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John Elliott: In Memory of a Classic Scholar

Richard H. Day *University of Southern California*

This tribute to John Elliott was given at a memorial service held at the University of Southern California in 2002.

At times like this, one thinks of John Donne's memorable lines.

> No man is an island, entire of itself: every man is a piece of the continent, a part of the main. If a clod be washed away by the sea, Europe is the less, as well as if a promontory were . . . . Any man's death diminishes me . . . .

When John Elliott passed away several months ago, we were diminished. When each of us passes on to the other side, the world we leave will be diminished. Though each of us will have given something that adds to the main, each of us will have had more to give—if only our meager energies and brief hours allowed it. We know that John had much more to give and we are diminished by his passing.

Nonetheless, while we mourn that loss, we celebrate what he gave.

And he gave a lot.

Others will speak here of John's family life, of his contribution to university teaching, administration, and civic affairs. In each of these areas John gave much to many. He is justly remembered and honored because of those contributions. I want to speak of two other aspects of John's life that inspire us now, and that can reverberate through us and on to those who come after us. These are his scholarship and his visible character.

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In his academic work John was both a classic scholar and a scholar of the Classics. By a “classic scholar” I mean one who studies the texts, discerns, absorbs, distills, and interprets their meaning so as to enhance the ability of others to comprehend work that they might not otherwise grasp or appreciate. By a “scholar of the Classics” I mean one whose scholarship is addressed to those great works of such towering excellence that they are remembered generation after generation, century after century.

Indeed, a work becomes a classic in part because of the work of scholars, and in some cases, primarily because of them. A great work may be subtle, complex, abstruse, comprehensive, adding up to such a great intellectual challenge that entire lives of scholarship are devoted to a single work—one thinks in literature of James Joyce, in philosophy of Immanuel Kant, or in economics of Adam Smith or Karl Marx. All of these have attracted the concentrated attention of scholars. Much is owed to the classic scholar who masters these great works, details their essence, and passes that knowledge on to successive generations.

John’s work as a scholar was devoted in part to this task. He studies the economic classics, especially Adam Smith, John Stuart Mill, Karl Marx, Joseph Schumpeter, John Maynard Keynes, and he continued to inspire students with the insights of the great thinkers throughout his career. He was good at it. Students were in awe of his erudition and his ability to articulate such complex ideas. Indeed, I often kidded John that he was the only person I knew, or had ever known, who could actually think and speak in Churchillian prose.

The culture of a given time is based on and grows out of the accumulated knowledge of the past. Much of it is passed on through the written word. Without the work of the classic scholar, however, much of it is lost forever. Due to the competing demands of mathematical and

econometric theory, it has been increasingly difficult to find a place in the economics curriculum and faculty for the study of the Classics. We have been lucky at USC—to have been one of the few (as well as one of the best) places where that study continued to exist throughout John’s career. Indeed, had our department as a whole been ranked by our peers as highly as scholars in the History of Economic Thought ranked that specialty, our department would have placed in the top 10. John was single-handedly responsible for that. It will be difficult, if not impossible, to replace him. Perhaps it will be enough if we are inspired to enrich our own teaching and our own work with the insights that are inherited from the great minds of the past.

Even more than in his scholarship, however, our memory of John’s character will continue to inspire our own thoughts and actions. I came to USC a quarter century ago. John had already contracted the illness that would be his increasingly heavy and debilitating burden. As I observed John through the succeeding years, my respect and admiration grew. With each passing year his physical strength atrophied, his pace through the halls slowed until one could see that each step was an effort to overcome the mounting pain, each step a triumph of the will. Through this agonizing battle I never hard John complain, never failed to receive a friendly and pleasant greeting, never heard a hint that he wished to give up the good work of his life.

There were other commendable attributes of John’s character, but these especially command our respect and admiration: his dedication to the noble task of classic scholarship, his unflagging courage in the face of mounting adversity, and his steadfast commitment to the life that would soon be taken from him. For these attributes we celebrate John Elliott’s life and give thanks that people like John have lived amongst us.

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THE CRISIS IN U.S. FOREIGN POLICY

Warren J. Samuels *Michigan State University*

I. Varied Accounts of the Past

The United States is in a crisis of immense proportions in its relations to the rest of the world, which is to say in its foreign policy. In part, the crisis has been building for years; in part it has been thrust upon us; and in part it is the result of decisions made by the administration of George W. Bush. To comprehend the nature of the crisis, we must consider historical U.S. foreign policy.

The United States, it was once felt by many, could have a different foreign policy when isolated by two oceans in comparison to the later period when modern technology destroyed its isolation. Foreign policy is thus a function of geography modified by technology.

The United States had a further choice, commencing some time after the first third of the 19th century. It could live up to its self-image as a liberal constitutional democracy and follow a foreign policy of live and let live, in both respects serving as a role model for the rest of the world. Or, like the monarchical dynasties of the past and other regimes of more recent times, it could pursue an aggressive foreign policy in pursuit of what it considered its interests, engendering enmity in various quarters.

The United States has done both.

In the first category, it has preferred isolationism, reluctantly joining the two World Wars in defense of its autonomy and the idea of liberal social democracy.

In the second category, it increasingly either engaged in the practices of conventional imperialism, often at the behest of entrepreneurial interests, or flexed and deployed its muscle in pursuit of national interests either on its own initiative or in response to threats from and capabilities of other countries.

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The former is American exceptionalism; the latter is American conventionalism.

The U.S. has not altogether inappropriately been seen as a peace-loving, liberal constitutional democracy and, since the late eighteenth century, been a role model for human freedom. This image has been sufficiently powerful that, until relatively recently, it has swamped the numerous occasions in which it has deployed its military force for its own narrow interests. The image has also been aided by our more or less reluctant, and even also self-interested, participation in two World Wars.

Of course, the history is much more complex than the foregoing directly allows. Several other stories or models can be developed. The most recent is that by Walter Russell Mead (Mead 2001).

Mead identifies four courses taken by U.S. foreign policy; the net or actual policy is the more or less complex, more or less confused, result of the confluence of four schools or traditions of U.S. diplomacy, its rationale, its content, and its effective posture toward the rest of the world. He designates them using the names of four important, even great, U.S. statesmen, thus: Jeffersonian, Hamiltonian, Jacksonian and Wilsonian. One problem is that these systems are generalized abstractions, in a sense Weberian ideal types; no one person, perhaps, was purely only one of the four types. Nonetheless, they are useful in understanding different thrusts of U.S. foreign policy.

As, in part, summarized by James P. Rubin (Rubin 2002), Hamiltonian foreign policy was the complement to Hamilton's domestic policy. The aim of both was government-aided economic development. It stressed economic development through the promotion of manufacturing—and thus an industrial middle class; a system of relatively free international trade; access to world markets within that system; and so on. Among

other benefits, this policy, if successful, would help avoid war. Such a policy, it is to be noticed, is not isolationist. Its activism could be and indeed was aggressive, as the U.S. deployed its power to protect what presidents determined were its interests. Successful or not, it did not avoid warfare, however comparatively limited in scope. Only incidentally colonialist, this policy was nonetheless imperialist. As benign as the program of economic development sounds, the making of selective determinations of interests and the eventual (c.1900) establishment of a global role for the U.S. meant the active projection of U.S. interests abroad. These interests were simultaneously economic and political; economic in seeking markets and political in politicians running for office on economic and nationalistic programs. Hamiltonism has had a mixed reputation.

Because of the attractiveness of the idea of nonintervention, the Hamiltonian domestic policy has been generally been denigrated; whereas nationalism has generally rendered the opposite judgment on Hamiltonian foreign policy.

Jeffersonian foreign policy was also the complement of its domestic policy. The Jeffersonian domestic program was to create an economy, polity and society in which many, if not most, if not all, men were landed property owners and in which issues would be decided at the local level. Economic development was part of this program but it encompassed primarily agriculture and small-scale industry. The problem with the Jeffersonian domestic program was that policies adopted on the local level had spillover effects, political externalities, on other local units. Also, local markets became national markets. Local problems tended to become national problems and national government was looked at to solve them. The same political-economic logic that seems to be generating world governance then produced a national system of governance—economic and political—that rendered the Jeffersonian program, though not its ideals, nugatory.

In foreign affairs, the complement to the Jeffersonian domestic policy is clear. As Rubin summarizes Mead, “Jefferson’s school … was … concerned mainly with protecting American democracy against the dangers of executive power and limiting the costs and risks of whatever foreign policies were necessary to protect our independence. Idealism at home, realism abroad; this was the Jeffersonian motto” (Rubin 2002, p. 30). Two points neatly elaborate this position.

First, Jeffersonians did think of their model in ideal terms, “But they did not believe that America should promote freedom and prosperity by exporting our way of doing things. Instead the United States was to teach its values and its successes by example” (Rubin 2002, p. 30; this was a, if not the, basis of the U.S. self-image, and success, noted above).

Secondly, “This did not mean that the Jeffersonians were classical isolationists, though. They were minimalists with a realist streak” (Rubin 2002, p. 30). The Hamiltonians were more inclined than the Jeffersonians to get involved abroad; both would fight if they felt they had to, both would keep their powder dry, but the goals differed. (Both supported the Monroe Doctrine—on balance-of-power terms with the U.S. projecting to itself the image of a good neighbor of sorts, but an image not always appreciated by others in the Western Hemisphere.)

If “the Hamiltonians sought to make the world safe for the American economy,” the Jeffersonians would have preferred for local farming and local problem solving to remain clear of the world.

Jeffersonian domestic policy is quintessentially American; it is the default position, as it were, as to what the U.S. stands for, typically while lamenting our departures from it.

The Wilsonian approach to foreign policy promoted the spread of democracy, making the world safe for both democracy in general and actual democracies in particular. The Wilsonians preferred to think that democracies do not make war against each other. This emphasis on democratization coupled with the projected self-image of the Jeffersonians meant that “American global dominance in the last hundred years cannot be attributed solely to its military supremacy or its economic power” (Rubin 2002, p. 30). The vision of the United States as a nation believing in “live and let live” is a product of the congruent elements of Jeffersonian and Wilsonian approaches.

The Wilsonian approach to domestic policy was, because of World War One, not so well worked out. I would presumptuously generalize that policy as comprising efforts undertaken (in its own way) by an activist liberal democratic state to respond in a more or less incremental manner to the extension of the franchise by enlarging the interests of groups hitherto excluded from having their interests count. Democracy at home and abroad.

The Wilsonian domestic program runs afoul of the secular religion of laissez faire. The Wilsonian foreign policy is lauded for promoting democracy abroad but conflicts with the pragmatic appeal in favor of alliances even with nondemocratic governments in support of American interests.

The Jacksonian approach, or model, is more aggressive than either of the other three. As Rubin summarizes it, “The Jacksonians are the warriors of American society. While they prefer to avoid conflict with the rest of the world and often rail at the complications of economic engagement, they believe that if war comes we should deploy all of our power in ruthless pursuit of total victory” (Rubin 2002, p. 31). If other folks keep their powder dry, these folks do so likewise; but where the others keep their weapons in storage, these folks keep them, probably loaded, or else the powder near by, near the front door. Rubin notes that Arthur Schlesinger, Jr., faults Mead's depiction of the Jacksonians as believing in simple solutions, trigger-happy, nativist, warlike, and so on. My own reading and experience leads me to think that Mead is not far off the mark, if he misses it at all. One has only to read Michael Beschloss's publication (1997, 2001) of Lyndon Johnson's presidential tapes to appreciate the role of not being the first U.S. president to lose a war, saving face, sending more reinforcements to protect assets already on the ground, and so on, to appreciate the attitude Mead seems to have in mind: "If them and we differ, and we don't like what they're doing, well, let's show them who's boss." Among other things, this attitude—found, says Rubin correctly, in the Deep South, Southwest and parts of the Midwest—has supported military spending, provided dedicated military men and women, and people quick to anger. That this position, like the others, is laden with complexity, subtlety and critical skills, is suggested by Senator Richard Russell's private views on the Vietnam War, expressed to his friend and President, Lyndon Johnson—though one must quickly add that his public views, like those of LBJ, were very different.

Jacksonian domestic policy can vary enormously, from pro-manufacturer positions to pro-farmer positions to positions equated with religious fundamentalism to pro-American positions.

Still another model of U.S. foreign policy is that of good old American pragmatism. Americans preach laissez faire and noninterventionism but whenever a felt problem arises, recourse is made to government for corrective action. This is true of both domestic and foreign policy. The problem with this approach is that while descriptively true at a certain level of abstraction or

generalization, it fails to help point to which formulation of a problem, even which general problem, gets to control government corrective action and, thereby, whose interest is to count. This approach does, however, point to the need to study the process by which those matters are worked out. The same is true of Mead's four approaches.

II. Balance-of-Power Theory and Imperialism

These two theories can be substitutes for one another; indeed, because of the role of power in each, what can be said in terms of one of them can usually be translated into and stated in the terms of the other.

A. Balance-of-Power Theory

The foregoing has to be seen in terms of four facts: that a nation-state's foreign policy is typically an amalgam of the policies of those approaches which have influence, that individual nation-states operate within the nation-state system, that statesmen tend to apprehend their situations or predicaments in terms of the theory of the balance of power, and that balance-of-power theory, like the theories of economics, do not yield conclusions immediately directly applicable to policy. Such theories require and in part give effect to supplementary antecedent normative premises, entire cultural value systems, and *inter alia* different definitions of reality.

The balance of power theory of international relations, considered as a *positive* theory, centers on the following critical proposition: That when issues, policy proposals, and conflicts arise, they tend to be analyzed and evaluated on the basis of their likely implications for the distribution of power among nation states. In this context, power may be defined in various ways but, inasmuch as the theory is a positive theory, in a nonpejorative way. The theory affirms that nation states can act on the basis of either stated or implicit intentions, or capabilities. This makes it difficult for other nations to predict the course of action by any given nation state. Nation states will, therefore, given the opportunity costs involved, seek to optimize their power in order to defend against what they perceive to be aggression or threat of aggression or capability for aggression.

The nature of the nation-state system, therefore, compels states, even those who would like to practice live and let live, or to live in perpetual peace, to be concerned with their power relative to the power of other nation states. Nation states can, within that system, adopt various interests and objectives and pursue different strategies. Some of those objectives and strategies are strongly conditioned by the particular geopolitical position of individual nation states. But individual nation states do have more or less considerable discretion as to interests, objectives and strategies. Individual nation states also can seek to maximize, or optimize, their power in different ways, given those adopted or imposed interests, objectives and strategies. A nation state exists in a parallelogram or matrix of power vis-à-vis other states. Accordingly, it is not always, if ever, perfectly clear what choices it will make, insofar as it has discretion, not only as to interests, objectives and strategies, but together with what other nation states.

History, especially political history, is the record of actions and results in such matters.

The theory of the balance of power is one way to understand what transpires in such matters. It is also a normative theory, available for use by decision makers seeking to achieve, say, optimum power or security.

A nation state may seek, therefore, to fill a power vacuum, lest some rival or potential rival do so. Or a nation state may align with another weak nation state in an effort to forestall or counter a more powerful rival. Or, in the event of two more or less equally powerful rivals, a third nation state may seek to align itself with one or the other. The theory is not only about power structure—though that is central—it is also about the use of power. Thus a nation state may act to impose its interests on others; surely that is the distinct possibility of a country without rival, a so-called superpower. And so on.

Balance-of-power politics and power play can mean, therefore, different things to different persons and to different nation states and also be pursued in different ways. The analytically awkward result arises when the theory *qua* theory—normative or positive—is identified with particular choices. Such is often the case with the rhetoric of policy but it can also occur with positive, including historical, analysis.

B. Imperialism

Closely related to balance-of-power politics and power play is imperialism. Imperialism is the projection of a nation-state's interests and power beyond its territorial borders. The conduct of imperialism, especially colonial imperialism, can be driven by economic or by political forces, though, in my view, the evidence for the two and for the fact of imperialism is much the same; in practice each emanates from the legal-economic nexus and identification is a matter of selective perception and attribution.

Imperialism involves the projection of a country's will upon that of another. The means of projection may be military; it may be economic; it may be both. The pressure, or push, may emanate from within the imperial power; or it may, as pull, originate from the objects of imperial power (though no imperial power is driven willy nilly to act as such by a power vacuum; the will to imperial power must be at least latent); or both, simultaneously. The nature and sources of imperialism have been interpreted variously by different authors, each with a different vision. In one view, that of John Hobson, V. I. Lenin, and Rosa Luxemburg, for example, imperialism is of economic origin. Economic elites are able to use the power of their state to facilitate acquisition of raw materials from victimized countries and/or support exploitative investment therein. Political psychology is mobilized in the interest of their economic maneuvering. In the view of Joseph Schumpeter, among others, imperialism is of political origin. Political elites deploy the power of their state abroad as the means of advancing their domestic agendas, at the least their continuance in office. Political psychology is mobilized in the interest of their political maneuvering. In the view of Thorstein Veblen, and Schumpeter as well, modern imperialism is a vestige of past barbarism, a continuation of pre-modern (pre-capitalist) imperial systems of governance, and a mode of virulent, if popular, nationalism. The evidence for these different hypotheses is much the same; the historic events are common to all, only the interpretive account differs. Hermeneutically, the theories of imperialism provide a good example of theory-laden "fact." It is very difficult to choose between the theories; and, indeed, it is more than likely that the source of any imperialist venture is simultaneously economic, political, and social psychological.

In the past, states were formed through imperial ventures and states acted as imperialists against other states. In the first type of case, one group of nobility, or one group of tribal chieftains or warlords, was able to exercise its power successfully against other groups. Out of this warfare emerged a new state, one formed on the basis of the first group's victories over their rivals. The state became a product of successful violence. In the second type of case, states conducted economic,

political and/or military aggression against each other. Out of this aggression emerged either a new, composite state or an empire with other states in colonial or other subservient positions.

In 1914, that momentous date in the twentieth century, retrospectively, the nation-state system was rampant with empires. As difficult as it is to believe almost a century later, the colonial empires of 1914 were, in alphabetical order, those of Belgium, Denmark, France, Germany, Great Britain, Italy, Japan, the Netherlands, Portugal, Russia, Spain and the United States. Not all these empires were equal. Some were expanding, some dreamed of and sought expansion, and some were declining or existing passively. Only large areas of South and Central America, the Middle East, the Balkans, and China were not manifestly within the political, or economic-political, orbit of those empires. Balance of power and imperialism meant a great deal and were conspicuous. After two world wars—whatever one's theory of them—the colonial empires of 1914 largely no longer existed. Eventually balance of power and imperialism took new forms. In the new context one would eventually find first two so-called superpowers; an emergent united Europe; an emergent as-yet un-united Islamic Middle East, South Asia and, in part, Pacifica; China; then a dissolved and emaciated former Soviet Union, now Russia; and rivals to the nation-state system itself in the forms of the transnational corporate system and the system of governance known as globalization (see Samuels 2001). What was a power-sensitive nation state to do?

Moreover what is a power-sensitive historian to do? For any American, especially one alive on December 7, 1941 and old enough to know what transpired, Pearl Harbor was subject to an unprovoked, sneak attack by Japan. It was gratuitous enough but it did not happen in a vacuum. For some time the United States and Japan, along with a number of other countries, primarily European but also China, were jockeying for power in Asia and the Pacific. That included Japanese engagements in land wars on the continent of Asia. A.J.P. Taylor wrote a book that scandalized many people, *Origins of the Second World War* (1961), which concentrated on Germany and the European war; a comparable book could have concentrated on Japan and the Asian-Pacific war. In each case, horrific events, obnoxious beliefs and terrible people were overshadowed by events, beliefs and people that, in the light of history could appear to be commonplace, even banal. Nationalism and imperialism were not created in 1939.

One of the most subtle defenses of capitalism is that people engaged in making a living, improving their standard of living, and accumulating wealth, will not be interested, or be much less interested, in being aggressive toward their neighbors. As Frank William Taussig put the point, it is better to live under the Napoleons of industry than under the blood-thirsty Napoleons of history. The problem is that a country ruled by the Napoleons of industry may well be likely to act toward other countries like the Napoleons who went to war. On whether political democracy of some sophisticated form is sufficient inoculation against imperialism and a foreign policy of aggression, either the jury is still deliberating or the verdict is negative.

In his recent book asserting the United States' need for a foreign policy in the 21st century, Henry Kissinger, historically conscious political scientist and occupant of the two highest governmental positions in foreign policy, proposes a policy of the aggressive type—such as he has before both proposed and practiced. He argues that countries in the nation-state system are engaged willy nilly in a struggle for power and survival; that countries in general and the United States in particular have interests

as a result of their cultural, social and political history and their geography; that our government must prevent any consolidation of foreign powers from threatening our autonomy and way of life; that we cannot take for granted our pre-eminence as the only superpower; and that we can combine concern for human rights with pursuit and defense of our interests and power (Kissinger 2001). Kissinger is a foreign policy realist. He is, especially, a devotee of the theory of the balance of power as both a description and normative instrument of high state policy. Kissinger is not alone in his aggressive foreign policy (see, for example, Kaplan 2002). It is not easy to distinguish an aggressive policy stance whose purpose is to forestall if not to entirely prevent adverse actions by other nations from one which attempts to impose United States interests and policies on others. In practice, policy is often a mixture of the two. One difficult example to interpret is the set of policies and actions adopted by the Administration of George W. Bush in early 2002 in the name of the "war on terrorism."

III. The Policies and Dangers of the Present

The administration of George W. Bush came into office having criticized the foreign policy of the Clinton Administration on at least two grounds: that its military engagements or involvements abroad, as in areas of the former Yugoslavia, lacked any stipulation as to when, or the conditions when, the military action would be over; and that these activities, typically saccharine peace keeping and even state making in nature, were stretching U.S. capability and resources unduly thin. The former administration was accused of a willingness to use its military abroad whenever and wherever such was deemed to lead to "good results." The impression was given that in a Bush administration, although the

U.S. would be prepared to defend itself, its foreign policy would take a clear isolationist turn. This was not to be.

One long-lasting phenomenon was the selective specification of "terrorist" and "freedom fighter." The difference, rhetoric apart, was a function of U.S. agreement with one side or the other. Those who we supported were freedom fighters; those who we condemned were terrorists.

This was true even if one could not distinguish the different groups on the basis of their techniques and tactics. Both tended to use identical methods. They were the methods of guerilla warfare, typically against conventional capital-intensive military force. Consciously or not, their leaders generalized the doctrines of General Vo Nguyen Giap, the Defense Minister of North Vietnam, and before him, the practices of the colonial revolutionary army under George Washington, of partisans fighting Nazi regimes in Europe during World War II, and of Jewish opponents of Great Britain and of Palestinian opponents of Israel, among others.

The infamous events of September 11, 2001 introduced a new phenomenon: the United States homeland as a target of a dedicated, well trained, group of essentially modern urban guerillas. This new development had a dual context: the overt conflict between Israelis and Palestinians and the more recondite conflict between the Judeo-Christian West and Islam in various parts of the world, especially in the Middle East, Southwestern Asia, and parts of Oceana. I discuss this development in a companion paper (Samuels forthcoming).

