter society for the better made him appear as the natural champion of the people.

Religious aspect. Then too, Douglas Social Credit theory has another facet. In their analysis of Social Credit called,

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22 Cf. Maurice Dobb, "Social Credit" and the Petit-Bourgeosie," (Labour Monthly, September 1933).

"Searchlight on Social Credit," W.R. Hiskett and J.A. Franklin come to the conclusion that Douglasism is a religion and that its tenets are remarkably difficult to refute or even examine, because when any passage or proposition is selected for discussion, the followers of Douglas explain that the words in that particular quotation have a special meaning explained elsewhere in Douglas' writings.

Provincial rights. Finally, the doctrine of "provincial rights" gave the Social Credit party an impetus which it might otherwise have lacked. This was the theory which had long existed in many guises that Alberta should undertake to construct its own destiny without interference from the rest of Canada. Even the institution of party politics as used everywhere else in Canada was abandoned in Alberta and the "old line" parties were almost universally regarded in Alberta as an unnecessary evil. This doctrine of "provincial rights" was exploited to the utmost by Aberhart in his fight against the federal administration.

III. ABERHART AND DOUGLAS THEORIES

It was *after* the elections of 1935 that Aberhart social credit theories received their amplification. For the most part, the proposals of the Yellow Book were omitted from the better known Blue Manual which appeared in July, 1936 and which Mr. Aberhart allowed to supplant the proposals in the former pamphlet without actually repudiating it. The Social Credit

Manual[23] (Blue Book) presents the most complete explanation of what Mr. Aberhart proposed to do. Mr. Aberhart himself remarked in its preface that the booklet was intended to give a comprehensive general outline. Three factors constitute this "wondrously simple plan."

Basic dividends. These were to be given to every bona fide citizens in the form of credit. Mr. Aberhart preferred to call the dividends "basic" because they were designed to supply only the bare necessities of food, clothing, and shelter. They would be issued to those over the age of twenty-one meeting a residential qualification. Mr. Aberhart estimated that there were 400,000 such people in Alberta, and that the dividend should be at the rate of twenty-five dollars per month. A Credit House was to be established to handle the issues of basic dividends.

Mr. Aberhart and his followers repeatedly cited the Dominion Bureau of Statistics as saying that the "figures representing total production were necessarily larger than the national income,"[24] and as therefore justifying the supplementing of purchasing power of the community by means of dividends. However, they were guilty of taking the phrase

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[23] The Winnipeg Free Press published the full text of the "Social Credit Manual," August 27, 1935.

[24] Canada Year Book, 1933, p. 202.

out of its context. The full statement reads as follows:

> "The figures representing total production are necessarily larger than the national income, since a considerable deduction must be made therefrom for the purpose of keeping the national capital engaged in production unimpaired, before the remainder can be placed at the disposal of individuals. In other words, full and adequate provision must be made out of the year's products for the annual depreciation of the equipment used in their production before any part of the product can be allocated to individuals."[25]

Viewed in this light, Aberhart's contention that there is a chronic deficiency of purchasing power loses its force. In the first place, if the depreciation fund is being used to replenish worn out machinery and plant equipment then there would be no shortage of purchasing power as national income would equal the national production. If, again, none of the funds set aside as depreciation reserves are used, then at best there will be a deficiency of eight per cent. Yet Aberhart proposed to give twenty-five dollars to every adult citizen. Simple arithmetic would have shown him that this amount was far more than eight per cent of the income of these citizens.

An orthodox economist could point out several other difficulties in the issue of the "basic dividends." The introduction of say $10,000,000 of Alberta certificates would

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[25] Canada Year Book, 1933, p. 203. It goes on to say that the national income of Canada in 1930 is estimated at $4,750,000,000 while the grand total money value of productive activities of all gainfully employed persons is estimated at $5,147,000,000 which leaves ninety-two per cent of the national income available.

in the first instance cause an increased demand for goods and stimulate production. However, such a fundamental change in the money economy would be accompanied by a considerable increase in doubt, fear, and uncertainty. This would be sufficient to prevent businessmen from undertaking important extensions of plant and equipment in Alberta. This too, is what J.M. Keynes had in mind when he said: "Whilst an increase in the quantity of money may be expected, cet. par., to reduce the rate of interest, this will not happen if the liquidity preference of the public are increasing more than the quantity of money."[26]

The orthodox economist would also invoke Gresham's law[27] purporting to prove that bad money drives out the good and therefore Alberta certificates would drive out Dominion circulating media quite rapidly. The fact of the matter was that the Alberta certificates would be inconvertible currency, i.e. there would be no provision for redemption in the form of a

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[26] J.M/ Keynes, The General Theory of Employment Interest and Money. (London: Macmillan and Co., 1936), p. 154.

[27] Gresham's law, supposedly expounded by Sir Thomas Gresham, Master of the Mint in Queen Elizabeth's reign went as follows; "When two sort of coins are current in the same nation of like value by denomination, but not intrinsically, that which has the less value will be current, and the other as much as possible will be hoarded.

gold reserve. It would be fiat money.[28] The consequence of this would be that the more of it that was issued, the less probability of its ultimate redemption, and the more its depreciation in value.

An added source of difficulty would be the position of the importer in Alberta. Since there would be no increase in Alberta's exports, Dominion currency or bank deposits would remain relatively static so that it would be difficult to meet Alberta's import requirements in terms of Dominion circulating media.

Douglas and Aberhart differ widely in their conception of the dividends. Douglas intended the dividend to represent the division of the difference between actual consumption and actual production over a given period of time. Aberhart on the other hand, proposes a monthly dividend or what he calls a "basic dividend" of twenty-five dollars a month to every adult voter. Douglas, while he proposed a national dividend, did not set a periodic limit of a month nor did he set an amount. Aberhart was guilty of misrepresenting Douglas credit theory on this point.

<u>Automatic price control</u>. This control would be introduced to fix a "just price" at which goods and services would be available. Aberhart made it clear that he wanted the

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[28] <u>Fiat</u> money means literally "Let there be" and is probably a cynical reference to the creation of the universe out of nothing. Aberhart says, "Let there be money" and there is money.

"just price" to give the producer, importer, or distributor, a fair commission on turnover, and at the same time, not to be detrimental to the purchasing power of the consumer. To this end, a commission was to be set up to administer the "just price" for all goods and services used by the province.

> "It is the purpose of the government to form a commission of experts...in various fields of professions or trades whose duty it will be to discuss and carefully settle what a fair price would be for each article that is offered for sale within the bounds of this Province. They would take into account the cost of raw materials. the cost of the labour, the cost of the machinery, the overhead charges for insurance, and so forth. They would add to this the commission on turnover and also the unearned increment. That is and should be the property of the State."

The above statement is an excerpt from a broadcast made by William Aberhart on May 28, 1935 and which was subsequently included in a letter submitted by the Hon. J.F. Lymburn, Attorney General, to Major Douglas with requests for comments in his capacity as economic adviser to the U.F.A. government. It will be noted that the broadcast was made prior to the election of August 1935.

Major Douglas reply was uncompromising in its repudiation of Aberhart's interpretation of the "just price."

> "...I may say that the explanation of the Just Price is not that which can be applied to the same phrase as used in the responsible literature of Social Credit, and that the explanation given can best be described as a proposal for regulating Price Spreads together with a processing tax."[29]

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[29] Major Douglas' Reply to Hon. Mr. Lymburn. Edmonton, 1st June, 1935.

Specifically, Douglas criticized the implied attempt on the part of Aberhart to fix a price to be called the Just Price regardless of costs and which presumably was to be constant. Then too, Douglas unhesitatingly condemned the inclusion of the "unearned increment" in the proposed Just Price as a phrase having "no relation to that phrase as used in the Social Credit literature." Douglas saw in the Aberhart "Just Price" proposal a form of taxation which would tend to decrease purchasing power by raising prices. Finally, he condemned Aberhart's implied suggestion that purchasing power was increased by the rate of turnover as "demonstrably incorrect."

In his Social Credit Manual, Aberhart attempted to modify his views on Just Price so asto conform with Douglas Credit theory. To help make consumption balance production, Aberhart proposed to introduce a "compensating price" which was to be declared "from time to time." The "compensating price" was to be a price less than the fixed or Just Price. Its avowed purpose was the increasing of the sale of goods and it would be determined according to the following formula.[30]

$$\text{Market Price} = \frac{\text{Total Consumption}}{\text{Total Production}} \times \text{Just Price}$$

If then, total consumption in Alberta for any given

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[30] William Aberhart, Social Credit Manual--Social Credit as applied to the Province of Alberta, 1935, p. 21.

year was four-fifths of total production, then the market price or "compensating price" was to be four-fifths of the "Just Price." The difference between the market price and the Just Price was to be made up to the retailer or consumer much in the same way that the basic dividends were to be issued.

It is evident that even is his Social Credit Manual Aberhart had not properly understood Douglas' views regarding the Just Price. It will be noted that Aberhart conceived the Just Price to be fixed. This was quite out of keeping with Douglas' conception of it. The only plausible explanation, other than that of complete ignorance in matter pertaining to economics, is that Aberhart had a conception of his own in the back of his mind. It is well known that Aberhart was extremely religious. Aberhart was a proponent of fundamentalism, a movement directed against the purely scientific and secular interests in modern civilization. In the United States, fundamentalism had drawn its chief support from the social group in the rural areas. It was inevitable, perhaps, that fundamentalism should find roots in the frontier environment of Alberta which was so similar to that of certain sections in the United States. Accordingly, given the precept that Aberhart was interested in matters religious, is it then not quite possible, even quite probable, that he was influenced by Scholastic writings and thought. Indeed, Aberhart's views of the Just Price and interest as usurious can be traced far back.

Bernard W. Dempsey has recently completed a work of great importance. In his book, called Interest and Usury he points out that the Schoolmen were surprisingly modern in their outlook. He introduces three representative Scholastics, Louis Molina, Leonard Lessius and John de Lugo all living around 1600. He remarks in his introduction, "If these schoolmen rose from the dead today, they would readily understand our world and be quite prepared to take part in the discussion of its problems."

The Schoolmen also had a conception of the "Just Price" which is surprisingly similar to that held by Aberhart. Indeed, the Scholastics held that there was such a thing as objective value and the phrase "according to the common valuation," is the most frequently occurring in their treatises. These men, all trained theologians were pre-occupied, much as Aberhart was, with justice and with equity. They were concerned with "what ought to be" rather than with "what is." They, like Aberhart, regarded the charging of interest in certain cases as usurious.

Heinrich Pesch,[31] who was born in Cologne in 1854 and

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[31] Abram L. Harris, The Scholastic Revival: The Economics of Heinrich Pesch, gives us the modern schoolmen.

died in 1925, was also a Scholastic. He sought to change the capitalistic economic structure and policies along the lines sanctioned by the canons of social morality and theology. The last generation has seen a gradual revival of scholastic-canonist teachings. Pesch, even as Aberhart, advocated a politico-ethical creed purporting to be democratic. In Pesch's understanding, goods had an objective value, independent of human volition and choice within private economies. Supply and demand in the competitive market did not create value but merely confirmed existing values. Aberhart too, sought a price which would be fixed for all commodities. Both the scholastic and neo-scholastic ideas have much in common with Aberhart. Pesch held the "just" profit to be sufficient to furnish incentive for continuance and improvement of business, without being too specific regarding its exact amount. The neo-scholastics viewed their society as being an alternative to the programme of Marxism since it did not propose to relinquish private titles in ownership. The State was to be a paternalistic guide in a corporate economy, where government, labor, and capital co-operated. In sum, it was to be a "sort of voluntary collective operating under a scholastic version of political laissez-faire. There is undoubtedly a high degree of correlation between the theories advocated in the first instance by the Schoolmen and later re-iterated by the neo-scholastics and the views held by Aberhart. Aberhart, as will be shown later, did not hesitate to adopt views held by seemingly divergent groups and assimilate them into his own particular conception of society.

Flow of credit. Aberhart also proposed to make provision for a continuous flow of credit. He received the benefit of Douglas views in this matter, for he too believed that credit had become dried up under the existing financial system and should be released in the form of purchasing power. In order to prevent hoarding for the sake of high interest rates, Aberhart proposed to issue credit without interest to bona fide producers and distributors.

Aberhart had reason to be alarmed at the credit situation. The Economic Intelligence Service of the League of Nations summarized the Canadian situation as follows:

> "During the years of the depression, the supply of money in Canada fell considerably as a result, principally, of a very sharp contraction in the banks' outstanding loans and discounts, which were reduced from $1,665,000,000 to $1,067,000,000 between the end of 1929 and the end of 1932."[32]

Recall of the dividends. Mr. Aberhart took issue with the Douglasites when the latter proposed to recall the "national dividends" by an income tax. He estimated that it would be necessary to have an income tax amounting to eighty per cent of the total gross income of Canada and concluded,"...that

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[32] Economic Intelligence Service of the League of Nations, Commercial Banks. (Ottawa: League of Nations Society, 1936), p. 228.

not only removes the Douglas system from Alberta but makes it impractical for Canada as well."[133]

In his Blue Book, Aberhart denied that his basic dividends of twenty-five dollars a month to every adult citizen would necessitate a gigantic scheme of taxation. After estimating that $120,000,000 would be required yearly in credits, he further says that it would be necessary to recover only $10,000,000 of that sum by levy, provided that the velocity of circulation in that province was twelve times a year. This became one of the most debated propositions in the Aberhart plan.

However, even Douglas repudiated Aberhart's assertion.

> "There is also a suggestion of a common form of the Velocity of Circulation theory to the effect that purchasing power is increased by the rate of turnover...it is demonstrably incorrect."[134]

At first, Mr. Aberhart proposed that the redundant credit should either be confiscated or used in the purchase of Alberta bonds which would bear interest at four per cent. In the Blue Book, however, he came out for a levy to withdraw superfluous purchasing power. It seemed clear that if the dividends were not withdrawn in some way, the issues would depreciate in value until they became worthless. However, Aberhart was demonstrably incorrect in assuming that velocity of circulation made any

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[133] Report of the Agricultural Committee, 1934, _op. cit._, p. 60.

[134] Major Douglas' Reply to Hon. Mr. Lymburn, Edmonton, 1st June, 1935, p. 14.

difference in recalling the dividends. It was true that, depending on the velocity of circulation, a large amount of debts between various debtors could be liquidated in a year, but it was erroneous to assume that the original consumer who received the basic dividend to begin with could receive it back from the government unless the government found some way of absorbing it.

Aberhart then had recourse to what he called "the scientific system of recovery" through the cycle of credit. This is explained as a reduction in the price spread between the raw material and the finished product by government levy. On a bushel of wheat selling at sixty cents the government will levy five cents. On each of the fifty loaves of bread produced from every bushel of wheat, it would levy one cent. Its total levy on a bushel of wheat would thus be sixty-five cents. Similar levies on all other products are proposed. "We shall tax this oil as it comes out of the earth. Then we shall tax it again as it goes through the various stages of processing. The burden will be adjusted fairly between the producer... right down to the ultimate consumer."[135]

The price spread is what Aberhart calls the "unearned increment." This is what Aberhart calls an increase in price

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[135] William Aberhart as quoted in the Winnipeg Free Press August 27, 1935.

which is not earned by the owner of the goods. Aberhart cites the example of a man selling a piece of property for more than he paid for it. Accordingly, the Government could claim that the man had an "unearned increment" and would proceed to tax him.

Aberhart cites a further example of what he means by "unearned increment."

> "A Coal Mine situated far from civilization or without transportation would be of little value to anyone except in so far as it could be used for his personal needs. If a thousand people lived near it, it would be more valuable, etc. Neither the owner, nor the miner are responsible for this increased price. It is an unearned increment which accrues from the association of the people within the bounds of the land controlled by them."[37]

Nothing resembling the "unearned increment" as used in this context appears in any of Major Douglas' books. The "unearned increment" as conceived by Aberhart seems to stem from the "Single Tax" proposal made famous by Henry George.[38] It is known that the "Single Taxers" were active at the time of the 1935 elections and one of them even adopted it as his platform. This is yet another example of American influence and shows that Aberhart was an eclectic par excellence. The single tax principle was not of course new. The same proposal in essence lies in the proposal of the Physiocrats of France

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[37] Social Credit Manual, op. cit., p. 17.

[38] Henry George, Progress and Poverty. (New York: The Vanguard Press, second and revised edition, 1929).

not long prior to the French Revolution. On the assumption that only agriculture yielded productive results, the Physiocrats proposed that all taxation could be abolished save the tax upon the value of land. Henry George, made the same proposal, but he did not believe that agriculture was more productive than either manufactures or commerce. By "land" Henry George meant every kind of natural resource and not merely agricultural land.

Henry George based his theory on two simple principles. He believed that all men had equal rights to the use and enjoyment of the elements provided by Nature. Secondly, he believed that every man had a right to the use and enjoyment of what was produced by the man's labor. Both of these principles were regarded as self-evident.

The first principle did not necessitate socialization of the land. Instead, the land now being used was to be left in the private possession on condition that those who controlled the natural resources should pay to the community a fair rent for the exclusive privilege which they enjoyed over others. Natural resources were a free gift of nature and if any person enjoyed them to the exclusion of others, he should pay for the privilege.

The second principle led him to condemn the system of taxation in the existing economy, where improvements made by the individual were liable to increased taxation. If a farmer doubled his crop, his taxes redoubled. Furthermore, a tax on land would tend to make land prices lower and thus reduce speculation, while a tax on production would have the reverse effect, i.e. it would tend to make the price of a consumers' goods higher and thus raise the cost of living.

Henry George believed that the social value of natural resources was an inearned increment accruing to the individuals who possessed them and should be taxed as such. Land values tended to rise because of the increased demand for such land as a result of increasing population and increased production. George rejects the Ricardian view of rent as being accounted for by differences in fertility as producers were forced to lower and lower grades of fertility. While differences in fertility were important, George believed that rent was almost entirely due to social influences.

> "A farm out of reach of social influences, or a mineral deposit too far away from civilization to make social delivery of its products possible, could command but little rent if any at all."[39]

In the case of an individual farmer owning an agricultural acreage, George's Single Tax proposal would exact from him the annual value of the acreage as it were in its natural condition,

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[39] Louis F. Post, What is the Single Tax. (New York: Vanguard Press), 1926.

but would exempt him from all taxation upon his improvements and his crops. In other words, the farmer would pay taxes on his land as if it were devoid of all improvements. Henry George believed that the value of land could always be distinguished from the value of improvements, since in countries such as the United States, there was much valuable land that had never been improved upon. It was held by the Single Taxers that the farmer would be among the first to prosper by the transfer of taxation from real estate improvements to the Single Tax method of taxing only social values created by society not the individual.

> "Let any farmer make an estimate of the unimproved value of the natural location he owns and compare it with the value of his improvements of soil, his structures, and his annual produce; he will readily see how much greater are the taxes he now pays than the taxes he would pay if the Single Tax policy were adopted and in full operation."[40]

Henry George contended that in every civilized country, even the newest, the value of the land (natural resources) taken as a whole is sufficient to bear the entire expenses of government, and that in the better developed or more mature economies, it was more than sufficient.

Thus, Aberhart's conception of the "unearned increment" is related to the theories expounded and elaborated by Henry George and the Single Taxers. It is not surprising that it was repudiated by Douglas as a conception quite out of keeping with Social Credit theory.

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40 *Ibid*, p. 92.

Recall proceedings. Something new in election laws was promised the people of Alberta by Mr. Aberhart. From 1909-1913 there had been great agitation in Alberta for such a law, as the result of Populist influences from the United States. During the nineties there had been a bitter struggle waged by the Populists to achieve reform in what they regarded as an outmoded constitution. Specifically what they proposed was the "initiative" and the "referendum." The former was a device whereby legislation might be introduced or enacted by the people directly. Although the Populist movement failed at the time, the "initiative" as they conceived it is practiced in many of the States of the United States. The "referendum" claimed for the people the right of approving or rejecting proposed legislation by a vote of the majority. It is more commonly known as a "plebescite," and is resorted to commonly today. Essentially, then, the Populists proposed to confer sovereignty upon the people themselves. This too, was the same principle underlying the "recall" proposals of Aberhart. Electors in Alberta were to be given the opportunity to recall legislators who failed to live up to theirpre-election promises. The Recall Act promised by Aberhart in his election programme was frankly not a Social Credit measure. The Recall Act would provide that a recall plebescite might be held if a certain percentage of the voters favored it through a petition.[41]

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[41] Specifically, sixty-per cent of the voters would have to sign petitions in order that recall proceedings to be started.

Election comment. The general opinion of the people of Canada, as expressed through the press, was unfriendly, though not antagonistic. An outstanding exception was the _Ottawa Citizen_ and the _Toronto Daily Star_ which had always advocated Social Credit. At worst, the opposition held that the people of Alberta, in protest against conditions as they were, had endorsed an entirely unsound experimentin public finance, which they little understood, and which might lead to trouble in the future. At best, it was held that since the people of Alberta had voted overwhelmingly for the Social Credit experiment, no obstruction should be put in its way in order to demonstrate clearly whether the theory was valid or not.[42]

[42] The Social Credit Party of Alberta elected fifty-six members to the legislature out of a possible sixty-three seats.

CHAPTER V

THE FIRST EIGHTEEN MONTHS

On August 24, 1935, Douglas received a cable in London from Mr. Aberhart announcing the success of the Social Credit Party of Alberta at the polls.[1] The Alberta experiment was to begin. Aberhart had estimated that it would take eighteen months to introduce Social Credit into the province of Alberta. Major C.H. Douglas signified his readiness to advise the new government, holding that his contract with the ousted administration held good under the new regime. "I am a servant of the Alberta government, my two years engagement was a government, not a party engagement, it still stands."[2] He intimated, however, that he could not secure a definite proposal from Mr. Aberhart. For a time, Aberhart's influence was completely dominant in Alberta, and he succeeded in carrying out a number of interim programmes, none of which bore much relation to Douglas Social Credit.

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[1] Victorious when could you come?--Aberhart.

[2] Dispatch in the Winnipeg Free Press, August 27, 1935. Douglas had come to Alberta in May, 1935 and had stayed for three weeks. The U.F.A. engaged the originator of the Social Credit movement as reconstruction-adviser to the government, probably as a concession to the great public interest in the new movement.

I. ORTHODOX RETRENCHMENT

In view of his campaign pledges, the immediate actions of Aberhart may seem a little difficult to comprehend. After making appointments to his Cabinet,[3] Mr. Aberhart went to Ottawa to seek assistance to meet the financial crisis which had been precipitated by the refusal of the chartered banks of Alberta to advance money to the new provincial administration, and by the withdrawal of large quantities of saving certificates.[4] Orthodox retrenchment was not even mentioned in the Social Credit platform, but it became the first concern of Aberhart.

Aberhart's reasons for this action are not difficult to determine. He held that as a preliminary to the successful establishment of social credit principles in Alberta, the financial position of the province had to be straightened out. In the absence of a detailed plan from Douglas, Aberhart felt that he was dealing with existing affairs as they were and not with abstract theories. The only advice he could secure was existing orthodox advice to apply to the government's immediate fiscal problems.

