What is Wrong With Social Credit?

By R. B. BRYCE

SOCIAL Credit dates from the end of the war when Major Douglas developed it in reflecting upon the effects of war finance on economic life. But it did not spread widely nor attain any political power until the Great Depression. It has gained some adherents in almost all the English speaking countries but has become important only in Western Canada, Australia and New Zealand. In England it has several regular publications and even a green-shirted movement of enthusiastic followers but has never been more than a minor political curiosity. On the European continent its role is filled by the "Free Land—Free Money" movement which bases its doctrines on the writings of Silvio Gesell, who was apparently a better economist than the Douglas movement can boast, but which lacked the practical politicians and demagogues which Social Credit has had.

The rise of such a political force during severe depression is only to be expected. Disgusted with the existing economic situation and the helplessness of traditional policies in the face of it, confused and bewildered by the paradox of poverty in the midst of plenty, the ordinary man is ripe for the easy solution offered by the monetary heretics. It involves no radical social change to test his courage or threaten his interests. Its benefits are direct and obvious while its costs, distant and indirect, can easily be overlooked. It has something in common with the general nature of ordinary liberal or progressive programs but is more positive and sure of itself. Its professed enemies are the bankers and financial powers—popular bogey-men, particularly in times of depression. In the hands of able and imaginative demagogues it can be made a most attractive doctrine. But it is rotten at the core, for it is based upon faulty economic analysis.

Underlying Social Credit theory is the fundamental principle that there is a chronic lack of purchasing power in our economic system which arises because business always pays out less as income than it takes in as payment for its products. Income paid out by business then proves to be less than enough to buy the products created. This shortage of income paid out is attributed to various factors by the different schools of social credit theory, and even by the same people at different times. It is this variability which makes the theory so difficult to attack. The original and simplest form of the theory contended that income paid out, in the form of wages, interest, rent and dividends was only part of the expenditure of any firm out of its sales revenue, the rest going to pay for supplies, bank services and reserves. But it was easily seen that payments made to other firms for supplies or services sold to this firm went to create income in those other firms and so on. However the Social Credit theorists were clever enough to use more and more subtle fallacies as the basis for their doctrine as the more obvious ones were exposed. The result is that to see the mistake in some of the later forms of the theories requires a good training in monetary theory, and to point out such mistakes would take much more space than we have here. Typical of the social creditors' more recent explanations of the deficiency in income is the claim that those parts of a company's receipts that are diverted into depreciation funds do not form income, and are not available

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EDITOR'S NOTE: R. B. Bryce is a young Canadian economist who has given special attention to monetary problems. After graduating in Engineering in Toronto University he went to Cambridge, England, to study Economics and graduated with First Class Honours in the Economics Tripos in 1934. He had a year of research in Monetary Theory at Cambridge and London and then went to Harvard to continue that work for two years on a Commonwealth Fellowship. He is at present employed as an economist in a large company in Montreal.

to purchase the product although they form part of its costs. But this is wrong, because depreciation reserves like any other reserves, are simply a form of saving by business instead of by the owners of business and serve to finance the creation of capital elsewhere, if not capital replacement in the actual business concerned, and this capital creation or replacement provides income for the purchase of what is produced.

The basic contention that business somehow always absorbs income and does not pay out as much as it receives is likewise wrong. When we allow for profits or losses, as of course we must, then total income must equal the value of what is produced, including both capital and what is consumed, and there is no discrepancy, no gap which swallows up money or credit. Of course things may happen which will reduce the total income, for example, people may try to save more at the same time that there is no increase in the creation of capital, in which case the reduction in expenditure on consumers' goods is not matched by increased payments elsewhere, and income and employment fall. An increased demand to hold money which is not accompanied by an increased supply of money, may have similar effects, either because people save to get the money or else they refuse to lend what they have and thereby force up interest rates, which checks capital creation and thus reduces income.

These questions are now fairly well understood by up-to-date professional economists in this field and by the managers of our money supply. They attempt so far as it is possible to offset these fluctuations in the demand to hold money by changing the supply of it. In doing so they help somewhat in maintaining the volume of capital creation. It is capital creation—building new houses, factories, roads, machinery etc.—which maintains income against the pressure to reduce it which savings exerts. It is a great reduction in this capital creation which is chiefly responsible for depression.