The Bush Administration responded to the attacks of September 11, 2001 with its self-declared war on terrorism. The language of the Bush Administration often resembled what Mead calls Jeffersonian and Wilsonian foreign policy. But at bottom it was essentially

a combination of what Mead called Hamiltonian and Jacksonian foreign policy. Alternatively, one can interpret the actions and policies of the Bush Administration in terms of pragmatism or the foreign policy of aggression, called above "American conventionalism" and advocated by Henry Kissinger (supra), Richard Pipes, and others, notably Paul Wolfowitz and his group in the Bush Administration. Some of these policies continue and/or revise the foreign policies of the Clinton Administration, some represent one or more traditional/conventional strands of foreign policy, some break new ground, all together constitute a form of aggressiveness, with the means to execute it, never before operative in U.S. history, not excluding our major wars. The elements of this aggressive foreign policy can readily be identified:

1. The claim and enforcement of extraterritoriality: The U.S. claims the right and, under statute, deploys the power to make actions undertaken in foreign countries crimes under U.S. law. This is a major exercise of aggression, whatever one thinks of the actions or of the people performing them.

This is prospectively also a major step in the creation of what may develop into a new body of international law. As the lone putative superpower the U.S. is claiming the right to make law for the entire population of the planet—or at least that part of world population with respect to which the U.S. feels able—safe—to do so.

2. A similar, parallel development is the claim by the U.S. to hold foreign governments—or those with respect to which the U.S. feels able (safe) to do so —responsible for certain actions of certain of their citizens to which we take offence, and make offenses under U.S. law.

3. A further similar development is the prospect of using nuclear weapons against certain foreign governments—those with respect to which the U.S. feels able (safe) to do so—whose own military programs, say,

involving weapons of mass destruction, the U.S. finds threatening or offensive.

All of these steps are tantamount to imposing U.S. law on U.S. terms throughout the world, or in those areas with respect to which the U.S. feels able (safe) to do so. It is as if the U.S. has appointed itself world sheriff.

4. Another development along the same line and with comparable effect is the U.S.'s manifest playing fast and loose with the provisions of the Geneva Convention. This is not done without provocation but we have had provocation in earlier wars and have not succumbed to facile redefinitions of terms amounting to redrawing the terms of the Convention to suit our perceived interests.

5. The U.S. is active economically as well as militarily in constructing a new body of world law and a new system of world governance (see Samuels 2001).

Certain institutions were adopted after World War Two at Bretton Woods. These subsequently evolved and now operate as the World Bank and International Monetary Fund. Their official historic roles have been to provide capital and liquidity to member states. The practical function of these institutions has been to control the undeveloped nations in the interest of the developed, industrial nations. They are instruments of governance and of domination, replacing the hegemony hitherto practiced by the former colonial powers.

To this list another international institution, the World Trade Organization (WTO), has been added, supplementing and increasingly dominating still other institutions, such as GATT, the General Agreement on Trade and Tariffs, and even the United Nations. The role of WTO has been to finesse if not negate existing national legislation promoting the rights of labor and environmental protection. From the perspective of the affected businesses, these statutes raise costs, compelling the creators of costs (negative externalities) to bear costs otherwise visited upon third parties. The

Bush Administration pretty much constitutes the instrument of business and has sought in such matters, through the WTO, to reverse or otherwise finesse the effects of statutes in matters of labor rights and environmental protection. In this, it has both continued and extended policies of the Clinton Administration and in some cases, e.g., policies dealing with global warming, to reverse them.

One way to view this development is, once again, as the creation of a new body of international or transnational law overriding relevant national statutes. International business, working with like-minded or compliant administrations in various countries, has used WTO to advance their interests. What was once taken to be a generic threat to national sovereignty emanating from an amorphous world government has become the negation of national legislation through the actions of international or transnational organizations—organizations doing the bidding of a certain segment of the population in the countries whose statutes are being overridden. It is on the level of the world economy and polity what once took place locally when some lord of the land conquered the other lords and substituted his law for theirs, i.e., substituted the interests he chose to protect for the interests they had been protecting. It is an aggressive foreign economic policy in the interests of the international corporate system, promoting one developmental path rather than another(s).

Another but not incompatible way to look at these developments is as a course of unilateralism, obfuscated by the presence of fellow-traveling or client governments, the most faithful of which seems to have been the United Kingdom and, it has to be not admitted but exclaimed, the evident claims of justice in the U.S. case.

On various occasions, the U.S. Secretary of Defense has announced that the U.S. welcomes allies in its war against terrorism. But, he has added, the U.S. is prepared to go it alone and to do so with a free hand, including unilateral pre-emptive actions. Included in the package of means with which to do so, is an array of newly developed high-tech weaponry and non-conventional warfare measures, e.g., counter guerilla warfare with political, economic, intelligence, and special-operations tactics.

Still another perception of these developments is that they are the actions of a bully. No longer can we plead lack of intention and the inadvertence of a giant among pygmies.

A final perception is not wide of the mark. It is that the U.S. is pursuing a foreign policy of the balance-of-power type. There are several vacuums of power—and attendant opportunities for the one superpower—in the world: to control the making of world policy with regard to certain important matters, such as labor rights and environmental protection, governing the distribution of costs and thereby of net income; to control the making and revision of international law; to police the world, to be the sheriff in pursuit of those deemed to be evil-doers; and so on.

The perception of these developments with probably the longest intellectual pedigree is plutocracy. Aristotle's survey of types of constitutions posited democracy as the benevolent form of rule by the many. It posited plutocracy as democracy's degenerative form. A legal framework of economic activity and its continuous revision is a necessity. A plutocracy exists when that framework and the changes therein are largely if not overwhelmingly controlled by business, the language of which is money—or, to change the metaphor, whose mother's milk is money in politics.

The plutocratic state of affairs is not new; however, the business-oriented policies of the Bush Administration are both more transparent and more overwhelming than has been usual since, say, the 1920s.

The motive force behind the new, aggressive foreign policies of the Bush Administration is not solely pecuniary business calculations of advantage. The events of September 11, 2001 presented the Bush Administration with a saleable argument in support of the aggressive policies advocated by what in earlier times was called the War Party and more recently, Hawks. More than the presence of Osama bin Laden and his guerilla-trained forces, is involved. The Bush Administration now acts upon the premise that it can ride the horse of the war against terrorism to reelection in 2004 and further Republican victories beyond that date, not to neglect the 2002 elections. Many historians conclude that for a president to be reckoned "great" he or she needs the greatness-generating circumstance of a major, popular war. This was Osama bin Laden's and al-Qaeda's priceless gift to Bush. To the economic basis of an aggressive foreign policy is now added the political basis thereof.

Moreover, the adoption of newly aggressive policies is not confined to foreign relations and to promoting business interests at home an abroad. In the name of combating and preventing terrorism, the Bush administration, led by Attorney General John Ashcroft, has pursued an historic conservative agenda to limit domestic dissent. Among the developments are the adoption of preventive detention, increased secrecy, the use of military tribunals, and expanded search authority, including the monitoring of hitherto privileged conversations between clients and attorneys.

A subplot amid all this jockeying for position is the promotion of the position of the U.S. oil industry within the domain of business as a whole and vis-à-vis OPEC.

We face, therefore an extension and deepening of business control of government and of U.S. hegemony relative to the rest of the world. It may be a new form of imperialism, one as much by a class as by a nation. It is a form much more dramatic if not virulent than past forms because it is dedicated to both the transformation of international law for the whole world and the expanded role of the U.S. as world sheriff—policing the work on its own terms and for its ruling class's business interests.

A further, or more inclusive, subplot involves the occasional, perhaps even frequent conflict between groups of U.S. business interests and/or between U.S. and foreign business interests. This is all within the transformation of law and other changes noted above, as partners in action against other groups now conflict among themselves over issues of structure of power and of distribution of largesse.

IV. Conclusion

The foregoing may seem far-fetched and radical. It is not the former and may or may not be the latter, given one's take on the history of U.S. foreign policy. Emily Eakin (2002) writes, "Today, America is no mere superpower or hegemon but a full-blown empire in the Roman and British sense." She quotes conservative columnist Charles Krauthammer: "The fact is that no country has been as dominant culturally, economically, technologically and militarily in the history of the world since the Roman Empire." The terms empire and imperialism, she says, are increasingly being used both descriptively and approvingly; she quotes Max Boot of The Weekly Standard that we are in fact an empire and should be "more expansive in our goals and more assertive in their implementation." She cites or quotes Charles H. Fairbanks, Robert H. Kaplan (whose work is discussed above), and Paul Kennedy affirming the benignity of U.S. imperialism that "tends to operate not

through brute force but through economic, cultural and political means." Eakin's argument is taken up by the Presidential historian, Richard Reeves (2002), not to negate it but to explain how Americans have not known this before. The problem is a press—print, television, and radio—that since the end of the Soviet Union has not paid attention to foreign affairs. Reeves agrees with the foregoing description; that is the main point: "The United States is, in fact, now the greatest empire, militarily, economically, technologically and culturally, that the world had has ever seen. We have the power, and are using it, to force other countries to adopt [sic] (or pay lip service) to our ideas of market capitalism and political democracy. That, after all, is what words like 'globalization' really mean." Reeves remarks, "That is pretty pompous stuff, Victorian really. But that does not mean it is untrue." The evidence includes the increased reliance by much of the developed world on "presumed American protection" and the declarations by President Bush of our "right to send American troops and drop American bombs anywhere we damn please. We are doing this, he says, for the good of self-defined civilized truths and values."

Anyone who thinks that the fully panoply of rationalizations is not being brought to bear on the legitimization of U.S. policy, should read the address by Pope Urban II, before the Council of Clermont in 1095, which resulted in the First Crusade. The present-day version of that world-historic episode remains, in the words of Thomas L. Friedman (2002), the "clash of civilizations" that has commenced in the Mideast—the topic of my companion paper.

The United States has embarked, it would seem, on a course that, in the light of history, is not altogether or by any means new. The course is one of aggressive foreign policy driven by interwoven economic and political interests and heightened by the country's seemingly implacable guerilla enemies. It is consistent with one or more of this country's approaches to foreign policy, the terminology dependent on the overall interpretive model adopted. But it augurs a massive reorientation of U.S. political and economic culture and structure coupled with extensions thereof to the world as a whole.

It involves, ironically, the adoption by the Bush Administration of policies with characteristics for which it lambasted its predecessor, namely, that its military engagements or involvements abroad lacked any stipulation as to when, or the conditions when, the military action would be over; and that these activities, typically saccharine peace keeping and even state making in nature, were stretching U.S. capability and resources unduly thin. The former administration was accused of a willingness to use its military abroad whenever and wherever such was deemed to lead to "good results." The Bush foreign (and domestic) agenda, however, is much more ambitious because it is much more aggressive.

The new policies are explicated and defended in language with which it is almost impossible to argue: fighting a war against terrorism, protecting innocent people from terrorist acts, making the world safe for democracy, and so on. But the actions pursued under the aegis of such language also amounts to the pursuit of the aggressive nationalist agenda of one or two schools of U.S. foreign policy and to the creeping if not wholesale adoption of the conservative domestic economic and natural security (so-called) agenda in the name of fighting terrorism.

Fighting terrorism we are, but we as a people need to consider what else is the target. Do we want to be the sheriff of the world? Does support for a market economy necessarily constitute pursuit of the class interests of business throughout the world? Does combating

terrorism warrant wholesale adoption of the conservative domestic agenda?

The final irony is that the policies of the Bush Administration emerge from a political party who in the past had preached nonintervention, laissez faire, and getting the government off of our backs. That was never an accurate description of that party's agenda. It was more a set of sentiments and a body of rhetoric directed to the manipulation of political psychology. The members of this party had their own agenda of policies to be promoted once they gained control of government. Many supporters of its rhetorical flourishes, however, have sought to further legitimize them by appealing to a particular interpretation of Adam Smith's vision of a market economy. The irony is that this same Smith wrote of proposals from businessmen that they come

> from an order of men, whose interest is never exactly the same with that of the public, who have generally an interest to deceive and even to oppress the public, and who accordingly have, upon many occasions, both deceived and oppressed it. (Smith 1976, p. 267, I.xi.p)

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The Collapse of the Soviet Economy and the Triumph of Capitalism: Marxian Visions & Papal Sentiments

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JEL Codes: B24, B31; P21, P26

Keywords: John Paul II on economic-systemic change; Marx on control of production process; Transitional triumph and triumphalism; Command plan vs. "'Free' market"

I. Introduction

Farther away than longer ago, the author has explored this issue in another forum before virtually an entirely different audience (Nitsch, 1999). Not much of consequence has changed since then. From the point of view of the living, the timeframe is the year 1989 up to mid-1991. The Marxian visions — ranging from the *Paris Manuscripts of 1844* through the last edition of Engels' *Anti-Dühring* (1894) — it might be thought (by those called dilettantes) are cemented in history. The questions addressed are (1) whether the events of 1989 in the USSR and what has followed on their heels sound the death knell for Marx's system, destine/doom it to the

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tomb with him; and, (2) whether the sitting pope, John Paul II, as some addicted to the confusion of fact and fantasy contend, accepts the inevitable — acquiesces in that triumph of capitalism — and welcomes categorically privatisation and marketisation, the transition from state-owned/collective to private property and the supercession of market over plan.

Social Catholicism vs. social Marxism,[1] the foremost two vying ideologies of the social-economic sphere, stage a new joust. Traditionally, beginning with Leo XIII (1891) vs. Marx-Engels (1844-78 sq.), the lines seem more sharply drawn. And, apart from ceremonial trappings, the clash is between no less than dogmatic religions. To orthodox or other than "nominal" Marxists, Marxian dogma becomes in effect and essence a processal-God, immanent in the exfoliation of human society and no less demanding of its faithful than the personified deity of Roman Catholicism (cf. Nitsch and Malina [1989], sub "Marxism and Christianity: Marx's Door Is Open," esp. pp. 39-41).

II. Marx's System Doomed to the Tomb with Him?

The concomitant collapse of the Soviet economy and disintegration of the USSR (*CCCP*) brought not only *real*-political relief that the Cold War was done (and won); but, as well, the ideological satisfaction on the part of anti-Marxists that said collapse sounded the death-knell for social Marxism (Marxian political economy). The presumption here is that Marx himself (or Marx-Engels) somchow envisioned/advocated what evolved and came to be known as that"real socialism" noted above — viz. the extant Soviet economic system in praxis, *praxeologically*. Collective-/state-ownership of the means of production and command central planning (*die Planwirtschaft*) — all down the tube?

First off, the adept Marxologist or Marxian worthy of the tag would know that, praxeologically, *true* socialism had not been realised in the USSR as of the events of 1989. Private property had, but the State as such (*der Staat als Staat)* had not, become sublated (*aufgehoben*); or, as Lenin (Marx-Engles et al. [1970], pp. 733-47) reputedly had put it, had not "withered away."[2] Private property *as such* was abolished (*abgeschafft*), not merely *aufgehoben* (sublated); i.e., had been eradicated and arrogated by the State as instrument of "the dictatorship of the proletariat." Such marketplace/mechanism as existed at the time of the revolution of November 1917, likewise transformed root-and-branch/*de-fond-en-comble* (cf. Proudhon, 1947, Vol. I, p. 5) into comprehensive-command central planning by the same agency? Oppressor-state → liberator-state → administrator- state in 30—something years? But still, the State as such; again, *der Staat als Staat* as per Engels (1878 sqq.)?

As fate and Marx would have it, what came last went first. That is, in any very effective or meaningful sense, in the transformation first came the administrator-state, whence nationalization/collectivization; and, then, the command-planning mechanism — alias, the administrative command economy (Gregory and Stuart, 1998, p. 477a, s.v.; et cp. H. Pesch SJ's "*die Planwirtschaft*," as per Nitsch, 1996, pp. 171 and 175 [n. 5]). Thus, to the extent that *that* progression hangs together in a reversal, first down the tube and into the tomb goes the CP mechanism; whence, the socialised (nationalized/collectivized) means of production (*Produktionsmittel*); and, der Staat als *proletarisch Staat*. It is the central-planning institution which is focal — because pivotal — here; not that of the mode of ownership/property (*Eigenthumsweise*), nor that of (Hegel's) *politische Staat*. The good-judgment and right-reason exercised in this delimitation will become

apparent when the Pope's stance is brought into the inquiry.

The question to which we now turn is Karl Marx on central planning as we know it, as it was practiced in the USSR/Russia as of the events of 1989. Did he advocate or otherwise envisage *that* central planning (the ACE/*Planwirtschaft*) as such? Did he ever say (write or utter) *anything at all* about it? Was it in his vision/ scenario of future society — of his Kommunismus α or β (1844); or, his transitory (primitive/*vulgär*) or ultimate (≡ *true*) socialism?

III. What Marx Said/Meant

As best we know, the closest verbally Marx ever came to envisioning, foreshadowing or embracing the prospect of central planning was his allusion in *Kapital* (I. Bd. | Vol. I, 1867 sqq.) to that day when free, associated workers would take the work-process and their destiny in general into their own hands "*unter deren bewusster planmässiger Controle"* (1867, S. 40; ital. supplied). A literal translation seems awkward, if one wants to preserve the key term/phrase intact. So, the reader is left to his/her own devices with the original German (loc. cit.), to wit:

> Die Gestalt des gesellschaftlichen Lebensprozesses, d.h. des materiellen Produktionsprozesses, streift nur ihren mystischen Nebelschleier ab, sobald sie als Produkt frei vergesellschafteter Menschen unter deren bewusster *planmässiger Controle steht.*

There it is in immediate context. Basically the location is the opening chapter of the whole *Kritik*, "Waare und Geld | Commodities and Money," more particularly the opening section thereof on "Die Waare | Commodities"; whence, what is highlighted in subsequent editions as a subsection (e.g., 1872, §4, S. 47), "Der Fetischkarakter der Waare und sein Geheimniss | The Fetishism of the Commodity and Its Secret."

The subsequent German editions of Marx's *Hauptwerk* (2nd, 1872; 5th, 1903) are readily enough available for the further scrutiny of the reader.[3] But for convenience here and now, several more —plus the singularly critical premier French edition (1872) — are presented below, each with an apropos English translation juxtaposed. Such a variety of English renderings were chosen for the matching in the sake of preventing a "monopoly" and dispelling any suspicion of any "conspiracy." The *pièce de résistance*, I peradventure, will be the official Russian version juxtaposed by the expert English translation of Ernest Raiklin of Northern Iowa University.

First, we note the German/French versions and their English counterparts, as reproduced (p. 4 infra) intact from Nitsch (1998b, p. 5). The "or What" part of that caption is not pursued here, though it was an integral aspect of that more open-ended inquiry — in particular, what happens to the State as such (Engels' *der Staat als Staat*).

What the writer did in effect before (Nitsch 1997/99), he does indeed here and now; viz., *defy* the reader to find anything in the original German and French that can be translated into "central planning" (*Planwirtschaft*) as we know (Pesch intended) it; but, that most especially of the command variety as practiced in the (former) USSR as remained in place Russia on the heels of the dissolution thereof. The very stipulation of "freely associated men | frei gesellschafteter Menschen" clearly means the absence of the capitalist commander; and, of a monolithic State as well.

Now, the most one is going to wrench/wring, squeeze/tease from the "tempting" term, "planmäβiger" here is "planned; according to plan, as planned"; from "bewuβter," "conscious, deliberate." Aside from the orthographic evolution — from "Controle" (1872) to "Kontrolle" (1964/'84) — that substantive pretty well stands on its own and speaks for itself; yes, "control." So, putting it together for ourselves literally, what we have is "under their deliberately planned control." It is interesting that the unofficial American (Kerr, 1906) and quite official Russian (Progress, 1954/58) versions are identical. The neo-Marxist Anglican rendering (1976), while ending on a literal note (viz. the predicate "steht | stands"), would appear best to convey Marx's intent.

Taking (rendering) literally the French to which that self-proclaimed (by Fowkes) "new translation" is juxtaposed, we have (beginning with "le jour"), "the day where there will be manifested the work of freely associated men, consciously active/operating and masters of their own social movement." That (first) French version/edition must be taken very seriously because (1) after the traducteur (Joseph Roy) had done his job, it was "entirely revised" by Marx himself; and, (2) the new substantive ideas/formulations/etc. Marx got in that process were incorporated in the 2nd German edition of 1872, the "Afterword | Nachwort" to which was appended in 1873. Accordingly, below we reproduce Marx's French anew and juxtapose *thereto* his second (and subsequent) German venture. It readily can be seen that the third (1883) edition, the last Marx (d. March 1883) could touch before Engels edited it, and the fifth like it are faithful to the second *verbatim*.

Marx went to the tomb before that 3rd appeared in print, and 20 years before Engels' 5th came out. Is it necessary to ask now, "Where's the central planning, *die Planwirtschaft*?" 'Tisn't there; nor, anywhere else in Marx's/Marx-Engels' writings. Engels later (1878-94) picks up on that theme in a significant way. Resisting the temptation to reproduce here the full context presented previously (1998b, pp. 8-11), but refusing to deny same to the reader, that is deferred to App. 1.

Marx's Vision of FUTURE SOCIETY:
Does He Envision/Advocate 'Central Planning';
or WHAT?

An Inkling from
'The Fetishism of Commodities and the Secret Thereof'
Der Fetischcharakter der Waare und sein Geheimniss

3. Aufl. (1883)

Die Gestalt des gesellschaftlichen Lebensprocesses, d.h. des materiellen Produktionsprocesses, streift nur ihren mystischen Nebelschleier ab, sobald sie als Produkt *frei vergesellschafteter Menschen unter deren bewusster planmässiger Kontrole steht*.

Chas. Kerr (1906)

The life-process of society, which is based on the process of production, does not strip off its mystical veil until it is treated as production by *freely associated men*, and is consciously regulated by them in accordance with *a settled plan*.

5. Aufl. (1903)

Die Gestalt des gesellschaftlichen Lebensprocesses, d.h. des materiellen Produktionsprocesses, streift nur ihren mystischen Nebelschleier ab, sobald sie als Produkt *frei vergesellschafteter Menschen unter deren bewusster planmässiger Kontrole steht*.

Progress (1954/58)

The life-process of society, which is based on the process of material production, does not strip off its mystical veil until it is treated as production by *freely associated men*, and is *consciously regulated by them in accordance with a settled plan.*

Tr. Roy & ent.rev.Marx (1872)

La vie sociale, dont la production matérielle et les rapports qu'elle implique forment la base, ne sera dégagée du nuage mystique qui envoile l'aspect, que le jour où s'y manifestera l'œuvre d'hommes librement associés, agissant consciemment et maîtres de leur proper mouvement social. [t. I, p. 91]

New Left Review (1976)

The [mystical] veil is not removed from the countenance of the social life-process, i.e. the process of material production, until it becomes production by freely associated men, and stands under their conscious and planned control. [p. 173]

MEW (1964/'84), Bd. 23, S. 94: Die Gestalt des gesellschaftlichen Lebensprozesses, d.h. des materiellen Produktionsprozesses, streift nur ihren mystischen Nebelschleier ab, sobald sie als Produkt *frei vergesellschafteter Menschen unter deren bewußter planmäßiger Kontrolle steht [Uns. Ital.]*

Engels (*Anti-Dühring*) is writing of the day when man will become subject of those inexourable/quasi-natural social forces whose object he has been under the capitalist mode of production.