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[3] The first Social Credit cabinet, including Aberhart himself, consisted entirely of inexperienced personnel.

[4] Even before the Aberhart government took office on September 3, 1935, there was a run on the provincial Savings Certificates. Over $9,000,000 of these were payable on demand. The run necessitated suspension of payment of these obligations.

As a first orthodox measure Aberhart sought a loan from Ottawa which would enable him to pay his obligations. At Ottawa, Mr. R.B. Bennett, then Prime Minister of Canada, was careful to inform Aberhart that the loan which Mr. Aberhart required could be granted only to an extent that would meet the necessities of the Province for the term remaining to the expiring Dominion Parliament. Mr. Bennett took the view that he should not bind the next government, and agreed to advance an interim credit which would see the province of Alberta through until October 31, 1935. Mr. Aberhart received a loan of $2,250,000 instead of the $18,389,000 which he had originally requested.

On October 10, 1935, the Aberhart government announced that it had decided to call Robert J. Magor, an actuary and engineer of Montreal, to aid the provincial government in the capacity of financial and economic adviser. Mr. Magor was known to have ideas of "sound finance" in the matter of taxation, bond interest, and general government reorganization. Major C.H. Douglas was not consulted in the selection and keenly resented this appointment of a man whom he considered to be an agent of the banking interests. But having appealed in vain for a detailed plan of social credit for Alberta, Aberhart had to accept the advice most readily at hand.

In the meantime, Mr. Mackenzie King was returned to power by a Liberal landslide in the federal election. Accompanied by Mr. Magor as adviser, Mr. Aberhart again journeyed to Ottawa. He had in mind a gigantic refunding plan, involving $200,000,000 which would embrace the total Alberta public debt of about $150,000,000 and the debt of the cities of Edmonton and Calgary. Aberhart wished the interest on the province's public debt to be reduced from five to three per cent. In the event of this being done, an estimated $3,000,000 a year in interest charges would be saved. If the two cities were included the savings would be $4,000,000. Aberhart declared that he intended to balance the budget first so as not to introduce Social Credit legislation "on a rotten foundation," and asked for patience as "we cannot begin Social Credit yet for a while."[5] In brief, Aberhart made it clear that he would be building the Social Credit edifice so that it would last, and emphasized that he was involved in no race to apply Social Credit to Alberta before any other country implemented it.

There is no indication that the "banking interests" put pressure on the Aberhart administration to abandon the advice of Douglas. The break with Douglas did not come until 1936. Prior to that date, Aberhart was willing, even anxious, that Douglas should come to Alberta with a detailed plan for implement-

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[5] As reported in the Winnipeg Free Press, Nov. 12, 1935.

ing Social Credit.

On November 19, 1935, the Dominion government granted the Province of Alberta a loan of $1,000,000, instead of the $2,000,000 financial assistance asked for by Aberhart to tide the province over until new arrangements could be made at the Dominion-Provincial conference scheduled in Ottawa on December 9, 1935. Mr. Aberhart was informed that all applications for loans would in future be dealt with by a Loan Council to be composed of Mr. Dunning, the Finance Minister, Mr. Graham Towers of the Bank of Canada, the Prime Minister of Canada *ex-officio*, and the Treasurer of the Province which might be applying for the loan.

On December 5, 1935, the investment houses and chartered banks of Alberta were requested to co-operate with the Alberta government in negotiating with the holders of Alberta government securities with a view to converting the existing indebtedness of the province into new securities bearing an interest rate of two and three-quarters per cent.[6]

Throughout January, 1936, discussions concerning the Loan Council were carried on at Ottawa. As negotiations proceeded, Mr. Dunning made acceptance of the Loan Council a

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[6] Alberta bonds had carried an average coupon rate of approximately 4.9 per cent so that the proposed cut could be almost half the prevailing rate.

condition of loansto meet further Alberta maturities.[7] This would have the effect of giving the Dominion Treasury full control over the province's borrowings. Mr. Aberhart would not accept the Loan Council scheme in its entirety, declaring that the proposals were not sufficiently definite and that they carried grave threats to the fiscal autonomy of the province. Thus the project of a Loan Council was abandoned. However, Alberta had two further maturities to meet that year, one of them for $3,200,000 falling due April 1, 1936.

It was evident that Mr. Magor's policy was to balance the budget at all costs. Expenditures were to be kept down, and the Province of Alberta was to make an effort to live within its income. This indeed was retrenchment and on a large scale.

> "Not a cent must be expended on new roads for ten years, and reductions must be made in social service outlays in order to bring the expenditures within the income of the Province."[8]

In March, 1936, the Alberta provincial budget provided for extremely heavy increases in taxation and estimates were pared with a view to avoiding any further borrowing. A new

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[7] An Alberta maturity of $2,000,000 was financed by the Dominion government, on January 15, 1936, to avoid default.

[8] cited by C.H. Douglas, The Alberta Experiment. (London: Eyre and Spottiswoode, 1937), p. 62.

sales tax on the basis of two per cent of all commodities sold was announced.[9] There were to be higher income taxes and a new social service tax called the Income Tax Amendment Act (c.13 first session, 1936) which was to be based on a rate of three mills to replace the supplementary tax which every Alberta municipality was obliged to levy and pass along to the provincial government. The supplementary tax under the United Farmers of Alberta government amounted to a two mill levy on real estate.

This policy was a far cry from either Douglas Social Credit theory or the election platform upon which Aberhart was elected. Douglas repeatedly claimed that a "tax was a dividend in reverse" since it would have the effect of reducing purchasing power in the hands of the community. Yet Aberhart was forced by circumstances to effect a policy with which he himself was not in harmony. This is just one example of the modification which have to be made in a theory when it is applied to a practical situation. Aberhart was a reformer and had little or no control over his environment.

However, even on the basis of radically increased taxation and with unreduced interest payments, estimated revenues fell short of cash requirements by some $2,549,000. The Alberta government then passed the Provincial Loans Refunding Act providing for the compulsory refunding of the provincial debt

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[9] Ultimate Purchasers Tax Act(c.7, first session 1936) and the Retail Sales Tax Act(c.8, first session, 1936).

at lower interest rates. The cut was to reduce the average interest payable to 2.5 per cent, but the Act was not to come into force until proclaimed.

With the April 1st maturity amounting to $3,200,000 falling due, Aberhart appealed for assistance to the Dominion government, declaring that the federal government "has got to help us."[10] However, since Mr. Aberhart remained adamant in his views regarding the Loan Council, Alberta on April 1, 1936 achieved the dubious distinction of being the first province in the history of the Dominion to default on a principal maturity. The default in the payment of the maturity amounted to $2,846,000; interest, however, was paid in full.

Premier Aberhart claimed the right to feed and clothe the people of Alberta as prior to the right of the province's bondholders to receive the amount of interest they had contracted for. This attitudeis easily accounted for when Aberhart's religious background is taken into consideration. To Aberhart the matter was a question of ethics and the non-payment of what he considered was usurious interest to debenture holders caused him little anxiety.[11] Moreover, as a general principle, the sanctity of contracts for its own sake did not commend itself to Alberta voters. There was no room for doubt as to the point

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[10] cited in the <u>Winnipeg Free Press</u>, March 18, 1936.

[11] Cf. 118-121.

of view of the rural electors regarding the debt situation. Moreover, on this same issue, Aberhart could appeal to the strong western prejudice against the eastern "financial interests" who had conspired to force Alberta to give up her provincial autonomy with the lure of a loan. Finally, Aberhart could point out that the east had no cause to adopt a "holier than thou" attitude towards the west in the matter of default. According to the statistics compiled by the Financial Post in March, 1936, "municipal defaults in the province of Ontario already numbered over forty and totalled ninety million dollars. Full default of principal and interest prevailed in twenty-seven municipalities.[12]

Nevertheless, during the first session of the Alberta legislature, which began February 6, 1936, no action remotely suggesting Social Credit legislation was enacted, and the increased taxation which was authorized was entirely foreign to Social Credit principles. The first session which ended on April 7, 1936, passed a total of one-hundred and five enactments.[13]

In May 30, 1936, an Order-in-Council was passed under the Provincial Loans Refunding Act[14] which halved the interest on all direct, and on some of the indirect liabilities of the

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[12] cited by Fred B. Housser, Views and Reviews of Finance and Economics. (Toronto: The Macmillan Co., reprinted from the Toronto Star, 1937), edited by E. Burnham Wyllie, p. 75.

[13] C.H. Douglas, The Alberta Experiment, op. cit., pp. 110-124.

[14] Supra, p. 136.

province, the reduction to take place from June 14, of the same year. This measure, quite understandably, drew vigorous protests from the bondholders. Though unable to persuade the government to postpone the reduction in interest rates, the bondholders did make arrangments for a study of the financial position of the province with Courtland Elliott and J.A. Walker acting on behalf of the bondholders.

The report of this investigation reached the conclusion that "there is a capacity on the part of Alberta to meet full provincial interest payments from the aggregate net income of the province."[15] Nevertheless, this conclusion was challenged by many economic authorities.[16] It seems clear that at the time it was financially impossible for Alberta to meet her obligations. In the years 1909-1936 inclusive, the government of the province of Alberta borrowed $194,901,597.34 of which only $66,761,337.25 had been redeemed. This left over 128 million dollars of debt outstanding which, bearing interest at almost five per cent, made it impossible for Alberta to meet its maturities, especially in view of the general economic conditions. Abnormal weather conditions had decreased the value of grain crops in 1935 by almost eleven and a half-million dollars, as compared with the

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[15] Courtland Elliott and J.A. Walker, Report to Alberta Bondholders Committee:A survey of the Fiscal Problems of Alberta in relation to the Economic and Social Conditions affecting them. Canadian Journal Economics and Political Science, Vol. II, 1936.

[16] Cf. G.E. Britnell, "The Elliott-Walker Report:" A Review," Canadian Journal Economics and Political Science, Vol. II, 1936.

previous year. The total cost of unemployment relief in the Province of Alberta during the year ending March 31, 1936 reached over five million dollars, with agricultural relief especially, affecting seriously the finances of the province. Thus the distribution of purchasing power directly through relief payments was accomplished only at the cost of more debt. Then too, since Alberta did not recover control over her natural resources until the depression, no income tax was levied by the provincial administration until 1935. Accordingly, even if Aberhart had felt a strong and pressing moral obligation towards the "coupon clippers", he would have been unable to fulfil that obligation.

The legislative achievements of the second session of the Alberta government which opened in September, 1936, reflected the necessity for drastic and far-reaching action. Four bills relating to debt and interest were passed in a short session.

Two of the bills related to public debt. The policy of the first session's Provincial Loans Refunding Act was confirmed and carried even farther. The Provincial Securities Interest Act(c.11, 2nd session, 1936), confirmed the order-in-council passed in May 1936, whereby the Province would pay only one-half of the interest promised to its creditors holding savings certificates, treasury bills, and Alberta securities. The Municipal Securities Interest Act(c.12, s.13) provided that "the interest payable in respect of any security by a municipality shall not exceed three per centum per annum." These two bills when enacted would cut the rate to roughly half what Alberta citizens had been paying.

The two other bills related to private debts and were also of a very far-reaching character. An amendment to the Debt Adjustment Act of 1933(c.3, second session, 1936) extended the power of the Debt Adjustment Board to include debts incurred after July 1, 1936. Another provision made the consent of the Board necessary to begin proceedings against a debtor who was a farmer, homeowner, or who occupied his home as a tenant. A second clause in the Act abolished the right of appeal from a decision of the Debt Adjustment Board. The Board would consist of one man and his decision would be final, and not subject to review in the Supreme Court of Alberta as formerly. A third new clause in the Act gave the government power to proclaim a moratorium on debts of all kinds, either throughout Alberta or in any district of the province.

Of more immediate importance was there-enactment of "The Reduction and Settlement of Debts Act"(c.2, second session, 1936) to protect the hopelessly mortgaged farmers. It restored to some extent the immunity which the farmers had enjoyed under the United Farmers of Alberta. By this statute, debts were divided into two classes, old debts and others, according as they arose before or after July 1, 1932. On "old debts" interest was to stand as on July 1, 1932, with no interest to be added for the previous four years. All subsequent payments whether nominally of principal or of interest were to be deducted from the principal. The balance remaining was to be payable in ten yearly instalments beginning in November, 1937. The annual payments were to rise to fifteen per cent in the eighth, ninth, and tenth years. For example, a man who owed $1900 principal and $200 interest in 1932 would be required to pay exactly $2100 by 1947, thus, in effect, wiping out interest payments for fourteen years.

As for "new debts," those incurred after July 1, 1932, or in the future, the Act stipulated a maximum of five per cent interest payable on them. The Act was not to apply, broadly speaking, to any debt due to the government or to a municipality.

The legislation of the second session aroused a storm of controversy. The opponents of Aberhart claimed that this legislation involved class legislation of a most dangerous type, since it had the effect of favoring the debtor class at the expense of the creditor class. Moreover, it was held that the debt legislation did not make any distinction between drought areas and those which had normal crops.

C.H. Douglas, on the other hand, minimized the importance of the Reduction of Debts Act, "Important as an amelioration measure, it did not, however, involve any new principle or do more than still further legalize default and limit interest."[17]

The truth of the matter was that Aberhart patterned his farm relief measures on those passed in the United States by the Roosevelt Administration. The object of these measures was to ensure that the ownership and possession of the farm itself would remain in the hands of the individual farmer despite the almost irresistible pressure of an economic cataclysm in the form of the Great Depression. In the United States, an Act called the Emergency Farm Mortgage Act of 1933, embodied the basic provisions of the Alberta legislation in this respect. It provided for a reduction in the rate of interest as it limited interest on farm mortgages for five years to four and one-half per cent. Moreover, no repayment of principal was required for five years. Loans to farmers was yet another provision of the Emergency Farm Mortgage Act of 1933. Thus here is yet another example of Aberhart's eclectism. He was ready at all times to "borrow" any remedial actions which were at hand, feeling no doubt, that any legislation was better than none at all.

Yet despite the enactment of drastic retrenchment policies, the Alberta government found itself saddled by a hopelessly weak financial position. On November 1, 1936, Alberta applied to the Bank of Canada for a loan of $3,500,000. This request

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[17] C.H. Douglas, The Alberta Experiment, op. cit., p. 88.

nearly equalled the limit the province could receive. The loan limit by the Bank of Canada to the provincial governments was set at one-fourth of its estimated revenue for a fiscal year. The Bank of Canada refused to advance the loan requested by Alberta, with the consequent result that Alberta defaulted on her maturities.

The Act incorporating the Bank of Canada had been passed by the House of Commons on June 28, 1934. One of the principal functions of the central bank was to regulate credit and currency in the best interests of the economic life of the nation. In the absence of any other explanation, it must be assumed that it was the Bank of Canada's lack of confidence in Alberta's willingness or ability to pay back the loan which prompted such action.

Previously, Aberhart had applied for financial assistance from the Federal Treasury but had been turned down by Finance Minister Dunning. However, the explanation here lies in the unwillingness on the part of Aberhart to accept the Loan Council proposed by Dunning.

The policy of retrenchment along orthodox lines proved to be a failure. On January 30, 1937, Charles Cockroft, the Alberta provincial treasurer and one of the foremost exponents of "sound money" principles resigned. He had tried unsuccessfully to put Alberta's economic house in order through orthodox fiscal policies. The unwillingness of the Bank of Canada and the

Federal Treasury to "cooperate" with Alberta gave Aberhart an excuse to exploit the latent prejudice of the western farmer against the eastern interests. It was also to prove a canker in Alberta's relations with the Federal government.

On February 19, 1937, the Reduction and Settlement of Debts Act(c.2, second session, 1936), the cornerstone of the debt legislation of the Aberhart government, was ruled unconstitutional by Justice Ewing of the Supreme Court of Alberta. And in the same court, on February 23, the Alberta Securities Interest Act, under which the Aberhart government had reduced interest on provincial bonds and guaranteed securities, was declared unconstitutional by Justice Ives. The Ives judgment declared:

> "I know that it has been authoratively held that in matters within its jurisdiction of a purely local and private nature, access to the courts of judicature may be lawfully denied the subject by the province...to extend that right so asto prohibit any questioning of an ultra vires statute is most repugnant..."[18]

Thus two major enactments of the Social Credit government were declared *ultra vires* within the space of a single week. With much of the debt legislation invalidated by adverse court decisions, the Aberhart government had recourse to a sixty day moratorium on private debts to give the administration more time to make a more permanent attack on the debt problem.

Summing up, the retrenchment policy seems to have ended in failure. When the Social Credit government took office in

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[18] cited by the *Winnipeg Free Press*, February 20, 1937.

September 1935, it found itself with immediate financial obligations amounting to approximately fifteen million dollars. This indebtedness represented the commitments taken over by the new government from the outgoing government of the United Farmers of Alberta. Instead of tackling the problem from the point of view of Social Credit, that is, using the "people's own credit", the Aberhart government adopted such orthodox fiscal measures as increased taxation, and retrenchment politics.

The debt problem was tackled by a policy of drastic debt reduction which, although containing no Social Credit principle, was to a large extent nullified by the Supreme Court of Alberta. With the resignation of the Finance Minister, Charles Cockroft, the way was open for legislation of a different kind.

II. NEW DEAL POLICIES

It must not be thought, however, that measures of fiscal orthodoxy were the only ones attempted by the Aberhart administration on its accession to political power in 1935. Another interim programme adopted by the Aberhart government during the first eighteen month period of office resembled closely the policies of the Roosevelt administration policies which were fundamentally opposed to those of the Social Credit school of economics as represented by Major Douglas.

The economic problems of Aberhart were on a miniature scale the same as those faced by President Roosevelt when he attained political power at the height of an unprecedented depression. The "New Deal" was based on the premise that the system under which the business of the United States had been carried on was not primarily at fault, but that the personnel by which it had been carried on had erred. Roosevelt too, sought means to extricate himself from the extreme deflation which was throttling the American economy. He had more than one method or plan to choose from. In essence, the theories available, although not "Social Credit", involved some means of increasing the purchasing power of the community, and therefore are pertinent to a study of the Alberta experiment. As noted earlier, the works of monetary theorists such as J.M. Keynes and Irving Fisher had aroused much genuine interest in the ranks of the Social Creditors in Alberta. Reference to this interest in alternative remedies is essential to any evaluation of Alberta Social Credit.

The Keynesian method. John Maynard Keynes proposals were extremely practical and logical.[19] He suggested certain proposals which might be expected to get the United States well on the road toward recovery and which would increase national output and employment. Keynes held that in times of depression individuals could not be expected to spend more out of their existing incomes. Nor could private business be expected to

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[19] Open Letter From John M. Keynes to Roosevelt--Recovery Plan Assayed." Norman S. Buck, ed. Survey of Contemporary Economics. (New York: Thomas Nelson and Son, 1934),pp. 256-272.

take the initiative in creating additional employment by raising investments in working or fixed capital. Thus Keynes felt that the State must be called in to create additional current incomes through the expenditure of borrowed or printed money.

Keynes stressed the fact that the increased government expenditure should not be brought about through increased taxation since that would involve merely a transfer through taxation of existing incomes. "In a slump governmental loan expenditure is the only sure means of obtaining quickly a rising output at rising prices."[20] The government would prime the pump. After the tide had been turned by the expenditure of the public authority, private business would be induced through increased confidence to invest more in fixed assets and thus create additional current incomes.

Aberhart had, of course, considered this line of action but had rejected it.

> "The lack of employment is not a cause, but a symptom of our real trouble...Producing unnecessary employment through great schemes of public works is merely a palliative and a very poor one at that, for it creates an immense debt which will produce taxes beyond the dream of mankind."[21]

Keynes for his part rejected the notion that more money

20
Ibid, p. 257.

21
William Aberhart, Social Credit Manual--Social Credit as applied to the Province of Alberta, 1935. p.9.

was the answer to recovery. Furthermore, he considered that the demand for wholesale printing of incovertible "fiat" paper money was based upon a misconception of the quantity theory of money.[22]

Aberhart was utilizing the crude quantity theory of money which contends that the price level depends upon the relative amount of money(M) and things in existence(Q), but which is fallacious because it ignores the velocity of circulation of money(V). Only if V is presumed to be constant while M is increasing can the crude quantity theory be held to have validity. As Keynes pointed out: the volume of currency in the United States in March 1933 was actually $2,700,000 greater than in October 1929, while at the same time prices were at or very near their lowest ebb of the depression, since money was being

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[22] Irving Fisher shows it in the form of an equation: where:

$$P = \frac{MV}{Q}$$

P is the price level.
M is the amount of money in circulation.
V is the velocity in circulation of money.
Q is the quantity of goods to be bought or sold.

The quantity theory then may be summed up as follows: The level of prices(P) depends upon the relation which exists between the amount of money(M) in active circulation(V) and the amount of commodities needing to be bought and sold (Q).

hoarded and the velocity of circulation consequently was very low.[23]

As a necessary corollary to his plan, Keynes made certain proposals regarding central bank control. The maintenance of cheap and abundant credit, in particular the long-term rate of interest, was necessary in order to induce investment. The central bank might effect such a policy either through lowering their rediscount rates to the commercial banks or by the method of buying securities on the open-market.

J.M. Keynes' proposals were by and large adopted by Roosevelt and constituted an integral part of the "New Deal." The U.S.A. was the first country to undertake public works in connection with such a monetary policy. By way of contrast, the spending school in England made little headway.

The Fisher plan. Irving Fisher was another noted economist whose ideas for monetary reform were adopted during his lifetime. Fisher propsed a "reflation" plan. Fisher defined "reflation" as "that degree of controlled inflation which is needed to compensate for recent, fast, and big deflation."[24] It was a corrective process. He considered the fluctuations in the economy to be due primarily to the instability of the

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[23] Open Letter from John M. Keynes to Roosevelt, op. cit., p. 261.

[24] Irving Fisher, The Money Illusion. (Toronto: Longmans, Green and Company, n.d.) p. 176.

monetary units, including the dollar.

> "By actual index number measurement, our dollar rose nearly four fold and fell back to the starting point again between 1865 and 1920."[25]

Fisher, accordingly, advised President Roosevelt to abandon the gold dollar of constant weight and varying purchasing power and to substitute in its stead a dollar of constant purchasing power and therefore, of varying weight. There would not have to be actual coinage of gold under the Fisher scheme. The government's gold supply would be kept in the form of gold bars as formerly, and the actual circulation would still consist of representative money, i.e. token coins and banknotes. The whole of the currency would be exchangeable for gold on demand. However, the amount of gold for which it would exchange would fluctuate with the price level. If prices, as measured by some generally accepted index(preferably wholesale indexes) were to rise one per cent above a stabilized price level, this would be inflationary, and the weight of gold purchasable with the dollar would be increased by one per cent. The more gold in the dollar the greater its buying power and the lower the price level, since the price level is in inverse proportion to the purchasing power of money.

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[25] Irving Fisher, The Money Illusion. (Toronto: Longmans, Green and Company, n.d.) p. 176.