The Social Credit program would make good the deficiency in income by creating new credit, which means essentially creating new money, and giving it away to people to spend. Aberhardt proposes to do this mainly by paying all citizens a free dole of $25 a month, while the Douglas theorists would distribute it as a subsidy to the sellers of goods in return for the selling of wares below cost, which would, they say, enable the public to buy all the goods that could be produced. Now, such measures would certainly increase the demand for goods if they could be carried out. The trouble is simply that they would increase it much too much, eventually. If, prices were not controlled they would rise rapidly as soon as production reached its limit. If prices were controlled as the Social Creditors usually propose, the people would be left with a lot of money which they could not spend and they would waste much time trying to buy things of which there would not be enough to go around. This system of rationing and price control would entail endless trouble and mistakes, endless arbitrary decisions on the part of the price fixing board, and would mean the abandonment of the system of pricing on which the capitalist system is based. Ultimately the whole exchange mechanism would probably break down. Thus the continued issue of social credit would lead to chaos either by way of inflation of prices or the breakdown of the pricing system under rationing and control.

Another and theoretically less fundamental element in the Aberhardt brand of Social Credit is the use of a large sales tax, or turnover tax to raise revenues for general purposes and to help pay a dole to all citizens. A moderate sales tax has proven to be a valuable and by now common source of revenue, even within a political subdivision, but a universal sales tax of the size that would be needed for Social Credit purposes would undoubtedly cause great economic confusion. It would directly handicap Alberta's producers in competition with the outside world. Within the province its effects would be to increase unemployment rather than reduce it since it reduces the revenue received from employing another man in any business.

Many of us will sympathize with the Social Creditors' ultimate objectives of maintaining full employment of our economic resources and of transferring income from the rich to the poor. We disagree, however, on the methods by which this can be done and in doing so we contend that their economics is faulty. Anyone hoping for real social reform will regret that Social Credit theories have led so many on a wild goose chase.

Vocational Education in New Brunswick*

By W. K. TIBERT

THE New Brunswick Vocational Education Act was passed in 1917 nearly two years previous to the Federal Parliament passing the Technical Education Act of 1919. During the winter of 1918-1919 ten centres organized night school programmes and 1776 students enrolled.

The first day school established was the Carleton County Vocational at Woodstock. This school was to serve the boys and girls of the County of Carleton and the town of Woodstock. The basic industry of the section to be served by the school was farming, so the main course offered was Agriculture and Farm Mechanics. To round out the programme separate courses in Home-making and Commerce were added. The graduates of this school number 1042, of whom 695 were residents of the County and 347 of the town of Woodstock. Over three hundred farm boys have graduated from the two-year course in Agriculture and Farm Mechanics. The majority of these returned to the farms of Carleton County. The school has had an unbroken history. The early courses have been extended and enriched.

Following the opening of the Carleton County Vocational School in 1919 came applications from other centres for assistance in organizing similar schools.

It was soon discovered that the old type of school building was not suited to the new type of school. To assist municipalities in constructing proper buildings the Provincial Government agreed to pay a percentage of the cost of buildings, erected previous to 1926 for vocational school purposes. This assistance varied from 25% in the larger centres to 50% in rural centres. Under the Agreement six modern school buildings were erected in Edmundston, Newcastle, McAdam, Campbellton, Fredericton and Saint John.

Two types of schools were organized—the purely Vocational, of which there are two, located at Woodstock and Saint John; and the Composite, five in number, which provide under one roof both Academic and Vocational High School courses. The composite type of high school seems better suited to the smaller centres. The capital expenditure is less and a smaller staff is necessary than could possibly do all the work if two separate buildings were used. Greater unity of purpose can be achieved where teachers of practical and academic subjects meet the same students and plan their programme. In the organization of a composite high school the needs of the particular locality in which the school is located should always be considered. For instance, in Woodstock, the main course is Agriculture; in Edmundston, which is an industrial centre, the main courses are industrial with special emphasis placed on woodworking, drafting, blue print reading and electricity as these are necessary skills for boys entering the Fraser Company mills. In the evening school classes are provided for men from the mills in drafting and the chemistry of pulp and paper making.

The use of the motor car as a means of travel and transportation has become

(1) A picture of the Vocational School in Saint John is given on the cover of this issue.