Aber einmal in ihrer Natur begriffen, können sie in den Händen der assoziierten Produzenten aus dämonischen Herrschern in willige Diener verwandelt werden… Mit dieser Behandlung der heutigen Produktivkräfte nach ihrer endlich erkannten Natur tritt an die Stelle der der gesellschaftlichen Produktionsanarchie *eine gesellschaftlich-planmäβige Reglung der Produktion* nach den Bedürfnissen der Gesamtheit wie jedes einzelnen; damit wird die kapitalistische Aneignungsweise, in der das Produkt zuerst den Produzenten, dann aber auch Aneigner knechtet, ersatz durch die in der modernen Produktionsmittel selbst begründete Aneignungsweise der Produkte einerseits direkt gesellschaftliche Aneignung als Mittel zur Erhaltung und Erweiterung der Produktion, anderseits direct individuelle Aneigning als Lebens und Genuβmittel.

But when once their nature is understood, they can, in the hands of the *producers working together*, be transformed from master demons into willing servants. ... With this recognition, at last, of the real nature of the productive forces of today, the social anarchy of production gives place to *a social regulation of production upon a definite plan*, according to the needs of the community and of each individual. Then the capitalist mode of appropriation, in which the product enslaves first the producer and then the appropriator, is replaced by the mode of appropriation of the; products that is based upon the nature of the modern means of production; upon the one hand, direct social appropriation, as means to the maintenance and extension of production — on the other, direct individual appropriation, as means of subsistence and enjoyment.

From the Critical 1st French & 2nd German Editions: An Aspect of True Socialism

Le Capital (1872a)

La vie sociale, dont la production matérielle et les rapports qu'elle implique forment la base, ne sera dégagé du nuage mystique qui envoile l'aspect, que le jour où s'y manifestera l'œuvre d'*hommes librement associés, agissant conciemment et maîtres de leur propre mouvement social.* ⟨t. I, p. 91⟩

Das Kapital (1872b)

Die Gestalt des gesellschaftlichen Lebensprocesses, d. h. des materiellen Produktionsprocesses, streift nur ihren mystischen Nebelschleier ab, sobald sie als Produkt *frei vergesellschafteter Menschen unter deren bewusster planmässiger Kontrole steht.* ⟨I. Bd., S. 57⟩

Surely, with Engels seeming to pick up (our italics) where Marx left off, we have a generality capable of embracing the central planning mechanism in the process of becoming *abgeschafft*, literally "abolished." With a slightly different twist, "eine gesellschaftlich—planmäβiger Reglung der Produktion," may as well be rendered, "a socially planned regulation of production," accordingly as stipulated. Is that tantamount to saying "centrally planned regulation of production by the State"? Who's in charge, who's running the show? That revolutionary dictatorship of the proletariat in the *Gotha Programme* (1875)? Again, is this a glittering generality that can accommodate whatever one wants to read into or out of it — including pinning the moribund institution in question on Marx or the inseparable Marx-Engels duo?

If not, all is not lost. Forget the fact that the self-destructive capitalism from whose ashes primitive socialism or Kommunismus α — liberated masses, liberator-State, etc. — was to emerge was far from extant in Russia at the time selected for the "Revolution." But, bear in mind that Russia was the material embodiment of central-planning socialism, of "Real Socialism «*socialismo reali*»" (J.P.**II**, 1991, #35; *AAS*, LXXXIII [1991], 837). That being the case, if the system was truly Marxian, then perhaps the answer to our question is to be found in what was to become the official Russian version of that suggestive passage in *Das KAPITAL*.

The contemporary Russian version is reproduced on the following page, with the expert English rendering of colleague Ernest Raiklin at Northern Iowa University juxtaposed. That volume bears the photocopy of the title page of the first German edition (1867) at p. 6; whence (p. 15), that of the Russian edition of 1872 (as best can be told) amidst the Russian translation of the "Nachwort" of the 2nd German edition signed/date-lined *Карл Маркс /Лн,9он, 24 января 1873 г.3*.

Engels' "Preface" to the third German edition ("Zur dritten Auflage") signed/date-lined "London, 7 november 1883" appears in Russian dress at pp. 27-29. It is presumed here that he had nothing to do with either the first Russian edition (1872) or that (1983) employed here. He was, of course, fluent enough in both German and English tongues, but we spare him here of the Russian.

Karl Marx | Маркс, Карл. *КАПИТАЛ,* ТОМ. ПЕРВЫЙ. Москва: 1983.	Ernest Raiklin, Assoc. Prof. Econ., University of Northern Iowa (1998).
Сторй общественного Жиэненного процесса, т.е. мате-риалъного процесса произвдства, сбросит с себя мистиуе-ское туманное покрываывало лишь тогда, когда, когда он станет продуктом свободного общественного союза дюдей и будет находиться под их сознатедьным контродем.	The system of the social life-process, i.e. the material process of production will strip off its mystical veil only then when it becomes a product of a free association of people and comes under their [people's] conscious planned control.

Thus, we rely on Professor Raiklin's rendering afresh the English from the Russian. Is the system articulated here one of brain-washed/homœopathicised [*homöopathi-scheniert*] helots appendaged to the assembly line by the liberator-State under direction of the RDP? Consistent with that? A prominent delimitation of economics, distinguishing it from the other social sciences, has it focusing on "a limited range of human activity: *rational behavior* and *market exchange*" (Hirshleifer and Glazer, 1992, p. 6). The institution/organon in question is the marketplace, usually regarded as "free" from (of) government regulation (interference). Rational as intended here would seem to embrace knowledgeable/ rightly-informed as well as intelligent/conscious behavior. Marx and Engels certainly had that in mind of their "freely associated producers," cognizant of social forces taken under their control.

What's the real difference? Marx, and Engels after him, as should be well known, focuses on *production* / the work-place; our capitalistic exponents, on *exchange* / the market-place, that façade (alias, "mystical veil") which masks the real determination of (so-called) "market" prices, wages and profits, confusing value—determination with its *validation* (alias, "valorisation").

If market exchange, the market-place/mechanism, goes down the tube with successful marketization, what goes with it? Thus, e.g., division of labor too? We know that Marx refuted Smith in the latter's regarding DoL as the unintended but inexorable consequence of the human—natural "propensity to truck, barter, and exchange one thing for another" (*WN*, Bk. I, ch. II, incipit). No, Marx showed with material evidence (India), DoL is quite possible without market-exchange; but, the latter is not without DoL. M-E is no necessary condition for DoL; but, DoL *is* for M-E.

It is more than interesting that an accomplished Marxologist like Tom Bottomore produce such *A Dictionary of Marxist Thought* (1991) with no entry on "Central Planning" / "Planning, central" as such, whatsoever. That's saying, to that authority (and with the approbation of his Editorial Board), CP — command or elsewise — is *not central* to Marxism — classical/orthodox, neo—/re-formed. At the same time, a Baker's 2½ pages (153b-156a) are devoted to "division of labour" per Simon Mohun. Here, quoting from Vol. III, Chap. 48 of *Capital*. Taking his lead (p. 156b), we supply our own quotation (English|German) of Marx (1978|1894, p.|S. 820|828).

Freedom in this field [production] can only consist in socialised man, the associated producers, rationally regulating their interchange with Nature, bringing it under their communal control, instead of being ruled by it as by the blind forces of Nature; and achieving this with the least expenditure and under conditions most favourable to, and worthy of, their human nature.	Die Freiheit in diesem Gebiet [Produktion] kann nur darin bestehen, daβ der vergesellschafteter Mensch, die associerten Produzenten, diesen ihren Stoffweschel mit der Natur rationell regeln, unter ihren gemeinschaftliche Kontrolle bringen, statt von ihm als von einer blinden Macht beherrscht zu werden; ihn mit dem geringsten Kraftaufwand und unter den ihrer menschlichen Natur.

Sounds/looks familiar. Still the freely associated workers, now rationally (previously consciously) and communally in control, now in turning the tables by

subduing and marshalling the forces of nature optimally to their own advantage (previously of their life-/work-process). In full appreciation for the "tip" from Mohun, we conclude with the further indebtedness for his *ergo* (loc. cit.), to wit: "Thus instead of 'despotism' controlling the division of labour in production, that division will be controlled by democratic planning by the [frei vergesellschafteter] producers themselves."

Did Marx say, mean all that? Sounds like something I once said/wrote (Nitsch 1964, pp. 107-9). Anyone ever hear/read of "Real Socialism" *qua* "state capitalism"? Ernest Raiklin would say "Amen" to that; and/or, just as soon drink to it.

IV. John Paul II and the Triumph/Blessing of Capitalism

Our inquiry into the destiny of Marx's "system" was restricted to the central-planning organon now falling to the axe of "marketization." To ask whether the "privatization" (yet to come) enjoys Papal Blessing (in particular, of course, the Benediction of John Paul II) is little more than rhetorical. To Marx, of course, *Privateigenthum* in land and the (human-made) means of production is anathema, the root of it all. (Cf. J.-J. Rousseau's "Discours sur l'Inégalité," 1755; and, Smith's justification/explication of "the accumulation of stock [read "capital"] into private hands" and the privatization of the land originally held in common by the landlord, collecting rent even on the natural fruits thereof — and loving it [*WN*, Bk.I,Ch.VI; 1937, pp.47-49]). But, even the papal affirmation of the naturality of private property, is coupled with the moral-theological instruction that it be social in use; i.e., however "private" property may be, it is endowed with a *social function*.[4] Every papal encyclical letter, it may be said, re—defines/re—establishes "tradition." Let us just say this at this point, the *aufhebung*/"sublation"—type (Hegelian-Marxian) critique done by a sitting pope on that tradition as most recently re—defined/established (one hesitates to say "revised"), will be at best a "two-thirds" job; i.e., there will be the affirmation/upholding of that with which the sitting pope agrees; a transcendence/super-session — by way of clarification, taking into account new/different conditions, etc. — with an improved/better teaching; but, there will be no negation/refutation/denial of what is "wrong" in the teaching of a predecessor "of happy memory."

With this, we leave the question of J.P.II on privatization (private property) in abeyance. He has his own way of nuancing it in a gestalt/systemic (system-components) way, to which we shall return in concluding this section.

He is much more blunt on the matter of marketization, "the magic of the marketplace" as Ronald Reagan (Oct. 1981, as per Newfarmer, p. 182) once had it; alternatively, the "free market" vs. the command-plan. In *Centesimus Annus* (1991a,b,c,) #34 we find the nod he allegedly gives to the former. But, let's hear him out and not cut him too short. We first read what he says, to wit:

> 34. It would appear that, on the level of individual nations and of international relations, *the free market* [liberum commercium] is the most efficient instrument for utilizing resources and effectively responding to needs. But this is true only for those needs which are "solvent" [de eis necessitatibus, quae «ad solvendum sunt»], insofar as they are endowed with purchasing power, and for those resources which are "marketable" [de opibus quae «ad vendendum» sunt], insofar as they are capable of obtaining a satisfactory price. But there are many human needs which find no place on the market. It is a strict duty of justice and truth not to allow fundamental human needs to remain unsatisfied, and not to allow those burdened by such needs to perish.

Before continuing with the Supreme Pontiff, lest there be those business-like (also called straight-laced) economists here who find his modes of expression a bit quaint, we turn to a professional (academic) economist with the proper jargon to put this in our jargon. In his centerpiece presentation to the Catholic Economic Association in late 1963, Richard Abel Musgrave (1964) exposed the celebrated "Pareto optimum" as *in se* an essentially hollow "victory" if achieved. After a brief (2-sentence) preamble he continued (p. 1):

> The conventional view of the private sector in efficiency terms—i.e., allocation of resources to secure a Pareto optimum—assumes the distribution of income to be given. Unless this underlying state of distribution, which verifies [≡ makes *solvent*] the pattern of consumer preferences, is considered proper [≡ just], the functioning of the competitive market as a securer of efficient resource allocation has no unique merit.

The pope is not alone; nor, "illiterate, economically speaking" (J.M. Keynes' reputed expression of the way in which he "was surprised to find the President of the United States" upon a return to London from a visit with FDR). Firmly in the realm of moral theology, we allow J.P.II to continue unaided (1 May 1991, p. 67).

> It is also necessary to help these needy people to acquire expertise, to enter the circle of exchange, and to develop their skills in order to make the best

use of their capacities and resources. Even prior to the logic of a fair exchange of goods and the forms of justice appropriate to it, there exists *something which is due to man because he is man*, by reason of his lofty dignity. Inseparable from that required "something" is the opportunity to survive and, at the same time, to make an active contribution to the common good of humanity.

Here, the principle/exigency of "commutative justice" (the "fair exchange" *qua* quid-pro-quo in the marketplace) is coupled with that (less understood) of "social (*alias* contributive) justice" (cf. Nitsch, 1998c, pp. 148-50). The more positivistic economist's equivalent/measure of "equity," of course, is "equality"; whence, we distinguish, as the first order of analysis, between equality of outcome (in terms of income, well-being, want-satisfaction) and equality of opportunity. That's what J.P.II's pontificating about in that last sentence. Strictly speaking, social justice is a reciprocal principle/exigency, viz.: (1) everyone's right to participate in the common good according to his/her needs/desires/etc.; and, simultaneously, (2) everyone's obligation to contribute thereto in accordance with his/her ability. Sounds Marxian. It is, but we'll find it praxeologically in *Acts* (4:32-37) an even 18 centuries earlier.

The Pope has been cut a bit short above; but, time and space advise leaving further pursuit of his teaching in this vein to the curious themselves. In the course of the subsequent ##, capitalism (or aspects thereof) gets its (get their) "just desserts"; and, on such as systemic alienation and exploitation, Marxism takes it licks. But, neither is an unmixed/un-nuanced blessing/scourging. Thus, in #40 (p. 78), the Pope declares, "It is the duty of the State to provide for the defense and preservation of goods such as the natural and human environments, which cannot be

safeguarded simply by market forces." The shifting duty of the State from the "time of primitive capitalism" to "the new capitalism" of the here and now are clearly articulated, viz.: from that "of defending the basic rights of workers," to that "of *defending those collective goods* which, among others, constitute the essential framework for the legitimate pursuit of personal goals on the part of each individual." In continuation —> conclusion, hark champions of the "free market."

Here we find a new limit on the market: there are collective and qualitative needs, which cannot be satisfied by market mechanisms. [—>] Certainly the mechanisms of the market offer secure advantages: [now some grist for the free-marketeers mill; whence, a German *aber*, to wit:] Nevertheless, these mechanisms carry the risk of "idolatry" of the market, an idolatry which ignores the existence of goods which by their nature are not and can-not be mere commodities.

Scoring a (qualified 1-1½ for capitalism vs. the Marxist critique/solution and Marx's analysis (*in re* alienation and exploitation in "capitalist bourgeois societies" *unter deren Produktionsweise*) in #41 (pp. 78-81), we turn to the Pope's closing of his circle (#42, pp. 81-92) and thusly return to *our* question.

42. Returning now to the initial question: can it perhaps be said that, after the failure of Communism, capitalism is the victorious social system, and that capitalism should be the goal of the countries now making efforts to rebuild their economy and society? Is this the model which ought to be proposed to the countries of the Third

World which are searching for the path to true economic and civil progress.[5]

The answer is obviously complex. If by "capitalism" is meant an economic system which recognizes the fundamental and positive role of business, the market, private property and the resulting responsibility for the means of production, as well as free human creativity in the economic sector, then the answer is certainly in the affirmative, even though it would perhaps be more appropriate to speak of a "business economy", "market economy" or simply "free economy" [etsi forte magis proprium est loqui de «oeconomia administrationis», vel «oeconomia mercatus», vel simpliciter «oeconomia libera»]. But if by capitalism is meant a system in which freedom in the economic sector is not circumscribed within a strong juridical framework which places it at the service of human freedom in its totality, and which sees it as a particular aspect of that freedom, the core of which is ethical and religious, then the reply is certainly negative.

The Marxist solution has failed, but the realities of marginalization and exploitation remain in the world, especially the Third World, as does the reality of human alienation, especially in the more advanced countries. [Marxismi solutio male dessit sed manent in mundo quaedam condiciones derelictionis (praesertim in Tertio Mundo), necnon alienationis humanae (praecipue in Nationibus excultioribus), contra quas Ecclesia vocem suam fortiter attollit.]

V. Conclusion

The guiding questions of this inquiry have been, in the light of the events of and since 1989, (1) is Marx's system doomed to the tomb with him; and, (2) do privatization and marketization enjoy Papal blessings? Answers peradventured in the light of the evidence examined and cited by way of further substantion here are necessarily provisional; still, are worth the risk. Here they are.

(1) To the extent that what is meant by "Marx's system" is the central-planning mechanism of "Real Socialism" which is on its way "down the tube" under the so-far victorious marketization; then, that is no part of Marx's vision, nothing over which he would weep, cannot be construed as his vision of that day when society's "material production is treated als Produkt frei vergesellschafteter Menschen unter deren bewuβter planmässiger Kontrolle steht." That does not describe the "life-process of society" in the USSR 1989.

(2) The Pope's position is at best/worst, equivocal/ambivalent. On privatization/denationalization, yes, he's in favor; but, the first to remind/affirm that "'of its nature private property also has a social function ... based on the law on the *common purpose of goods*'" (#30). Marketization, yes; but, within the restraints of social justice and the State as providing for those wants untended/untendable by the market.[6] This view/teaching is demonstrably Smithian (cf. *WN*, end of Bk. IV = 1789, Vol. II, pp. 42f. = 1937,pp.651f). This pope has a vision/version of future society *beyond* those of Adam Smith and Karl Marx, as I (Nitsch, 1989b, pp. 1-2 and 13 [n. 3]) once started to write.

Endnotes

[1]The author is wont to qualify "*social* Marxism" to purge the issue/conflict of its theistic/atheistic baggage. For what it's worth, Marx *was* an (and his devotees remain) atheist(s). But, he (and Engels) *did* (authored) Political Economy (*politische Ökonomie*), *not* "atheology," the science of atheism. His *Kritik der politischen Oeconomie* (1867-83) consisted in the *Aufhebung* (≡ "sublation") of bourgeois, *Vulgärökonomie*, the "classical political economy" of Smith, Ricardo, Senior, et al. It takes not long if needs be to document his metaphor about Jews clogging the pores of Polish society; nor, his caustic sentiments regarding the salvific efficacy of "the social principles of Christianity." And, what was it that he denounced as the very "opiate of the people"? Yet, he was much kindlier toward — even defensive of — the historical Jesus of Nazareth. In the case of Platonism, he once wrote (1839/1975, p. 495), the dynamic process begins with a reality (like extant Athens?) and dead-ends in an idea (the normative *polis* ≡ ideal city-state). With Jesus, on the other hand, the process commences with an idea(l) and metamorphoses into a reality. Moreover, he (ibid., p. 494) differentiated, while Plato was fully responsible for his end-product, Jesus was not responsible for extant Christianity *qua* (we may presume) that which those who call themselves Christians do — to paraphrase and coin a term (*Begriff*), *Real-christentum*. (Cp. J.P. II [1991a | 1991b, ##12-13 ["'Real Socialism'" @ pp. 27-28 | "«socialismum realem»" [= the dative case, @ p. 809] et "«socialismo reali»" [p. 810].)

[2]The expression (*Begriff*) is enthusiastically attributed to Engels, if not (as at p. 734) to Marx earlier as well. Both linguistic and further redactive/translational problems rear their heads here. For example, what Engels said is that "der Staat", when its very raison d'être ceases to exist, "stirb ab." And, when Marx is represented in the following manner, who is saying what is far from clear; to wit, we read (p. 734) "that, unlike the Anarchist doctrine of the 'abolition' of the State, according to Marx the State "withers away." Did Marx, too, say that "der Staat … stirb ab"; or, is that (which?) what Lenin (and/or his translator/redactor) says Marx *meant*? Several echelons of knowledge are involved here as in exegesis generally, viz.: (1) what actually was said in the original tongue; (2) what the speaker/writer *himself* meant; and, (3) what he uttered/wrote meant to his *listeners/readers*. Another e.g. Above I wrote, "The expression (*Begriff*)." Lenin is doing the attributing. Did he or the present writer employ the term in parentheses? What language is it? Was it (one of) Lenin's tongue(s).

[3]The first German edition cited here is that of Alfred Marshall on deposit in the MARSHALL Library of Economics CAMBRIDGE [UNIVERSITY], as examined and had photocopied by the writer on his visit there during the Spring semester of 1985. Invariably, upon that revelation, the exclamation is fired, "Did he (Marshall) *write* anything (in it)?" Yes, I reply, in a margin appears "NO!" Where? Alongside the discussion of "value," in particular "Tauschwerth" vis-à-vis "Gebrauchswerthe" at pp. 2-3; i.e., at the very outset of the opening section on "Commodities" in that opening chapter on "Commodities and Money."

[4]See esp. John XXIII (1961/1962), ##104-120 = pp. 37-42; et cf. NCCB, 1985, pp. 37-42 and 125-29.

[5]A perennial question administered on the comprehensive examination to students in our M.A. in International Relations program electing to take my course in Comparative Economic Systems for their

"ECO" posits the student as the Economics Minister of an UDC, and demands, "which of the systems/models studied would you recommend for its development and why?" Now, in retrospect, I might say, "as its path to true … progress?"

[6]Cf. my earlier conclusion (Nitsch, 1996b, p. 10) at this juncture, viz.: "It well might be that J.P.II's favorable judgments on capitalism in *CA* exceed the other sort [as per Anon., 1991, 418ff], but those 'anchi critici' are neither to be ignored completely nor overly disparaged." The "other critics", I add here, are those who essay to encapsulate in a precise manner what the Encyclical *does* say about capitalism.

In Retrospect: An Apologia / Follow-up
(Appended 24 April 2000)

In the question/comment-&-response session which followed the presentation, one of the inquisitors/commentators demanded, to the following effect: Who says/believes Marx envisioned/advocated central planning as it existed in the Soviet Union at the time in question; and, what difference does what the Pope thinks/says make? My defense was (to the effect that), I think I can show you convincing evidence, can adequately document that collapse being regarded as the death-knell for Marx's system; and, what the Pope says/thinks exerts a significant influence on millions/billions of Catholics (et al.?) around the world.

In retrospect, I might remind (and emphasize) that my paper was not prepared for that very practical/nuts-&-bolts type of session. It was prepared for one dealing with ideological and praxeologoical perspectives on economies *in* transition; and not, the $-&-¢ (actually, *Zloty* &c.) "economies *of* transition."

Now, given the benefit of hindsight, it might have done well to mention that, in the previous version/presentation of that same analysis (Nitsch, 1999), that (pesky) question never reared its (ugly) head.

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The Three Faces of John Elliott: His Contribution to Political Economy

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Abstract: John Elliott, late Professor of Economics at the University of Southern California, appears to some researchers as an institutionalist, to others as a Marxist, and to still others as a Post-Keynesian. But such labels are unable to capture the nuances of a complex and driven personality. John Elliott was all of these and none of them. He viewed the economy as a system of power and worried that the power that permeates through the economy has profound social, moral, and economic consequences that neoclassical theory chooses to ignore. An appreciation for his unique contribution to political economy requires a holistic examination of his life and writings. To do otherwise would be to only see part of the picture, just as the individual heterodox schools see only a part of the whole problem. To combat this, Elliott believed required nothing less than a unified heterodoxy.