For the time being, however, "reflation" was necessary to reach an optimum price level after which it would be stabilized. Fisher, accordingly, advised President Roosevelt to devaluate the dollar.

> "Almost all other nations have devaluated their gold coins. No one should care what the dollar weighs if what it buys is properly safeguarded. It now is not 100 cents, but 180 cents in terms of 1926 dollars."[26]

Fisher's plan was adopted by President Roosevelt but was later abandoned. Aberhart would not have favored such a scheme. He would not have disagreed so much with the end as with the means. Social Credit purported to abandon the gold standard or its equivalent as a backing for the dollar. The people were to use their own credit, i.e. the value of the natural resources, as the basis for credit expansion. Moreover, Aberhart could not have adopted this plan even if he had wanted to, since it involves control of currency and gold, a matter outside the scope of Alberta.

National Recovery Administration. There were phases of the "New Deal" which Aberhart could adopt even though he did not agree with them in principal. The primary object of the "New Deal" was to secure employment by means of industrial effort. "The National Industrial Recovery Bill has as its single objective the widespread and permanent re-employment of workers at wages

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[26] "The Inflation Controversy" an article in series included in *Survey of Contemporary Economics*, ed. Norman S. Buck, *op. cit.*, p. 254.

sufficient to secure comfort and decent living."[27] The problem was to keep prices, wages, and production in line. Having this in mind, it was believed that the situation could be rectified by bringing industry under the general control of government. The solution involved restrictive measures on the conduct of business in general. On June 16, 1933, an Act was passed providing for administration of codes regulating the economy, by declaring the existence of a national emergency. It stipulated that every code, agreement, or license would contain conditions guaranteeing the right of collective bargaining for labor and requiring compliance by employers with respect to maximum hours of labor, minimum rates of pay, etc.

In July, 1933, President Roosevelt drew up a blanket code for all industries. In an Act formally entitled "The President's Reemployment Agreement", it was made clear that compliance with this blanket code would be voluntary, that it there would be no legal compulsion. Compliance was to be secured solely by the force of public opinion. The public display of a "Blue Eagle" was adopted by the N.R.A. as a certificate of compliance with what was in effect a licensing system. Any undertaking not co-operating with the Administration could not use this emblem, and was thus pilloried in the eyes of the

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[27] cited by C.H. Douglas, The Alberta Experiment, op. cit., p.80. The italics are those of Major Douglas.

American public being opposed to the Government's efforts towards recovery. In addition, such a business would be debarred from lucrative government contracts. The series of codes provided for in this Act formed the model for the various codes imposed upon Alberta by the Aberhart administration.

The application of "New Deal" policies is evident in legislation passed by the Social Credit government, during the firstsession of 1936. The Fuel Oil Licensing Act(c.68, s.33, first session, 1936) empowered the Lieutenant-Governor-in-Council to engage on behalf of the Province of Alberta in the wholesale and retail distribution of lubricating oils and greases, and fuel oil. At the same time, the regulation of Alberta industries and occupations was provided for in some of the legislation passed at the first session. The Engineering Professions Amendment Act(c.79, first session, 1936) restricted the right to use the designation "professional engineer" with certain consequent limitations on employment. The Male Minimum Wage Act(c.76, first session, 1936) was passed and supplemented earlier legislation dealing with rates of remuneration for labor. It was to be administered by an appointed board of three members.

It was however, not until April 1, 1936, that the Trade and Industry Act (c.67, first session, 1936) was passed. This

Act was patterned after "The President's Re-employment Agreement" in the United States." Like its precursor, it provided a code regulating competition and business practices. This so-called "master code" applied to all classes of retail trade in Alberta. The Act contained general licensing powers, and made provision for minor codes. These codes had nothing to do with Social Credit. They came about primarily owing to the pressure exerted on the Alberta government by small merchants in their fight against the "big interests."

Other statutes of the second session in September, 1936, carried even further the principle of licensing contained in several of the first session's enactments. The Hours of Labor Act(c.5, second session, 1936) set a general maximum for hours of work done in various occupations, but specifically excluded farm laborers and domestic servants from the provisions. Co-ordinating amendments were also made in the Minimum Wage Acts(c.6, second session, 1936), Factories Act(c.8, second session, 1936), and the Licensing of Trade and Industries Act(c.10, second session, 1936).

And on October, 21, 1936, a Printers Code was proclaimed by the Alberta government, providing standard working hours of forty-four hours per week, a maximum of eight hours per day, and specifying the payment of time and a half for work done on holidays and overtime.

In the following month, the control and regulation of business was provided for in two interlocking statutes, which contained the main weapon for the enforcement of the programme: the power to suspend or cancel licenses.

Finally, on November 18, 1936, the Industrial Codes were proclaimed in the Alberta Gazette(Vol. 32, 1936). New schedules of prices were outlined for a variety of occupations. The codes related to the wholesale industry, barbers, photo finishers, and the automative trade. A fifth code, relating to bankers was to apply to the Edmonton district only.

The codes operated to set up fair competition and business practices and included a schedule of prices. For example, under the provisions of the barbers' code, the price of a shave was set at twenty-five cents, and haircuts for adults at thirty-five cents. The wages of journeymen barbers were fixed at sixty per cent of the gross weekly receipts with a minimum of fifteen dollars. The codes operated similarly in the other trades. The codes are understandable in the light of the statements made in Aberhart's Blue Manual regarding a more or less fixed "Just Price." Nevertheless, the codes had nothing whatever to do with Douglas Social Credit theories. It was yet another example ofthe ability of Mr. Aberhart to apply a segment of a foreign theory policy to the Albertan situation.

The codes set up by the Alberta government for the regulation of Albertan economy were a failure. By January 15, 1937, the Alberta government decided that it would not attempt to enforce the industrial codes. The master code for the retail-wholesale trade was to remain in operation, but the minor codes governing printers, photo finishers, etc. were not to be enforced although they would not be immediately repealed.

The reasons for the apparent change of heart on the part of the Alberta administration are not difficult to determine. In the first place, the Alberta government was composed of inexperienced personnel and lacked the administrative capacity to enforce the codes. Secondly, the Social Credit caucus was impatient at the delay in implementing Social Credit legislation and did not give wholehearted support to this aspect of Aberhart legislation. Moreover, there was widespread opposition to the codes among many consumers who claimed that they resulted in higher prices to themselves and therefore were the very antithesis of the programme on which Aberhart was elected, i.e. to increase the purchasing power of consumers. Finally, there was another experiment which Aberhart was about to try in the interim period before Social Credit could be achieved. For these reasons the Aberhart administration did not pursue too vigorously a policy which smacked of regimentation.

At the same time, The Alberta government was showing its willingness to aid private enterprise. The Provincial Industries Development Act(c.71, first session, 1936) guaranteed the securities of Albertan provincial companies engaged in the process of developing, processing, or manufacture of any natural resource of Alberta, provided that such companies did not have a capital in excess of $100,000.

III. THE SCRIP EXPERIMENT

Another interim measure pursued by the Albertan government during its first eighteen months of office was the issuing of dated stamp scrip,[28] which were based on the monetary theories of Silvio Gesell. Silvio Gesell was born on March 17, 1862, near the Luxembourg frontier of a German father and a French mother. Although he never held an academic appointment in economics, his theories have recently received wide recognition by many noted economists.

In his monetary analysis, Gesell gave emphasis to the velocity of circulation of money instead of its actual quantity. Since velocity of circulation means the number of times a given amount of currency or credit changes hands in a given period of time, an increase in the velocity of circulation, *cet. par.*

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[28] All stamp scrip is not dated; the more common type is the transfer scrip. Dated stamp scrip involves the issuing of paper certificates bearing denominations of money notes. The scrip requires the affixing of stamps periodically, and is given a date of maturity.

therefore, tends to produce the same effect as an increase in its quantity.

The theories of Silvio Gesell who died in 1930, received their best expression in his book, The Natural Economic Order.[29] Gesell conceived money to be an instrument of exchange, and nothing else. However, money as it exists today has failed in this task. As Gesell puts it: "A form of money which necessarily withdraws when there is a lack of it, and floods the market when it is already in excess, can only be an instrument of fraud and usury."[30] Gesell comes to the conclusion that what is wrong with the money system is that money as such is in normal circumstances greatly preferred to commodities. Goods are only being exchanged when the individual is indifferent as to whether he possesses money or goods. In other words, Gesell argues that the money-rate of interest, unlike most commodity rates of interest cannot be negative. Stocks of goods incur carrying charges and depreciation while the long-term rate of interest of money has been fairly stable. The result is that the rate of interest has set a limit to the growth of capital, since in normal times, to use the Keynesian

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[29] Silvio Gesell, The Natural Economic Order. (San Antonio: Free Economic Publishing Co., 1934, translated from sixth German edition by Philip Pye),

[30] Ibid, p. 131.

term, people are prone to invest only when the rate of interest is below the marginal efficiency of capital. Otherwise, people prefer to hold money rather than invest in capital goods.

Gesell's solution is a simple one. Money must be made to be no more preferable than goods. In order to accomplish this objective, money would have to be made worse as a commodity so as to make it a better medium of exchange. Accordingly, Gesell prescribed the remedy of "stamped money".

The object of the "stamped money" was a broad one. On the one hand it would bring about a dishoarding of notes "as private money reserves would be automatically dissolved by compulsory circulation." On the other hand, Gesell aimed at the complete abolition of interest rates on money. To this end, Gesell proposed the issue of "free money" which would deteriorate in value. The proposed currency notes would only retain their value by being stamped each month. The actual charge suggested by Gesell was equivalent to 5.2 per cent per annum. This would be in effect disappearing money. Money would be issued to the people by the State. This "free money" however, would depreciate in the hands of its owner. Accordingly, the holder of the money would try to avoid the loss incurred through having to affix stamps, by passing on the notes.

> "Thus the circulation of money is subjected to pressure, with the result that everyone pays ready money,

> settles old accounts, and at once brings any surplus money to the savings bank, which, in turn must at once find borrowers for the money deposited, if necessary by reducing the rate of interest."[31]

Gesell's scheme would in effect cause money to bear a negative rate of interest. It would break what Gesell called the "unfair privilege enjoyed by money" owing to the fact that money was indestructible while other goods incurred considerable expenses for storage and depreciation. The capitalist, under the Gesell scheme could no longer afford to wait to invest as formerly.

Keynes and Gesell. J.M. Keynes in his book, The General Theory of Employment Interest and Money, devotes a good deal of space to the theories of Silvio Gesell, far more in fact than to Major Douglas. He considers that Gesell developed only half a theory of interest through his failure to grasp what Keynes calls the notion of "liquidity-preference." People prefer to keep their assets in the form of money because money has far more liquidity, than durable assets.

On the matter of "stamped money", Keynes considers that the idea behind "stamped money," is "sound." Nevertheless, Keynes has some modifications to the original theory as worked out by Gesell. For example, he considers the 5.2 per cent interest of money advocated by Gesell as too high in the existing cir-

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[31] Ibid, p. 136.

cumstances. According to the Keynesian theory it should be roughly equal to the excess of the money rate of interest over the marginal efficiency of capital.

Keynes pointed out other minor difficulties. For example, it was noted that money was not unique in having a liquidity-preference, but it had a greater liquidity-preference than other commodities. Accordingly, if money was to be deprived of its liquidity-preference, other commodities with some liquidity-preference would take its place as a substitute. However, within certain limits, Keynes believed that the "stamped money" idea could be put into operation with fair success.

Fisher and Gesell. Irving Fisher is even more enthusiastic than Keynes. Although he does not subscribe to Gesell's theory of interest and refers to Silvio Gesell as a "quasi-economist," he wholeheartedly subscribes to the latter's concept of "stamped money." The stamped scrip was similar to money in one respect, i.e. it could be banked, invested, or spent. However, in another respect the "stamped money" was unlike money. It could not be hoarded, since to keep the notes in idleness would cost money and would induce the holders of the notes to buy goods, or alternatively to lend their money free of interest.

According to Irving Fisher's concept of the "stamped money," the scrip would be self-liquidating. A two cent stamp would be affixed each week. At the end of fifty-two weeks,

$1.04 would have been paid in for every $1.00 issued. This extra amount would serve to defray the expenses to be incurred in the printing and distributing the plan.

He defended the "stamped money" idea from the critics who were always ready to cite Gresham's Law to the effect that bad money always drives out good.

> "When Gresham's law is so stated it is mistated, except as applying to a period of inflation. When, the money supposedly in circulation doesn't circulate, any money which drives it out and really circulates in its place is not "bad money" but "good money."[32]

Moreover, Fisher was emphatic in his denial that the stamped scrip was merely a sales tax. Since it would only operate as a tax on one day a week, the scrip would circulate so rapidly so as to spread the tax to an infinitesmal amount per transaction.

<u>The velocity of circulation school</u>. Gesell was not the only person who emphasized the velocity of circulation of money. Mr. Isidore Ostrer is generally credited with producing the idea of penalising idle deposits by a negative interest rate so that their owner would be compelled to make productive use of the funds either by spending them, or by investing the money in the capital goods industry. On the other hand, it was also proposed that in time of war, the surplus money not mopped up by war loans

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32 Irving Fisher, <u>Stamp Scrip</u>, <u>op. cit.</u>, p. 58.

and taxation could be eliminated by issuing interest-bearing money which would reduce the velocity of circulation to the point where it no longer presented a problem.

The Alberta scrip experiment. The ideas of Silvio Gesell as exemplified in his "stamped money" scheme had nothing whatever to do with Douglas Social Credit theories. Mr. Aberhart had denied having any notion of issuing "stamped money." "There will be no interference with the present money, nor will the province issue scrip in any form..."[33] Why then, did Aberhart embark on such a project? There are several possible explanations.

The dated stamp scrip was not a novelty to Mr. Aberhart and his close followers. He had been speaking over the radio on monetary matters for a considerable time and was reported to have broadcast an account of dated stamp money from his Prophetic Bible Institute at Calgary. In the first place, the purpose of Silvio Gesell's book, The Natural Economic Order could not fail to have a favorable impression on Aberhart. On the one hand it was a repudiation of Marxian theories and on the other, it was a reaction against "laissez-faire" economics based on the theoretical foundations of the classical economists. This was precisely what Aberhart himself sought--a means of making capitalism work. Then too, a dated stamp scrip plan had been

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[33] Social Credit Chronicle, November 23rd, 1935, cited in the Evidence of Professor Elliott, Department of Economics, University of Alberta Before the Agricultural Committee of the Alberta Legislature, Session 1935, Edmonton: King's Printer, p. 17.

popularized in monetary reform circles by the eulogistic account given by Professor Irving Fisher in his book Stamp Scrip, which was published in 1933. Thus the scheme achieved a mark of respectability. Finally, it seems quite possible that the Alberta government did not issue stamp money primarily because it had become converted to the ideas of Silvio Gesell but because its members had come to the conclusion that a plan of action would check incipient rebellion in the Legislature and indignation and discontent in the country owing to the failure to implement Social Credit immediately. The extremists among the Social Creditors were worried about their promises to pay dividends of twenty-five dollars monthly, and the dated stamp money scheme was first put forward as a means of paying the promised dividends. Not being a Social Credit device, the scheme had the added advantage that if it did not succeed, no stigma would be attached to Social Credit theory which would remain to be tried.

Accordingly, it was in December 1935, some four months after the election, that the plan for dated stamp money was first presented. Mr. Lucien Maynard, is credited with having first presented the dated stamp money plan to Premier Aberhart in December 1935.[34] Its terms were that the Alberta government would pay the basic monthly dividends promised in the election platform in the form of five "provincial bonds" of

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[34] Report in the Edmonton Journal, June 16, 1936, cited by V.F. Coe, "The Scrip Experiment", The Canadian Journal Economics and Political Science. (Vol. IV, 1938).

five dollars each. These bonds would be non-interest bearing and would mature after one year. The bond would be divided into fifty-two squares corresponding to the weeks in the year. Every week the holder of the "bond" would then be able to use it to purchase whatever he desired. The government would be making a gross profit of two per cent per year on the issue. Accordingly, since the fund for redemption was assured, the government would be taking absolutely no risk in issuing the basic dividends in this manner.

During the first session of 1936, there was no official mention of stamp money, although both the Edmonton Journal and the Winnipeg Free Press made reference to a "plan" which had supposedly been drawn up privately.[35] However, as Major Douglas had announced in March 1936, that he had severed his official connection with the Aberhart government, Premier Aberhart was forced to take immediate action to offset the resulting loss of confidence in his administration. Thus the plan may be described as being partly a "face-saving" gesture.[36]

The first public announcement of the scrip plan was made by a Cabinet Minister, Mr. Fallow, on April 10, 1936.

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[35] Both newspapers were generally opposed to Social Credit policy.

[36] *Infra*, p.187.

However, three months were to elapse before the Order-in-Council on stamp money was effected. During this interval, the proposal was debated on the public platform and in the newspapers, and became known as "prosperity certificates."

The outlines of the plan became fully known on June 15, when the Order-in-Council respecting prosperity certificates was published in the press. The paramount question had centered on the acceptability of the scrip. In the reported first plan of December 1935, stamp money was said to be a way of paying the promised monthly dividends. However, in June Mr. Aberhart said: "It will show the value of circulating credit and until our people see the necessity of issuing and using their own credit to carry on our internal business, we shall always be economic slaves."[37] This statement later became a popular explanation of the means by which stamp money could be a step towards Social Credit.

There was, however, little doubt in the minds of the people of Alberta that the scrip experiment had nothing to do with Social Credit. Premier Aberhart was quoted as saying that stamp money was not Social Credit. On July 20, 1936, he asserted that "prosperity certificates are one way of using the province's credit."[38] This knowledge that the plan was not Social Credit

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[37] cited by V.F. Coe, "The Scrip Experiment," _op. cit._, p. 70.

[38] _Ibid_, p. 70.

put a damper on the enthusiasm of partisans of Social Credit.

The Prosperity Certificates Act(c.4, second session, 1936) confirmed and elaborated the Order-in-Council respecting certificates and received final assent on September 1st. The Provincial Treasurer was authorized to issue and re-issue credit certificates to any person "who may be willing to accept the same(s.2)." The purposes of the certificates were described as designed for use in payment of goods and services rendered in public works, the payment of unemployment relief, and the payment of any public expenditure which would be necessary in the future. The certificates were also to be used in any prospective agreement which might be entered into between the Alberta government and any municipality or city for the relief of unemployment.

The denominations ofthe Alberta Prosperity Certificates were to be twenty-five cents, one dollar, and five dollars, with the aggregate amount of all denominations not to exceed two million dollars. The issues were to be self-liquidating and were to be redeemed by the Provincial Treasurer at face value,"provided that at the time of presentation there are attached to the certificate one hundred and four stamps...each stamp representing one per centum of the denomination of the certificate(s.5). The proceeds of the sale of the provincial stamps was to be used to redeem the certificates and to defray administrative expenses incurred in the issue of the Prosperity Certificates.

The plan as finally put into operation was used in payment of some $10,000,000 envisaged by Aberhart in his Blue Manual, the largest issue was for less than $250,000. Moreover, the State Credit House which was to set up the facilities whereby the money which was issued could be redeemed, was never established. Nor did the budget of the second session of 1936 make any provision to meet the monthly redemption of Prosperity Certificates. The scrip was, in fact, redeemed in Dominion currency and not by the "people's credit." This in fact, made the scrip no better than cheques drawn on the account of the Government of Alberta. Furthermore, as the life of the certificate was spread over a period of two years, the denomination was actually one dollar, and the weekly stamp to be affixed to the "prosperity certificates" was one cent. This meant that at maturity, 104 one-cent stamps would be necessary for every dollar certificate. There is, then, a far closer resemblance in the mechanics of the scrip plan to the plan proposed by Irving Fisher than to that proposed by Silvio Gesell.

The two purposes of the issue most frequently mentioned by government spokesmen were the provision of increased purchasing power and the stimulation of employment. Sometimes the enhanced possibility for public work construction was mentioned as an added advantage of the "prosperity certificates."

This scrip scheme was criticized from several sources. The Douglas Social Creditors were disappointed at the failure of the Aberhart government to issue monthly dividends as was promised originally. Major Douglas attacked the scheme as involving an obsession with production as an end in itself.[39] The political parties, the U.F.A., and the newspapers, almost universally opposed the plan. Gresham's Law was again dusted off to show that "bad money" would ultimately replace "good money." In short, Social Credit members who followed the Douglas school of thought criticized the scrip plan as useless because it was fully backed, while others who followed a more "orthodox" line found fault with the "prosperity certificates because they were weakly backed.

As far as redemption was concerned, it was provided on July 27, 1936 that the payment of the "prosperity certificates" was to be out of the general revenue. This assured ability to pay as long as the issue was kept to a reasonably modest size. It is noteworthy that the redemption at face value really put a premium upon prompt redemption at maturity. It was virtually a "disappearing dollar." The holder who redeemed at the date of maturity received face value, whereas the person who did not redeem ran the risk of losing one per cent of the face value if he failed to pass the certificates within the next few days, and correspondingly more for longer periods.

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[39] Winnipeg Free Press, December 26, 1936.

In operation the scheme was a disappointment. The original scrip issue made in August 1936, totalled $239,394.[40] In practice the scrip was redeemed monthly in Dominion currency. The first monthly redemption ocurred on the days September 10th to 12th, 1936, when $144,280 of the certificates were redeemed. Thereafter, despite small re-issues, the volume of certificates issued dwindled. On October 5, 1936, $25,000 of Alberta Prosperity certificates were re-issued mainly to complete highway projects already started. These certificates were part of the estimated $140,000 worth of scrip redeemed by the government during the first redemption period. At the end of the November redemption period, $46,777 was in circulation, but scrip with a face value of only $37,643 was in circulation in December.

One of the weaknesses of the scrip plan was the failure of the Alberta government to accept the scrip in satisfaction of the taxation claims it held. This led many private citizens to refuse to accept it. The chartered banks would also have nothing to do with the "prosperity certificates." Payments to cities was another use proposed for the scrip. The province of Alberta received relief grants from the Dominion government which it was to turn over to the municipalities. On August 7,

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[40] Winnipeg Free Press figures, December 26, 1936. The exact amount issued is still open to doubt; V.F. Coe, op. cit., says it was $175,000.

1936, the Edmonton city council accepted an offer to accept $86,500 of certificates in lieu of $56,000 in Dominion currency from the Alberta provincial government. However, an injunction was obtained on application of Ronald H. Watson, an Edmonton citizen. The court ruled that the city of Edmonton did not have the power to enter into such an agreement, and no payments were actually made. However, the mere fact that the Province was willing to offer the prosperity certificates at a discount inevitably placed a stigma on them and compromised their acceptibility in the eyes of the private citizens.

The most significant economic effect of dated stamp money in Alberta was the diversion of business from one retailer to another; i.e. from those who would not accept the "velocity money" to those who did. This aroused a good deal of resentment on the part of many Social Credit merchants who were indignant over the fact that competing merchants who were politically opposed to Social Credit, nevertheless accepted the scrip for business purposes.

The certificates were green in color, and in appearance they resembled Canadian dollars on the face. On the back, there were 104 spaces on each of which a stamp was required to be affixed, at the rate of one provincial stamp every week for two years.