JEL Codes: B0

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I. Introduction

In a classic article in the history of economic thought, John Elliott (1988) analyzes John Locke and pronounces that he has three faces but one common vision. For John Locke, conservatives, liberals and radicals all can see something for themselves in his writings. So too can Marxists, Institutionalists, and Post-Keynesians see elements of their analysis in Elliott's writings. Elliott views exploitation as important and discusses alienation as a common theme similar to Marxian analysis. He emphasized the importance of institutions and the historical, cultural and social milieu in analyzing a society just as institutionalists do. He was concerned about how differing expectations and path dependency can shape economic outcomes in a manner similar to that used by Post-Keynesians. In this way, each of these schools might rightly claim them as one of their own but that would be to examine Elliott as the mere sum of his parts when he is so much more than that.

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Similarly, universities recognize three ways a professor can contribute to society: first with teaching; second, with university service; and third, with research. As such, we can think of a professor as having three faces, each one associated with their contributions to society. We usually examine these in isolation. The student only sees the first, the surrounding community usually only knows about the second and, the university, for all of its lip service, rewards professors primarily for the third. It is ironic that while teaching and service are downplayed at research universities with respect to promotion, it is not through their body of research that most professors achieve a certain degree of immortality. Research is, first and foremost, something transient, conceived and recognized in the moment. It is often on a question of limited interest to the general body of scholars and only a narrow group of specialists may ever read it. Yet, it is also the primary vehicle with which we can evaluate scholars. We might wish to ask why this should be the case and not teaching, which would be the method that the general public likely believes to be the primary mission of professors. Ironically, it is the transient nature of research that is the most compelling reason for its use as an evaluative measurement, for its effects are instantaneous, obvious and can be somewhat objective measured, while service and teaching have lingering effects, obfuscated among other confounding influences, and are more subjectively analyzed. However, to truly understand a professor and his or her legacy, one needs to examine all three of his or her influences and not focus exclusively on his or her written words.

Another issue is which written words should be used to evaluate a person's contribution. In many cases, the only sources that we have are published ones. This is a good start but not the best when attempting to understand the intent of an author. The principal issue is that when one gets to the publication stage many individuals have had their commentary on the product. At times the material may even undergo such vast revision in the hands of an editor that the original intent is more difficult to discern. Editorial constraints such as the type of readership and the length of the article can make it so that the end result is not as comprehensive a vision as the original author had undertaken. Additions may be made in the name of comprehensiveness that are well known by the author but were initially rejected as not being central to the argument. In addition, controversial arguments may be watered down to please the readership of the journal. Thus a published article represents more than simply the contribution of the author but also reflects the visions of the reviewers and the editor. At the same time unfinished work often lacks polish and may be replete with errors that would be vetted during the editorial process. In the case of John Elliott, we have copies of his penultimate drafts, the ones that actually were sent off for external review. It is from these copies that the following analysis occurs. It is possible that these drafts are similar, if not identical to, the final product. However, they represent a purer form that is closer to the original author than published works would be. As such, with few exceptions, the texts

quoted are from these drafts as opposed to published research. Those exceptions are exclusively the result of a lack of primary documentation and are not because of a research agenda driven to define Elliott in a particular bent.

To provide an example of how the finished product can change from the initial submission, we can look at one work Professor Elliott co-authored with Gary Dymski of UC Riverside entitled "Capitalism and the Democratic Economy." There are numerous differences between the penultimate draft and the final manuscript that was set for publication. The originally submitted version contains a more broad-based indictment of efficiency as a criterion for establishing the primacy of the capitalist system and showcases that the focus on efficiency not only has profound implications for democratic capitalism but also for neoclassical theory but the final product downplays the second aspect in favor of the first. Efficiency as a criterion is said to not be subordinate to other goals but neoclassical analysis is not to blame. Yet Professor Elliott's original paper contains an additional point: Efficiency is a *sine qua non* not only of capitalism but also for neoclassical theory. Indeed, neoclassical theory serves almost as an apologist for modern capitalism.

This essay attempts to demonstrate how teaching, research, and university service form a triangular lens through which we can examine the political economy of John Elliott, late Professor of Economics at the University of Southern California. His value in teaching can be measured in no small part by the influence he had on his students. A large number became heterodox economists and this legacy is a testament to his desire to see economics become a holistic science. But it is not his ideas presented in articles and books that captivated and enchanted a legion of future scholars. Instead it was his style of teaching that breathed life into old masters. Professor Elliott was a soft-spoken man but when he spoke, his words were magical. Instead of simply quoting directly from great works, he urged an examination of them with an emphasis on the historical context and social milieu of the author. He looked at predecessors and antecedents of individuals to help determine where ideas came from and how they impacted future society. He often felt and conveyed to his students how authors spoke on several different levels. First, there was the message that he or she was trying to convey. Second, there was the message he or she did convey. Finally, there was the message that understood by future readers of him or her. Each could be entirely different. For example, a man like John Maynard Keynes in attempting to overturn the neoclassical system actually ended up having his work reinterpreted by John Hicks into Paul Samuelson's "Keynesian-neoclassical synthesis". However, there was a fundamental incompatibility between the static view of the world seen through neoclassical economics and Keynesianism's dynamic system. These misperceptions and surrounding inability for synthesized economic theory to explain changes seen in the 1970s would lead to a belief that Keynesianism was at fault. This indictment was completely unfair and was predicated on a long-standing distrust of Keynesianism among a group of economists who had been working to displace this alternative perspective from its insertion into orthodoxy.[1] However, the efforts of these

[1] This tension is not unlike that seen in Physics between the vision of the world as seen by Quantum Mechanics that seems to govern subatomic particles and that perspective gained from the Theory of Relativity that works on large objects. "God does not play dice with the universe" proclaims Einstein but Heisenberg's Uncertainty Principle says that it does. It seems ironic that neoclassical economics, which has been labeled as 'social physics' by Philip Mirowski, has chosen,

economists would cause a whole generation of scholars to move in the direction of abandoning Keynes. Only through efforts of post-Keynesians and neo-Keynesians might we be able to find and breathe new life into Keynes through a re-examination of his work.

John Elliott would also use personal stories to convey points. One of his favorites was his description from when he was a young starving student struggling to make ends meet with a family to support. In this story he demonstrated effectively how individuals were subordinated to the work process through a variety of cultural and socioeconomic constraints. He worked in a bottle factory for one of the major soft drink manufacturers that, at the time, was non-unionized. He was working on an assembly line, taking finished bottles and placing them into cartons for their eventual transport to market. However, he was not the most productive fellow and he was not the most gifted with hand-eye coordination, so on several occasions the bottles would fall off the line and break. His supervisor, unable to appreciate the difficulties and inherent cultural contradictions of the alienation of the worker from the work process due to the expanded use of technology, insisted that he work faster and not allow any additional bottles to be broken. At this, John Elliott turned to his supervisor and proceeded to take a bottle from the line and drop it deliberately on the floor. Thus ended his future with the company. When he went home to tell about the blow he had struck for worker's rights, his wife demonstrated a better grasp of the realities of economics than the future USC economics professor by asking, "But John, how will we pay the rent?" The next day, John went to take a job at a rival soft drink bottler doing packing of bottles but luckily that job was

like Einstein did with Quantum Mechanics, to ignore or attempt to refute any challenge to its foundational principles.

unionized and the line was sufficiently slow so he could complete the task with a minimum of bottle-breaking interruption.

Professor Elliott lectured not with notes but with the knowledge he had of his subject, which was so extensive and deeply entrenched that he could instantly turn to a section of a masterwork of economics and recite it seemingly from memory. He consistently challenged his students to dig deeper into the material at hand and synthesize various tracks from different scholars to see how an idea took form and changed through the centuries to meet each age's needs. Indeed, his instructional devotion was the principal reason for an endowed chair that bears his name, which was given to USC during Elliott's lifetime by a former student.

Elliott respected the opinions of students and never belittled them. His classes were filled with students whose opinions ranged from fascist to Marxist and everything in between. Yet throughout all of it, Elliott was able to maintain a balance where everyone's opinions were valued and all felt welcome. He did this by constantly exposing us to a variety of perspectives and showcasing the benefits and drawbacks of each. In discussing Socrates, the Scholastics, Smith, Ricardo, Marx, Marshall, or Keynes, you felt Elliott's sympathy for each perspective. By analyzing each scholar within the particular historical, social and culture milieu of the times, he brought to life the rationale for each perspective. It was not that Elliott necessarily believed that we should agree with the viewpoints of these authors but we did have to understand them and why they had those perspectives.

He was so good at bringing these individuals to life that on some days, you would really believe that he was a diehard advocate of classical economics as conceived by Smith and on other days, he seemed a devoted

Marxist. To those who had a particular outlook on economics, he could be a Marxist, an Institutionalist, a Classical Economist, a Keynesian, a Malthusian, or a Post-Keynesian. Indeed, he was all of these and none of these. Elliott believed firmly that economics was not a discipline with one solution for all times and circumstances. Instead, it was a social science that needed to take into account the social circumstances within which it was grounded. For Elliott, political economy and *not* economics devoid of social context was the order of the day.

Professor Elliott always emphasized the links between politics and economics and taught that the two could never be completely divorced from one another. This holistic approach with which he approached his field carried over into his university service. He created the Program in Political Economy and Public Policy, bringing together faculty and courses from the Departments of Economics and Political Science and the School of International Relations at USC to create an interdisciplinary Ph.D. program that would be a role model for similar programs in other universities. He was the Director of the Program from its very inception and it was clear to everyone concerned that it was a labor of love.

He knew that to make a successful program required having someone with organizational and personal skills who would share his vision and manage to shape it into a concrete reality. To that end, he hired a former student of his to be the person who would run the program on a day-to-day basis: Dr. Farideh Motamedi. If Elliott was the heart and mind of the program, Motamedi, as the Associate Director and the person who looked after the students in the program, was its lifeblood and its soul. While he worked to attract the finest students from each of the departments with his excellence in teaching, she worked to secure funding for them and recruiting outstanding new students while watching over their progress through the program. With her advice and supervision of the day-to-day activities, Professor Elliott was free to concentrate on his teaching and his research. The two of them made a team that ensured the interdisciplinary doctoral program was consistently considered a superior program of study than those offered by any of the individual departments, with a greater percentage of its graduates being placed in academic positions. Admitting approximately seven to ten students each year, students in the program consistently won a greater number of university and national awards than those in its parent departments and despite a lack of guaranteed resources accorded to the sponsoring department's students, students in the program were consistently awarded university fellowships and departmental research and teaching assistantships. Elliott's ability to keep feuding departments together is exemplified by the over twenty years of leadership he showed in building up the PEPP program. Unfortunately, this achievement would not follow him long after his death. Within a few years of his untimely departure from this earth, the program was cannibalized by competing interests in the respective departments and dismantled. Yet with his students flourishing in academic positions around the country, his legacy as an instructor should continue through them for some time to come.

Professor Elliott's skill in bridging diverse faculty interests is exemplified by his election to the office of President of the Faculty Senate and its predecessor, the University Senate, for two terms. This was quite an accomplishment since to be elected twice requires that an individual is able to not only show respect for divergent opinions but also to be able to bring together individuals with disparate viewpoints and get them to come to a consensus. With this ability, during his tenure Professor Elliott was able to strengthen the body and make it a powerful force for university governance.

Elliott's contributions go far beyond his tenure as the head of the faculty. In 1972, the University of Southern California produced a faculty handbook based largely on Elliott's efforts to ensure that the rights and responsibilities of faculty were consistently applied and known. Up until that point, "There was no single, organized, reliable, readily available booklet of official information about the faculty and its environment" (McBath 1992: 16). The creation of this handbook was a Herculean task not only owning to the required assemblage of a vast array of documents into one coherent package but also because many of the original documents were conflicting or had unforeseen issues that either were no longer applicable or now required interpretation in new ways. The result was a renewed dialogue between the administration and the faculty that solidified faculty governance in the university. Prior to that point, university administrators had the upper hand in being able to interpret clauses as they saw fit but with the birth of the faculty handbook and a realization that there needed to be consistently applied principles, the dynamics changed to one of a balancing of power between the realm of the faculty and that of the administration.

In the 1970s and 1980s, Elliott also led the countermovement to a push to eliminate tenure. However, instead of working to defend the *status quo*, Elliott incorporated the legitimate objections to a system of lifetime job security into a definition that would protect the essential characteristic of tenure: allowing the free expression of ideas by faculty members. These safeguards that were put into place included a requirement for prior notification of possible sanctions against the faculty member and the ability to rebut specific allayed charges in a form of an academic trial by one's peers as opposed to a unilateral decision undertaken by management (McBath 1992: 17-20). These activities speak to a man concerned with process as well as outcome, to a man who embodies the principles of the professorate but understands the needs of administration. McBath (1992: 24) quotes Doyce Nunis Jr., a faculty member in the History Department of USC, "John has been the soul of the Senate, its conscience and intellect. Through his many years of work, he has helped mold the Senate into a major institution. . . . His calm in a difficult situation was like an oasis in the desert. His rational mind was a marvel to behold. Above all, John was deeply committed to the principles of academic freedom and responsibility; these were inseparable in his outlook."

Elliott also attempted to ensure the preservation of representative democracy in student governance, interceding on one occasion to prevent an internecine conflict that had the potential for setting back the role of student representation on the advisory board that oversaw the Political Economy program. When a group of students came to complain about how their students representatives were not representing their views on the advisory board, Elliott had the existing student representatives brought in to a discussion of their failures to adequately represent the interests of their fellow students. However, instead of having the representatives stand down and cause a major friction within the program, he had them continue in their positions and allowed them to save face and return to the board as student representatives, instead of advocating for their own personal interests. Throughout all of this, he remained a soft-spoken and well-liked man of few words but with each word spoken conveying great meaning.

It is with this background that we can examine his scholarly work, for it helps us understand why Professor

Elliott chose the various subjects that he did and how his insights into the works were formed. With John Elliott, the history of economic thought was not a dead field but a vibrant one that was reinvented every time a scholar reexamined a work through the eyes of his or her age. Books spoke to him in a contemporary language even when they were hundreds of years old. That he was a great scholar is shown by the ranking USC held in the area of History of Economic Thought. Although he was the only scholar working in the area at the university, at the height of his career USC was ranked number nine in the country in the sub-discipline, the only time that the university reached a top ten ranking within an economic sub-discipline. No other individual scholar in the Economics Department at USC had such an impact in his or her area of specialty, even with the Department counting among its professors the likes of Richard Day and Richard Easterlin. Indeed, at the time of his death, John Elliott was considered by many of his peers to be one of the top five historians of economic thought in the world.

We can evaluate a person's work using two different methods. First, and most obvious, we can examine the works themselves. However, a second method, little used in modern parlance, would be an evaluation of the subjects on which the person chose to work. Certainly, given the limited time and energy that an individual can devote to a topic, the choice of topic can rival the analysis in the article in importance. Certainly this should be especially true when evaluating someone whose principal contribution is one of synthesis and not of discovery. Elliott is not a theoretician nor is he an empiricist. Instead, he belongs to a third tradition of scholar, one that has been given short shrift in recent years: the interpreter/synthesizer. His work consisted of putting "old wine in new caskets" in interpreting the works of the past in light of present needs, with an eye to the promise of the future. He also was able to command a great knowledge of a vast number of works to demonstrate how ideas changed over time and how to relate contemporary issues to those that were of concern to past writers. Indeed, his greatest contributions lie in re-examining old works for how they may be relevant in the modern era and how pieces that have been long overlooked in a classic work showcase that modern scholars have misinterpreted them for their own ends. His research was specifically concerned with two prominent questions: the first was one of power and the second was of the interrelationship between capitalism, socialism, and economic progress, not from an efficiency criterion but from a moral and ethical perspective.

II. THE ECONOMY OF A SYSTEM OF POWER

Much of his work centered on the notion of the economy being a system of power. He would return to this concept in several papers throughout his lifetime. In "Adam Smith's Conceptualization of Power, Markets, and Politics" written in 1999, he looked at the writings of the creator of economics to demonstrate that, for Adam Smith, power was an inextricable part of economics. According to Elliott, Smith can be used to criticize neoclassical economics in two ways. First there is an extrinsic criticism that can be leveled because:

> the assumption of perfect competition envisions an economic world in which each individual provides such a small proportion of the total supply of or demand for outputs and inputs that it exerts no appreciable impact on or power over any other individual competitor, aggregate demand or supply, or to the broader social or political environment. Hence, power is conceived as external to or beyond the scope of . . . economics. By contrast, Smith's argumentarium incorporates, indeed features, causes and consequences of the pursuit and exercise of social power by individuals, organizations, classes, and governments…. (page 44)

However, there is also an intrinsic criticism that can be dispatched against modern neoclassical economics that it manifests a "logical or internal flaw. Market exchange and power, Smith believed, are interdependent, not separate topics…. [H]e believed that market relationships are both spontaneous and conceptual, that is, that they *presuppose a just social order, including therein systems of public law and policy which foster fair dealing in market exchange."* (page 45, emphasis added). Since power could not be separated from market exchange, Elliott argues that Smith did not have a "timeless" theory but one that was bound by the social relations and realities of the time. He would later state in "Adam Smith's Modes of Social Organization", that "Adam Smith, especially in his more practical or empirical moments, development and presented his arguments contextually, that is, in the context of his views of power, social change, and modes of social organization." (page 12). Indeed, it is only when we view Smith's argument in this context, Elliott would argue, that we can discuss the invisible hand concept properly.

Elliott also made a major impact on the study of Marx. In his "Alienation, Freedom, and Economic Organization: Marx Rejected, Embraced, and Ignored", Elliott challenged the interpretation of Edwin Dolan and other modern scholars that, for Marx, alienation is peculiar to private property under capitalism. Under that interpretation, Marx's analysis of alienation is circumspect because it does not account for the fact of alienation under the old Soviet system but Elliott points out that under the Soviet system, control of the means of production was still in the hands of a small group of citizens and not in the hands of the workers. Indeed, once again, to Elliott, the problem is one of power, not the type of economic relations, for the concentration of control in the hands of a few leaders of the Communist Party belies Marx's discourse on the "withering of the State". In some ways, this analysis suggests that Marx presages the institutionalist issue of the separation of control from ownership. Although the ownership of the means of production rested with the state and though the members of the proletariat were theoretically the owners through the state, the control of the concerns lay with the Communist Party, which was independent of the Proletariat:

> Marxian socialism would be characterized by the (social) ownership and control of the means of production by the working class (and effective citizen control over selection of political leaders, determination of social goals, and formulation of economic plans) – vague though this conception may be – and not simply by "socialized ownership," certainly not merely government ownership (page 3).

Alienation is not merely characteristic of Marxian socialism but, for Marx, is a fundamental part of the first stage of communism, which retains "in every respect, economically, morally and intellectually, the … birthmarks of the [capitalist] society from whose womb it did emerge." (Marx in *Critique of the Gotha Program* 1875 as quoted by Elliott (page 7)). Thus Elliott showcases the development of communism as having an evolutionary characteristic and highlights that the systemic differences between the various systems may not be as great as it first might seem. The key is that all of the world's politico-economic systems cannot be divorced from their power relations and it is this distribution of power, not mere ownership, which lies at the crux of the problem of economic relations.

In "Economic Transition as a Crisis of Vision", a manuscript co-authored with John Peters and Stephen Cullenberg, Elliott once again looks at how modern economic theory misunderstands contemporary reality in that it strips out from classical economic theory all of the social and political implications that run through it. General equilibrium theory in its Arrow-Debreu formulation is seen as an ahistorical, ainstitutional static mechanism by which equilibrium instantly is created. This is in sharp contrast to the gradual tendencies towards equilibrium seen in classical (including Marxian) economics as well as Keynesian and institutional economics. In this heterodox tradition, equilibrium is shaped by the institutions, historical realities, and power structures that pervade every politico-economic system. Thus a reliance on neoclassicism, if that theory is inaccurate, will cause deep social rifts and will result in a process that does not solve the problem it purports to solve. Indeed, as pointed out by Peter, Elliott and Cullenberg, shock therapy shocks without providing therapy for these sick economies:

> While the classicals acknowledged and discussed the issues of power, the creative and dynamic role of markets, the exploration of profit opportunities, history, and institutions, all of these issues are assumed away, or at best given minimal importance in neoclassical general equilibrium theory. And because it is an Arrow-Debreu general equilibrium vision of the world that underpins shock therapy on a theoretical level, it is little wonder why mainstream Western economists were often ill-equipped to offer useful advice to policymakers confronting transition in

> their own economies. . . . The failures of shock therapy demonstrate the need for a better economics (page 29-30)

Indeed, for Elliott, neoclassical economics is an experiment gone awry. In trying to "prove" classical theory, it has stripped it of its intellectual underpinnings. Much of classical theory appears uncertain in its prescription to a mathematically logical mind precisely because it takes into consideration history, institutions and power. As such there are few universal precepts but rather universal tendencies. Modern economic theory strips us of the tendencies by assuming away time, thus allowing for immediate convergence to an equilibrium that the classicals saw always and forever as a goal of markets as opposed to a result. Institutions, power dynamics and history, which serve to shape equilibrium in classical thought because subsumed and are generally thought to be impediments to properly functioning markets. Worries about income distribution and their role in society have no bearing in neoclassical visions. Indeed, disparities in income and initial endowments create opportunities for wealth creation but the converse that such disparities also wreck havoc with the social order are not addressed by neoclassical commentary.

This concept is visited in a book review that Elliott (1994) wrote for History of Political Economy on the book "Ricardian Politics." In that context, Elliott notes that both David Ricardo and James Mill examined the crucial question of voting rights among various economic classes. While one of the primary concerns among earlier political economists was one in which the various economic sectors of society would class with one another (a refrain still heard in the public choice school of political economy), David Ricardo argued that workers, capitalists and landlords shared a common

interest in maintaining capitalist society. However, he argued that the non-working poor should be kept from the franchise because of their inherent antagonism towards those who had wealth. As Elliott puts it:

> By skillful use of hitherto neglected primary source materials, Milgate and Stimson have recovered a richer and more authentic view of David Ricardo, enhanced our understanding of relationships between political and economic history and institutional change in early nineteenth-century Great Britain, deepened our insights into the intellectual history of political economy and provided additional argumentation and evidence for systematic evaluation of the uneasy relationship between democracy and market capitalism (page 518).

Lest someone think that this is mere reporting as opposed to analysis, this contrasts with Elliott's 1982 review of *Social Darwinism: Science and Myth in Anglo-American Social Thought* by Robert Bannister in which he states that:

> One may—like the present reviewer (possibly afflicted by the residual effects of a youthful overdose of the 'myth' of social Darwinism) resist the thrust and some of the conclusions of the author while enjoying the story, admiring the painstaking care with which evidence is marshaled, and applauding the skill with which the arguments are presented" (pages 134-135).

It is clear from the above that the analysis in the former work is consistent with the opinions of Elliott while those of the later work are not. Yet, it is equally clear that

Elliott respected and admired the work of those whose opinions were diametrically opposed to his.

III. Moral and Ethical Progress Under Capitalism and Socialism

For Elliott, a second important question was how to inject morality and ethics in a capitalist and socialist economy. This is one of the reasons that Elliott takes both capitalism and socialism to task in “Alienation, Freedom, and Economic Organization: Marx Rejected, Embraced, and Ignored” when he discussed the fundamental tension between Marx’s desire for democratic participation in the work process and the resultant alienation from the work process experienced by workers under Soviet-style state capitalism.

Similarly, Elliott argues that neoclassical economics has forgotten its roots in the work of a moral philosopher whose major contribution at the time of his death was not thought to be The Wealth of Nations but The Theory of Moral Sentiments. For Smith, as well as Elliott, morality cannot be divorced from economics. Although it is competition that allows us to transact business without worrying about the baser instincts of others (indeed, it is the appeal to their baser instincts that allows capitalism to work), it is only within a context of socially derived norms of behavior that capitalism can work.

Similarly, for Elliott, one does not check one’s rights at the door of the factory. It is not that we sell our labor nor ourselves for a wage, it is that we sell our labor-power. In Elliott’s work with Barry S. Clark entitled, “Efficiency and Collective Action: The Contribution of Richard Henry Tawney,” this point is made most clear. The transactions costs approach emphasized in Coase’s “The Theory of the Firm” and followed through by subsequent economists is based upon a fundamental misperception of the nature of property rights; that being

the mistaken belief that “the nature of the production process is . . . independent of the distribution of ownership of productive property (page 3).”

The radical critique emphasizes that *contra* Coase and the neoclassical economists, efficiency and profitability are not always the same thing. Instead, disparate power in the workplace may improve profitability at the expense of efficiency. Thus if the workers owned the process, there would be less incentive for them to work inefficiently but with owners of capital receiving the benefits from the work process (i.e., owning it), it is necessary for those owners to maintain control over it through the use of managerial personnel and large-scale oversight. These mechanisms reinforce and engender racial, ethnic, and gender-based discrimination because of an inability to separate workers based on ability and cause skill-mismatching and increase hierarchical inefficiencies. Why don’t owners of capital simply dispense with this if it is not profitable? Well, it is profitable. Indeed, radical economists agree that the marginal revenue contribution of an extra bit of managerial control is made just equal to the marginal cost in capitalist firms. However, because the work effort is not divorced from production, worker resentment can cause a lowering of productivity when such controls are in place and this would not occur in a more democratic worker-owned and controlled system. Thus, Samuelson’s 1957 argument as quoted by Elliott that “it makes no difference if capital hires labor or the other way around” is not only misleading but wrong.

This fundamental disagreement comes from a difference in definition of efficiency. For radicals, cost-minimization is not the goal; input-minimization is:

> Although hierarchical control may succeed in minimizing per unit costs through extracting more work effort and energy from productive

> employees, it actually results in a net increase in labor input by imposing additional supervisory personnel and by preventing the adoption of more efficient technologies. Thus, while hierarchy may be compatible with the cost-minimizing efficiency which is enforced by the market, it simultaneously may violate a broader notion of social efficiency which seeks to minimize the number of labor hours devoted to the production of any particular product (page 5)

In addition, there is the problem of whether or not the nature of ownership alters labor productivity. Elliott and Clark argue that Tawney extends this debate in several dimensions. First, there is the issue of efficiency itself. To Tawney, efficiency cannot be divorced from its social context. Therefore, if the gains from increased productivity accrue to the owners of the corporations and are not shared with the workers, the workers face a dilemma. They lose their jobs during bad times but are not rewarded during good times. Thus the additional effort that they expend is limited. As Elliott and Clark put it:

> allocative efficiency and justice are inextricably interwoven. Because any particular "efficient" resource allocation and composition of output cannot be conceptually identified apart from an associated distributive pattern of wealth, class, and power, and because any given resource allocation may serve to reinforce that distributive pattern, many Pareto-efficient solutions may be rejected as socially unjust. If a particular resource allocation, based on a highly unequal pattern of resources in ownership stimulates a reduction in efficiency (as, for example, when blatant inequalities so aggravate widespread views of social justice as to cause greater shirking by workers), "efficiency" may be said to beget inefficiency (page 8).

Elliott and Clark argue that, for Tawney, efficiency cannot be the sole criterion for organizing society because to do so would require autocratic government since, by definition, it is more efficient to have a small number decide on matters of policy than a large number. However, to do so would override the central goals of liberty and democracy. Similarly, when there is great inequality in society, it causes social instability. For Elliott and Clark, the central problem that Tawney associates with neoclassical economics is that it is ignorant of time, society and history. Thus, what is efficient at one time may become highly inefficient in another. To use another example, if I have a lot of chocolate cake, it may be allocatively efficient for me to consume it and given my individual desires, it may be rational to consume such cake. However, it will lower my life expectancy. At some future point, it now becomes clear that I must diet and so I do so. However, if instead of the chocolate cake, I had eaten fruit (which I love nearly as much), I would be able to forgo dieting later and be much healthier for it. Similarly, if in the future, I make a discovery that increases my wealth, I may be much more interested in taking good care of myself but the damage already inflicted may be too great to overcome. At the same time, eating large quantities of chocolate cake probably reduces the probability that I will make such a discovery (I spend my money on chocolate cake instead of on furthering my other goals such as making such a discovery). In that case, the eating of chocolate cake as economically efficient behavior is simply a foregone conclusion.

An additional problem is that social cost for neoclassical economics is merely the summation of individual desires at the time; therefore, it is impossible to reconcile this with the needs of a dynamic society. Society is not the mere summation of individual utilities, it is more than that. Since individual beliefs are created via society, society shapes the utilities that individuals receive. Since property owners lack any meaningful context for their increase in wealth and since they become increasingly concerned not with advancement of progress but with maintenance of position, they lose their *raison d'etre*. At the same time, workers who are not receiving benefits corresponding to their work effort will not realize their potentials and their ability to perform work will become degraded. Simply put, property rights cannot be separated from the societal context and "[o]nly when arbitrary power and functionless property have been abolished will society be genuinely efficient in both formulating and fulfilling social purpose" (page 13). Thus, one of the principal moral and ethical problems of capitalism is that it treats individuals as machines when they are not. This has a profound impact on society in both the long and short term but also on economic output and efficiency in the long run.

IV. Towards a Unified Heterodoxy?

Professor Elliott saw two major defects in neoclassical theory and sought solutions outside of it. First, the absence of power in neoclassical analysis belies a normative view of how relations *ought* to be instead of how they actually are. In this respect, neoclassical economics suffers from the very defect that it often levels at other perspectives. Second, that this power has dimensions that have moral and ethical implications. Within this realm, he found partial solutions within the economic schools of institutionalism, post-Keyesianism and Marxism. However, these three faces of John Elliott still speak with one common vision, just as the three

faces of John Elliott come together as a blend and extension in what Elliott termed "Liberal Locke." The answer to this paradox is found in one of Elliott's articles: "Institutionalism as an Approach to Political Economy."

Elliott believed the principal reason for the entrenchment of orthodoxy was that it was dealing with the heterodoxy as individual radical "anti-economists" instead of as a unified vision of an alternative economics. To the extent orthodoxy acknowledged these challenges, it sought to incorporate them through minor changes in its own approach.

Nowhere is this complaint about the heterodoxy more evident than in his "Institutionalism as an Approach to Political Economy" wherein Elliott argues that institutionalism has three major defects: first, it is insufficiently institutional in its practice as compared to the vision of its founder, Thorstein Veblin. Instead of examining the broad range of institutional arrangements in the full context of differing times, societies, and cultures, institutionalism remains, for the most part, an American tradition concerned with the unique aspects of the American system of capitalism much as the German Historical School principally concerned itself with the history under which Germany found itself.[2] This parochial nature belies the fact that institutionalism has, in theory, much in common with the sweeping analysis offered by Schumpeter or Marx, both of whom offered much more in the form of institutional analysis when compared with most institutionalists. Thus, institutionalism suffers from a classic defect in that its members, instead of fulfilling the promise of their heritage, spend too much time making invidious distinctions between themselves and neoclassicals when they themselves have failed to develop the general

[2] One major notable exception to this is found in the work of Geoffrey Hodgson, Research Professor at the University of Hertfordshire.

evolutionary institutional theories that they claim to be seeking.

For Elliott, the solution to this dilemma is a grand union of heterodoxy. For the most part, the heterodoxy, far from being at odds with one another, are united on key principles involving the need to analyze everything in terms of institutions, power, and class as well as from a normative perspective of improving the human condition. Indeed, the principal differences between Marxists, Institutionalists, Neo-Keynesians, and Social Economists lies in their emphasis on various constituent parts of this holistic approach as opposed to the neoclassical perspective that one can simply assume them away. It is made even more difficult because when confronted with evidence that is contrary to its predictions, neoclassicism simply chooses to ignore it a la Einstein's "If the facts don't fit the theory, change the facts." Numerous inconsistencies, ignorance of underlying conditions and mathematical errors plague orthodoxy (Keen 2001; Mirowski 1992; Kaldor 1972; Robinson 1972) but without a unified front, the heterodoxy is ignored and marginalized. As Elliott put it:

> If economists in the institutionalist tradition were to establish closer connecting linkages with Schumpeter, Marxian studies, and such contemporary economists as Michael Kalecki, [Joan] Robinson, and Piero Sraffa, the resulting interaction could well approach what a resurrected Veblen might call a Grand Union of dissenting perspectives; and one wonders whether *that* might not be more than the economics profession, if not Western society, could reasonably absorb….

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Major Douglas in the Witness Box: Sparse Reflections on the Heresies of Social Credit

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Abstract
Major Douglas and his proposals of social credit belong to a family of phantasms that inhabit recondite library stacks. They owe oblivion to the verdict of history and to their own nature–often, an uncouth admixture of unerring hunches and fallacious patching; yet, because of the recrudescence of ills they sought to redress, such cranks and their bags of reforms have been capable, in the course of two generations, to resist an overwhelming tide of triumphant forecast on the part of capitalist apology, and haunt posterity in the midst of unsolved issues, such as that of money, and the just ways to effect its distribution in a cohesive community. The purpose of the present study is to canvass the monetary tenets of Social Credit, as they were formulated by Douglas and his following before WWII, with a view to inquiring anew into the nature of the medium of exchange, and the fashion in which it shapes economic life.

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1. Introduction

[His Majesty] was still at a loss how a kingdom could run out of its estate like a private person. He asked me, who were our creditors? And, where we found money to pay them?
Jonathan Swift, *Gulliver's Travels*.

Said Paterson in his manifesto to prospective shareholders [of the Bank of England], "the bank hath benefit of the interest of all moneys which it creates out of nothing."
Ezra Pound, *A Visiting Card*.

Particularly in regard to finance, which may be termed the nerve system of distribution, most people hold, with some persistence, ideas which are both incorrect and misleading, and are supported in their disinclination to change these views by sectional interests of great ability in the attainment of their objectives, which superficially seem well served by the prevailing ignorance.
C. H. Douglas, *The Monopoly of Credit*.

In the reformatory ferment of the nineteen twenties, while the German-speaking pessimists had found in the prophet of perishable-money Silvio Gesell "the incarnated theory of interest,"[1] the English-speaking deprecators could claim an economic avatar of their own in the figure of Major Douglas. The man is enshrouded in mystery. His curriculum vitae is misty and torn by lacunae, which, ever since Douglas's rise to public acclaim, begged for suture, but never received it. Like one of those irresistible Bogomile heretics, he, no longer youngest, sprouted one day in humus of chaos, and made converts in the span of a fortnight. A doctor Young, a favored pupil of Jung, once met Douglas and averred that his was "the walk of a paranoid." He, like Gottfried Feder –the economic tutor of Adolf Hitler—,

[1] For an exposition of the ideas of Gesell see Preparata & Elliott (2000; 2004).

was an engineer by profession. After a rather anonymous beginning lost amid peripheral participation in a number of large projects (including an irrigation plan in India), the Great War changed his fortune. In 1916, he "was taken on strength at the Royal Aircraft Establishment, Farnborough, and quickly promoted to major" (Finlay 1972, 92). While stationed at Farnborough, he busied himself with the costing of the Establishment. At a friend's instigation, he got some tabulating machines and began to question the ciphers of accounting synopses. And "one day," he chanced upon something. As in those tales of magic, wherein a rambling soldier with a heavy conscience inadvertently stumbles upon what he later discovers to be the bowsprit of a buried galleon, Douglas had come across a sooty splinter of truth.

> One day it struck him, with regard to the figures on those cards, that the wages and salaries did not represent at the weekend the value or the price of those goods produced (Finlay 1972, 98).

Douglas was about forty years of age. Thenceforth, he began to write and diffuse published material about the "things" he had intuited. He experienced instant success and made a number of precious, as well as vocal, conquests, the most notable of which was poet Ezra Pound. In his pantheon of revolt against the modern world, Pound lodged the icon of Douglas next to that of Silvio Gesell, whom he also deeply admired – a fact spurned by other "social crediters," who saw in the *Natural Economic Order* of Gesell, a scheme totalitarian in nature, and, most displeasing, a reform in competition with theirs.

In spite of the reformer's popular appeal, Douglas's social credit ran afoul of political jealousies and suffered the rejection of the Labour Party–a shock to Douglas, which he took in with difficulty. As time went by, the enthusiasm and popular esteem surrounding the major gradually waned. Because they have led battles for this worldly world, all heretics seem to be fated to departing with a sacrifice consummated with a symbolic vengeance upon their *flesh*. Morosity gripped a leg of the late Douglas and had to be amputated. He died in 1952, "a lonely and embittered man." Throughout his reformer's career, he wrote several books, and his followers, no less mysterious, recycled the selfsame ideas in innumerable variants. These works all contain an impassioned call to awake the layman and make him advert the working of money in the financial sway of the machine age. The quality of the discourse is a mirror image of the authors. It is the amateurish cry of a sect and its leader, who, once, at forty, already punctured by doubt, *saw* in the recesses of the Farnborough hangars *something*, and wanted thereafter to warn every one of the existence of this "something."

2. In the Witness Box

That he had caught sight of an important phenomenon, however imperfectly, could not have found a more patent confirmation than in the resented incapacity on the part of the oligarchy to give this crank the silent treatment. The British establishment decided to size up the opponent, and by giving the major a hearing before the Macmillan Committee, on May 1st, 1930, it publicly acknowledged the threat represented by the pamphlets of social credit. McKenna, chairman of the famed Midland Bank, and Keynes himself were among the "interrogators."

4485
Question: If you once raise the volume of credit to whatever level may be required by your profit in

relation to the volume of production you have only to go on increasing it in proportion as production increases?
Answer: No; there are all sorts of questions that would still arise. The question of turnover, depreciation and the fact that the purchasing power of credit, or whatever you like to call it, which has been transformed into price values of fixed assets in the industrial system would in existing circumstances have to enter into the costs of the goods – and cost items of that type would always raise the price of the articles above the amount of purchasing power.
4486
Question: And if in the interval you had to have new machines to replace the old ones you would have to have individuals to produce them. How does that differ from any other form of consumption?
Answer: Because you are not starting from zero. You are starting from the world as it is.
4487
Question: How does that bear on the matter?
Answer: It bears on the matter that you have a tremendous amount of real capital which at the present time is creating prices and which has not contributed anything like that amount of purchasing power.
4488
Question: Do you mean that the receipts of capital are greater that the amount it pays out in dividends?
Answer: Yes; that is an obvious state of fact; the accounts of any company will show that.
4489 (Professor Gregory)
Question: what happens to the difference?

Answer: It is represented by the fixed assets in the company which it cannot distribute in the form of money.

4490

Question: It does not distribute it to its shareholders, but if a company earns £100,000 in one year and puts £50,000 towards increasing its plant does not that £50,000 flow out in additional wage payments?

Answer: No, that does not happen at all. What really happens is, that during a given year's working it is necessary to create a number of things like tools, or jigs, or something of that sort, which must be charged in the cost of the product to the consumer. The same result is obtained if profits are invested in new tools.

4491

Question: that is perfectly true. What I am asking you is this: when a motor-car company makes new patterns, and so on, it has to pay for other things; consequently it does not flow back to the consumer?

Answer: No, it does not flow back if it is charged to its fixed capital. A company at the end of the year shows a profit of, say, £10,000. We all know perfectly well that probably £8,000 of that is in fixed assets. It distributes of that product £2,000 in the form of dividends; it is quite obviously only distributing £2,000 out of £10,000 which appeared in prices.

4492

Question: what happens to the £8,000, which it does not distribute?

Answer: That is in the form of fixed assets, which it is incapable of distributing except by getting a creation of credit to distribute them.[…]

4494

Question: It has made £10,000 of profits?

Answer: Of course it has made 10,000 assets. This is jumping from the money to the goods all the time: it has made certain prices, things to which you attach prices and which are valued in assets at let us say £8,000. But the money portion of those assets does not amount to £10,000, and it has already recovered the cost of them from the consumer. It is exactly the same thing as going to a man who has had 30,000 acres of land left him by will and saying "That is £1 an acre; now you have got to pay £10,000 in death duties." The man has not got £30,000. He has got 30,000 acres of land which has a price of £1 an acre. He has not got £30,000.[…]

4498

Answer:…If the [workmen] carry on the business on orthodox business lines the cost of [their product] will consist of at least three items: (i) wages, (ii) raw materials, (iii) rent of factory…We will suppose for the moment that they get their raw materials for nothing and that the "rent" of the [factory] is nothing but an appropriation of money of such amount that when the [factory] eventually falls down they will have got back their [a given Pound Sterling amount]. it is technically called "depreciation." Since the public get [the product of the factory], clearly they ought to pay "depreciation." Notice, therefore, that neither interest - i.e., "usury" – nor dividends, nor land monopoly are imported into the question. But the simple and vital fact remains that the wages paid during [production] are less than the price of the [product] by an amount, large or small, which is added to the cost of the [product] before the [product is] sold, representing, at least, "depreciation." This amount which is added to the

cost of the [product] represents overhead charges in their simplest form, and in many modern productions overhead charges are between 200 and 300 percent of the direct cost of the product. It is *not* profit.
4499 (Mr. Keynes)
Question: By whom are the overhead charges paid?
Answer: They are put into the cost of the product. They are not paid to anybody. They have in previous cycles of production appeared in the cost of the factory.[…]
4409
Question: I understood you to say that credit would be supplied to the manufacturer, and then you said that there would be no inflation on account of the fresh bank credit created, because the price would be less. I assumed he must get his credit free, in order to produce at no greater price; in fact at a less price.
Answer: The credit which he would get would be to make up the difference between what he would normally charge for his article at the present time, and which, by hypothesis, is too high a price for the consumer to pay, and the lower price which he would be able to pay.
4410
Question: I see; but does he not get it free? If nobody pays for it he must get it free.
Answer: I am not clear as to exactly what the point is. He is really getting his present price, which he arrives at by ordinary cost accounting methods, from two sources instead of one. At the present time he gets the whole of that price from the public – the consumer. The suggestion is that he now gets his price from two sources, one of which is the credit source, and the other is the public – the cash source.[…]
…………………………………………………………
…………………………………
4545 (Chairman)
We are much obliged to you, Major Douglas, for coming this afternoon.
Answer: I am very glad, sir.
(Hiskett, 1935, 38-39; 63-78).

What Major Douglas had seen was the systematic discrepancy between purchasing power – the people's incomes – and the value of production – i.e., the price of all wares multiplied by the respective quantities. The former seemed to trail permanently behind the latter. The discrepancy was to his eyes a purely monetary one, for prices are fixed according to the linear patterns of accounting. One has to consider the difference between what flows into the workers' pockets and what is asked of them by producers through the selling price. In the costing and accounting offices of the great combines, the Major argued, it is plain for everyone to witness the formation of an article's price: to the direct cost of production, such as wages, are added up components that allegedly are sheer numerary additions that correspond to no distributed income whatever *in the relevant production-sale period*. This intuition came to be defined as the *A+B* Theorem.

Payments may be divided into two groups: Group A – all payments made to individuals (wages, salaries and dividends). Group B – All payments made to other organizations (raw materials, bank charges, and other external costs.) Now the rate of flow of purchasing power to individuals is represented by A, but since all payments go into prices the rate of flow of prices cannot be less

> than A + B. The product of any factory may be considered as something which the public ought to be able to buy, although in many cases it is an intermediate product of no use to individuals, but only to a subsequent manufacture; but since A will not purchase A + B, a proportion of the product at least equivalent to B must be distributed by some form of purchasing power which is not comprised in the descriptions grouped under A. It will be necessary at a later stage to show that this additional purchasing power is provided by loan credits (bank overdrafts) or export credit (Douglas 1935, 68).

When this rudimentary theorem was first enunciated in his second book, *Credit-Power and Democracy*, it was immediately questioned upon the precise nature and definition of these phantom 'B payments'. Weren't these payments made to a party at some point in time, and wasn't purchasing power thereby adding up, still, to the square amount necessary to buy the entire production? As one unsympathetic heterodox thinker suggested, this view of the 'socreders' was but a confused recrimination, couched in pseudo-scientific form, against a distribution of income strongly skewed in favor of financial interests, which received all the so-called "bank charges" – purportedly, the bulk of the B payments (Soddy 1933, 75). Only this much could be conceded to the Douglasites; as to the concrete "vanishing" of a sizable quota of purchasing power, there was no question – that was the double-vision of incompetence.

Douglas and his associates immediately circulated a defense against this recurrent attack.

> It is true that B payments (raw materials, bank charges, external costs) represent payments of wages, salaries and dividends, but it is untrue that this purchasing power is still in existence. A closer scrutiny reveals that these B payments only *represent*, they do not *constitute* wage, salaries, and dividends. Except for the profit of traders immediately receiving them, they consist wholly of replacement credits which merely transfer goods and debt and pay off and replace older credits outstanding. They are not fresh disbursements of income to anybody (H.M.M. 1935, 10).

This addition to the theorem was then called, with a modicum of supererogation, the theory of "the rate-of-flow." Drawing analogies from elementary calculus, Douglas laid stress upon the dynamic nature of industrial processes and remarked how remittances made against services (the simplest case being that of wages) during a lengthy productive process, may not be available, in the form of fresh spendable (purchase) money, when products finally leave the assembly line and are offered for sale to the consumers. A wage payment is a flux; it is akin to a derivative – an amount per instantaneous unit of time. The actual price, instead, is the integral sum of all such flow payments over the duration of the process. When goods were completed, so ran the argument, the current flow was obviously unable to match the sum, which included past accretions in the form of original investments. Douglas labored the point with several examples. Here is one instance:

> If we consider the case of a workman earning, let us say, £ 5 per week, who saves £1 of this and at the end of a hundred weeks subscribes for shares in a new manufacturing company, the effect is not hard to trace. The original £ 5 per week was wages paid to the workman, and these wages were, by the orthodox costing system, debited to the cost of the articles produced by his employer.