PROSPERITY CERTIFICATES
DATE OF ISSUE
August 5, 1936

The Prov. Treasurer will pay to the bearer the sum of one dollar on the expiration of two years from date of issue hereof upon presentation, hereof provided there are then attached to the back hereof 104 one-cent stamps.

William Aberhart Premier	C. Cockroft Provincial Treasurer

Physically, the scrip was defective. The paper was too thin and not strong enough. Reports showed that the "prosperity certificates" were rapidly succumbing to wear and tear. Stamps were continually coming loose from the scrip as the stamps had to be very small in order to provide room for 104 stamps.

In the end, the dated stamp scrip proved to be little more than a small nuisance. By January 30, 1937 the fact that the scrip had been dropped was accepted without question, although not announced officially. On April 7, 1937, Mr. Solon Low, the new Provincial Treasurer announced its abandonment, remarking that "owing to the small amount of certificates, it was felt that the scheme should not be continued for the present. Also the amount in circulation has been lessening month by month."[41]

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[41] cited by V.F. Coe, *op. cit.*, p. 81.

An amendment to the Prosperity Certificate Act, June 17, 1937 made possible the redemption of the scrip at any time it was deemed expedient to discontinue their issue.

Originally, $2,000,000 in "prosperity certificates" were authorized; but only $500,000 were actually printed; and the total amount of scrip issued was $309,553 in denomination of one dollar. The estimated expense was $9,938.73 and the estimated revenue over cost was thus $12,679.68. In addition, $19,633 in certificates were not presented for redemption, these no doubt are held as souveniers.[42] The total excess of income over revenue was thus a little over $32,000. However, it does not seem as if the "game was worth the candle." The Alberta Social Credit government did not understand the specific objectives of Gesell and the representatives of Gesell would not co-operate with the Aberhart administration. Elsewhere, the dated stamp scrip plan showed marked success.[43] The most important aspect of the scrip experiment, however, was that it was consciously adopted merely as a provisional programme.

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[42] cited by V.F. Coe, op. cit., p. 81.

[43] Cf. the Worgl experiment in Austria.

IV. LEGISLATION FOR SOCIAL CREDIT

It must not be thought, however, that the Aberhart administration made no attempts to carry out their campaign pledge of monthly dividends during the first eighteen months.

Alberta's long awaited Social Credit legislation passed at the first session in March, 1936, however, provided little more than an investigation of the possibilities of the Social Credit aims with no mention of their enactment. The Social Credit Measures Act(c.5, first session, 1936) declared merely that it was the intention of the legislators to

> "adopt and put into operation any measures designed to facilitate the exchange of goods and services or any proposal which is calculated to bring about the equation of consumption to production and thus ensure to the people the full benefit arising from their association."(s.7).

Nowhere in the main body of the bill was the phrase "social credit" mentioned. It may well be that Aberhart became resigned to the fact that no concrete plan from Major Douglas would be forthcoming, and was merely "stalling for time," until some such scheme could be worked out by the Alberta legislators.

Be that as it may, registration of citizens for Social Credit dividends was postponed for an indefinite period on March 26, 1936 which led the Saskatoon Star-Pheonix to comment that "apart from the angle of Social Credit problems, Aberhart is determined to give Alberta good and economical administration."

During the summer of 1936, the pressure on Aberhart by dissident "insurgent" groups, forced the administration to take steps to provide for Social Credit in the strict sense of the word, that is, as interpreted by its founder, C.H. Douglas. Monthly dividends and "interest free loans"[44] payable in "Alberta credit" were to be given to those citizens who registered. A prerequisite to registration was the signing of a "covenant" by the citizen. According to the terms laid down in the "covenant" by the citizen, it was promised to co-operate with the Alberta government, to work whereever possible, to make no claim for payment in Canadian currency of "Alberta credit", nor to tender this for payment of provincial taxes "until such time as the Alberta Government shall be able to accept it." Manufacturers and farmers pledged themselves to sell at least fifty per cent of their marketable produce for Alberta Credit. Professional men were, for their part, to agree to accept at least twenty per cent of their fees in the same medium. Landlords were to undertake to accept ten per cent of their rents in "Alberta credit." In return, the Alberta government promised to carry out their election pledges, and to redeem where possible all credit with

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[44] In practice the loans were not "interest free." An interest charge not exceeding two per cent was to be levied for administration purposes.

Canadian currency for essential requirements, such as taking up residence outside the province by an Alberta citizen. The "covenants" had no legal sanction and were purely voluntary. The government could not sue the citizen, nor could the citizen sue the government for non-payment of dividends as promised to the signer of the "covenant."

The momentous second session, destined to sit for only six crowded days, opened on August 25, 1936. It enacted the above covenants into law. After validating the Order-In-Council providing for covenants, it set forth a scheme of Social Credit in fairly complete detail. The purpose of the Alberta Credit House Act(c.1, second session, 1936), was declared to be "to provide the People of Alberta with Additional Credit." The principal function of the Credit House was cited as designed to furnish "to persons entitled to Alberta credit facilities for the exchange of goods and services in the province in order to effect equation between the purchasing power of such persons within the province and production within the province..."(c.1, Part III, s. 18). The head office of the Credit House was to be established in the city of Edmonton with branches throughout the province. Specifically, then, the Credit House was to be the source of the "social" or "basic" monthly dividends. It was empowered to receive deposits of Alberta credit vouchers and to keep an account of any transfers of Alberta credit made by the depositor.

It was also authorized to receive currency and all kinds of negotiable instruments from any person and convert the same into Alberta credit on a par basis. It was apparently hoped that the Credit House might eventually replace the banks in Alberta. Nevertheless, it will be noted that the mention of the word "money" itself was scrupulously avoided in the text of the Act.

Then too, the Credit House was to be the source of "interest free" loans. "No interest is to be payable in respect of any credit so provided(c.l. s. 23(4)). Furthermore the Douglasite notion that a tax is "a dividend in reverse" is evident here. It was specifically provided that "no Alberta credit dividend shall be deemed to form any part of the income of persons..."(c.l. s.25(2)). Thus the basic dividend, if and when distributed, would be free of taxation.

The dangerof rising prices nullifying the advantages of social credit legislation was doubly guarded against. One safeguard was a provision in the Credit House Act to the effect that Alberta Credit transferred by producers in the Credit House may "be subject to a levy at such rate as may from time to time be prescribed by the Lieutenant Governor in Council as representing the unearned increment in the price paid for... commodities or services."(c.l section 30). The other anti-inflationary provision was the empowering of the government to fix a "just price." To this effect, The Department of Trade and Industry Act Amendment Act, 1936(No. 2) was passed at the second session of the Alberta legislature, power being given to establish an investigating and price fixing committee. The Price Spread Board was given power to "inquire into the production, manufacture, supply, distribution or sale by a wholesaler or retailer of any goods...after making inquiries... the Board may fix and prescribe maximum and minimum prices for goods and services to be sold, or rendered."(c.9, s.3, second session, 1936).

"The Alberta Credit House Act" became law on September 3, 1936. It was to give Aberhart all the authority he believed to be necessary to make his Social Credit experiment a success. The Act contained an escape clause. It gave the Aberhart government the right to "vary" any of its provisions or to write new ones. The Act, however, failed to specify how much the promised benefits would be, when they were to start, or how often they would be paid. Aberhart, at this point, seemed reluctant to lead, but was willing to be pushed into implementing social credit in Alberta.

The immediate reaction was one of surprise and disappointment in Alberta. Many people had voted in favor of Social Credit in Alberta believing that they would be paid twenty-five dollars a month with no questions asked, and no strings attached.

As it turned out, Aberhart was really proposing to go into the banking business on a wildcat basis, i.e. not incorporated as a commercial or chartered bank. The loans were not "gifts" but were repayable, and were liable to a two per cent "service charge." The Credit House, like the banks, would require "security" before issuing a loan.

Although hardly what the Alberta citizen had bargained for, the Act was still better than nothing. In many localities more people signed the "covenants" than had voted for Social Credit.[45] The <u>Winnipeg Free Press</u> commented, "even though social credit sounds like moonshine, there is no use passing up even an outside chance of getting something for nothing."[46]

<u>The break with Douglas.</u> When Aberhart was campaigning on behalf of Social Credit in Alberta, he repeatedly declared that if, and when elected, he would call upon Major Douglas to advise the Aberhart government as to the best means of implementing Social Credit in Alberta. However, during the period

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[45] Sixty per cent of the Alberta electorate voted for Social Credit in the August 1936 elections.

[46] <u>The Winnipeg Free Press</u>, September 3, 1936.

under review, Aberhart and Douglas were never able to agree at any one moment as to terms. At first, judging by his correspondence, Major Douglas was eager to be on the scene of action, but was unable to secure a definite proposal from Aberhart.

The rift may be said to have begun when Mr. Aberhart appointed R.J. Magor of Montreal to make a financial survey of the Province. The appointment was made without reference to Major Douglas' views in the matter. Douglas then issued an ultimatum to the Aberhart government on March 13, 1936; before consenting to come to Alberta, he wanted the Aberhart government to scrap its budget, cancel projected new taxation, and veto the Dominion-Provincial loan council. But by March 23, 1936, Aberhart decided to sever all relations with Douglas. The latter had supposedly asked for an exhorbitant fee.[47] In reality, there seems to have been a clash of personalities. Aberhart was constantly proclaiming that he was no professional politician and that he had accepted the people's mandate to public office reluctantly. However, once he had grasped the reins of government, Aberhart proved extremely loath to let them slip from his grasp. He was always ready to accept advise pertaining to a detailed plan for Alberta, but it would be Aberhart himself who would try to implement these theories. The Alberta stage was evidently not large enough for two

[47] Aberhart claimed Douglas had asked for $100 a day.

dominant personalities.

As time went on, the rift between the followers of Aberhart and the protagonists of Douglasism gradually widened. The division ultimately reached the Alberta cabinet itself. In January, 1937, the Hon. C.C. Ross, the Minister of Natural Resources announced his resignation in protest against the dilitory policy of the Aberhart administration. Aberhart was caught in a "squeeze." On the one hand, there were his "orthodox" advisers who wished the government to be Social Credit in name only; on the other, the "insurgents" put pressure on the administration to carry out the pre-election promises to implement social credit theories in Alberta.

By January, 1937, Aberhart was forced to bow to the demands from rural members for action on a social credit plan. He appointed John Hargrave, the leader of the "Greenshirt" party in England, as Social Credit adviser to the Alberta government. Hargrave did not, however, represent Major Douglas. He had previously split with Douglas on the question of methods in advancing the theory of social credit in the political field. Hargrave took the view that direct political action was essential, whereas Douglas believed that Social Credit should work through all parties, and that partyism was dying. Here perhaps, is the explanation why Douglas did not seem unusually eager to aid the

Aberhart government to implement the theories which he had formulated. Douglas would have no more affinity towards a Social Credit government than he would have towards any other type of government. He believed he had found "the" solution for the world's economic ills. A solution which any government could incorporate into its policy. It was in line with such reasoning that Douglas gave evidence in England before groups of socialists, in Canada before a banking committee composed of "orthodox" economists, and in Alberta before a "reform" government of the U.F.A. Owing to his inability to agree with Douglas on this issue, Hargrave withdrew from the English Social Credit Society to form his own Social Credit party.

Interviewed by the press on his arrival in Alberta in January, 1937, Hargrave was outspoken in his criticism of the government measures to implement Social Credit in the Province. The capital levy and increased taxation, the stamp scrip, and the codes were denounced as having "nothing to do with Social Credit."[48] He laid the blame for this state of affairs on the fact that the government lacked the requisite technical knowledge. The "insurgents" of extremists among the Social Crediters were encouraged.

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[48] Winnipeg Free Press, January 15, 1937.

They believed that action on social credit principles was now imminent.

However, on January 26, 1937, Hargrave, without warning, resigned and left behind him a statement indicating that he considered the Aberhart Social Credit policies as hopeless, and implying that his faith in the Aberhart cabinet was shattered. This challenged the carefully built impression that actual plans for social credit were under way and that dividends would be declared before the eighteen month deadline set by Aberhart. It now seemed apparent that the Aberhart government had no hope or means of fulfilling the election pledge to pay twenty-five dollars a month to every "bona fide" citizen.

The reaction to Hargrave's announcement was immediate. There was widespread and bitter criticism of the Aberhart administration in the ranks of the Social Credit party. With their "orthodox" policies discredited, Charles Cockroft, the Provincial Treasurer, announced his resignation. Solon Low, a young Mormon school teacher with "unorthodox" fiscal views assumed office as Provincial Treasurer.[49]

The "insurgents" for their part, were uncompromising in their condemnation of the first eighteen months of Aberhart

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[49] Supra, p. 136.

rule. "I do not know of a single step for the inauguration of Social Credit in Alberta since the Aberhart Administration came into power. The people of Alberta are further away from Social Credit and from dividends than at any time since the last election,"[49] wrote P.J. Rowe, Social Credit member of Parliament, Athabaska Division, to Dr. C.C. Ghostley.

Indeed, in retrospect, the legislation passed during the first eighteen months of Aberhart Social Credit government, must have been anathema to the Douglasites. The policy of orthodox retrenchment had been a failure; the scrip policy also was unsuccessful; the "New Deal" policies like the former policies bore absolutely no relation to social credit principles and in some respect were the very antithesis to social credit theories in that they encompassed much greater government control over the economy as a whole though licensing of businesses and industries. Aberhart during this period, seemed to flounder from one interim programme to another, incorporating no scheme in its entirety, adopting segments from many plans which in the aggregate resembled no other scheme in existence. Aberhart had attempted much bad had accomplished little. Even the Recall Act was repealed by the Legislative Assembly(Recall) Act Repeal Act(c.7, 3rd session,1937

[49] cited by C.H. Douglas, The Alberta Experiment, op. cit., p.90.

CHAPTER VI

THE PERIOD OF INSURGENCY

The failure of the Aberhart administration to fulfil election promises prompted a full scale revolt by the extremists in the party. During March, 1937, Aberhart's position as leader of the Social Credit party was precarious. The insurgents offered a sweeping plan of debt adjustment, both public and private. They demanded a tax on securities, mortgages, bonds, etc. However, the plan was not confiscatory, since the creditors involved would receive "baby bonds" or Alberta Credit in return for loss incurred. Aberhart, for his part, seemed determined to "go slow" and he refused to consider the demands of the insurgents. His defeat seemed imminent when the insurgents threatened to refuse to pass the supplementary estimates.

Aberhart managed to weather the storm by means of a compromise. He promised the insurgents that he would establish Social Credit in Alberta by July 1, 1937, in return for provisional estimates being passed. Thus ninety days grace was allowed the Alberta Premier to progress towards the Social Credit goal.

Nevertheless, the Premier seemed apathetic towards the suggestion that the assistance of Douglas be sought, and the insurgents took the initiative in asking him to come to Alberta. Towards the end of May, 1937, Douglas signified his intention to remain in England for the time being, but agreed to send two of his colleagues to Alberta to investigate and report on the technical and political situation in the province as a preliminary to his possible personal visit to help to introduce a "genuine Social Credit scheme."[1]

G.F. Powell, the first of the two Douglas representatives, arrived in Alberta on June 12, 1937.[2] The result was a partial rapproachement between the factions in the Social Credit Party of Alberta. A non-confidence motion, moved by Tremblay, a Liberal member of the Alberta Legislature was swamped by a vote of forty to seven. The Liberal motion read in part:[3]

> "Considering that this government was elected to increase purchasing power by paying basic dividends of twenty-five dollars a month to every adult bona fide citizen in this province, within eighteen months and failed to do so."
>
> "Considering it was elected to reduce taxation and that it has increased it approximately $4,000,000.
>
> "Considering it was elected to abolish poverty in the midst of plenty and that it has caused unemployment to increase while it had decreased in every other province..."

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1 cited in the *Winnipeg Free Press*, May 25, 1937.

2 L.D. Byrne, the second Douglas representative arrived late in June, 1937.

3 *Winnipeg Free Press*, June 15, 1937.

It seems ironical that the Liberal party was condemning the Aberhart administration for failure to carry out social credit policies with which the Liberal Party had no sympathy. At the same time, the die-hard Social Crediters were condemning the government for the very same reason. It seems reasonable to assume that the Liberals were alarmed over the fact that on June 1, 1937, Alberta defaulted on a $1,650,000 bond maturity, after being unable to secure a loan from the Bank of Canada.

Even so, the Aberhart administration was not wholly united. A small clique of intransigeant insurgents remained opposed to the Aberhart government. Fourteen members of the Social Credit Party absented themselves from debate on the budget.

Social Credit legislation. During the first session of the 1937 Alberta legislature, Aberhart was forced to adopt legislation pertaining to the establishment of Social Credit by the extremist factions. The Alberta Social Credit Act(c.10, first session, 1937), outlined Social Credit policy. The legislation provided for the establishment of a Social Credit Board(c.10, Part I, s.3) to consist of G.L. MacLachlan, F.M. Baker, Dr. J.L. McPherson, and W.E. Hayes. Its purpose would be "to examine Social Credit legislation and make recommendations for legislation action in respect thereof." To this effect the Board would establish and maintain a statistical bureau.

The pre-election promise to issue "social" dividends to the Albertan electorate was not forgotten. It was the intent and purpose of the Act "to provide for the issue of Treasury Credit Certificates to such extent as may be requisite for the purpose of increasing the purchasing power of the consumers."(c.1, Part II, first session, 1937). The purchasing power thus issued would be sufficient to equate it to "the productive capacity of the people of the Province for the production and delivery of wanted goods and services." It was this capacity which was to be the sole measure of Alberta credit. Specifically, Alberta Credit was to be used to provide a discount to consumers retail prices, government services, interest free loans, to facilitate debt payments, to ensure the payment of export subsidies and to render feasible the issue of provincial consumers' dividend.

The Social Credit notion of the "Just Price" is evident here also. The "Compensated Price" is defined as meaning the retail price of goods and services after the application of the retail discount. The Act is unequivocal as to what should constitute the retail discount. It would be "that percentage which unused productive capacity bears to total production capacity."(s.14). In computing the percentage of unused productive capacity, the total capacity of the industries and the people of the Province of Alberta for the production of wanted goods and services during the preceding three months would be estimated. To this would be added the known import figures during the same period of time.

Consumption capacity would be determined in much the same way by estimating the actual domestic consumption of goods and services for the preceding three months's period, with the addition of a fixed percentage to take care of capital depreciation during this period of time. The statistics to be used would be derived from the Provincial Department of Trade and Industry or any other official source.

"The "Compensated Price" mechanism (retail discount) would not go into operation "unless productive capacity... shall exceed consumption by at least ten per centum." (s.14 (4)). The consumers' dividend of an unspecified amount would be paid on the first day of each month to every bona fide citizen and would be in the form of Treasury Credit certificates based on Alberta credit.

To effect the issuance of the dividends, the Act also provided for the establishment of a Credit House and Credit House Branches(c.1, Part III, first session, 1937). An anti-inflationary clause was also included. If unduly expanded credit manifested itself in an inflationary rise of the general price level, then a negative retail discount rate which would not exceed ten per cent would be established on all goods and services.

The whole scheme may be expressed in a few mathematical relationships:

$$\frac{\text{consumptive capacity(includ. capital depreciat.)}}{\text{productive capacity(including imports)}} = \frac{\text{Just Price}}{\text{market price}}$$

Suppose for example, that consumptive capacity in Alberta during a three month period were \$10,000,000 and at the same time, its productive capacity were \$15,000,000. Then:

$$\frac{\$10,000,000}{\$15,000,000} = \frac{\text{Just Price}}{\text{market price}} = \frac{2}{3} \text{ or } 66\ 2/3\ \%.$$

Then the unused capacity would be 33 1/3 % so that the retail discount rate would be 33 1/3 %.

The scheme as outlined above resembles Aberhart's views on Social Credit rather than that of Douglas.[4]

And at the same session, a move was made to reduce Alberta's extremely heavy liabilities. "The Provincial Guaranteed Securities Interest Act"(c.12, first session, 1937), radically reduced the rate of interest on all debentures which were guaranteed by the province. The sole exception was the Alberta and Great Waterway Railway Co. which would

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[4] *Supra*, p. 118.

continue to have its debentures guaranteed by the Alberta government at the rate of five per cent.

Having thus re-established its position, the Government called a special session of the legislature on August 4, 1937, to pass legislation recommended by the Social Credit Board[5] and its two economic experts, G.F. Powell, and L.D. Byrne, both representing Major Douglas.

The Provincial Treasurer, Solon Low, introduced the first of such bills. The Alberta Social Credit Act Amendment Act(c.3, second session, 1937) defined Social Credit as "the power resulting from the belief inherent within society that its individual members in association can gain the objectives they desire."(section 2). The main provision of the Act would empower the Social Credit Board to adopt proposals for distributing credit to the people of Alberta. Moreover, the Board was empowered to spend money appropriated by the legislature as it chose. Further, it was provided that the Board could do anything "as it may from time to time deem proper for the purpose of promoting, conserving, and enhancing, the Social Credit of the province."(section 3). Accordingly, the Board could transmit to a Social Credit commission directions for distributing the promised dividends. The Board was also given complete control of bank policy, if and when, proposed local

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5 Supra, p. 188.

control of the chartered banks of Alberta was made effective. This control would be accomplished through directives to the local bank managers. The provisions of this bill, by greatly enhancing the powers of the Social Credit Board, created, what was in effect, a "shadow government."

It was a second Act, however, which provided the sensation of the fourteen day session. The Credit of Alberta Regulation Act(c.1, second session, 1937) was considered by opponents of Social Credit to be the most drastic and far reaching legislation in the two-year life of the Aberhart administration. Essentially, it was a bank licensing scheme based on the principle that "it is expedient that the business of banking in Alberta shall be controlled with the object of attaining for the People of Alberta the full enjoyment of property and civil rights in the province." The Provincial Credit Commission would issue the licenses at the cost of $100 to a banker, and five dollars to a bank employee. Failure to take out a license would cause the banker to incur a penalty of from $5,000 to $10,000 while unlicensed employees were to be fined from $100 to $1000(s.4 and 6).

The Provincial Credit Commission was given the power of life and death over the commercial banks operating in Alberta since it could "at any time or from time to time without notice, suspend, revoke or cancel the license of any Banker of any employee who committed a breach of this Act(s.3 (5)).

This bank licensing bill aroused a storm of controversy, most of which centered on the validity of such legislation. The Hon. Lucien Maynard, a young Social Credit lawyer, was outspoken in his defence of this Bill.[5] While admitting that the Dominion had the exclusive right under Section 91 of the British North America Act to deal with matters of money and banking, he denied that there was anything in the Credit of Alberta Regulation Act to contravene such powers. "We are not dealing with the issue of currency or coin or paper bills or banks notes...we are not even incorporating a bank." Instead, Mr. Maynard argued that the banks were infringing upon the right of the Province by "monetizing the credit of the Province," and that the Alberta Government had every right to safeguard the civil rights of its citizens.

Mr. Maynard furthermore pleaded for consideration of the spirit and not the letter of the Constitution.

> "There is something greater than the law of man, and that is the law of God, and I maintain that when human legislators have so forgotten themselves as to pass laws that contravene the divine law, every man is bound in conscience to obey the divine law rather than an iniquitous and perverse human law."

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5 Lucien Maynard, "Human Law Must Bow to Divine Law." Historic Speech given in the Legislature of the Province of Alberta, August 6, 1937. Edmonton, United Democrats.

"...No man is obliged to obey a human law which contravenes the law of God, and no judge has the right to uphold any human law which violates the divine law."

Thus again it will be seen that the Social Credit movement is not merely an economic theory. It is inextricably bound up with a way of life.

At the same session, Attorney-General Hugill introduced a bill which proposed to block all appeals in Alberta courts on the constitutionality of provincial laws. The Judicature Act Amendment Act(c.5, second session, 1937), required permission of the Alberta legislature before the constitutionality of any provincial law could be referred to court decision.

"No action or proceeding of any nature whatsoever concerning the constitutional validity of any enactment of the Legislative Assembly of the Province shall be commenced, maintained, continued or defended, unless and until permission to bring or maintain or continue has first been given by the Lieutenant Governor in Council."(c.5, s.27 (c)).

The attempt to stop such court decisions, which in the past had been detrimental to the Social Credit government, applied only to the courts of Alberta and would not stop a test case in the Supreme Court of Canada.[6]

A further Act totally deprived bank employees in Alberta of their right to appeal to the Alberta courts and limited certain of their civil rights. The Bank Employees Civil Rights Act(c.2,

6 Supra, pp. 114 and 115.

second session, 1937) stipulated that the employee of a Banker while unlicensed, "shall not be capable of bringing, maintaining or defending any action in any Court of Civil Jurisdiction in the Province which has for its object the enforcement of any claim either in law or equity."(section 3).

Three possibilities remained for anyone wishing to gainsay Alberta government legislation. In the first place, a direct reference to the Supreme Court of Canada by an interested party, such as a banker, or by the federal authority, on the constitutional powers of Alberta could be made. Secondly, under the power conferred upon it by the British North America Act, the federal cabinet could disallow provincial legislation. Finally, the lieutenant-governor of Alberta might reserve his approval of legislation, pending further instructions from Ottawa.

The reactions to this legislation were not long in coming. While the Alberta Legislature was still in session, Attorney-General, John H. Hugill submitted his resignation. He was the fourth cabinet member to relinquish his post since the Alberta government took office.[7] Mr. Hugill had incurred the displeasure of the Social Credit caucus owing to the fact that the Amendment to the Debt Adjustment Act of 1933(c.3, second session, 1936) passed a year

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[7] Previously Hon. C.C. Ross, Minister of Lands and Mines; Hon. Chas. Cockroft, Provincial Treasurer; and Hon. W.N. Chant, Minister of Agriculture; had resigned.

ago, was not within the law. On the other hand, the Attorney-General was a "moderate" and could not accept the Act to license banks and other extremist legislation.

The legislation of the last session of the Alberta legislature also stirred the federal government to action. Formerly, Ottawa had adopted an aloof attitude towards Alberta in line with the fundamental concept of the Liberal administration to avoid anything that smacked of "power politics." The Liberal government felt that the courts were the proper place to dispose of unconstitutional legislation. Now, however, the Liberal government dropped its passive attitude, and took the initiative in asking the co-operation of the Social Credit Premier in determining the validity of these measures. Furthermore, Mackenzie King asked Aberhart to refrain from enforcement of the legislation until the Supreme Court of Canada had considered the constitutionality of the three Acts. Evidently, the Dominion government felt that the judicial process was too slow and that chaos would result if the Acts passed were put into operation and then nullified by court decree.

Premier Aberhart was somewhat taken aback by this federal proposal. He had anticipated opposition by the "financial interests" but he had not expected to face the opposition of the federal authorities. Nevertheless, he felt that he would lose face in the eyes of the Albertan electorate and felt he could not retreat. He answered Ottawa in uncompromising terms, "We are compelled by the mandate of our people to proceed with the enforcement of our legislation."[8]

The action which followed Aberhart's refusal to assist in the proposed court reference was immediate. On August 18, 1937, the Dominion disallowed the three Alberta laws. This marked the first time since 1924 that the federal authorities had exercised the constitutional prerogative provided by section ninety of the British North America Act of 1867.

Ironically enough, Premier Aberhart had by his uncompromising attitude forgone any hope of appeal. There could be no appeal from Federal disallowance. Had he chosen to go before the Supreme Court of Canada, and met an adverse decision there, he could have appealed to the Privy Council for a further hearing. That chance was now lost to him.

Concomitantly, there were signs that the popular lure of social credit was weakening. Some people believed that the Government of Alberta now lacked the constitutional power to establish social credit in Alberta. A movement was set under way in Okotoks-High River constituency to "recall" Aberhart.

The Legislative Assembly(Recall) Act(c.82, first session, 1936) had been one of the very few promises Aberhart had been

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[8] cited in the Winnipeg Free Press, August 29, 1937.

able to implement. Petitioners were required to post a fee of $200 to get "recall" action under way. Moreover, more than sixty-six votes were required and two-thirds per cent of the total number of voters who were registered on the previous voters list were required for such action to be successful. It seemed as if Aberhart was to be the first victim of his own device.

For a time it seemed as if the Government itself was becoming reconciled to its constitutional limitations. The Postponement of Debts Act, announced August 24, 1937, was in effect a six month moratorium on debts. It constituted a legal authorization to a debtor to postpone payments for a certain period of time. It did not however reduce debt, nor did it prevent the increasing of the debt by the accumulation of interest. In sum, it merely postponed the day of payment. The previous Debt Adjustment Act(c.3, second session, 1936) provided not only for delay in settlement, but was much wider in scope. Under its provisions, a reduction in principal and interest were to be brought about.

However, by the end of September, 1937, it was apparent that the Social Credit government intended to proceed in open defiance of Ottawa veto power. A third session opened on September 24, 1937, being the first occasion in Canadian legislative history of three sessions in a single year.

The outlines of extremist Social Credit policy were evident in several bills passed at this session. An Act

Respecting the Taxation of Banks(Bill 1, 3rd session, 1937), was sponsored by E.C. Manning, the Minister of Trade and Industry. A "bank" was defined as "a corporation or joint stock company other than the Bank of Canada wherever incorporated and which is incorporated for the purpose of doing banking business or the business of a savings bank and which transacts such business in the Province whether the head office is situated in the Province or elsewhere."(s.2). The bill would have increased sevenfold the tax levied on the banks. Every bank doing business in Alberta, in addition to the existing taxation would pay "a tax of one-half of one per centum on the paid up capital thereof(s.3) and "a tax of one per centum on the reserve fund and undivided profits thereof."(s.3). In case of default, a penalty of five per cent of the unpaid tax would be added, and thereafter further penalties of one per cent per month would be added during the time which the tax remained unpaid.

Thus the banks were singled out as the agency which would provide the Alberta government with much needed revenue in an expanded programme. The banks, long the bete noir of the doctrinaire Social Creditor would arouse no sympathy among the ranks of the Albertan populace.

Another bill dealt with the banking and credit institutions and showed once again that the Social Creditors considered the financial and credit institutions as "fair game." The Credit of Alberta Regulation Act, 1937(Bill 8, third session, 1937) involved credit control of the banks by licensing through the Provincial Credit Commission.

> "Every credit institution which at the time of the coming into force of this Act is carrying on the business of dealing in credit within the Province shall, within twenty-one days thereafter, apply for and obtain a license from the Provincial Credit Commission in respect of such business and every such application shall be accompanied with the fee provided for the license so applied for." (section 3 (1)).

The Provincial Credit Commission was further authorized to suspend, revoke, or cancel the license of any credit institution, which in the opinion of the Commission, "acted in a manner which restricts or interferes with the property and civil rights of any person or persons within the Province.(s.three (4)). Every credit institution carrying on business within the Province would be liable to a license fee equivalent to $100 for every building in which the business of the credit institution was carried on. In the event of failure to take out such a license, the credit institution would incur the tremendous penalty of $10,000 for every day during which it carried on business without being duly licensed.

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[9] These "Bills" were reserved for the pleasure of the Governor-General and were to have no force unless and until within one year from the date of its presentation for assent the Governor-General signed it or proclaimed it(B.N.A. Act, sections 55, 59, and 90).

Another Bill passed at this session of Parliament, also showed the mettle of the Social Credit legislators. Aberhart had for a long time been nettled by alleged inaccuracies in news reports concerning himself and the Social Credit party as a whole. He often complained bitterly that he was being "misquoted." An Act to Ensure the Publication of Accurate News and Information (Bill 9, 3rd session, 1937) shows that the Social Creditors were finally goaded into taking action on this score. Every newspaper, when the bill became law, would be compelled to publish free of charge any statement issued by the chairman of the Social Credit Board which had for its object "the correction or amplification of any statement relating to any policy or activity of the Government of the Province... within the next preceding thirty-two days(section 3). Moreover, the length of any such retraction would necessarily have to be the same length of the original statement. Furthermore, every newspaper, would be compelled to make a return upon the demand of the chairman of the Social Credit Board within twenty-four hours showing its sources of information, and the name, address, and occupation, of the writer of any editorial, news item, or article.

The Board was further empowered to prohibit the publication of newspapers which in its opinion garbled the news and printed mis-truths and half-truths. It could also prohibit the publishing in any newspaper of anything written by a person who had met with the disapproval of the Board. The bill also provided a penalty of $500 for any person who contravened any of the provisions set out.

The reaction from the "fourth estate" was, as might be expected, hypercritical. The Canadian newspaper universally joined in an attack on the Aberhart Press Control Bill. Writers labelled the proposed bill "Hitlerian", and "Fascistic", and gloomily predicted the death of freedom of expression in Alberta. Such action, they believed, would muzzle criticism, and would so inhibit newspapers that they would become mere propaganda outlets for the Social Credit government.

The Social Creditors, for their part, denied that their intent was to "muzzle" the press. It was admitted that even though the Government was to be deemed the final judge of whether a statement was accurate or not, the result would be salutary since the Government existed by the "will of the People." Moreover, if the government were to abuse its prerogative, the Press would be perfectly free to point this out to the people.

As for the second bone of contention, the disclosing by newspapers of their source of information when required to do so by the Chairman of the Social Credit Board, it was contended that this was neither unreasonable or dictatorial.

The Act would impose no condition upon the newspapers which those periodicals did not themselves already impose upon their contributors.

> "For no editor will publish the most innocent letter even from our old and valued friend "pro bono publico," unless he is first given the name and address of the writer."[10]

What rankled ardent Social Creditors was the fact that they controlled very few newspapers themselves and thus were hampered in their campaign against the "financial interests" who controlled the press.

Nevertheless, the Social Creditors were in for a rude shock. The Lieutenant-Governor withheld his assent to three of the bills passed at the last legislature. The bank taxation bill, the newspaper regulation bill, and the bill which involved credit control of the banks by licensing through the Provincial Credit Commission, were later referred to the Supreme court for judicial decision by the Federal Government and were found to be *ultra vires.*

Fiscal policy. In spite of the attempts by the insurgents to implement the social credit theories promised the electorate in August, 1935, the Alberta Government, persisted in fiscal policies which were the very antithesis of their campaign pledges. Reduced taxation was an integral part of

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[10] Dr. J.L. McPherson, "The Truth About the Press Act", Text of an address delivered over station C.J.C.A. Edmonton, on Thursday, October 21, 1937.

Aberhart's Blue Manual and figured prominently in Douglas Social Credit literature. Nevertheless, the legislation enacted even in the period of the insurgency, shows the modifications which have to be made in a theoretical ideal when confronted by a practical situation.

In the session which began on February 10, 1938, many Acts incorporating the principle of higher taxation were passed. The Mineral Taxation Act(c.5, first session, 1938) required that every mineral owner to pay yearly a tax "at the rate of one third of one per cent per acre of the surface of such parcel of land."(s.3). The Securities Tax Act(c.7, first session, 1938) imposed a tax at the rate of two per cent on the principal sum owing under any security. The Banking Corporations Temporary Additional Taxation Act(c.8, first session, 1938) increased by fifty per cent the amount payable by the chartered banks under the Corporations Taxation Act. The Bank of Canada was specifically excluded from the provisions of this Act. The Wild Lands Tax Act(c.12, first session, 1938) imposed a two cents per acre tax upon real estate, exclusive of the value of the buildings or improvements thereon. The Corporations Taxation Act Amendment Act(c.13, first session, 1938) levied a tax on loan companies of one-tenth of one per cent on the amount of the paid up capital of such company, with the minimum tax to be fifty dollars. The same Act also made provision for further taxation of trust companies. "A tax of two per cent on the gross income received by the company during the year from all sources derived, arising, or accrued, from business transacted in the Province," was to be levied, "without any deductions whatsoever,"(s.3). The Unearned Increment Tax Act Amendment Act(c.19, first session, 1938) amended the Act passed by the U.F.A. (c.32, R.S.A. 1922) which had imposed a five per cent tax, payable upon transfer of any land, "on the increase in value at the time of registration of the said land over and above the value thereof according to the last preceding value....excluding in all cases the cost of improvements or of developmental work actually made or done upon...the land."(s. 3). The Amendment Act doubled the five per cent tax payable. The Unearned Increment Tax Act embodied the principles of Henry George[11] and the Single Taxers. For purposes of determining the increase in the value of the land, the original Act provided an arbitrary valuation of fifteen dollars per acre on land not within the limits of any incorporated village, town, or city. In the case of land within "urban" areas, the assessment on the value of such land in the year 1913 was taken as the base. For example, suppose a parcel

[11] Supra, p. 124.

of land within the city of Edmonton was assessed at $10,000 in 1913 and in 1938 the same parcel of land was assessed at $20,000(exclusive of improvements). Then the "unearned increment" would be $10,000 upon which the owner was now required to pay a tax of $1000.

The net result of this higher taxation, was that the Social Credit government was able to raise the revenue of the Province of Alberta by approximately fifty per cent. Under the U.F.A. government, the revenues for a fiscal year had averaged $16,000,000 as compared with an annual revenue of approximately $24,000,000 under the new regime.

Nevertheless, the Alberta Government attempted to ease the burden on the debtor element in its population, if not on the "financial interests." The Home Owners' Security Act(c.29, first session, 1938) would have prevented foreclosures on mortgages of farm homes. "No action or proceedings founded on any mortgage executed before the first day of March, 1938, shall be brought or maintained in any court in the Province against a farm home owner having as its object the foreclosure or sale of a farm home and any such action now pending in any court in the Province is hereby stayed."(section 3). In the case of foreclosure on urban homes, payment to the owner of $2000 was required.

The Alberta Government acted to help the farmer in another way. "The Alberta Hail Insurance Act(c.16, first session, 1938) provided extensive compensation for the farmer in the case of crop damage owing to hail. The Aberhart Government also had an overall plan of crop insurance in mind. To this effect, Aberhart proposed a production tax. The Production Tax Act embodied the "scientific method" of taxation, through a processing tax.

Again, the influence of American legislation is apparent. The Agricultural Adjustment Act, approved by Congress on May 12, 1933 provided that "to obtain revenue for the extraordinary expenses incurred by reason of the national economic emergency, there shall be levied processing taxes..."(Pt. 2, section 9, par. a, H.B. 3835).[12] The tax was to be collected on the first domestic processing of each raw material. The processing tax would amount to thirty cents a bushel on wheat, However, the farmer was protected by the provision that no tax would be paid by the purchaser of raw materials when such materials were used for the purposes of feeding livestock or other purposes of the farmer.

Actually, Aberhart was mistaken if he believed that the imposition of the tax would not unduly reduce purchasing power in the hands of the community.

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[12] Monthly Labor Review. (Vol. 37, United States Government Printing Office, Washington, 1934), p. 1539.

TABLE VII

INDEX NUMBERS OF WHOLESALE PRICES OF FARM PRODUCTS WITH AND WITHOUT PROCESSING TAXES. (1933)*

Month	Without tax (grains)	With tax (grains)	All farm products without tax	All farm products with tax
July	73.4	83.2	60.1	61.7
August	64.6	77.5	57.6	62.5
September	63.9	76.8	57.0	62.1
October	58.2	71.8	55.7	61.2

* <u>Monthly Labor Review</u>. (Vol. 37, United States Government Printing Office, Washington, 1934), p. 1539.

Table VII shows that the processing tax affects the index numbers of farm products by eleven per cent in October 1933. The producers of the intermediate products would tend to raise their prices in order to absorb some of the increased taxation.

<u>The Social Credit Board</u>. At the same time, the Alberta legislature took steps to safeguard the Social Credit Board as an agency of "enlightenment" and propaganda. This was evident in "An Act to Provide the Realization of the Social Credit of Alberta(c.3, first session, 1938). Whereas previous Social Credit Acts emphasized such devices in the economic programme as the Credit House, and the issue of credit certificates, the new Social Credit Realization Act concerned itself mainly with

the dissemination of "authorative information."(section 5). To this end, $100,000 was voted for the Social Credit Board.

The session which began on February 10, 1938, was climaxed by a report made by the Social Credit Board. The report was optimistic and envisaged annual average incomes of $1500 to Alberta residents through the exploitation of the Province's natural resources. Another feature of the report was that it favored the creation of a provincial police force to replace the R.C.M.P. The whole trend of the Albertan government's legislation at this point, tended to isolate Alberta as a separate economy. Their attack on the courts, the Constitution and the Government was an attempt to achieve provincial sovereignty. For, with the proroguing of the Alberta legislature on April 19, 1938, the Social Creditors felt they were at the cross roads. Behind them lay the ruins of an ambitious Social Credit scheme designed for provincial application but now foundered on the rocks of constitutional limitations. Ahead lay what Social Creditors conceived to be a militant conflict with the financial institutions and with the Federal government. The Ottawa government was now singled out as the chief obstacle to the achievement of Social Credit. The way was paved for an appeal to the Albertan populace in terms of "provincial rights."

Such an approach could not fail to gain support among provincially minded Albertan when on June 6, 1938, Alberta's three year old experiment in Social Credit government received a fresh set-back with disallowance by the Federal government of two legislative Acts of 1938. Of the Acts disallowed on this occasion, one was "An Act for the Security of Home Owners" (c.29, 1st session, 1938), and the other was "The Securities Tax Act(c.7, 1st session, 1938).

Thus for a second time since Aberhart's election to office, Social Credit legislation had been disallowed by the Dominion government as an invasion of the federal jurisdiction laid down in the British North America Act. Further discouragement came from Major Douglas. For despite the fact that for more than a year the government, in control of the insurgents, had sought to implement social credit theory, Douglas now repudiated the Alberta government as a Social Credit government.

The new approach now to be adopted by the Albertan government was evidenced in its publication, "The Case of Alberta,"[13] which set forth its proposals for economic and financial changes both in Alberta and in Canada as a whole. Basically, what Alberta asked for was the privilege of being able to work out its own destiny freed from any form of obstruction.

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13 The Case of Alberta. Part I and Part II. (Edmonton: King's Printer, 1938). This was originally intended to be a brief to the Rowell Commission on Dominion-Provincial Relations. However, the insurgents directing the policy of the Albertan government, changed a former enthusiasm for the federal inquiry into an attitude of hostility, prompted by C.H. Douglas.

II. THE TREASURY BRANCH EXPERIMENT

Another experiment in the use of credit began in October 1938 in Alberta. The Credit of Alberta Regulation Act (c.1, first session, 1937) which had provided a bank licensing scheme designed to make the chartered banks of Alberta conform "to the declared will of the people in providing financial facilities to give them unrestricted access to their resources for purposes of obtaining...economic security..."[14] had been declared *ultra vires* by the Supreme Court of Canada. Accordingly, the Government of Alberta was faced with two alternatives. It could have referred the whole matter to the people in an election in which the issues at stake would have centered on acceptance or rejection of the constitutional limitations which hampered Alberta in her Social Credit policies. Such a course of action, however, would have inevitably led Alberta to consider seriously the possibility of secession from Confederation, and was unacceptable to most responsible leaders in the Government. Secondly, the Alberta Government could continue the legal and constitutional battles with the hope of clarifying the issues in the minds of the Albertan electorate and thus mobilize even greater public support for financial reforms. At the same time, an "interim" programme could be carried on with the general

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[14] *Supra*, p. 197.

purpose of providing the people of Alberta with a means of greater access to the goods and services of the Province and thus to enable them systematically to gain control of their "real credit." It was the latter alternative which was adopted by the Social Credit legislators.

At the same time, it was made clear that the Interim Programme is a means to an end and not a Social Credit economy in itself.[15] Since the established money system was firmly entrenched in Alberta through the agency of the chartered banks, which were aided and abetted by the Dominion Government and the Constitution, the programme could operate in the first instance only as an auxiliary to the established monetary system.

Thereupon, the Treasury Branches Act(c.3, second session, 1938) was passed, to provide a mechanism which would systematically free the people of Alberta from the over-riding domination and the banks and financial institutions.

In the first place, the Treasury Branches would carry on some of the functions of banking. Provision was made for those persons who wished to deposit money or transfer money to a different person. This was a simple deposit and withdrawal

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15 Mr. Byrne who recommended the Treasury Branches agreed with this statement. Treasury Branches, Evidence Taken by the Public Accounts Committee of the Alberta Legislature, Edmonton, 1943. p. 43.

service. There was to be no expansion of credit on the basis of deposits, since this was the prerogative of the chartered banks. At the same time, facilities were to be provided to establish a "trade claim" service by means of non-negotiable vouchers. Accounts would be kept in the books of the Provincial Treasury, and the persons who wished to participate in the scheme of transferring claims on goods and services from one account to another could deposit money in the form of Canadian currency or claims on Canadian currency with the Treasury Branches.

Since the funds for the operation of the Credit Houses which were to handle the transfer vouchers would come mainly from customers' deposits, there were none of the free credits that figured so prominently in social credit doctrines in the past. The experiment was not divorced entirely from the ordinary currency, for the customer had to deposit cash to start the project.

Agreements were also to be offered the merchants, which, when signed, obligated them to accept in payment for goods sold by them, "transfer vouchers" which the purchaser of the goods would draw upon his account in a bank of the Provincial Treasury or Credit House. A book of these transfer vouchers would be issued to each depositor opening an account in a branch of the Treasury Department. The merchant would take the "transfer voucher" and deposit it with the Credit House in his own account. The "transfer vouchers" would then circulate freely as the Credit House would be in a position to supply the consumer with these vouchers and a circular process would be the result.

In conjunction with the use of the transfer vouchers was introduced a bonus system, to provide an inducement for persons to use the transfer vouchers. A bonus of three per cent was to be paid to ultimate consumers on goods obtained from co-operating retail merchants provided that the goods so obtained were Alberta made goods to the extent of one-third of the total purchases. In other words, if a consumer bought thirty-dollars worth of goods made in Alberta, and at the same time purchased sixty-dollars worth of goods not trade-marked in Alberta, then the bonus would be on the total purchase and the consumer would get three per cent of ninety dollars of $2.70 as a bonus. This bonus scheme was also to be used as a means of stimulating the development of the provincial economy since it would cause an increase in the demand for Alberta trade-marked goods.