> Eventually, due to his saving, these articles cannot be sold, as a simple arithmetical proposition shows, since he has taken 20 per cent of the necessary purchasing power off the market. His investment of this 20 per cent we may assume results in the manufacture of machinery in which his £ 100 again reappears as wages. Assuming that no physical deterioration has taken place…, the 20 per cent deficiency in the first cycle has now been restored, and the original goods could be bought. But the machinery which has been made in the second cycle of production is now a charge on further production for which no purchasing power exists. This proposition may be generalized as follows: *Where any payment in money appears twice or more in a series production, then the ultimate price of the product is increased by the amount of that payment multiplied by the number of times of its appearance, without any equivalent increase of purchasing power* (Douglas 1933, 34-35).

This illustration is a restatement of the declarations made before the Macmillan Committee, *sub* entries 4486 and 4487 (see above). Thus, from the Major's hearing and the previous quotes, it appears that Douglas has three, tightly connected, monetary phenomena in mind, when he speaks of B payments. These would be: 1) the charges stemming from saving and loaning; 2) interest payments, and 3) depreciation allowances.

3. Saving and the A+B Theorem

> Just as the manufacturer only receives a loan from the bank, which has to be repaid, so also does the workman, who is paid by this manufacturer, only receives a loan in the form of wages, which loan is repaid by him in the form of prices (Douglas, 1935, p. 26).

If the foregoing statement by Douglas is true, then it appears that money has not been circulated "properly." A belated equilibration of savings and investment –that is, commuting the one hundred pounds saved by the laborer into shares (or any form of **loan**) would, according to Douglas, achieve two things: 1) it would, *assuming that the goods do not depreciate in the second period* (machinery is being built), enable the manufacturer to sell the whole of his production and thus repay *his* loan (to the bank) in full, and 2) it would create a new loan (the banking system, entrusted by the laborers with their savings, brokers the money to a second manufacturer), which, however, cannot be reimbursed *at once* for all the cash that circulated in the economy found its way back to the bank after the initial loan (of £500) had been repaid. In other words, the goods produced with the £100 investment (in this example, machinery) will, after a number of periods, be available for consumption, without there being any *cash* in the public's pocket to purchase them. For that amount of money has indeed flowed in the second period, say, as wages paid to some entrepreneur, who used it to purchase the unsold portion of goods: when the entrepreneur will have completed the machine, the £100 he had received have already flown back to the bank, via the original manufacturer that was indebted to it. The sole traces of *thrift* in the system are the savers' *securities*, which are *not* cash, but only a paper evidence of debt. The swelling portfolio of such securities act as a 'counter', that is, an accounting record, of every "round" of exchange completed by the original cash issue extended by the banking industry.

> The mill will never grind with the water that has passed, and unless it can be shown, which it

> certainly cannot be shown, that all these sums distributed in respect of the production of intermediate products are actually saved up, not in the form of securities, but in the form of actual purchasing power, we are obliged to assume that the rate of flow of purchasing power derived from the normal and theoretical operation of the existing price system is always less than the generation of prices within the same period of time (Douglas, 1935, p. 70).

Let us assume that the £100 investment was laid in to produce some form of consumptible more elaborate than the goods saved to make the undertaking possible (that is, food and rent for the workmen) –this would be the case of money set aside for, say, the weaving of linen, which Douglas proceeds to analyze next (the illustration will be quoted in full below).

If linen is produced, the overall cycle of exchange may be completed only if 1) the savers *liquidate*, i.e., sell their £100 loan (or shares) to the bank (i.e., the money market), or 2) apply for a loan on the security of such debentures, in exchange for cash, wherewith they purchase the linen; the entrepreneur then re-channels this cash back to the bank to honor the obligation (now in the hands of the bank) and thereby, so to speak, 'close the circle'. The cash issued to 'close the circle' is always created 'out of nothing': by mortgaging either 1) the future production of industry, or 2) the securities held in custody by the bank (should the savers not be keen on eating their capital and/or the money markets be illiquid), as in the first and second round of the above example, respectively.

As a manufacturer of imperishable cash notes circulating in a privately controlled network of exclusive accessibility, the bank is capable of exacting a toll for the

"lease" of its product (i.e., money) to the community, which insinuates itself between incomes and prices.

Douglas erred by ascribing such a gap (the *B*-deficit) mostly to an untimely withdrawal of cash from the assembly line; *time* is indeed the crux of the problem, but, only, as we shall argue, as it cumbers repayment in the form of accumulated interest charges. Such piling up of financial charges Douglas set down under the summary rubric of "overhead," without, however, making it the chief factor responsible for the observed "price gap."

Two distorting patterns are wrought into this process of mass production.

First, it appears that the money sunk in the operation is not being sunk therein at all: had the linen manufacturer saved, say, 20%, of his wages –the saved £100—, he would have further delayed the repayment of the original £500 loan. In the meantime, the clock ticks, interest matures on the securities of the savers, and even superior interest is being yielded by the original £500 loan extended by the banking system at time 0. And manufacturers, positioned at every juncture of the mass productive process, will *discharge any such accretion on their prices*. But, again, the cash is not at hand: the public only has securities, and the cash, when it is most needed, has already flown back to the source (the bank). Securities need to be liquidated, and money markets may not always be liquid –then, a loan is the alternative. But the margin of risk entailed by such remedial liquidation (final dis-saving) is no more than a loose joint in the capitalist articulation, and not, as Douglas contended, its chief structural defect. The origin of all such difficulties lies elsewhere.

Douglas expects to find fresh cash escorting every newly produced good in the market, but it appears that the money originally issued by banks fails to mirror the life of the wares it was meant to accompany: it is not synchronized with the diverse phases of production. How is the synchronization to be achieved?

The Major recognized that the money should have been staggered in accordance with the several phases of production –which are indeed, all phases of *consumption* (intermediate goods and semi-manufactures that await transformation), even if it is assumed that the particular wares in question do not depreciate (or do so slowly)*, their consumption must fall out within a given period of time*. It is precisely for this given period of time —which may vary according to the nature of the manufacturing phase— that a special issue of cash ought to be printed. When the round of exchanges is completed (that is, when the ₤100 have been spent and the machinery produced), the last notes spent to effect the purchase, *expire*, so to speak; it is then returned to the bank, which will deal out a second, fresh, issue of notes (against the newly crafted piece of equipment).

In the example of Douglas, a single issue of cash, *which never expires*, is utilized to finance an endless sequence of production, and, as a result, leaves in its wake a string of interest-yielding claims that gradually wedge their way in between prices and incomes. In such a world, according to the Major, *only a catch-up process of "bridging loans" extended by the banking sector to the economy at large could remedy the mismatch*.

> What causes the discrepancy between income and prices? It is caused by every deflationary act of the banks which brings about a premature cancellation of consumer credit, and a cancellation of consumer credit occurs when the money or credit distributed as the wages, salaries, and dividends which bring goods into existence is

> recalled and cancelled before the goods it relates to have all passed to final consumers; or, if the goods in question happen to be such things as plant and machinery, if it is recalled at a *faster rate* than that at which the plant and machinery depreciate (H.M.M., 1935, p. 14).

In the traditional money system, money is not issued to reflect a particular chain of production; in other words we are not given a ₤1 note to pay the butcher, so as the latter may repay the farmer that sold him the cattle, and the farmer may ultimately repay the bank (Douglas, 1935, p. 71). In the economic reality, it is most often the case, as the annual clearings of checks show, that the baker will use our ₤1 note not to pay the farmer, but, instead, to convey the money into other avenues of purchase, say, to the baker, and thus break the chain of repayment that would have allowed the timely liquidation of all costs. This comes to pass because traditional bank money is imperishable and available in limited supply: it is made to circulate an indefinite amount of times, irrespective of any natural cycle of production, which would, in truth, requires for any note in circulation a birth and an expiration.

Though he had exposed the "innumerable rounds" made by traditional, imperishable bank money, to this time-notion of money Douglas was inadvertent. He clearly understood the urge of depreciation, but wished, as will be shown, to effect it administratively rather than render it inherent in the means of exchange itself.

The second distorting pattern revealed by the above example is the effect of the large-scale investment by *private* interests in the fashioning of the factors of production. An orderly financing scheme should be devoid of any wasteful asymmetry between production and consumption: when the note has allowed the exchange to take place, it has terminated its task, it expires; traditional money stays in the economy instead of departing, and thus initiates an inverse process: it exacts a charge, **interest**, for "working" any additional period past its otherwise natural expiration date. It is an economic perversion.

In the modern machine age, labor and material resources are hypothecated (i.e., mortgaged) by banking consortia through the issuance of jumbo loans to enterprising individuals. These individuals incorporate means, men and resources in a limited-liability-industrial combine sanctioned by law and proceed to assemble imposing machinery, which come to form the sinews of the industrial sector at large –they become the purveyors of the means of production, which in business parlance are referred to as *capital*.

If the end result of the ₤100 investment is indeed massive equipment, which generally does not figure in the public's shopping list, then, the only way to allow the acquisition of such a piece of machinery is for a third business party to elicit from the banking sector a ₤100 loan*, secured on the machine*, which this borrower shall have to repay by installments. This last transaction implies that a business concern –the third party (call it *X*)— is loaned ₤100, which he then remits in full to the manufacturer of industrial equipment (call it *Y*), and *Y*, in turn, repays his investors (the savers). Therefore, the cash mobilized by the bank in this case, flows back to the savers, to whom *Y* was indebted (they subscribed the shares or endorsed the bonds of his concern); and the outcome is now reduced to *X*'s liability vis-à-vis the bank. And the process repeats itself : the investors may sink their cash into the shares of yet another concern (*Z*); *Z* will purchase *X*'s end-product to transform it further; *X* will repay his debt to the bank, etc. This rolling over of the debt for manufacturing purposes may last as

many periods as there are phases of production: in the end, when goods will be available for consumption, their final sale price will be so burdened with overhead (financial) charges as to make their acquisition arithmetically impossible (See § n.4 below). There is no dearth of *B*-payments: only a deepening discrepancy dug by bank overhead between the consuming public and the financial establishment.

By acting thus, financial and industrial interests achieves two objectives: 1) they arrogate, through the privileged pooling of the community's wealth, the direction and, through eventual foreclosure, the ownership of the means of production, and 2) as detailed in the example of Douglas, by way of successive financial charges added on to the price level of the output, they make the public, after *it* has created and assembled the factors of production, pay a toll for their use: capital, as it is financed by interest-yielding money, must itself *fructify*. And it will when its supply is limited to the possession of a few legal owners.

> Money, which is distributed in respect of articles which do not come into the buying range of the persons to whom the money is distributed, is not real money –it is simply inflation of currency so far as those persons are concerned. The public does not buy machinery, industrial buildings, etc., for personal consumption at all. But it pays the price of them without acquiring control, since they form an overhead cost added to the price of ultimate products (Douglas, 1920, 63).

Monopolistic appropriation, through which banks manage money, is identically practiced by the industrial consortia under the banks' tutelage over materials and human labor. American pamphleteers of the Great Depression conducted analyses of the capitalist system kindred to that of Douglas and denounced such an appropriation as an affront to the welfare of the collectivity, which, indeed, should own *socially* the 'tools of productions'. One Edmund Betts, of Pasadena, California, wrote in 1932 that:

> Only a few produce tools in order that there shall be only a sufficient quantity produced to secure their greatest possible advantage…[The] ownership [of the tools of production] is acquired by a few individuals on the basis of production cost. Their advantage, however,…is many times their production cost. They are the result of a plan in distributing time and effort in production and are in no way the result of so-called "saved money." The monopolistic advantage is a social value which is sacrificed in allowing them to be transferred to individual ownership through private investment (Betts, 1932, pp. 94-95).

As will be illustrated in the final section, Douglas sought the remedy in the establishment of a communal credit institution, freed from *private* pecuniary interests, which would be deputed to supplying the missing quota, the deficient *B* payment, free of charge. However, the advocated measure remains remedial, a 'patching-up' of sorts, as it were: in Douglas's mind it is understood that such a mismatch between savings and investment, even if shorn of the usurious meddling of the banks, is an unavoidable feature of the machine age *–and it is not; the imposition of interest by banks for the employment of imperishable money is the only true source of the accounting rift between prices and incomes*.

Therefore he could not conceive any remodeling of the institutions beyond the mere substitution of an oligarchic for a benevolent banking institute. In this respect, he, like orthodoxy, would not part with the idea of money as it is traditionally apprehended.

Yet, as hinted earlier, it seems that the question does indeed revolve around the true nature of the means of payment.

In Douglas's example, **depreciation** was deliberately ignored for the sake of simplicity. Let us re-introduce that variable in the reasoning: when the worker saves 20% of his earnings, this means that he partly forgoes to exercise his right to consume the products for sale on the market. Now, goods of all kinds decay; they decay with varying rates of depreciation (for instance, lettuce and edifices do not die on the same day, of course), but that they perish is beyond dispute. Thus, what is traditionally intended as *saving* signifies, in truth, "irresponsible abstention from consumption": as £100 worth of imperishable money is withdrawn from the market through saving, and thus channeled back to the banks' checking accounts (idle cash balances), the goods originally offered for sale against those £100 are laid to waste, and by the time the shares are subscribed to launch a new enterprise, fewer of those goods will still be utilizable for transformation (and productive consumption). New money will have to be issued to buy new goods, but prices will reflect the old as well as the new issue of money (the saved £100) –and the incorporation of the former issue in the average price level is an excrescence, which represents a claim on supplies depleted or no longer in existence.

In this case, a belated equilibration of savings and investments does not restore consumption and thereby impedes the economy to dispose of its whole output: at best, it will dispose of only part of the unsold wares; any improvident delay is cause for dissipation –the longer the lag, the greater the waste.[2] When the 'overdue' £100 are handed over to an entrepreneur or corporation for investment the money will exert pressure on the average price of forthcoming output by bidding it up (same nominal amount exerting pressure over a reduced stock of goods). Thus the original difficulty caused by saving is **compounded** by the further recourse to bank credit to bridge the expanding discrepancy between prices and incomes. In spite of his rather impressionistic, if not partly flawed, depiction of the investment process, such an accounting accretion, –the charge on future consumption— Douglas did not fail to notice.

> Any saving of wages, salaries, and dividends means that a proportion of the goods in the prices of which they would appear as costs, must remain unsold within the credit area in which they are produced and are therefore, in the economic sense, wasted. The investment of the funds so saved means the reappearance of the same sum in a fresh set of prices, so that on each occasion that a given sum of money is invested, a fresh set of prices is created without the creation of fresh purchase power (Douglas, 1935, p. 73).

A way, unbeknownst to Douglas and orthodoxy, to outflank the mire of traditional saving, is that of effecting the synchronization of goods and money. In other words, money ought to mirror the life-cycle of the goods it accompanies along the chain of production. So, we ask again: how is the "coupling" achieved? *By giving money an age*. By making it die, by giving it a life, that is, a depreciation rate as close as possible to that of the corresponding goods. Thus, at the inception of a new

[2] We shall return to this problem in the section devoted to "depreciation."

cycle, an issue of perishable money reflecting the average rate of depreciation of the available output should be printed and distributed. All wares, more or less longevous, must be consumed within their given, natural and fixed, life endowment. In such a system, it appears obvious *that the only sensible way to save is indeed to consume*, yet to consume in a particular fashion. We may cite at this juncture a few additional observations by Betts:

> The whole conception of saving at present is false. The only method of saving values is through a scientific apportionment of effort between the creation of consumable values, more or less perishable, and non-consumable values such as tools of production and experimentation, and values, the consumption of which requires that a portion shall be non-consumable in any average period of value replacement. Such values are houses, ships and others of like character. There is non need for self-denial to procure paved highways…(Betts, 1932, p. 111).

Values are saved if they are consumed, not if money is diverted away from the necessary exchange. An individual that forfeits his privilege to consume suffers the penalty of cancellation. "Under the present money system, this penalty can be avoided by the holder, who has justly incurred it, by shifting it to others[3].

In a just system managed by perishable money, any accumulation of surpluses (i.e., saved money to be entrusted to private entrepreneurship for remuneration) would signal a malfunction: in such a system, saving is the *idea* that lays hold of the available goods, not the act

[3] With loans and/or the subscription of shares.

of amassing, which, in itself is nugatory, for it only leads to waste.

Individuals would be enabled to save by consuming in every period a given amount of labor, services and materials, which will go toward the edification of a durable good; future enjoyment will, of necessity, be punctuated by periodic depreciation payments (that is, maintenance for ordinary wear and tear).

> Money serves only as a simplified method of bookkeeping in serving as a record of value. The dollars are only warehouse receipts serving as evidence that values have been deposited. The receipts are evidence that the bearer is entitled to select values to the amount of the face of the receipts…Money is required only to exchange present consumable values. It is required in the same amount whether or not any new project or enterprise is carried out…No money is needed in advance and no money is advanced in *financing*. Only consumable values are needed. Money is required not to project or build anything but only to exchange values (Betts, 1932, 109; 126; 127).

Therefore, "saving" money to build, say, a house, signifies the *disbursement* over a lapse of time of a number of sums (sustenance for the workers and materials) devoted to the progressive edification of the buildings. If the "saver" does not wish to occupy or use the premises immediately after the completion of the abode, but postpone, instead, the consumption thereof – that is, should he decide to "save" it for the future—, he may let the structure for rental, and, ignoring the issue of inflated land value, may thus recover from the tenant the entire cost of the edifice through rental payments, which truly represent depreciation. The rate of depreciation (i.e. the rent charged) should vary according to the type of

building that has been erected (high for industrial and low for residential use) (Gesell, 1920, p. 255).

To corroborate this point, another illustration, a variation on the same theme of savings devoted to capital formation taken from Douglas's *The Monopoly of Credit*, which further elucidates the link between wanting purchasing power and the pressure of decay, may be considered.

> Let us imagine a capitalist to own a certain piece of land, on which is a house, and a building containing the necessary machinery for preparing, spinning, and weaving linen, and that the land is capable of growing, in addition to flax, all the food necessary to maintain a man. Let us further imagine that the capitalist in the first place allows a man to live free of all payment in the house and to have the use of all the foodstuffs that he grows on condition that he also grows, spins, and weaves a certain amount of linen for the capitalist. Let us further imagine that after a time this arrangement is altered by the payment of the man of £1 a week for the work of the linen business, but that this £1 is taken back each week as rent for the house and payment for the foodstuffs. Let us now imagine that from the time the flax is picked to the time the linen is delivered to the capitalist, a period of six weeks elapses. Obviously the cost of the linen must be £6, and this will be the price, plus profit, which the capitalist would place upon it. Quite obviously only one-sixth of the purchasing power necessary to buy the linen has been distributed, although "at some time or other all the £6 has been distributed (Douglas, 1979, 33-34).

In this case, as far as his economic function is considered, the capitalist in question is none but the entrepreneur that, in the previous example, was entrusted with the saved £100 (here it is £6). The instance may be confusing if it is not borne in mind that Douglas seems unaware that that the linen venture is *indeed launched with "saved money" (i.e. the surplus of the community)* –the food and rent devoted to the sustenance of the weaver.

In fact, every week the capitalist's employee receives £1, which he then remits to the employer, and the capitalist, at the end of each week, repays the £1, which, flows back to the bank, as an installment of what is, in truth, an original £6 loan, though Douglas fails to consider in the illustration this fundamental premise.[4] When the linen is ready, it justly costs £6, but that amount has, after having reached the source point –the bank—, *become extinct*. The money that was to accompany this venture should have been geared to the goods and services involved in the undertaking, namely, food and maintenance. Once these purchases are complete the notes should have been destroyed, but they were not: they were kept in the bank vaults, ready to be re-circulated, at a price, were they to be, again, "in demand." The only claim against the linen is £6 worth of securities in the hands of savers.

But in a wholesome monetary arrangement it is only once the linen is woven that an issue of money can be printed against it –an issue (as with any type of good) that mirrors the lifetime of the linen itself. Because, even if, as Douglas averred, the *A* payments (wages, salaries,

[4] It may return directly to the bank if we consider the manufacturing system as a whole, or it may flow back to the source via another manufacturer that provided the linen capitalist with food and rent for the latter's employees. In Douglas's linen example these two stages of production coincide (the linen capitalist is *also* the farmer and landlord of the economy).

and dividends) "were exactly sufficient to buy the new production, the sale *between consumers* (as distinguished from sales to producer to consumer) of these [goods] would be impossible –they would have no money, since at the moment of transfer of the goods from the producing to the consuming system their money value would have disappeared on its journey back to the bank, to finance a fresh cycle of production. Sales between *consumers* are an important though frequently overlooked factor in distribution and require that the money value of 'second hand' goods shall be in existence until the goods have physically disappeared" (Douglas, 1979, 38).

This was the point of attack for advocates of perishable money, such as Rudolf Steiner (Steiner, 1993, Chapt. XII) and Silvio Gesell (Gesell, 1920), for recommending that perishable notes be issued against the goods produced through a process of thrift, which, indeed, as argued here repeatedly, consists of a stream of periodical short-term disbursements of available short-lived resources thereby transformed into long-lived ones.

Thus, in the following period of production, the community will have linen in its shops, and, say, a hundred-month (as a hypothetical "expiration date" for linen) note of £6 will be issued by a 'communal clearing-house' upon proof of production. In such "time-stamped notes" the savers will then have the liberty to convert their savings – the bank ought to preserve the savings for its clients at face value by entrusting the corresponding resources to entrepreneurship, whose role is indeed that of transforming, processing and fighting depreciation for the community of savers at large[5]. Should a number of savers decide to postpone

[5] This is Gesell's advocacy for a class of entrepreneurs deputed, as it were, to restore the nominal value of the capital they are borrowing – thus "fighting depreciation" on behalf of its legitimate owners, who, without such enterprising types would see these accumulated

consumption at this stage, the bank will convey the linen-notes to another enterprise, which will employ the linen in an undertaking whose final product may be at last consumed by those that have put their consumption off until this point. This extension of "saving," compatibly with the physical duration of the wares involved, signifies an increasing sophistication of the overall sequence of production. The businesses involved in this chain of transformation will repay their loans, if any, in concomitance with the several maturity dates of the amounts of money, whose use they have contracted with the banks.

Bank lending of the traditional sort features a travesty of money's natural cycle of birth and death: imperishable means of payment (bank money or cash), sold for interest on the banking network, mimic the aging process as they undergo the conversion into securities (as money sunk in longer-dated undertakings). Yet, indeed, imperishable currency does not await death in that form (when the work is expended and the resources are consumed), but redemption at maturity, and a time-rated fee (interest), linked to the duration of the simulation. When a bond expires, money 'sheds the disguise', so to speak: it becomes liquidity anew. It has witnessed the death of the very resources it has accompanied for a certain time span, and pretended to perish with them; it finally dispels the pretense as it takes leave of the investment effort *augmented*, rather than diminished, if not exhausted altogether, as it should be.

According to the wholesome process, the maturity marks the death of the resources hired to carry out a project, and signals their transformation into something qualitatively different. The expiration date thus calls for a rebirth of symbolic media that betoken the novel

possessions (i.e., the capital), as they lay idle, progressively depreciate.

properties of the new good in existence. With traditional money, time and expiration work the inverse effect: they accompany the same creation development, but demand a specious remuneration therefor: every single interest remittance is a fee for money's renewed defiance of death –the more it denies decay, the more it insists to be paid. This unjustified demand is taken by the common man as a matter of economic course, ever since money has been turned into a commodity, appropriated and employed at the expense of the world community at large. This is the problem of all problems.