An example of a typical transfer voucher would perhaps serve to elucidate what the Alberta legislators had in mind in setting up the Treasury Branch scheme.

A TRANSFER VOUCHER

Form No, T.B. 30

No. .... No. ....

Date.....19

Previous Balance $

Deposit......

Total....$

Balance........

Issued to.........

Alberta made goods $.......

Other goods.......

Services, etc. ....

Total....$

Province of Alberta
Treasury Branch
Non-Negotiable Transfer
Voucher

Issuer's Account No. ... Place.....
Branch at............... Date......
Transfer to the acount of.............
On the books of the Provincial
Treasury Department and charge
to my account

Alberta made goods....$......(sign.
of issuer).
Other goods.....
Services, etc........
Total...$.....
certified correct
by...........(merchant)

The Government of Alberta was directly involved in the fortunes of the Treasury Branch experiment.

> "All earnings and profits of the treasury branches arising in connection with the operation thereof shall be paid into and form part of the general revenue of the Province and all expenditures made and liabilities incurred pursuant to this Act shall be paid out of such sums as may from time to time be appropriated for that purpose by vote of the Legislative Assembly."(c.3, s. 10, 2nd session, 1938).

After a month's trial, the Edmonton Treasury Branch had made no appreciable difference in the general level of business, according to surveys conducted among merchants. However, the number of vouchers appeared to be slowly increasing. The consensus of opinion among business men who had handled the Aberhart stamp scrip of 1936 and had seen it fail, was that the new Treasury Branches would be more fortunate. The ordinary merchant was ofthe opinion that the three per cent bonus payable to the consumer on the purchase of Alberta made goods was an inducement to many customers. However, one reason for the small amount of vouchers appearing in the day's business was that the customer first had to deposit his money in the Treasury Branch before he could draw on it. Another reason was the scarcity of adequate Alberta made goods and the limitations of choice.

Nevertheless, new Treasury Branches were soon spreading over Alberta. By December 31, 1938, there were ten Credit Houses operating in Alberta, and at that time, the Province's Treasury Branches held deposits of $224,031.53 with $222,709.12 being held in cash against this total.[16]

However, the operation of the Treasury Branches soon showed weaknesses in the scheme. It was found that many

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[16] The difference was explained as representing credits earned by accounts in the form of three per cent bonus on purchases of Alberta goods.

manufacturers and producers who were not co-operating in the operation of the Treasury Branches were obtaining as much benefit from it as those who were co-operating enthusiastically. Furthermore, another weakness soon revealed itself in the interruption of the cycle of voucher deposits from the consumer to the producer and back to the consumer by the wholesale channel for goods. This the Social Creditors ascribed to the fact that the big wholesale enterprises were controlled by the "vested financial interests" in contrast to the small retailer or merchant.

Accordingly, it was necessary to modify the Treasury Branch programme in order to ensure that those people who co-operated were obtaining commensurate advantages, and to by-pass the blockade at the wholesale level. In essence, the Treasury Branch scheme was now to be a flexible barter system which permitted the exchange of goods without the use of actual money.

By 1943, certain changes were found to be necessary in the operation of the Treasury Branches.

The existing transfer vouchers in the Credit Houses were to be automatically converted into cash deposits without any deduction for such conversion. This was done in order to permit depositors the utmost freedom of action in regard to the change. Then too, trade claims would henceforth be claims on goods and services and not on cash. Instead of voucher balances which could be converted into cash, the new non-negotiable transfer vouchers were not to be convertible into cash except in the case of merchants, wholesale houses and manufacturers, who, while accepting trade claims, required cash in order to obtain stocks of goods from outside Alberta. Provision was also made in the case of persons who required vouchers were naturally unacceptable outside the Province itself. Alberta citizens could acquire such "trade claims" by depositing money in the Treasury Branches. This money would be available for obtaining goods which had to be brought into the province of Alberta from outside sources. This guaranteed the retail merchants who accepted the trade claims for their goods that arrangements for the replacement of such goods would be satisfactory.

The new scheme provided also that consumers who obtained goods through co-operating retail merchants with "trade claims" or non-negotiable transfer vouchers would be entitled to a five per cent bonus instead of the previous three per cent on the price of all such goods bearing the Alberta trade mark. A further temporary measure incorporated a special bonus of two per cent on all goods obtained from co-operating retail merchants for trade claims up to a maximum of $100 in any month.

In addition to the modifications made in the original scheme, the Treasury branches would continue to provide facilities for savings accounts and the granting of loans on suitable security, with additional services such as fire and life insurance thrown into the bargain.

The new scheme to permit the exchange of goods without the actual use of money was to lessen the danger of perpetuating controversy with the Federal government. This was especially important in time of war when the need for national unity was felt to be paramount.

By 1943, the number of Treasury Branches in the Province of Alberta had expanded to thirty-eight. There were then, three classifications of deposits in the Treasury Branches:
(a) Current or checking accounts which totalled $2,320,096.50 at the end of March, 1942, and which were not bearing interest;
(b) Savings accounts which bore various rates of interest. These accounts totalled $644,204.34 at the end of March, 1942. On demand savings deposits the rate of interest was one and a half percent of the minimum monthly balance. In savings accounts withdrawal privileges were usually restricted so that they were generally left on deposit for a certain length of time, with interest being paid on a certain balance. Accordingly, on savings deposits of six months the rate of interest was two percent and on deposits of twelve months the rate of interest was two and a half percent. In addition, trade claim savings accounts on six and twelve month terms were accruing interest at the rate of two percent and three per cent respectively. The rate of interest, it must be remembered, had been generally on the downgrade since 1932.

(c) This was the Province of Alberta's revenue and deposit accounts, and totalled $1,254,867.71 at the end of March 1942.

The Treasury Branches also engaged in making loans which they attempted to restrict to a maximum period of twelve months. A personal loan was charged interest at the rate of five or six per cent, although in cases where collateral or security was offered the former rate prevailed. In the case of commercial loans the rate of interest was usually six per cent, although in cases of special securities, the rate was five per cent. On all loans, a simple rate of interest was to be charged.

The Treasury Branches were operated on a commission basis. The agent in charge of the branch was to get half of one per cent on ordinary deposits, while the commission on commercial deposits was a tenth of one per cent.

The chief criticism levelled against the Treasury Branch system centered on the high cost of their operation. The barter system was operated as a transfer from one account to another of demands on goods and services, without reference to the monetary system whatsoever. It must be emphasized that the Treasury Branches could not fulfil the functions of ordinary commercial banks. A cheque on a chartered bank was at all times a demand for legal tender, whereas under the modifications made in the original Treasury Branch scheme, the transfer vouchers were inconvertible into legal tender. The chartered banks, moreover, since they were able to expand loans on a relatively small cash reserve ratio, could at all times show a profit, whereas the Treasury Branches which could only lend what was deposited with them, continually operated in the red.

Legislation had strictly defined the limits within which the chartered banks might put their bank notes into circulation prior to the passing of the Act incorporating the Bank of Canada on June 28, 1934. However, with respect to the extent to which bank deposits might be created, responsibility continued to rest directly with the chartered banks, and the volume of deposits created was the automatic result of their lending and investment policies based on "sound" banking principles. Since over ninety-per cent of all business transactions are carried on by means of cheques, the Douglasites were correct in maintaining that the determination of the volume of the effective means of exchange had been and still was predominantly in the hands of private banking institutions. Even throughout the depression, the chartered banks continued to show a sizeable proft, although substantially less than in the boom period, owing primarily to the contraction in the making of loans.

As far as the Treasury Branches were concerned, the Social Creditors tried to justify the losses of this service by claiming that there were many factors to be taken into consideration. For example, it was contended that until 1941 the payment of the three per cent bonus for Alberta trademarked goods was actually a refund of taxation to the people as a whole since it came out of the public revenue. After 1941 the bonus was no longer payed out of the public revenue and therefore, since it was a clear addition to the purchasing power of the people and was not a tax refund, it should be deductible from the gross cost of administration of the branches.

The Social Creditors also pointed out that the net result of the Treasury Branches had been to get the people of Alberta to ask for Alberta made goods, and claimed that the bonus was responsible for the stimulation.

However, in spite of the fact that the volume of business had been increasing substantially from year to year, Mr. Byrne[17] admitted that the Treasury Branches were not "breaking even." He ascribed the fact that the Branches were losing money to the limited amount of deposits and to the limitations on credit expansion. However, Mr. Byrne argued that in arriving at the "cost" to the people of the Province of the running of the Treasury branches, account had to be taken of the corresponding benefits which the people had received in the form of additional service and the stimulation of Alberta made goods.

In retrospect, however, the Treasury Branches seem to have been a partial failure at least. The increased production that Mr. Byrne referred to was to a very large extent determined by the general expansion in production due to the war boom.

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[17] Treasury Branches, Evidence taken by the Public Accounts Committee, 1943, op. cit., p. 59. During Sept.1, 1938 to December 31, 1939 deposits were $1,705,623.

It was pointed out to Mr. Byrne that statistics showed that there was only one other province in Canada with a lower increase than Alberta between 1938 and 1939.[18] Mr. Byrne himself admitted that the operation of the Treasury Branch system did not increase purchasing power to any great extent.

> "Because in order to take advantage of the Treasury Branch system under the present circumstances, one would have either to have the legal tender to deposit or some marketable goods which he could otherwise dispose of at the same price and for legal tender. So, as they have functioned up to the present time outside of the five percent bonus there is no increase of purchasing power available to those who use the branches." [19]

Mr. Byrne admitted further that no defense existed against collusion between merchant and the customers who might conjure up fake vouchers to represent goods that were not actually purchased. It was in the view of the relative failure of the Treasury Branches, that the Social Creditors began considering seriously the possibility of a provincial bank.

During this time, the Alberta Government had been struggling with fiscal problems. By the end of 1938, it was announced that Aberhart was considering issuing in Alberta, "baby bonds" of twenty-five, and fifty dollars, and multiples of $100. These would be issued with no maturity date though subject to redemption

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[18] Ibid, p. 41.

[19] Ibid, p. 47.

as the province desired, and yielding two per cent interest. This was in line with the belief that the Provincial Government could and should borrow money by selling bonds directly to its citizens, instead of in money markets outside the province. This is yet another example of the modifications which have to be made in a theoretical ideal when a practical situation exists. The original plan had called for a "monetization" of the natural resources, which would solve the problem of debt there and then. Now, however, it was proposed merely to convert an external debt to an internal one. The purpose of the new plan was stressed in a government statement as "the transfer of the debt of the province to the credit of our own people."

However, even this more practical plan came to nought. And, on January 2, 1939, the Alberta government announced that it had to default a debenture maturity of $1,000,000 due on the first of the year. This constituted the fifth major default since the government took office in September, 1935, and up to this point, higher taxation, default, and refusal to pay full interest rates on bonds were the main features of fiscal policy under the Social Credit Government.

II. THE END OF A MILITANT PHASE

Early in January, 1939, there were signs that the Social Credit government in Alberta was "mellowing" after three years of office. The 1935 campaign had seen the Social Crediters burst upon the Alberta scene like wild horses, and with their controversial legislation they had contrived to occupy the political limelight. However, times were changing, and the Social Credit government showed that it had become well broken to the harness. The people of Alberta, whether they were for or against it, were no longer excited about their government. There had been times when the Social Credit government was full of sound and fury. The time was when the Prophetic Bible Institute broadcast on Sunday was the event of the week, and left in its wake a raging controversy which lasted until another Sunday. Those were the times when Aberhart poured vitriolic attacks upon his political opponents, and hysteria and violent comment were the keynotes of the day. But the flamboyance and fierce polemics which were especially prominent during the bitter insurgency of 1937, during the government's battle to censor the press, to tax the banks, and to challenge the authority of the Federal Government, were now gone.

The change in tone and tactics under the Social Credit government was reflected in public opinion. The Social Credit experiment in Alberta which had commenced as a crusade against the financial interests was losing much of its fanatical zeal. Opponents of Social Credit were hoping that the Alberta government was at last "coming down to earth," that is, becoming more "conservative." Aberhart himself, gave some credence to the belief that the hectic days in Albertan politics were a thing of the past. He had apparently reached the conclusion that, "the quiet, trustful spirit accomplishes more by far than the worrying, fussing, fuming, person who upsets all those about him and makes no headway himself."[20]

Newspaper reports carried stories which purported to show that the Social Credit Party membership had suffered a drastic decline in Alberta. In February, 1939, it was estimated that the paid up membership in the party was 9,603, as compared to 27,000 in 1938, and 42,000 at the end of 1936.[21]

In such an atmosphere, the eighth session of the Alberta legislature which opened on February 9, 1939, was mainly conspicuous in its omissions. A lengthy speech from the throne made no mention of Social Credit. The proceedings resembled an election manifesto, with practically all departments of government mentioned and progress reported for each. When the session was dissolved, the stage was set for an election campaign which would be conducted on a far different basis than that of 1933.

Alberta Marketing Board. The first session of 1939, did

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[20] cited in the Winnipeg Free Press, January 21, 1939.

[21] Ibid, February 2, 1939.

however, see the passage of one highly important Act. The Alberta Marketing Act(c.2, first session, 1939) had for its purpose "the control and regulation in any or all respects of the marketing, transportation, packing, storage, and distribution of any kind or kinds of natural products within the province..."(s.3 (1)). For this purpose Marketing Boards were to be set up whose activities were to include the assisting of manufacturers and the general opening up of channels of trade so as to ensure an increasing supply of goods available to the people. Power was vested in the Board to regulate the sale, distribution and grading of any kind of natural products produced in Alberta and the Board was given licensing powers in this connection. For purposes of administration the board could levy a direct charge or toll on the marketing of any natural product.

Mr. Byrne, the Douglas representative in Alberta, admitted the Marketing Board activities were yet another part of an interim programme and not Social Credit itself.[22] The Provincial Marketing Board which was to be set up through the provisions of this Act was to be a corporate entity which would be empowered "to buy and sell and deal in any goods, wares, merchandise and natural products, or any of them whatsoever, either by whole-

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[22] Treasury Branches. op. cit., p. 15.

sale or by retail or both by wholesale and retail, and to act as a broker, factor or agent, for any person in the acquisition or disposition of goods, wares, merchandise, or natural products. (Part II, s. 10(1)). The specific purpose of the Provincial Marketing Board was the providing of producers, manufacturers, distributors and consumers in the Province with the means of selling and buying the goods, wares, merchandise, etc. at a price which was "fair and equitable."

The Provincial Board was further authorized to borrow from the Provincial Treasurer sums of money which it required for purposes of administration, but such loans were limited in total amount to twenty-five thousand dollars.

In accordance with Part I of the Alberta Marketing Act, marketing boards were set up. This type of marketing board was set up at producers' request in accordance with such legislation requested by the U.F.A. Convention and Live Stock Marketing Conference. In essence, these marketing boards provided producer controlled marketing, in which the Government aided the producer to market his goods at advantageous prices and ensured adequate transportation facilities, publicity, grading, etc. This legislation arose out of the agitation among the primary producers against the monopoly control at the market level which was depriving the farmer of financial returns which might otherwise have accrued to him. Unregulated marketing by flooding the market at inappropriate times depressed prices and the producer suffered accordingly. These marketing boards were set up in all phases of Albertan marketing economy and were highly successful. For example, the Alberta Poultry Producers' Marketing Board which was constituted in 1940 was in three years representing approximately 40,000 poultry producers throughout Alberta.

Part II of the Alberta Marketing Act established a Provincial Marketing Board which was authorized to purchase goods for resale later. It operated on the principle of mass buying at reduced prices and thus was able to act as an agent for the retailers, the manufacturers, and the consumers. It aided the small industries through the pooling of purchases of materials, and thus encouraged Alberta enterprise to manufacturer many commodities which had hitherto been imported into the Province. By the mass buying and shipment of raw materials, the Board was able to reduce substantially the cost of production. Moreover, by extensive campaigning and publicity it was able to encourage the production and consumption of Alberta trade-marked goods. It also rendered aid in the setting up of individual enterprises.

The Provincial Marketing Board was also able to render substantial assistance to the individual farmer through its central purchasing plan. The Board always called for sealed tenders and thus ensured active competition in obtaining government contracts. Accordingly, the Board could purchase tractors and farm machinery at substantially lower prices than could the individual farmer. These savings could then be passed on to the farmer in the form of lower prices for the raw materials and implements which he required.

The marketing boards must be reckoned as among the most successful of all legislation by the Aberhart administration. A reduced cost of production was reflected in lower prices to the consumer and served in part as a substitute for basic dividends which the Social Credit government had been unable to implement. The marketing board scheme is yet another example of copying New Deal legislation. In spite of the Social Creditors asserting that their ideal was free enterprise, government functions were ever on the increase in Alberta.

The second campaign. With the dissolution of the first session of the Alberta Legislature in 1939, the Aberhart administration sought a confirmation of the mandate they had received from the people in 1935. At that time, Aberhart's promise of twenty-five dollars a month had had an unprecedented effect on the electorate. The Aberhart party in 1935 had polled only 25,000 votes less than the whole vote in the previous election. The excitement had drawn 302,000 people to the polls, 114,000 more than in 1930. But it was apparent that this time the Social Creditors planned to carry on an orthodox campaign, with dividends and "debt-free" loans eliminated from the new platform.

Some of Mr. Aberhart's political opponents could not reconcile themselves to the change in the Social Credit strategy. They envisaged once more the revival of a religious crusade, and the familiar blend of religion and politics. As reported in one newspaper:[23]

> "Public opinion on Social Credit is not apathetic, families have been divided, congregations split asunder, several pastors have had to leave their churches and the leadership of the Social Credit Government has come to be regarded, in circles unmoved by prophetic fundamentalism as an unholy form of unrepentant demagoguery."

Nevertheless, Aberhart, in his second campaign, did forgo much of his former fanaticism and religious zeal. The fact that Canada was in the midst of a war no doubt had a sobering effect on the political campaign. Indeed, never again was the fierce polemics which characterized the first campaign to be duplicated in Alberta.

The Government's record was a mixed one. While Aberhart had unsuccessfully experimented in some fields, he had made good headway in others. The Government's introduction of a more modern school system found favor with the electors. Discarding an outmoded system of small school districts, it had established large divisions comprising up to seventy-five rural schools. The object was to equalize opportunities over a large territory and to secure advantages of economy and administration. The larger administrative school districts were to provide city standards in the country districts. In 1935 there were

[23] Mr. Byrne, Evidence Before the Public Accounts, op. cit., p.15.

3,750 small school districts; by 1944 there were fifty large school divisions. Provincial grants for education had increased substantially during the time the Social Credit government was in office. Progressive systems of education were introduced.

In the matter of road building, the Social Credit government also had an enviable record. It concentrated on main trunk highways and succeeded in building them out of tax revenues rather than through borrowed funds. In addition to the "pay-as-you-go" policy, the practice of letting out road contracts to small private individuals was terminated, and the highways were planned and built on a basis of a Province-wide programme.

The Provincial administration had also dabbled in the field of fire insurance. The Government of Alberta Insurance Act(c.8, first session, 1938) was another aspect of the interim programme which included the Treasury Branches and the Marketing Boards. "The establishment of the insurance office...was to)...bring down the cost of insurance and to give the people increased purchasing power through that means."[24] The fire insurance scheme was successful in bringing down the fire insurance rates in the Province, and was pointed out as being a "splendid example of State Enterprise." Fire insurance would appeal to the religiously minded Albertan populace.

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[24] *Ibid*, p.15.

On the credit side of the ledger was also progressive labor legislation which did much to win for Aberhart the support of the working class elements in Alberta. During 1938 the Alberta Government had passed legislation dealing with labor which put Alberta in the vanguard of advanced labor legislation. "The Industrial Conciliation and Arbitration Act,"(c.57, first session, 1938) granted to Labour full collective bargaining rights, and protected workers against discrimination while providing for conciliation and arbitration of disputes. The Industrial Wages Security Act(1938) guaranteed the payment of wages to coal miners. The Workmen's Compensation Act(c.23, first session, 1938) ensured the worker against losses due to industrial accidents and occupational diseases. This legislation, coupled with earlier enactments dealing with minimum wages and hours of work, did much to enhance the chances of the Social Credit party at the polls.

There was however, the debit side of the ledger. The Government had been less successful in applying a social credit solution to its problems of fiscal policy. To the problem of debt and taxation in 1935, Mr. Aberhart had offered a simple solution. The payment of dividends would be inaugurated and would furnish purchasing power to the consumers in Alberta. Thus furnished with funds, the people would not mind paying taxes, and in addition they would be able to pay off their private debts. In time, the Province of Alberta would be able to create its own funds on the basis of monetizing resources or "real wealth" and taxes would be abolished altogether. When it came down to "brass tacks" however, Aberhart was confronted with more than he had bargained for, and this proposal had not been implemented.

The policy in public finance upon which the Aberhart government finally settled after a period of indecision was to increase taxation, reduce the interest due on provincial bonds, and have as little as possible to do with lenders. As a result of such a policy, the rate of public expenditure had not greatly changed during the Aberhart administration. In 1935-36, the Alberta government collected $15.1 millions and spent $20.7 millions, the difference between income and expenditure being either raised by long-term borrowing or carried as a deficit. The 1940-1 budget called for $20.3 millions in revenue and entailed $21.5 millions in expenditure. The avowed theory behind the deficit budgeting was that in spending more than it received in revenue, the government thereby increased the purchasing power in the hands of the Albertan populace.

In line with its revised policy, per capital taxation in Alberta was raised from $6.48 in 1935 to $10.47 in 1939. By bearing down on the bondholder, the Alberta government spent in 1939 only $3.8 millions a year on debt charges, as compared with $7.1 millions in 1936. The defaults on Alberta bonds in 1940 stood at more than $20,000,000 including $6,000,000 in savings certificates.

To be sure, the Alberta government was incapable of meeting its bond maturities in full, even if it so desired. Dr. Jacob Viner, of the University of Chicago, was commissioned by the Alberta Government to make a report of the economic and financial position of Alberta. His report to the Aberhart administration made it clear that even if the Province should raise an additional million dollars of revenue through the income tax, it would still not be able to pay interest in full to its bondholders. Dr. Viner recommended a compromise between the 2.5 per cent which had been paid or offered by the Alberta government since 1936, and the full rate of six per cent.

In the field of private debt adjustment, the Aberhart government fared badly also. The bondholders could not enforce a legal judgment against a Province which did not pay its bond maturities or full interest obligations, but the Alberta administration ran into legal obstructions when it tried to cut down the private debts of its citizens without the consent of the creditors. After several forays into the field of civil and constitutional law, the government was forced reluctantly to retreat to a position of adjusting debt through arbitration.

Mr. Aberhart laid down the weapon of legislation, now blunted, against the bulwark of the constitution, and developed instead his interim programme of Treasury Branches. At the time of the election, there were were twenty-eight of them in operation together with several subsidiary agencies. Other interim programmes had been attempted with varying degrees of success.