Incidentally, the provision of **social insurance** presents no opposition to, but may indeed be easily lodged within this scheme, for it is based "on an exchange of values in which the second stage of exchange [of necessarily perishable goods] is deferred. A producer feeds a child and a retired individual. When the children mature they repay the value in part to the other children and in part to the former producer who is then retired. Social insurance is merely an exchange of equal values in which the surrender of a value takes place in one period and its equal is received in another. It is entirely different from saving to provide future security. It is based on a mutually fair and advantageous plan of exchanging values" (Betts, 1932, p. 121).

4. Depreciation

When Douglas broaches the issue of *depreciation* in the exchange with Keynes (*vide supra*, Macmillan Committee, *sub*. 4498-99), the contours of the problem become more discernible.

The original difficulty in the investment process of the machine age arises with the initial monetary maneuver that is enacted to finance the acquisition of giant factories and imposing machinery. It all begins with a loan, a loan extended by the merchants – the money owners (see, for instance, Unwin, 1940, pp. 230 and ff.). To enable him *to purchase equipment that has already been built*, these money owners will charge the entrepreneur an initial amount, the capital sum of *X*, repayable after *n* years, and will, as the routine of usufruct prescribes, live off the interest on the loan for those *n* years. *On the basis of the preceding argumentation, it is understood that the money that is been loaned by bankers is indeed the "savings" of the community, which the savers shall have to liquidate periodically, i.e., spend, so as to enable the entrepreneur to sell the output obtained with the newly acquired tools of production.*

For a while, the community prospers on the products crafted under the impulse of the new machinery, and by means of a fairly smooth circulation of rents from the workers and entrepreneurs to the savers, who, as the popular apothegm instructs, 'made the great investment possible, because they are thrifty'. All is well (this standard description generally assumes 'reasonable' interest rates during the thriving period), until the repayment date of the loan comes in sight, and at this juncture the adepts of workmanship take heed of the first serious imbalance of their particular monetary system. For instance, a 10-year loan of $100 to be repaid at 10% consists, according to the standard amortization reimbursement plan, to 10 payments of $16.27 (total interest would then be, after ten years, $62.70, the principal is $100, and so the total cost of the loan is $162.70); but if the **depreciation rate** of the machine to be acquired is, say, 10% (i.e., it loses through obsolescence, and wear and tear, ten percent of its value every year: the life of the equipment matches, by assumption, the duration of the loan), ten payments of $10 per annum should allow the entrepreneur to 'repay' his initial investment: after the tenth year*, the machine is ready to be scrapped*. However, at that time, by force of the contractual obligation, he still owes the capitalist $62.70, when he only received $100 (in this example one ought to consider the entrepreneur as representing industry as a whole, and his banker, the banking sector as a whole; there is no third 'party' from which to recoup the missing interest-component –a closed system is here hypothesized). Only six annual payments of $16.27 (≈$100) re-convey to the point of origin, the bank, *the entire amount of cash that was loaned out on the first day of the agreement*: this is what Douglas means when he accuses bank of recalling the cash at a **faster rate** than that with which the goods funded therewith depreciate.

The community, finding itself bereft of cash, can either destroy its acquired standard of living by suffering the exacting curtailment of purchase money, enjoined by the deflationary exigencies of the savers and their banks, or deliberate that it is to its advantage to traverse the road of technological advance and submit to a second wave of construction, innovation, and further rents. The difficulty is immediately obviated by renewing the loan and tolerating a second stratum of interest charges. Douglas provides the list of palliatives traditionally resorted when the *B* payments have made the squaring of the macro-economic identity impossible:

> The main forms in which assistance is given to the defective purchasing power of the population (although that assistance is much less than required to enable the production system fully to be drawn upon) are the redistribution of money through the social services of the so-called dole, the use of money received from the sale of exports, from foreign investments and from invisible exports such as shipping, re-distributed through the method of taxation, the distribution of bank loans (advanced on mortgages, debentures,

> etc.) in wages for excessive capital production, and the selling below cost through the agency of bankruptcies, forced sales and actual destruction…The existing financial system increasingly mortgages the future in order to sell goods existing at present, the most recent and most obvious form of this practice being the installment system of purchase (Douglas, 1979, 39, 126).

The "catching-up" process of "chained loans" depicted by Douglas, is the result of this initial overhead charge (through the loans and the accompanying interest) imposed on the system, as it lays hold of mass production and machine-driven assembly lines. The loan was the first decisive outlay: than going to see the banker, no other avenues are open to those seeking to muster the large sums that are needed to acquire expensive machinery. The particular repayment plan causes the continuous overflow of the initial charge on each successive cycle of industrial transformation: periodic recourse to "emergency loans" conceived *ex nihilo* (that is, granted solely on the surety of the legal titles of debt, which are drawn by the wide class of savers on the community) within the banking system is then necessary to bridge the gap.

To return to the case of a loan accompanying the purchase of a piece of equipment, since the borrower is fully aware that he has to pay an interest component, which may be conspicuous, as a business routine, he has no alternative but to try to cover the overhead through the price he is going to charge to the public. On the microeconomic level, the practice amounts to no more than competitive compulsion, to be directed against rival concerns and the public at large; considered from the macroeconomic perspective, the sum of such price raids upon the community to garner

the available (and deficient) purchasing power inevitably fails on account of the said discrepancy: barring foreign trade, if banks injected $100 in the economy and expect to be repaid $162.70, only they can supply the missing interest quota of $62.70. In a second cycle of production, were the same $100 machine to be built, total debt – with aggregate savings equal to zero—would amount to $162.70 ($100 for a new machine in addition to the previous interest charge of $62.70, left unpaid), which, to be reimbursed at 10% in ten years, costs, according to the same amortization plan, $ 264.8 (the principal being $162.7, and interest $102.1), and so on.

In a hypothetical zero-percent-interest lending frame, where savers would content themselves with the mere restoration of their initial capital (whereby the users of the capital "fight depreciation" in their stead), the accumulation of overhead would not occur.

"Since the public get [the product of the factory]," Douglas affirms, "clearly they ought to pay 'depreciation'." The Major continues: "But the simple and vital fact remains that the wages paid during [production] are less than the price of the [product] by an amount, large or small, which is added to the cost of the [product] before the [product is] sold, representing, at least, 'depreciation'." Keynes asks, perplexed: "By whom are the overhead charges paid?" *Answer*: "They are put into the cost of the product. They are not paid to anybody. They have in previous cycles of production appeared in the cost of the factory."

What appeared "in the previous cycles of production" was the initial allotment *X*, devoted to the acquisition of the facility; in order to repay that amount (if the bank recalls it), or the additional interest charges (if the loan is renewed), the producer (excluding other types of overhead charges, which will be *also* included in the final price) will disburden the amortization quotas (that is, the annual depreciation payments required to purchase a new machine, or building, after *n* years) upon the selling price (in the previous example of a $100 loan to be repaid in ten years at 10%, the annual installment is $16.27 –$10 of which is to be set aside as depreciation—, and the difference, $6.27, is pure interest). Verily, what the producer seeks to recuperate from the consumer is the sum of depreciation **and** interest, yet the wedge driving prices and income apart is the latter rather than the former. By fusing the two elements, however, Douglas obfuscates his own argumentation.

Following Douglas, it cannot be maintained that overhead is "not paid to anybody." Indeed, it is evidence of debt that accumulates in the accounts of savers: it is "something for nothing," an unearned income, for sure, but an income nevertheless. The imposition of overhead effects the swelling of prices, whose task it is, in turn, to "defend" the going distribution of financial claims; "replacement credits" intervene to fix temporary gaps in the flow of sales, further swell the price indices, and resurface anew to mend the effects of deficient purchasing power.[6] And these figures cannot suffer to be redeemed into purchase money *in full*, for the outcome would be galloping *inflation*, and the consequent meltdown of the currency and the whole financial apparatus. Again, overhead is the price of imperishable money, the anchor and source of the imbalance.

5. Overhead and Watered Stock

The analysis of social credit is further complicated by Douglas's reference to the division of a company's

[6] A deflation, brought about by a business liquidation, would "reset" the monetary equation of the system at a "depressed" level of prices, without affecting the debit and credit proportions among the involved parties. After the claims have satisfied, the described process would start anew.

profits into fixed assets and immediate liquidity (see above, the evidence before the Macmillan committee, *sub* entries n. 4488-92, 4494). This is a coincidental allusion to the particular use of loan credit inaugurated by modern business principles. As Thorstein Veblen had extensively argued, modern business is run on the basis of "watered" stock, whose rated value consists in the capitalized gains, expressed in monetary units, to be expected from all kinds of monopoly (Veblen, 1978, chapts. V and VI, 1964, chapt. XII). As money demands a reward (overhead) for being extended to the interested combines, these vie against one another for the credit allowances, by securing various kinds of advantages (monopolistic control of a market, secret patents, goodwill, strategic curtailment of production in vital nodes of the market, aggressive marketing promotion, and every other conceivable form of quasi-rent) and presenting them to the banks in order to demonstrate their "financial viability" –that is to say, their capacity to sustain the payment of overhead by virtue of still higher profits to be derived through the art of, as Veblen put it, "chicane." The bulk of a concern's capitalization does not consist of articles of material serviceability (as the buildings and plants), whose monetary counterpart is liquid, or nearly liquid money (cash), but of capital values (namely, financial "air"), which are legal reifications of the monopolistic prerogatives conquered by business. The quasi-rents take the form of common stock, and these securities may serve, when hopes run high, as *collateral* for further extensions of bank credit.

This is, at a second remove from the physical sphere, the known inflationary process carried out by the banks in extending ready money they do not have at hand (credit), ***via the leverage of the deposit multiplier,*** *against (physical) collateral.*

> If one individual owns land that pays a yearly income of $1000 and another owns stocks that pay the same income, will it matter to either if they are not permitted the use of money too exchange them?…The only reason for exchanging capitalized value is to secure an unfair advantage…These capitalized values are those which cause most of the speculation. This is only natural as they are wholly *guess values*. The entire exchange activity in these values is pointless and tremendously injurious. It calls for *the so-called elastic* currency. This uncontrollable animal is the cause of inflation and the bellow-like activity of the value of the dollar. Confusion results when an attempt is made to provide a money system for *exchanging consumable values* based on capitalized values which themselves do not require exchange…[Capitalized values] are fabricated mathematically on future social income…Individual ownership and trading in them causes unnatural and unjust results (Betts, 1032, pp20, 21, 22).

> "*Question*: what happens to the £8,000, which it does not distribute?
> *Answer*: That is in the form of fixed assets, which it is incapable of distributing except by getting a creation of credit to distribute them."

By driving industrial production on the wheels of successive credit inflation-jolts, absentee owners manage to create a "margin of reshuffle" –a watering of monetary figures (akin to printing new decks of cards, and dealing the cards to the concerns deemed profitable, thereby slanting purchasing power in their favor)—, in which ownership is nominally redistributed according to the new capitalization of the different

combines. Subsequently, once the parties engage in economic competition proper, the market is relied upon to determine which concern had reason to bank confidently on the privileged tenancy it had wished to exploit, and for the sake of which it had been granted copious lines of credit.

All this "watered" stock –the "bubble" as it is commonly alluded to in the jargon *boursier*– is the derivative product of the original overhead charges (the interest payments) that had entered the scene to launch the original venture. This is profit "made in fixed assets," alternatively defined as "paper profit" (capital gains, speculative *hausses*, which are, by nature, purely virtual) –it figures in the books, and only a slight percentage thereof flows to the goods sector in the form of cash through the payment of dividends (two out of ten thousands pounds in the example of Douglas before the Committee). This amassing of banking charges in the hands of a few has led to the situation in which the dollar value of all financial instruments in existence is many times greater than the aggregate value of production. Not only is the distribution of such claims to wealth skewed (the so-called "national debt" is mostly in the hands of banks and capitalists, not of labor, and only an inconspicuous percentage of households holds savings in the shape of stocks), but the price of output produced by corporations will be so ballasted with overhead as to make its absorption by wage-earners a matter of accounting impossibility.

As Douglas testified, owning $*X* worth of property does not literally signify that such land tenure confers to the proprietor an equivalent amount of cash. *X* is a mere virtual sum created by financial speculation: to *mobilize* that wealth, the owner needs to mortgage it as collateral with his banker. As they automatically mature on the ledgers of the financial network, bank charges are included into production costs, but purchase power can only be circulated by bank credit, which comes at a cost, i. e., interest. And the accretion widens the gap between incomes and prices.

The claim that Douglas's argument appears to be confused finds substance in the fact that he includes these overhead charges in the B payments (cost components incorporated in the selling price not matched by corresponding disbursement of purchase money –cash) for *two* orders of motives: first, they are savings that will follow, in the shape of securities, the same itinerary of the worker's thrift (i.e., they will constitute an unmatched claim in the successive wave of investment, which is generally true, but not for the reasons the Major favored; see § 3, above); second, they signify the financial swelling of figures engineered by banks through various leveraged operations: this is the "financial bubble," which does not burst so long as only an exiguous fraction of all money denominations (bills, commercial paper, debentures, stock market capitalizations, and paper of a like character) is allowed to be redeemed, as a trickle, into purchase money – hence the impossibility of a 0% inflation scenario in a modern capitalist system.

In essence, the deficiency of purchasing power owes its incumbency to the exponential accumulation of compound interest. The interest paid on a capital investment sum is an *actuarial addition* to the economic accounts of the parties involved: it is generated out of nothing. At maturity, capital yields an "extra" on the accounts of the savers and its usufruct is sanctioned by law. To this effect is added the inflation caused by *capital gains*, namely, artificial value increases of stock, engineered by syndicates of investment bankers.

But no fresh cash accompanies the transaction contemporaneously with the interest invoice. Only successively can the discrepancy be remedied with the "replacement credits" mentioned by the Douglasites, or, at gloomier junctures, by means of the impromptu "pumping-in" –much a feature of the modern era following the second world conflict— of emergency funds by central banks, acting as blameless stewards of undisciplined lending.

Again, the overhead flowing from industrial securities is classed by Douglas among the B payments: 1) because, like any type of "saved money" that is converted into a loan, it burdens consecutive cycles of sales with a fresh equivalent claim not matched by existing purchase money, *and* 2) because such a kind of financial instrument has the dominant tendency to escort savings into the *impairing* (acquisition of paper representing property already in existence for speculative purposes) rather than the productive form of investment – a course dictated by the constraints of money-interest upon the industrial dynamics and the attending financial capitalization. Thus the price of any product issuing from the capitalist system will incorporate all such financial charges, without there being a matching amount of **cash** in the hands of the consumers sufficient to equate sale and purchase.

6. The Cure

Unlike Silvio Gesell, Douglas did not embrace the reform of **stamped scrip** (money losing value through the affixing of stamps, which functioned as a community-sponsored initiative to discourage hoarding) and his remedial policies bear the mark of his adherence to traditional money. The first article of communal and monetary health, in the reformed world according to Douglas, should ensure that the citizenry and the ruling institutions abide by the proper recognition of *social credit*, namely, "The estimated value of the only real capital…The estimate of the *potential capacity under a given set of conditions, including plant, etc., of a society* *to do work*" (Douglas, 1920, p. 111). Such a new state of collective apprehension would prompt, as its most immediate and necessary effect, the determination on the part of the community to dispossess the banking interests of the power to coin all forms of wealth into means of payment –the action proper that marks the appropriation of the community's "potential to do work."

This power, instead, should reside in a Treasury Bank of the People that would distribute credit not with a view to securing the most advantageous rent out of the yearly income of the nation, but according to directives attuned to needs of commerce and the exigencies of the masses. To attend to the allocation, the Treasury would use as its chief monetary gauge the ratio (Consumption/Production).

> Payment for goods will be made in the ordinary way (to 'registered' businesses), either by cheque or by currency. The purchaser will lodge his receipted account for goods bought with his bank in the same way that he now pays in cheques, and the discount percentage of the amount of such account will be credited to the consumer's banking account…The total of the sums credited by banks to private depositors in respect of these discounts will be reimbursed to them by [the] Treasury. The capital account will be "depreciated" by such sums, and "appreciated" by all capital developments. Banks collect a fee (Douglas, 1920, pp. 209-210).

Douglas contends that at all times *two* prices prevail in the economy: the financial price and the *true,* or *Just Price* (Douglas, 1920, pp. 121-123). The former is the accounting summation of all the monetary charges punctuating the formation of any product: it is the sum of the *A* (wages, salaries and dividends) and *B* payments,

that is, the "payments to other organisations" (erroneously believed by Douglas to cause the withdrawal of the cash from circulation by returning it to the banks). The financial price is simply equal to the cost of producing the item. The true price, instead, is given the following formula:

$$True\_price = Cost * \left(\frac{Consumption + Depreciation}{Capital\_production} \right)$$

Such a price is contrived by Douglas in order to bring output into the buying range of the public: the cost of production (the overall financial cost), if multiplied by the consumption/production ratio (aggregate depreciation of all consumption over a given period of time, including plant depreciation, divided by aggregate production itself over the same time interval) yields, by construction, the difference by which the wage-earners' incomes allegedly trail behind prices. If, say, 100 pairs of boots costing $100 each have been produced in one cycle, the financial cost of output is $10.000. Douglas would then interject that $10.000 have flowed in the economy over a certain length of time, but that at the time of their delivery, the entire amount is not at hand among the population; only a fraction is (represented by their latest paycheck, which can only afford a exiguous portion of the output for sale).

> …The purchasing power released externally in these transactions is that represents by wages, salaries and a commission [entrepreneurial profit] on them, and that no goods have yet been released to consumers against this purchasing

> power. These sums thus distributed will be largely expended by the recipients in various form of consumption…Douglas, 1920, 121; 123).

Douglas derives his Just Price from the fallacious assumption that the *A* payments vanish systematically in the strongboxes of the bank never to reappear, (which they certainly may do in times of foreclosure), when in fact, they do accumulate in the form of saved money (in the savings accounts of the community). Of this development the Major was cognizant, though he systematically neglected the fact that most of the *A* payments, whose flow he detailed, are the fruit, as was said earlier, of thrift from earlier periods. As such, these payments –the food and clothes that fed and clad the workers— can only purchase these workers' product, if at maturity they are converted into notes with an expiration date reflecting the longevity of the newly manufactured ware. Douglas held on to the traditional notion of money and, instead of resorting to making decay inherent in the means of payment itself, sought to deduct depreciation from the notes issued by his hypothetical communal clearing-bank in a one-off accounting defrayment, which would have needed to be engineered by some centralized organ of business & finance supervision. To return to the example of the boots, his reasoning went as follows: if one were to assume that depreciation in the above formula is 40% (a fact that would be known to the economic authorities), which means that "of the total work of the community for one month 60 per cent remains for use during a subsequent period," the Just Price of a pair of boots would be equal to 40 % of $10.000 divided by the pair of boots distributed (not produced), or 2/5 of the *commercial* (or financial) *price*. At this *real* price the consumer will obtain the commodity. "The real cost of anything is the amount of energy and material used up or consumed in the making of it." (Colbourne 1933, 256).

Thus, the true price amounts to a *rebate* offered to the buying public. On the other hand, the producer needs to be compensated (by Douglas's hypothetical Treasury Bank): he would obtain "his price from two sources, one of which is the credit source, and the other is the public – the cash source" (evidence before the Macmillan Committee, entry # 4410). Credits and loans within the consecutive stages of mass production would be handled by a reformed banking system, which would charge a 'reasonable' fee for the service (which is thus no longer that of exacting interest), until, once the process reaches the final step – that of the retailer – the goods are sold to consumers through the expedient of the "rebate." The retailer has borrowed from the banks a sum, say, of X to buy the product of industry, and instead of offering the commodity to the public for X+x (x, being his share), he will sell it at a *fraction* of that amount, for in the guiding ratio of (Consumption/Production), the denominator is always greatly superior to the numerator. The consumer pays what he *can* pay, i.e., the available cash remitted to him as wages. This is the public source of the total price. Manufacturers and retailers have produced wares worth X+x, and have sold them for [(X+x)/y], where y denotes the "capital appreciation" (the physical throughput) of the economy. The Treasury provisions the missing portion of the financial cost in the face of industrial abundance and decreasing prices. This further means that, relieved though they are of the traditional banking overhead, *B* payments, in the form of depreciation and repayment of principal, would be still form an integral part of the amount credited by the central institute to the individual accounts of producers and merchants at their local banks.

The rebate is the *ad hoc* token or manufactured quota of purchasing power, printed by the Treasury in order to sustain the "financial cost" of production under the pressure of abundance. The legitimacy of the issue has its grounds in the social credit of the community, namely in those evidences of debt that were once in the hands of the Vested Interests, and should be now in those of Philosopher Kings conversant with Douglasism.

> 4531 (Sir Thomas Allen)
> *Question*: You advocate the creation of communal credit against bank credit?
> *Answer*: Yes
> (Hiskett, 1935, p. 275).

As detailed previously, wresting the evidences of social credit away from the banking and financial establishments would, if one were to interpret Douglas correctly, erase interest charges, but, in itself, would not solve either the untoward question of the principal's repayment in a customary loan, or the problem of depreciation. The Major seems to be willing to let money, as it circulates, spread the sedimentation of the *B* payments, and subsequently lop them off the price of products shortly before delivery, in the office of the hypothetical bank of the people, with administered "reductions."

Of the three strains of *B* payments that have been identified, namely: 1) savings, investment and repayment of principal; 2) banking charges and impairing investment; and 3) depreciation (2 and 3 falling under the caption of 'overhead'), only the second would be cured (or at least palliated) by the effacement of traditional money business. In the formula of the just price, the two other components of *B* outlays would be still accounted for in the "Cost" variable.

The difficulties that arise in endeavoring to assess Douglas's scheme are rooted in the loose partitions of the *A* + *B* Theorem and its corollary of the "rate-of-flow." His categorization proceeds along and across two main argumentative directions, without discernible distinction. These are an unalloyed concern for economic justness, which found its chief vent in the undisguised hostility toward the international brethren of financiers and their alleged usurpation of social credit; and the claim to the presumed 'scientific' discovery that money manifests the seeming proclivity to lag behind the ordinary stages of investment. The preconized measures follow at once: re-appropriate social credit and make it the province of the treasury bank of the people. That achieved, have the Bank 'fill in the gaps' of purchasing power with that remedial contrivance of credits and rebates.

> Any authority competent to take over the control and regulate the conduct of the community's industry with a view to maximum output as counted by weight and tale, rather than by net aggregate price-income over price-cost, can readily effect an appreciable increase in the effectual productive capacity; but it can be done only by violating that democratic order of things within which business enterprise runs (Veblen, 1919, 174).

The final stroke of Douglas's draft for an improved monetary system was the so-called "national dividend." (Douglas 1933, 186). This, too, would be a consequence of the dethronement of high finance. Given the abundance of goods producible with modern technique, the competent authorities --now the appointed custodians of communal social credit-- would apportion the excess of (physical) appreciation over depreciation with a flat issue of purchasing power (the dividend) to the entitled recipients (households, elderly citizens, etc.) – paper to be given away and exchanged for the largesse of the machine throughput.