Moreover, Aberharthad built up hiscase against Ottawa and the British North America Act. He was ready to contest the election on the basis of provincial rights versus federal bureaucracy. When the Alberta House was dissolved on March 21, 1940, the Social Credit appeal for re-election to office was on a platform of orthodox government, and provincialism. The latter had a special appeal for the farmers of Alberta; it was a traditional appeal.

The election results made apparent that the avalanche of support which had swept Aberhart into office was lacking. Thirty-six Social Credit members were returned to office as well as nineteen "Independents" and one Laborite. For the first time since Aberhart's political career began, he was to have an effective opposition in the provincial legislature. The orthodox "anti-Aberhart" forces, in reality a coalition of Liberals and Conservatives, formed the "Independent" Party.

Aberhart's re-election may be explained largely in terms of three factors. The first was the appeal of the Aberhart administration to the working class. The labor legislation of the Social Credit government probably accounts for the fact that Mr. Aberhart's vote in urban Calgary was over 12,000, and Mr. Manning's in Edmonton over 10,000. As Minister of Trade and Industry, Mr. Manning was largely responsible for extending the legislation governing minimum wages and shorter hours of work and other progressive enactments.

The debt adjustment policy of the Aberhart government also had a strong appeal for a debtor population. One phase of that appeal is succinctly summed up in the Social Credit slogan, "Keep Aberhart In and Keep the Sheriff Out." Although the opposition parties might claim that Aberhart had been unsuccessful in reducing private debts, he had been able to postpone the payment of debts through moratorium legislation. The debtor continued to support the Aberhart administration presumably calculating that a future settlement would react to his advantage better than if he paid 100 cents on the dollar immediately.

The weak electioneering campaigns conducted by the opposition parties was another major reason for the re-election of the Aberhart administration. The "Independent" organization was too new, and too make-shift to stand much chance against a smoothly functioning Social Credit machine.

<u>The Provincial Bank controversy</u>. Following the successful election campaign, the Alberta government made application for

a public bank in the province. The Social Creditors had long been considering a provincial bank, but owing to the non-payment of savings certificates, there had been definite psychological handicaps in the establishment of such a bank, since the question of public confidence was of paramount importance in the establishment of a bank. However, the Treasury Branch system, operating as an auxilliary to the banking system, had definite limitations and was losing money. Moreover, the results of the election had assured the Aberhart administration of public confidence in the regime. Accordingly, the time was felt to be ripe for the establishment of a provincial bank.

"The Alberta Banking Powers Act,"(c.7, first session, 1940) empowered the Alberta Government to apply for enactment incorporating the Alberta Provincial Bank from the Parliament of Canada. Solon Low promised to operate this bank on the same principles as the ordinary chartered banks and added that he favored the setting up of a provincially owned bank "to increase the industrial possibilities of the province, which will make it possible to stabilize prices of certain commodities whose main market is the Province of Alberta and which will eventually prove to the whole of the Dominion of Canada...that the control of credits should be vested in the government of the country and not in private business."[25]

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[25] Winnipeg Free Press, August 7, 1940.

The main novelty in Mr. Low's proposal was that the provincial bank would have the Alberta cabinet as directors and that the treasury would pay whatever losses were incurred. "The Provincial Treasurer is authorized to pay out of general revenue fund the sum of $500,000 for the purpose of incorporation and such further sums as may be payable for the purpose of defraying expenditures..."(s.3). Most of the members of the Federal Banking Committee, to which application was made, were of the opinion that the province of Alberta's credentials in the field of finance were not acceptable. The crusades of the Social Credit government on banks, its default on bond maturities, and in general, its eccentric behavior from the point of view of orthodox economists, swayed the committee against the Albertan request. Accordingly, the Commons Committee on Banking and Commerce recommended to the House that the bill was <u>ultra vires</u>. Mr. F.P. Varcoe, counsel forthe Department of Justice made the point, that the possession of a bank charter conferred upon its owners certain powers of administration that went beyond the confines of provincial jurisdiction, and that it was trying to do indirectly what it was forbidden to do directly under the constitution.[26] Actually, the committee's proceedings were devoted much more to the acts and intentions of the Social Credit

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[26] report in the <u>Winnipeg Free Press</u>, August 7, 1940.

government rather than to the actual bill itself.

The refusal of Alberta's application for a provincial bank was particularly galling to Aberhart in view of the fact that only four years ago, Mr. Dunning, the Minister of Finance, had invited Alberta to apply for just such a charter, and had then promised to facilitate its application. Mr. Aberhart now felt that he had been betrayed.

The fact of the matter was that Social Credit was a vastly different proposition in 1940 than it had been in 1935 when Aberhart first swept the province. However strange in view of the first Social Credit programme, it was Mr. Low's contention that, "The question of a dividend...is a thing which was forced upon the premier...in an effort to discredit him."[27] It may be that the Aberhart administration was sincere in desiring a provincial bank to facilitate the development of the province's resources. Nevertheless, the federal authorities were determined not to let Alberta get the chance of circumventing constitutional limitations.

The Alberta Government was to make a final attempt to establish a provincial bank in 1944. In "An Act to authorize the Formation of the Alberta Provincial bank(c.7, first session, 1944)it was provided that the members of the Executive Council

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[27] cited in the Winnipeg Free Press, August 7, 1940.

or cabinet subscribe for shares and become shareholders of the Alberta Provincial Bank to the total sum of $500,000 and thus become directors by virtue of their private interest in the bank. However, even this proposal did not meet with favor, and the scheme had to be abandoned.

Debt Legislation. Balked in their attempt to institute a provincial bank, the Aberhart administration, devoted their energies to the problem of private debt. There was a resumption of debt legislation at the first session of the Alberta House which opened February 20, 1941. The Debt Proceedings Suspension Act, 1941, (c.41, first session, 1941) empowered the Lieutenant Governor in Council to prohibit, until after a day fixed by the order, the issue of processes for the recovery of any property for non-payment of debt. In March 28, 1942, the Federal administration disallowed this Act because it involved discriminatory debt repudiation.

Another Act passed at the same session was "The Orderly Payment of Land Debt Act(c.47, first session, 1941) which provided that no farmer would be deemed to be in default under any mortgage or agreement for sale, if the crop grown and harvested on the farmers' land amonted to less than ten bushels per seeded acre, or so long as any debtor offered to deliver one-fifth share of his harvested crop if his share was between ten and fifteen acres, or one quarter share of his crop if more than fifteen bushels to the seeded acre(c.47, s.3).

In the same Act provision was also made for the urban debtor(c.47, s.4). He would not be deemed to be in default under a mortgage if the annual gross income of such debtor and his wife were less than $1000, or so long as he tendered a payment of ten per cent, fifteen per cent or twenty per cent of the combined income of himself and his spouse, depending on whether such gross income was between $1000 and $1500, between $1500 and $1200, or between $2000 and $2500.

The Orderly Payment of Land Debt Act was, however, declared to be <u>ultra vires</u> in March, 1942, in a judgement handed down by Mr. Justice G.G. O'Connerof the Alberta Supreme Court which held that it was legislation providing for the relief of insolvent debtors and as such infringed on Dominion legislation in the same field.

A third Act passed by the Alberta legislature during 1941 was also subsequently disallowed. This was the Limitation of Actions Act, 1935(Amendment Act 1941, c. 62). This Act changed the period of limitations for action to enforce mortgages or agreements for sale from ten years to only six years(c.62, s.2). St. Laurent, the Minister of Justice, in March, 1942, declared that this Act constituted debt repudiation in principle if not in actual fact, and that it entailed oppression of long term creditors.

Another Act which ultimately suffered the same fate was

was "The Municipal District Act Amendment Act(c.53, first session, 1941), which provided that all the arrears of municipal taxes should be a special lien or charge on all crops grown or to be grown on the land until these taxes were paid. This lien or charge would have priority over all other claims on such crops except those set out in the Crop Lien Priorities Act.

> "Such charge shall have precedence over all other encumbrances against the land and sums which may be law be charged against the land in the same manner as taxes and any mortgage which is a first registered encumbrance against the land at the time at which the said lien is registered by the municipality...(shall have)...precedence of charge over other encumbrances."(c.53, s. 23(a)).

This Act was referred to the Supreme Court of Canada for consideration on the ground that it was in conflict with the Dominion Bank Act which provided for a first and preferential lien on crops in connection with seed grain advances.

Dominion-Provincial Relations. Because of the contingencies of war, the provinces of Canada ceded certain taxation privileges to the Dominion Government in return for certain concessions. Alberta, however, was extremely reluctant to forgo its provincial sovereignty in this field. On October, 18, 1941, the Provincial Treasurer, Solon Low, released a resolution by the Social Credit caucus of the Alberta Legislature declaring that the provincial government's acceptance of proposals for transfer of the income and corporation tax fields should be made only under protest. They declared the proposed transfer to be "a flagrant violation of the rights of the province and involves centralization of power."[28] Opposition to centralizing tendencies was to become a keynote of post-war Social Credit policies. During 1942, the antipathy between the Alberta government and the federal authority was strengthened by the action of the Dominion government in disallowing Alberta debt legislation. Aberhart immediately invoked a blanket moratorium on debts and threathened the cancellation of the principal of all debts as a last resort.

<u>Post-War plans</u>. The Social Credit plan for a "better" post-war world was the elimination of the system of mortgages and "exhorbitant" interest rates, as well as the complete abandonment of the gold standard as the basis for the issuing of purchasing power. Premier Aberhart, in a speech dealing with the Reconstruction period, emphasized three points.[29] The first was that the issue of credit should be exercised by the supreme authority in the state, which in Canada meant the placing of the money system under the effective control of parliament acting in the interest of the people. A monetary commission responsible to "the people's elected representatives" should set up a system of accounts so that the purchasing power and prices of goods would be kept in balance so that neither inflation

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[28] <u>Winnipeg Free Press</u>, December 25, 1942.

[29] <u>Winnipeg Free Press</u>, October18, 1941.

nor deflation would result. His second proposal was that all government expenditures should be financed by the issue of money by the monetary commission without debt. Finally, he proposed that it would be the responsibility of the monetary commission to ensure that adequate money was available for the financing of the reconstruction programme. Thus theoretically, if not in actuality, Premier Aberhart remained true to his social credit principles. A short time later Aberhart died,[29] and a new era was inaugurated in Alberta Social Credit history.

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[29] Aberhart died May 23, 1943.

APPENDIX TO CHAPTER VI

ENACTMENTS BY ABERHART THAT FAILED THE TEST OF LAW BY 1943

The following is a record of legislation by the Social Credit Government which was disallowed by Ottawa or was declared unconstitutional in the courts.

1. Reduction and Settlement of Debts Act--ruled unconstitutional by the Supreme Court of Alberta and the Appelate Division.

2. Alberta Securities Interest Act--declared unconstitutional by the Supreme Court of the Province of Alberta, repealed and replaced by three other Acts which were in turn ruled invalid by decree of the Privy Council.

3. Act Respecting the Taxation of Banks--reserved by the Lieutenant-Governor for the Governor-General-in-Council; subsequently referred to the Supreme Court of Canada and declared invalid by the Supreme Court and in the Privy Council.

4. Act to Amend and Consolidate the Credit of Alberta Regulations Act--reserved by the Lieutenant-Governor for the Governor General--subsequently referred to the Supreme Court of Canada and pronounced invalid. The Privy Council concurred in the judgement in a negative sort of way by declining to hear further arguments.

5. Act to Provide for the Regulation of the Credit of the Province of Alberta; disallowed by the Federal Government.

6. Act to Ensure the Publication of Accurate News and Information; reserved for the Governor-General by the Lieutenant-Governor,

the Act was later ruled invalid by the Supreme Court of Canada. The Privy Council declined to hear arguments on the matter.

7. Provincial Securities Interest Act. This Act was ruled ultra vires by the Supreme Court of Alberta, a subsequent appeal was dismissed by the Appellate Division which was upheld by the Privy Council.

8. Provincial Guaranteed Securities Act--a ruling by the Provincial Supreme Court finding it invalid was upheld by the Appellate Division, a subsequent appeal to the Privy Council was dismissed.

9. Act to Provide for the Restriction of the Civil Rights of Certain Persons--disallowed by the Federal Government.

10. Home Owners' Security Act--disallowed by the Federal Government.

11. Judicature Amendment Act--disallowed by Federal Government. An order-in-council designed to effect amendments to this Act was ruled invalid by the Provincial Supreme Court, and the Amendment Act was also declared ultra vires by Appellate Division.

12. Alberta Production Tax Act--ruled ultra vires.

13. Agriculture Land Relief Act--declared ultra vires.

14. Limitation of Actions Act--was disallowed, re-enacted, and twice amended; and then disallowed.

15. Orderly Payment of Land Debt Act--found to be ultra vires and disallowed.

16. Debt Proceedings Suspension Act--disallowed.

17. Legal proceedings Suspension Act--ruled constitutional.

18. Alberta Social Credit Act--found _ultra vires_ by the Supreme Court of Canada and repealed.

CHAPTER VII

THE MANNING ADMINISTRATION

Upon the death of William Aberhart in 1943, E.C. Manning was unanimously elected political leader. Long before the first election of the Social Credit Government, Ernest Manning had been a disciple of the evangelist Aberhart, and had risen rapidly in ministerial rank when Aberhart swept the province of Alberta in 1933.

I. MODIFICATION OF OBJECTIVES

Under Manning, Alberta Social Credit has undergone several important changes. He understood that a single province in a federation could not have an independent economy. The "millennium" would have to wait until Social Credit was accepted by the whole of Canada.

On September 6, 1943, Premier Manning announced the elimination of the consumers' bonus and a complete revision and reorganization of the Alberta Government's interim programme and Treasury Branch services. These changes were considered necessary owing to the complete change which had taken place in the field of manufacturing and distribution of consumers' goods under the existing wartime restrictions.

Again, it is noteworthy that Premier Manning in a speech on February 15, 1944 spoke of the purpose of a "national dividend" instead of Aberhart's "basic dividends." He also spoke in terms of Canadian and not of Albertans. This was one major difference between Aberhart and Manning. Moreover, the chronic lack of purchasing power so evident during the time of Aberhart was no longer apparent. When war broke out money was created and issued for the production of war materials, and the purchasing power of the people was greatly enhanced. Inflation and not deflation became the paramount consideration as the Dominion Government strove for a means of syphoning off surplus purchasing power in the hands of the community. Manning emphasized however, that in peace time, "the present financial system does not, and cannot, distribute sufficient purchasing power...to enable the people to buy the goods they can produce."[1]

Since purchasing power was no longer a major factor for the time being at least, and since Premier Manning continued and expanded social services, labor legislation, etc. the administration was successful in winning the support of the Alberta electorate. In the elections of August, 1944, there were only seven members, including one C.C.F. member, in the Alberta House in opposition to the Social Credit government.

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[1] cited in the <u>Winnipeg Free Press</u>, March 15, 1944.

By May 1945 the Manning government had reversed Aberhart's basic policy of debt repudiation. It was announced that an agreement had finally been reached between the Bondholders' Committee and the Provincial Government on a plan to refund the whole of Alberta's outstanding public debt estimated at $113.3 millions.[2] Holders of six per cent debentures, who were currently receiving three per cent would be enabled to exchange them for new bonds bearing three and one-half per cent interest and would, at the same time, receive an adjustment bonus of nine dollars per $100. Holders of five per cent bonds would receive a new three and one-half per cent bond and an adjustment bonus of six dollars per $100. Holders of four per cent debentures would receive a new three and one-half per cent bond and an adjustment bonus of six dollars per $100. Under this plan, the whole of the $33.3 millions of past due and defaulted bonds would be paid off at par, and the Alberta government announced that $2,000,000 would be set aside annually for debt retirement, so that the entire debt could be extinguished in thirty-three years with a consequent saving of $4,000,000 in interest charges to the Alberta taxpayer.

Since Alberta, under the terms of the above agreement, had accepted its contractual undertakings, Mr. Ilsley, for his

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[2] including outstanding savings certificates totalling $3,200,000.

part, indicated his willingness to recommend to the federal parliament a revision of the Dominion-Provincial tax agreement so that the Province of Alberta would receive both retroactively and in the future, additional payments to help bolster the province's finances. The Bondholders' Committee stated that "the plan should in completely restoring Alberta's credit."[3]

The refunding of Alberta's public debt to the satisfaction of the bondholders was one of the major steps which Manning took in the direction of restoring orthodox government to Alberta. He had realized that the restoration of Alberta's credit with outside sources was essential to recovery. Besides war-borne prosperity had come to Alberta. The gross value of all agricultural products in 1944 was $407,000,000 compared with $365,000,000 in 1943, an increase of $42,000,000.

By December 3, 1947, Alberta was again in the bond market, thirteen years after the last issue of Albertan bonds by the U.F.A. government. So long as Alberta had not paid her financial obligations, it could not of course, borrow money in foreign markets.

II. THE BILL OF RIGHTS

Premier Manning, while embarking on a scheme of sound

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[3] Winnipeg Free Press, May 14, 1945.

administrative government, made one last attempt to implement a Social Credit scheme in Alberta. In March, 1946, a bill called the "Act Respecting the Rights of Alberta Citizens(c.11, first session, 1946) was introduced into the Alberta legislature. The Preamble to the Act sets out the arguments in favor of such legislation. It is contended that the Province of Alberta possessed all the human and material resources necessary to provide its citizens with the material security necessary to the full enjoyment of personal freedom, and that the British North America Act imposed upon the Province of Alberta the obligation of providing the citizens with the means of realizing their property and civil rights. Part I, accordingly, contained many important civil rights provisions. It guaranteed the fundamental rights of worship, "Every citizen of Alberta shall be free to hold and cherish his own religious convictions and to worship in accordance with the dictates of his own conscience."(section 3). Freedom of expression(s.4), freedom of assembly(s.5), freedom to engage in work of choice(s.6) and freedom to acquire and enjoy home and property(s.7) were also guaranteed. Regimentation of the individual was specifically dispensed with, "It is hereby declared that every citizen of Alberta shall be free to do or refuse to do any act or thing within the limit of the laws in force in the Province, provided that thereby he does not infringe upon the same right of any other citizen."(s.8)

The "rights of a citizen" of Alberta were also to include the opportunity to engage in full employment, with social security pensions to be paid if such employment were not available. Social security pensions for the old and disabled, education benefits for Alberta youth, all were considered as "rights" of the citizen of Alberta. The Government was also responsible for the health of its citizens. Specifically, the government proposed to give a minimum of $600 a year to unemployed and unemployable Albertans over nineteen, or any who wanted to retire at sixty. In addition, the bill would provide the necessaries of life and education for those under nineteen years of age.

It was Part II of the Bill that revealed in detail how the Alberta monetary plan would operate. A central Board of Credit Commissioners would establish and maintain an accounting of the estimated productive resources expressed in monetary terms which would be the estimated capitalized valuation of its credit. The Capital Assets Account of Alberta would include, with distinction as to public or private ownership, an estimated valuation of the economic resources of the province of Alberta.

An estimate was given in the <u>Case of Alberta</u>, of the Real Capital Assets of the Province of Alberta, 1936-7.

Agricultural lands(developed and undeveloped)...	$448,000,000
Forest....................................	$2,864,500,000
Minerals..................................	$222,343,715,000
Buildings, harbours, commercial irrigation, developed water power and public works......	$756,347,534
Net credit balance between province and elsewhere...	$45,000,000
Capitalized value of the population..........	$4,464,046,125
	$230,921,608,659

The central board of credit commissioners would be established and would be authorized to create the Consolidated Credit Adjustment fund which would be the basis for an Albertan system of currency since the Fund would issue from the pool of state managed credit "such amounts as may from time to time be required...for providing an adequate volume of credit deposits to finance the production and distribution of goods and services within the Province and for maintaining a balance between the aggregate purchasing power of the people of the Province and the estimated collective prices of the goods for sale within the Province."(Part II, s. 19).

The credit would be distributed to the Albertan consumers through diverse channels(section 20). The Government of Alberta would write cheques against the pool of credit to pay for a large new system of "social security pensions," educational benefits, and medical benefits. In addition, the Government would operate so asto reduce retail prices by paying subsidies to private concerns. Finally, the Alberta Government would finance any or all of its own operations by issuing money as required.

Any Albertan who sold goods or services outside the Province of Alberta would be also paid in credits; all incoming cash would go to the Government, which in turn would use it to finance imports whenever necessary. The technique proposed had some of the characteristics, in miniature, of the Sterling Bloc in that all the dollars obtained from "hard money" countries were pooled to provide enough credits to purchase goods needed from outside the Sterling area where sterling itself could not be used. Within the Sterling bloc itself, only sterling was the exchange used.

If, however, there was found to be too much purchasing power in the hands of the community at any time, it could be withdrawn in various ways. There could be a contraction of money issued from the licensed credit institutions; there could be a reduction of subsidies paid to retailers which would result in higher prices; there could be an increase in taxation; or there could be a reduction of social service pensions.

Manning showed that he had learned from experience. The Bill of Rights Act was not to be proclaimed "until after the question of the validity of this Act has been referred to the Supreme Court of Alberta."(Part II, s. 28).

The chief reaction to the proposed "Bill of Rights" was that the Alberta Government was trying to establish a money system working in competition with the money system of the Canadian economy. "The legislation takes no visible account of Alberta's economic ties with the rest of Canada, it is written as if Alberta were a completely isolated sovereign state."[4] The bill was held to be in clear violation of national authority and to be a gesture on the part of the Alberta Government to

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[4] Editorial in the <u>Winnipeg Free Press</u>, March 27, 1946.

satisfy the more fanatical Social Credit followers who had been exerting pressure on the Manning administration.

In December 1946, the Supreme Court of Alberta ruled that the government's sweeping "Bill of Rights" was unconstitutional. The court's reason was that Alberta's latest brand of Social Credit infringed on Dominion control of banking and currency. It is plausible to suppose that this decision did not come as a surprise to Premier Manning, and that he was trying to convince his more fanatical followers that he was trying to do all he could under the existing constitutional limitations.

Developmental projects. The Social Credit government under Premier Manning did, however, undertake practical and far sighted legislation. Chief among such measures was the government's irrigation programme. The arid prairies of southwestern Alberta were a constant reminder that the problem of an adequate water supply was still the primary problem of the Alberta farmer. In 1936, the Dominion government had passed the Prairie Farm Rehabilitation Act. For the next ten years the P.F.R.A. had spent only $4,000,000, mostly on 18,000 water holes. However, in September 1946, P.F.R.A. announced its most ambitious project. Along the St. Mary River, a $15,000,000 irrigation project was begun which would create an irrigation reservoir.[5] The whole irrigation project was expected to take

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[5] *Time*, April 4, 1947.

until 1950 and would turn 345,000 dry acres into fertile farmland.

In addition to its irrigation projects, the Alberta Government announced a practical project for settling ex-servicemen on farms. The Alberta administration contracted to clear 100,000, acres of bushland in the Peace River Valley, rich northwestern agricultural frontier. Each soldier-farmer would be entitled to 320 acres. After three years he would pay an additional eighth of his total income as rent, if the crop averaged more than five bushels to the acre. After seven more years the land would become the property of the farmer without further payment. The Alberta-Dominion Government agreement, moreover, guaranteed the veteran $2,320 for buildings and equipment. Alberta officials pointed with pride to the fact that the veteran of World War II would be settled on "debt-free" land, without the onerous debts that plagued many servicemen after the first world war.

In the election of December, 1946, Premier Manning was as successful as Aberhart had ever been.[6] The satisfactory record of Manning's previous administration had much to do with this victory. Moreover, the issue of centralized government versus provincial rights was brought to the fore by the Premier who believed

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[6] The result was Social Creditors 51; C.C.F. 2; Independents 3; Veterans' Candidate 1.

that it was basic to the philosophy of true democracy that " That government is best which needs to govern least."[7] He made it clear that he desired a minimum of government control and bureaucratic regulations. Accordingly, the C.C.F, as the party involving "regimentation", bore the brunt of the Social Credit attack.

II. SOCIAL CREDIT BOARD REPORTS

Since its first report in 1938, the Social Credit Board had continued as an agency for propaganda and "enlightenment." It counted in its ranks the original die-hard supporters of Douglas Social Credit theory who were opposed to the many modifications which had been made in the original theories as worked out by Douglas.

An analysis of the Social Credit Board reports shows two main trends underlying them. The one is the obsession against international ties; the other is the antipathy towards non-Christian political and economic theories.

As for international ties, it is held that control of our national money system by an alien international authority would give to a group of men, control over everything that the people themselves, through the medium of Parliament, should control.

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[7] cited in the Winnipeg Free Press, February 8, 1944.

The Board considered the League of Nations as being the idea of "International Finance." "It is this hidden hand of Finance which rules the world, working cautiously at all times in the shadows."[8] It is in line with this "reasoning" that the Social Credit Board attacked all plans for monetary or political co-operation. The Board attacked the Bretton Woods Conference of July 1944 with its provisions for an international monetary fund, and an international bank. Exception was also taken to the United Nations Relief and Rehabilitation Committee, the plan for an international police force, and the United Nations scheme itself. In short, anything that smacks of international co-operation is labelled with th same brush:--a scheme "to establish a world dictatorship under the domination of a junta of international power-mad financers."[9]

The other basic idea revealed in the Social Credit Board reports is that the conflict was essentially between two types of social organization, that under which the State constitutes the supreme authority, and that in which the freedom of the individual is preserved. Social Credit closely identifies itself with the latter. It is repeatedly emphasized that Social Credit is neither an economic plan nor a political doctrine, but a way of life.

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[8] Annual Report of the Social Credit Board for the Year Ending December 31, 1941, p. 18.

[9] Annual Report of the Social Credit Board for the year ending 1943, p. 20.

A contrast is also drawn by the social creditors between a totalitarian philosophy and their own "democratic Christian philosophy."

> "Social Credit is a philosophy of Life. This philosophy finds full expression in Christianity which holds that Reality and Life are spiritual concepts. The ultimate end of man may not be known but every human being, consciously or subconsciously, seeks Reality and Life."[10]

It is on this score, i.e. the religious view, that the Social Creditors reject both socialism and communism. The Marxians and socialists are attacked because their views supposedly are "pagan," and "materialistic." Accordingly, they call upon the faithful for a "Crusade for a Christian and democratic social order against the forces of the Devil..."[11]

In sum, it is a question of internationalism versus the British Empire, "paganism" versus Christianity, and "totalitarianism" versus Democracy. It will be noted that the Douglas Social Creditors speak of a "crusade." It is essentially a militant movement, not content merely with presenting a point of view.

During 1947, a serious split developed between the original die-hard supporters of Douglas Social Credit theory and the more moderate supporters of Premier Manning. The break became imminent with the Report of the Social Credit Board, tabled at the first session of the 1947 Alberta Legislature.

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[10] Annual Report of the Social Credit Board for the Year Ending December 31, 1945, p. 10.

[11] L.D. Byrne, in an "Address to the Rocky Mountain House Board of Trade on Monday, May 10, 1943.", p. 15.

The report[12] contained the following astounding statements: "Majority rule is definitely not a democratic conception, though false propaganda has led many to accept it thoughtlessly as such." This line of reasoning follows from the "axiomatic" proposition that the majority is always wrong in respect to methods. The party system was rejected in the proposition that, The obvious remedy for the evils of party politics is the abolition of political parties dominated from the top as they are today." The argument here follows from the contention that the existing party system places the control of policy in the hands of a party machine, which, at best, represent only a small fraction of the total electorate. The secret ballot, and other guarantees of political freedom in Canada were also denounced in the Report.

Anti-Semitism was also implicit in the Report of the Social Credit Board. Although the word "Jew" was not specifically used, the Report nevertheless set forth the whole of Major Douglas' absurd account of the Great Plot against humanity by Jewish financiers.[13] There are references in the Report to "world plotters" and such prominent Jews as Herbert H. Lehman, Bernard Baruch and Lord

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[12] The Report has been called "Blueprint for Fascism."

[13] The Great Plot refers to the Protocols of Zion long since proven to be a forgery.

Rothschild are named in this connection. Anti-Semitism, as exemplified in the Social Credit Board Report is a direct outgrowth of the obsession the Social Creditors have against "international financers."

Mr. Manning was placed in a highly embarrassing position by this report of the Board. He publicly dissociated himself and his government from the anti-Semitism of persons he did not name, but declared his government accepted the economic principles of Major Douglas. Moreover, the Board was censured in a private caucus of the Social Credit Party. Manning, himself, was reported to have said after the Report had been tabled in the legislature that "there won't be another Board report like that."[14]

And on November 1947, the Government took the Board off the Provincial payroll and transferred it to the Social Credit League, presumably so that it could carry on its monetary propaganda without embarrassment to the Alberta administration. The Board, representing the hard core of fanatic Douglasites, had cost the Treasury between $20,000 and $25,000 since its inception in 1937. The ousting of the Board reassured conservatives with whom Mr. Manning had been gaining repute for economic orthodoxy.

On December 10, 1947, Premier Manning and other officials made their first important observations on their position since the Privy Council had upheld the disallowance of the "Bill of

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[14] cited in the Winnipeg Tribune, November 15, 1947.

Rights." At the Alberta Social Credit League's Annual Convention, it was decided that the implementation of Social Credit would be left to a Dominion government, and that the Social Creditors would abide by the existing constitution. Accordingly, Alberta could not expect to have Social Credit until there was a Social Credit government in Ottawa. Secondly, it was decided that in the interim period, while Canada was awaiting the election of a Social Credit government, Mr. Manning's provincial administration would concentrate on giving Alberta efficient provincial administration which would serve as an example to the rest of Canada.

It was because of this statement of policy, that the attitude of business and industry toward the Manning government has changed also. When Social Credit first came into power the leaders of finance and industry were greatly concerned, but Manning has succeeded in reassuring them. The Manning administration became more and more orthodox and proclaimed itself as the protagonist of private enterprise and individual freedom against the encroachment by the state.

Moreover, the Conservative Party by convention resolution in 1947 decided to drop out of provincial politics in Alberta, taking the view that the present Social Credit government was as Conservative as anyone could wish and that there could be no harm to a Conservative's conscience if he voted for it. In return, the Social Creditors were to support the Conservatives federally in Quebec.

On the other hand, the Liberal Party decided in the month of July 1947 to re-assume its indentity which it had lost by joining the Conservatives in the Independent coalition of 1937. At the Edmonton convention, J. Harper Prowse, who as a war hero had won an easy electionto the provincial legislature, was chosen as party leader of the provincial Liberal forces in Alberta.

Finally, in its escape from Douglasism, the Manning administration forced the resignation in March 1948, of Mr. Earl Ansley, Minister of Education, and Mr. Byrne, deputy-minister for economic affairs. Mr. Manning made it clear that their competence was not involved but that their views were "at distinct variance with those of the government." In other words, these two men were apparently unable to accept the trend in Social Credit policy. This action seems to have removed, at least for the time being, the Douglas theory of Social Credit from the political scene in Alberta.

CHAPTER VIII

ASSESSMENT

Alberta was to have been "a laboratory of political experience" insofar as Social Credit theory attained political ascendancy in that province. However, the proponents of the "new economics" soon found that obtaining a mandate from the people was one thing, and implementing the theory was quite another. The reformers were soon confronted with constitutional limitations with which they could not cope.

Nevertheless, Social Credit in 1935 seemed an appropriate policy to the Albertan electorate since it proposed to solve problems which were peculiarly native in a prairie environment. Alberta was confronted with problems characteristic of any pioneer community. The comparative lateness of settlement, the dispersion of population, the scarcity of capital, and the almost complete dependence on wheat as anexport staple, are typical of a frontier society.

The dependence on wheat as a prime staple rendered Alberta particularly vulnerable to fluctuations in income as a result of uncertainty of weather conditions and fluctuations in the price of wheat. As a result, Alberta found herself involved in the cyclical problems of booms and depressions and was unable to readjust properly in view of the rigidities in its system. The Alberta farmer found himself at a distinct disadvantage when dealing in the framework of a semi-monopolistic price structure. Agitation for a more liberal tariff policy and depreciation of currency were the main issues for the Albertan farmer during the 1920's. Throughout this period, the operations of the commercial banks were considered to be detrimental to the well-being of the community. The chartered banks by lending freely throughout the boom period and restricting credit sharply on the downward movement of the business cycle aggravated both booms and depressions.

Under the circumstances, Douglas Social Credit theory seemed to be an apt analysis of the crisis. This theory was broken down into two main propositions. In the A plus B theorem was proof of the basic Douglas proposition that there was a chronic underconsumption in a capitalistic society owing to the failure of the distributing mechanism to supply the consumers with enough money to buy what they themselves produced. This theory was found to have many serious flaws.

On the other hand, the banking thesis is a much more credible one. It argues that the banks intensified booms and depressions by failing to adopt appropriate monetary measures at that time. The banks and financial interests, accordingly became the *bete noir* of Social Creditors. It must be emphasized that in essence the appeal of Major Douglas' theories lies, not in any abstract theory, but in the promise which it held out of solving all social problems by handing out gifts to supplement the purchasing power of the people.

The solution proposed was to base the issue of money not on any artificial standard such as gold, but on the "real wealth" of the nation, that is, the money value of its natural resources. To this end, Douglas proposed the setting up of a National Credit Account to evaluate from time to time the value of such natural resources, and thus enabling the equation of the rate of production and the rate of consumption through the issuance of purchasing power directly to the consumer. The "compensated price" was to prevent inflation of prices owing to the issue of the "national dividend." Producers would be paid subsidies through the State Credit Houses and would thus be enabled to sell below cost.

Then too, Douglas Social Credit theory has another facet. In their analysis of Social Credit called, "Searchlight on Social Credit," W.H. Hiskett and J.A. Franklin come to the conclusion that Douglasism is a religion and that its tenets are remarkably difficult to refute or even examine, because when any passage or proposition is selected for discussion, the followers of Douglas explain that the words in that passage had a peculiar connotation.

William Aberhart was temperamentally a most suited exponent of Social Credit in Alberta. Originally a disciple of Douglas, he was by nature neither a politician nor an economist. However, he did succeed in blending a flair for speech and the competence of a trained teacher with an evangelical zeal, to win an unprecedented victory at the polls in 1935.

However, in some respects the way had already been paved for the introduction of Social Credit. There was a widespread notion existing long before 1935, that debt was the chief evil in our society rather than a benevolent agent of capitalism. The first use of state powers to modify debt contracts was made in 1917 when the Liberal government of Alberta took action to remove the personal covenant from mortgages. Mr. Aberhart's sermons against usury and his promised action against debts found ready acceptance. The sanctity of contracts was not held in high esteem among the Albertan population.

Another element deserving consideration in any discussion regarding the precursors of Social Credit in Alberta was the assumption prevalent for a long time, of the perfectibility of society. It seemed plausible to the inhabitant of Alberta, that in view of Alberta's immense wealth of natural resources, there should not be poverty in the midst of plenty. They felt that the frictions and inequities of society might be easily resolved if left in the hands of some master mind. Mr. Aberhart was the personification of this "deus ex machina" line of thinking.

Moreover, there is evidence to support the assertion that Social Credit is a middle class movement. Throughout the Social Credit regime, it is the small merchant and the individual farmer who stand in the vanguard of the Social Credit movement. It is the middle class that insists on immediate action and discards the Liberal and U.F.A. administrations. A choice had to be made between socialism as represented by the C.C.F. and the Social Credit party which promised to reform capitalistic society while retaining the structure of free enterprise.

Then too, the doctrine of "provincial rights" dating from the time of the British North America Act, gave the Social Credit Party an impetus which it might otherwise have lacked. This was the theory which had long existed in many guises that Alberta was the master of its own destiny quite apart from any interference by the big eastern financial interests. Even the institution of party politics as used elsewhere in Canada was abandoned in Alberta and the "old line" parties were almost universally regarded in Alberta as an unnecessary evil. This doctrine of "provincial rights" was exploited to the utmost by Aberhart in his fight against the federal authorities.

Finally, the Social Credit party found among its supporters people who desired "something for nothing." Aberhart's promise of twenty-five dollars per month to every bona fide Alberta citizen found a ready response because there seemed to be no strings attached. As a result of such factors, and with the incidence of a depression, Aberhart's sweep of the elections in 1935 is not surprising.

However, from the outset, it was apparent that Aberhart's brand of Social Credit differed from that founded by Major Douglas. While paying lip service to Douglas Social Credit theory, Aberhart modified the theories to suit his own preconcieved notions of society, and was ultimately repudiated by Douglas. The Douglas Social Creditors had expressed grave doubts from the outset whether the Alberta government could implement Social Credit in the province, given the constitutional framework which placed control of monetary matters in the hands of the Federal government. Aberhart, however, showed no qualms in the matter and proposed to go ahead with his plans. He promised the Alberta citizen sufficient purchasing power to supply his basic needs. In addition, a "Recall Act" was promised the electorate to enable them to petition for the recall of any member of the government who was found to be unsatisfactory.

From the beginning, however, the circumstances confronting the Social Credit government in Alberta precluded any chance of implementing the Aberhart programme. To begin with, Aberhart was not well versed in matters pertaining to social credit and proposed to leave the technical details for experts to work out. Unfortunately, Major Douglas, the man best qualified to advise on such a plan, admitted that he had written no plan which could be applied to Alberta. Furthermore, the caliber of men in the ranks of the Social Credit party left much to be desired. The cabinet was in its novitiate. None of its members had ever sat in a legislature before. They were mostly merchants and farmers with no experience in running the affairs of the province. Finally, given the constitutional framework, the prospects of implementing the "basic dividends" in Alberta were negligible from the start.

As a result of these circumstances, Aberhart adopted an interim programme which bore little relation to social credit theories during his first eighteen months of office. For a time he attempted a Scrip Experiment, a "New Deal" policy, and "orthodox" fiscal policies. Such Social Credit legislation as he was able to pass was invalidated by the Alberta Supreme Court.

Accordingly, the extremists in the ranks of the Alberta Social Credit party revolted against Aberhart's procrastinating policies in 1937. For with the arrival of the two Douglas representatives, Mr. Powell and Mr. Byrne, Social Credit in Alberta was attempted in earnest. The insurgents proceeded to call in a special session of the Alberta Legislature and passed drastic legislation to give the Social Credit Board complete control over banking policy through a Licensing Act. Further Acts were passed which were designed to block all appeals to the Alberta courts on the constitutionality of provincial laws, and prohibited bank employees from appealing to the courts on matters pertaining to the limitation of certain of their civil rights. This drastic legislation aroused the Dominion government out of its apathy. The constitutional prerogative of disallowance was invoked and Alberta was still no further ahead in implementing Social Credit than it was in 1935.

Thereafter, the wind was taken out of the Social Credit sails. Further legislation dealing with debt reduction was declared "ultra vires" by the Supreme Court of Canada. The insurgent revolt lapsed, but a hard core of extremists remained in the Social Credit Board. From that time forward, the policy of the Aberhart government seems to have been to try anything which would increase purchasing power in Alberta, and much of its subsequent legislation lacks definite coherence or planning. By its policy of defaulting on bond maturities, the provincial government was unable to float any new bond issues. As a result, taxation increased in Alberta. By budgeting for a deficit, the Alberta administration hoped to enhance the purchasing power of the Alberta populace. At the same time, the attack of the Alberta Social Creditors on the Dominion government, the courts, and the constitution continued.

Unable to proceed along the lines originally intended, Aberhart nevertheless did attain certain positive results. He did succeed in postponing the payment of debts through moratorium legislation. The government also increased the construction of highways, centralized school districts, improved health conditions, and passed progressive wage legislation.

By 1940, there was a re-orientation of policy, and the sound and fury in the Alberta scene had died down. Aberhart fought the election campaign of that year by emphasizing his administrative reforms and progressive legislation and by concentrating on the C.C.F. as his principal opponent. The Conservatives and Liberals coalesced to form an "Independent" party.

Upon resumption of office, Aberhart applied for a bank charter for the province but was refused by the Dominion government. He further extended the Treasury Branches to create what was in effect a barter system within Alberta. Further debt legislation was quashed by the courts. Aberhart admitted his failure to pay social credit dividends and this phase of the Social Credit Party pre-election platform of 1935 was no longer mentioned.

Upon the death of Aberhart in May 1943, E.C. Manning took over the reigns of government. He was a former disciple of Aberhart but now worked from the precept that social credit was possible only if Canada as a whole adopted it. Having this in mind, Manning proceeded to restore Alberta's credit with outside provinces by settling the question of bond default to the satisfaction of the bondholders and was later able to float a new bond issue. Having profited from the mistakes of Aberhart, he referred his controversial "Bill of Rights" to the courts before proclaiming it. Then, after having satisfied himself as to the impossibility of implementing social credit in the existing constitutional framework, Manning adopted conservative and orthodox policies. His post-war reconstruction programme was one of the most progressive in Canada. Manning was thus able to win a resounding vote of confidence at the polls by emphasizing "provincial rights", by claiming to be the sole bulwark against the C.C.F. and by pointing with pride to progressive legislation.

Thus Manning has attained a reputation for "good, sane, government." Indeed, the Conservatives in Alberta disbanded as a party and rallied to his support feeling that the Manning administration was less inimical to their interests. They were upheld in their faith in Manning's orthodoxy when he repudiated the extremist Social Credit Board after it had issued a report which contained anti-Semitic references and made derogatory remarks remarks concerning democracy.

Such then is the record of the Alberta experiment in Alberta. The situation in Alberta today is such that the Social Credit government is "social credit" in name only. It has failed completely to implement its election platform of 1935, but has been able to retain the support of the Albertan electorate by progressive legislation.

Certain important conclusions may be drawn from this analysis of Alberta Social Credit. It has been shown that throughout the experiment, Aberhart was a master improvisor and compromisor. American influence is predominant throughout. The Recall plank in the Aberhart platform is such an example. The "New Deal" legislation is evident in the licensing codes enacted under the Aberhart regime. The Marketing Board also had its inspiration from the American example. Aberhart's views respecting taxation are borrowed from Henry George. The U.F.A. had incorporated the basic idea of George's "single tax" and Aberhart had recourse to it.

The scrip policy in Alberta had its inspiration from the theories enunciated by Silvio Gesell. The absence of a definite plan made Aberhart eager to attempt innovations which had been tried and proven. However, unfortunately for him, he invariably adopted, only a piecemeal plan and never a scheme in its entirety.

Furthermore, he was oblivious of the fact that an environment would substantially influence the workability of a plan that may have been practical elsewhere.

The influence of socialist thought is also apparent in the Alberta sallies into the realm of fire and life insurance and the belated attempt to enter into the provincial banking business. Although outspoken in their condemnation of socialist "regimentation," the Social Creditors did not hesitate to adopt such schemes as they deemed were beneficial to the province as a whole. It should be noted also that Social Credit criticisms of socialism do not center on the unworkability of such schemes, but merely their possible consequences.

The close relation between Aberhart Social Credit and the moralist conceptions held by the neo-Scholastics has also been suggested. Unlike academic orthodox economic theorists, Aberhart was concerned with "what ought to be," rather than "what is." The phrase "Christian democracy" is a recurring one in Alberta social credit literature. Aberhart was an eclectic <u>par excellence</u>. He might pay lip service to Douglas Social Credit theory, but always as a means to an end, never as the ultimate end in itself. Had any other scheme fulfilled his preconceived ethical concepts of society, he would probably not have hesitated to attempt them. The theories would be sifted and modified so as to conform to Aberhart's notions of the "ideal society."

The main theme of this analysis has been Aberhart's struggle to adapt economic theories to a practical situation. Abstract economic theories were useless to avert or to solve the problems of the depression. What Aberhart sought was a theory to fit the facts and the situation. Aberhart accordingly could sympathize with Douglas Credit Theory as a laudable theory, but it could not solve the problems immediately confronting the Alberta populace.

Marxist, socialist, and Keynesian theories were all capable of implementation. Marx, although working in the classical tradition, was the great character reader of capitalist society. Marx made an integrated study of capitalism and emerged with definite criticisms. His three volumes of Capital brought the whole problem of business cycle theory to the forefront in economic discussion. However, Marxian theory, like that of Douglas deals with long run, or secular tendencies. His solution involved the complete annihilation of the capitalist system which Marx saw chiefly in terms of the class struggle. However, Marxian dialectics was completely unacceptable to Aberhart because it was "unchristian," and "pagan."

Similarly with socialism. Aberhart could understand and sympathize with the ideals of a democratic socialist movement, especially the social security and economic security they championed. However, he was diametrically opposed to secular tendencies of socialist theory. Moreover, he feared that in the end, they implied regimentation. Accordingly, while he would borrow socialist ideas in part when it served his purposes, he could not bring himself to accept socialism in toto.

The Keynesian, or even the Irving Fisher solutions were also possibilities. Each was capable of implementation, but only the former on a provincial basis. The Keynesian solution would not disrupt the existing capitalist system and was more in keeping with the views of the middle class in Alberta. Some facets of Keynesian thought are evident in the New Deal policies pursued by Roosevelt. However, Aberhart proved loath to accept public works projects because they involved the creation of still larger public debts and in the end he proposed to pay for highway projects through the issue of stamp scrip.

Aberhart visualized a paternalistic state acting to secure cooperation between capital and labor. The fascist state would have been more in keeping with the Aberhart temperament. The state would fix an objective "Just Price" and ensure "Just Wages." The competitive price system by making a commodity of the individual was the threatening the dignity of the masses. Aberhart, though a Protestant, apparently was impressed by Scholasticism. Neo-scholasticism was receiving staunch support from the churches as a mainstay against the inroads of communism.

Social Credit in Alberta is unique. There is a "social credit" government in name only. The Social Credit Party is a "left-wing" reform movement yet opposed to both socialism and Marxism. It is a free-enterprise party, yet opposed to the "old-line" parties of Liberalism and Conservatism. The Alberta experiment has sufficed to show that the factors to be taken into consideration by any group of reformers are infinitely complicated. Conditions are never static. A reformer can never control all the ingredients which ensure success.

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