This is the inescapable necessity of the *gift*.

Every economic system, without exception, features the gift as the closing link of every cycle of production. In one of the pregnant discussions on the act of giving, Austrian mystic Rudolf Steiner isolates this deed as the culminating moment of all economic activity, for by means of it, the arteries of distribution are prevented from being obtruded; the rich de-cumulate, and as the surplus returns to the needy, but most importantly, to the arts and sciences –the pre-eminent consumers of the gift—, the sense of solidarity and peace is cemented within the community. The "money of gift," nearing its expiration, abandons the traditional channels of land and manufacture, and by flowing to the craftsmen of intellectual and spiritual art, stems any inflationary pressure on the productive realms of the economy (Steiner, 1993, pp. 77 and ff, 100). Seldom has a heretic failed to pay attention to the powers of this often neglected rite of consumption, whose consummation reveals, while shaping them, the nature and appetites of the community under investigation. That Douglas did not omit a reference to the gift is further proof that, in spite of the confusion, the indignation, and the vanity, he had not tilted at windmills.

7. The Alberta Experiment

But the social credit episode, plagued from the outset by all such well-meaning fallacies, did not depart from the economic stage so soon as one would have surmised. Quaintly, it managed, in spite of everything, to provoke Finance for the length of four extraordinary years (1935-1939) in the distant western Canadian province of Alberta. This most improbable 'revolt' took

shape in the dreariest years of the Depression. Around 1932, the forces of protest, embodied in the sturdy build of one William Aberhart–a schoolteacher and popular master of evangelical broadcast–were looking for some hard and fast etiology of the crisis, which could be translated into immediate political action and relief. Alberta was then a thinly populated region that relied on agriculture for its means of sustenance. When grain prices dropped savagely in the early 'thirties, and farmers' incomes decreased by 94%, toleration of the system's abuses (dearth, hunger, despair and foreclosure) on the part of the common Albertan had reached its limit. The movement had gathered momentum and awaited leadership. From England, where Social Credit's pamphlets were circulating widely, though to no practical effect, easily rebutted as they were by the stony indifference of the City's invincible armies, a primer of Douglasism drafted by British actor Maurice Colbourne eventually reached Aberhart.

> Aberhart sat up with the book the rest of the night. When the morning sun finally splashed over the sleepy campus (or so the story goes), Aberhart snapped the book shut, convinced at last of Douglas's theory. Thus began the most spectacular political crusade in the history of the Canadian West (Barr, 1974, p. 49).

Douglas's social credit seemed to provide all the catch-phrases and buzzwords that could give some hook to middle-of-the-road agitprop: missing purchasing power, just price, national dividend, cultural heritage, financial conspiracy, the promise of a bondholder society, and state vouchers. In the 'epic years' of Canadian social credit (1932-1935), Aberhart drafted from the ranks of his Prophetic Bible Institute squadrons of followers, who, along with their deacon, went on proselytizing and agitating against the incumbent forces of conservatism (the appendices and western branches of the vastly ramified network of the Eastern corporate and financial combines of Canada), as well as those of opposition, by targeting the alleged inefficacy of the U.F.A.'s (United Farmers of Alberta) brand of socialism. 'Prairie fire': the thundering oratory of Aberhart, and the devout pieties of northwestern rural folk won Alberta social credit an instant success.

That Aberhart, as he himself candidly owned, did not truly grasp the 'intricacies'–or 'tangles', one should say—of Douglas's social credit comes as no surprise. He confessed to his profane and shallow apprehension of matters, which, he averred, only experts, such as the Major, could implement and 'fix'. He thus demanded an act of faith on the part of Albertans, who shared his acrimony, and confided in the purity of his novel alternative. The plea was to work: what was proposed was neither fascism, nor socialism, but rather a governmental stewardship of private initiative and equitable distribution–a reiteration of Douglas's exhortations. Large-scale projects were not contemplated, for the hoards necessary to launch them, Aberhart said, could only come absentee from ownership–and absentee ownership, in principle at least, was the declared enemy. These proclamations could not shake the loose panoply of allegiances of a god-fearing fold, and did soothe the believers' screaming wish for equanimity. In truth, no one among the hordes of the disgruntled, and Aberhart least of all, had the courage to follow the proof of the *A+B* theorem (nothing less than Douglasism's 'theoretical foundation') to its unsettling conclusions, for to have to reject thereafter the assumptions amounted to smothering the rebellion in the cradle: after all, people's incomes *did* fall short of the total dollar amount offered for sale, prices were unjust, and banks did operate according to a logic as perverse

as it was obscure. For the first time, the common man was witnessing a form of dissent that was not calling for daunting feats of sedition and collective appropriation to be conducted in the name of arcane conceptual artifacts, such as 'scientific materialism'. This time, the revolt was prompted by a simple and human desire for emancipation. The heretics wanted the heads of bankers: the indecency of industrial wages and factory conditions, the collapse of world markets and the ensuing strife, were all effects, they said, of money's tyrannical regime of monopoly ownership. There lay the contaminated source. The critique was original, the indignation sincere, the prognosis on target, and the diagnosis flawed. That was good enough. Now was the time for revenge.

Then, after the talk, one had to get down to business. National dividend: Aberhart promised a bonus of $25 per month; that should have taken care of clothing, housing and sustenance. An irresistible offer, it was said. Individuals, trusting in this chiliastic annunciation, began quitting and changing jobs, expectant (Barr, 1974, 85). In truth, the gift would never materialize, not even when Aberhart, a few ineffectual years later, would downgrade the promise to an amount between 5 and 10 dollars. But most important, the provincial debt: Alberta, because of agriculture's bankruptcy, was heavily beholden to Canadian absentee ownership. Aberhart issued a yellow pamphlet in which he advanced the idea that, in exchange for special issues of Alberta bonds, all those in command of Canadian cash should relinquish possession thereof to the province, which would have proceeded in turn to cancel the debt therewith. "Even real estate holdings, industrial plants, and the stores might be transferred to the state in return for bonds" (Hesketh 1997, 57). The chambers of commerce and the private interests protested vehemently against the plan, likening it to dictatorial expropriation. From England, even Douglas invited Canadian socreders to use some restraint. Aberhart backed off, and recanted. But the torment of indebtedness, of course, kept festering.

In fact, Aberhart's endeavor to fashion a competing financial arrangement presents no deviation from the standard praxis of monetary uprising, which, in its essentials, simply consists in a more or less refined plan designed to bypass altogether the capillary mass of the banking network, by duplicating it on a regional basis. The alternative network of the province must be controlled by a state credit house, which would circulate its own money, and, to outflank the federal prohibition to coin rival means of payment, call it 'credit'–such 'credit' certificates would be good for paying salaries and settle imposts. In attempting financial secession, the first thing to do is sever the umbilical cord with traditional banking by discharging the community's obligations that are due to it. Hence the appeal to convert Canadian cash into Alberta 'social credit'. As for the 'people', but to appeal to their trust, nothing else could be hoped at this initial stage. The quasi-confiscatory measure put forth in the yellow pamphlet, however, was immature, for only the vested interests (the higher strata of the collectivity) could dispose of cash during the Great Depression; the masses had nothing. It was as if Spartacus, before instigating the slaves against their masters, had demanded the Roman landlords' armies to depose their gladii. Wherefore should the centurions heed the request? This was an insurrection, was it not?

In the meantime, Douglas, surveying the Canadian stirrings from England, was growing impatient. Here was a political movement of some magnitude, usurping, so to speak, his very ideas, which, however, seemed to have the impudence not to adopt the somewhat haphazard tactics he was wishing to see enacted forthwith: this wouldn't do. Instead of blaring out frightening platforms, the Major admonished, social credit was to prepare itself

for a true war, and employ against a most cunning and powerful foe, a strategy that was more subtle. He encouraged the Albertan followers to gear up for potential violent confrontation with the System's bailiffs and the henchmen of the Elders of Zion, and build up reserves of official Canadian currency–'foreign currency'—in view of an eventual unyoking of the province from the federal network. Aberhart, torn by law-abiding qualms and a halting grasp of the rules of financial engagement, vacillated. The preliminary maneuvers of Alberta social credit thus floundered confusedly, for, indeed,

> Neither Aberhart nor anyone else in the Alberta part appeared to have understood what Douglas wanted (Hesketh 1997, 76).

In February 1934, the first rift ensued between the die-hard Douglasites of Canada–the stuck-up purists and bourgeois dissenters gathered in their New Age Club (the Canadian filiation of Great Britain's Social Credit Secretariat)–and the Christian staffers of Aberhart's crusade. In Britain, the custodians of Douglasism started a doctrinal fuss: it appeared to them that the sloppiness of the frontier *ingénus* was threatening to turn Social Credit's unique chance to strike at history into one grotesque flop. For the Douglasites, more than a mild embarrassment, Aberhart's self-avowed lack of technical expertise in monetary questions was becoming a liability: what he was now proclaiming to the public of Alberta, they maintained, was bearing less and less resemblance to Douglas's vintage pamphlets. To begin with, the British *confrères* thought that committing to a $25 dividend was reckless (the amount was to be gauged in the light of numerous conditions pertaining to production, consumption, and the region's original resource endowment), but most important, they accused the

Canadians of not understanding the basics of distribution, for Aberhart kept intimating that he would recoup this bonus from a levy of sorts to be defalcated from sales, whereas Douglas conceived it as a fiat emolument of his providential Treasury Bank.

> According to Manning [Aberhart's young assistant and future premier of Alberta], the cycle would commence with interest-free production loans to producers, followed by the actual production of goods and the computation of the just selling price. Purchasing power in the form of basic dividends would be created and distributed prior to this sale of goods so that the purchasing power in the hands of the consumer equated to the total value of consumable goods. Once the goods were sold, Aberhart explained, the various portions of the just selling price would be allocated to pay for raw materials, human and machine labour, depreciation on plant and equipment, insurance and overhead, and commissions on turnover*, while the unearned income levy would be returned to the government to equate the amount issued to the consumers in the form of basic dividends* (Hesketh 1997, 60, emphasis added).

Douglas intuited the economic necessity of the gift but could not wrap his mind around ways that would enable a natural, that is willful, distribution of it from its very creator, the collectivity–that is why he could only envisage the Treasury Bank mobilizing the surplus through a centralized and last-minute issuance of dividends, and arbitrarily dispense it thereby. In a system of perishable money à la Gesell/Steiner, instead, the gift travels on a twofold path: an income is provided to the political sphere by purchasing stamps therefrom with which to affix the scrip, and the sphere of the arts and

sciences is supported by affording it a portion of the surplus in the form of time-metered moneys left over from the customary requirements of agriculture and industry. Aberhart & Co., on the other hand, not having understood the misconception of the *A+B* theorem, could entertain of the government's revenues no idea other than the traditional one: taxes; in their unconscious desire to square the spiral, rather than the circle, of Douglas's theorem, they ended up forging an odd-shapen piece of thinking that neither rhymed nor reasoned with either Douglasism or orthodoxy (how can the government issue a dividend which it then must tax away from the self-same cycle of production to sustain itself?). This was heresy at its worst, and Finance looked on imperturbable.

Nor could the British author and his Albertan enthusiasts agree on the nature of the 'just price': Aberhart thought it signified a regulated threshold that would guarantee remuneration for farmers–possibly something shorn of middlemen's 'excessive profits' and overhead, and often mingled the notion of 'just' with that of 'compensating' price, whereby he sought to reconnect the prescription to Douglas's rebates (Barr 1974, 55-61). So much confusion, the English socreders argued, would only bring discredit upon the movement and thwart its electoral aspirations: Aberhart had to be removed. In February, The Secretariat sent Aberhart a letter from London informing him that it would no longer endorse Alberta Social Credit. Utterly despondent and wounded, Aberhart resigned. A Douglasite immediately took over. But doctrinaire squabbles could not sway the people, whose utter lack of concern for the logic perambulations of the *B* payments was only matched by their ravenous desire to cash in the dividend. The mob wants tribunes, not theoreticians. To conserve momentum, and vouch for the new leadership, the British headquarters resorted to earnest propaganda: the

Major himself was going to travel to Alberta and redirect the march of social credit.

> Douglas's visit to the province had long been awaited, and his every word and move, upon arrival was amply chronicled in the province's newspapers. Yet his effect was anti-climactic. His manner of speech was stolid and unemotional and uninspiring; his speeches were utterly predictable, and devoid of concrete suggestions or new proposals. He said, roughly, what Aberhart has said over the past eighteen months, only less imaginatively…The average Albertan found him a cold fish…(Barr 1974, 63).

The elitist *fronde* of the Douglasites lasted ten weeks. The visit of the messiah from London had backfired, and by popular request, the lieutenants of social credit Central Council in Calgary, reclaimed for the movement the fervor of Aberhart. In May the Douglasites, incapable to exude a whiff of mass appeal, were subdued, and, for the most part, purged from the party. Douglas had sailed back to England; he would have had to think this whole affair over again–opportunistically, he did, but with abiding discomfort. He never was to return to Alberta.

Thereafter, followed months of passion on the hustings of Alberta. In the August 1935 provincial election, Social Credit's victory was complete: it captured 54% of the vote and 56 out of 63 seats in the legislature.

> Aberhart held power…Arrayed against Alberta was the might and majesty of Canada's economic establishment, the banks, insurance companies, the large eastern corporations, the mortgage-holders and the trust companies. That, plus the political apparatus of economic conservatism…His beachhead was surrounded by a ring of steel (Barr 1974, 83).

A month before what appeared an easy victory, the Major promptly muffled his resentment and gave the Canadians his blessings in a letter Aberhart circulated forthwith with vindicated satisfaction. Not yet ready to renounce his avatar-like powers of suggestion, Douglas drafted an Interim *Report*, in which he outlined the directives of Alberta Social Credit's offensive gambit. Therein he recommended, as he had done earlier, accumulation of 'foreign money'. Thereby he meant what Plato refers to as 'Greek money': namely gold, or its modern equivalent, bank accounts or cash. That is, a form of money that has currency outside the *polis*–in this case, the wishfully seceding region of Alberta. Within the precincts of the insubordinate region, the standard can be any form of ignoble metal, or other most inexpensive material. This Plato calls 'native currency': beyond the boundaries of the *polis's* social credit, it is of no value (Plato 1992, 129). 'Native currency' and Alberta social credit are the same thing. The accumulation of 'Greek money' is, for Douglas a precautionary measure–it amounts to a provision of ammunition. To counter a run by the enemy (the financial interests of Eastern Canada) on the independent network that the rebels wish to set up, a community needs the means that allow interaction (trade) with the outside; the ultimate end of such hoards of 'Greek money' is the complete insulation of Alberta Social Credit from external threats. In fact, Plato recommends the storing of precious metals in view of military action, embassies, foreign trade, and exploration. Preoccupation with precious metals always stems from martial considerations. The question, of course, arises: how is the region going to procure the 'foreign currency'? It can only be acquired by trade. And Alberta had nothing to trade with. Hence the imperative to industrialize: fast. But that was easier said than done– especially in times of depression. Notwithstanding, a call to increase goods 'made in Alberta', and the concomitant plea to 'buy domestic', became another insistent plank of the movement's platform. Second, Douglas advised Albertans socreders to capture as many media of information, and elect as many federal MPs as possible, so as to assemble a constitutional division of sorts, which could then take on the loyalists in Ottawa in a successive deployment of the war. That much was evident, and to that aim Aberhart had been campaigning restlessly. In the October 1935 federal election, Social Credit captured 15 of 17 Albertan seats and two seats in Saskatchewan. As for the debt, Douglas suggested not to requisition the investors' cash, but to offer to convert whatever stocks they possessed into Alberta bonds, which would pay 1% plus the interest yielded by those securities, and employ these as collateral to obtain from a chartered bank a loan wherewith the provincial debt was to be reduced. Alberta, Douglas enjoined, was to pay a one-time 1.5% fee for such a loan, in addition to administrative costs, the message being that money was to be created debt-free and banks are to be remunerated only for circulating the means of payment, not for dispensing it under proprietary clauses (Hesketh 1997, 101). This proposal was hardly more tactful than the yellow pamphlet of Aberhart, whose four-year calvary, shuttling frantically between Edmonton and Ottawa to beg the Interests for financial succor, loan extensions and moratoria, was about to begin. From the capital Aberhart would systematically receive much less than what he originally asked for, and on terms that were the usual ones: at interest. And Douglas without fail would expostulate, reprovingly: one could not defeat banking by imploring its very cooperation.

> Everything was in a state of flux and no one was really sure what was going to happen or what should happen (Barr 1974, 87).

The first request of the new Alberta government was addressed, as usual, to mortgage-holders: socreders offered debt redemption at greatly reduced rates of interest. The investors responded with silence. Then came the first social credit budget: it boosted spending in a few areas (relief, tuberculosis care), but all in all it cut expenditure and increased taxation markedly. Douglas began to fume, again. In April 1936 came the first major default of the province on its bonds. The Major, in the course of a feverish correspondence with Aberhart, put forth another suggestion: Alberta was to implement at once the parallel network of social credit, and impose a conversion at face value of all provincial debentures in State Treasury credits at face value (augmented by a 15% bonus), wherewith the holders could purchase goods and services 'made in Alberta'. Aberhart refused –to him this was unfeasible, overwhelming. In June, the excommunication: the London Stock Exchange barred Alberta bonds from its list. As everyone had expected, Finance's stonewall had begun repulsing with determination the initial, and somewhat timid, broadsides of the insurgents. Social credit ratcheted up the offensive gear and proceeded to distribute 'rival paper'. Drawing from the experience of the city of Raymond–whose municipal insolvency had forced it to issue scrip wherewith to pay teachers and civil employees, and absorb this particular 'credit document' via taxation—, and acting upon the technical advice of one E. S Woodward, a Canadian follower of Gesellism, whom he hired for the task, Aberhart introduced the so-called 'prosperity certificates' (Hesketh 1997, 123-125). These were to form the lifeblood of the alternative Alberta monetary circuit. Merchants were to receive the scrip in payment for wares, exchange it between themselves and the public, and establish thereby a reticulation of credit, managed by public credit houses, independent from the orthodox banking constituency. Accepting the certificates required yet another of those acts of faith, which Albertan socreders demanded ungrudgingly. Aberhart assured that such a measure was purely transitional: the certificates were indeed to be backed with Canadian currency (the 'Platonic' caution), and external transactions would continue to be dealt in 'Greek money', so to speak–and, indeed, it could not have been otherwise. The Gesellian artifice called for a stamp tax of 1% per week–in other words, one had to remit to the authorities 1% of the certificate's face value, every week, the objective of stamped scrip being twofold: 1) provide the state with an income, and 2) force the paper to circulate, for there is no incentive in hoarding depreciating paper money. The government revenue thus obtained would then be channeled towards debt reduction. Sanctions against recalcitrant dealers were threatened, but never enforced; no less of a bluff was the government's offer to liquidate a portion of cabinet members and MPs in scrip (it was later found that none did). The scheme was a failure. The System (banks, wholesalers), not surprisingly, boycotted the certificates; baring a disturbing fissure in the public fabric, even the province would refuse them in payment of taxes. The merchants took fright, and the people ran. To make things worse, the project itself was irremediably doomed by the very faults of social credit's dilettantism: a public revenue, through stamp vending, of 52% per annum is a near-absurdity, specially in times of distress (Gesell envisaged 12% at the most, in prosperity—i.e., 1% per month).

> The Social Creditors of Alberta committed…gross stupidities: the prescribed stamp was impracticably small and provided with a very unadhesive gum (Pound 1960, 52).

> The public did not trust the certificates and cashed them in at every opportunity…Perhaps unfairly, the prosperity certificates were designed to go down in history as Aberhart's 'funny money' scheme, as the quintessential evidence of Aberhart incompetence and failure to understand Douglas Social Credit (Hesketh 1997, 131).

Thereafter, in October 1936, came a second default. The Douglasites, impatient as they always were for radical overhauling, rebelled again. Aberhart weathered the storm of discontent and caulked the rift by compromising: he greeted two 'specialists', whom Douglas dispatched to Alberta from across the Atlantic. Over the next year and a half, he conducted a veritable tour de force to engineer an articulate blueprint for the duplicate network. Several acts were passed. One called for a covenant –a written pact of sorts between registered denizens and the authority, whereby the former were sworn into upholding the circulation of Alberta paper and facilitating the infant steps of the alternative network. Others sought to reduce interest on pending provincial debentures, establish associations of wholesalers within the links of a Douglasite banking system, and even muzzle the hostile mutterings of local newspapers affiliated with the Eastern absentees ('Press Gag Act', the critics called it). And the empire struck back: the federal Supreme Court disallowed all such acts, by declaring them *ultra vires* (beyond the constitutional powers of the province).

The final act of Alberta Social Credit's financial sedition was the issuance by the Treasury Branches of 'non-negotiable-transfer vouchers'. Any merchant conducting business through these Treasury accounts, who would purchase at least one third of his wares from Albertan concerns would receive a three percent credit in the form of vouchers. These vouchers were redeemable in legal tender, and were meant, as the 'prosperity' scrip before them, to be used as alternative credit lines amongst traders and producers. Indeed, the vouchers represented nothing more than a mildly competitive prod for the rural banks, in that they brought some relief to depressed enclaves by affording them what amounted roughly to a modest 'dividend'. Again, the incumbent network managed to boycott the new instrument successfully and impeded any herd movement in their favor. "The vouchers were useless for doing business outside the province and once the war was on, the system collided with federal rationing policy, which was aimed at reducing consumption, not stimulating it. The system was finally abandoned in 1945" (Barr 1974, 113-115).

Before the curtain fell on this winter's tale, an exhausted Aberhart sought in 1938 to embark on his sinking ship a Los Angeles businessman, fronting for the prestigious Jewish-American banking house of Kuhn & Loeb (one of the pillars of the System), to secure some prized liquidity for the establishment of a chartered bank –Douglasism was all but disavowed. Kuhn & Loeb, before parting with their pieces of eight, hired Chicago economist Jacob Viner to assess the prospective profitability of the region. In what amounted to the play's final twist of irony, Viner, prefacing his survey of the Alberta economy with an alert to increase taxation by another million dollars, advised his employers not to invest (Hesketh, 1997, pp. 191-192).

In sum,

> Stripped of his more sophisticated weapons by the courts and the federal government, Aberhart continued the debt fight with the only two weapons he had left: moratoria and default…The best Social Credit had been able to do had been to prevent large-scale foreclosures and beat back the financiers for a while; that and provide the people with their most desperately desired commodity—hope (Barr 1974, 113; 116).

By 1939, it was clear that the war was lost. Douglas protested that all Alberta Social Credit had done was to draft soldiers, and lay the weapons down before the battle had ever begun. But when the world conflict broke out, the Major himself, had become, even in Alberta, a half-forgotten eccentric, about to be dragooned for all time into the ghost regiment of abortive monetary putschists. How little the socreders were revolutionary at heart was betrayed by Aberhart's fascination with British royalty and devotion to the British Empire. The visit of the King and Queen to Canada in 1939, and Aberhart's immediate public profession of devout patriotism and allegiance to the English Crown on the occasion, sealed, symbolically, the end of the adventure. Only free individuals can carry out social revolutions.

In 1943, fatigue turned into sleep, and sleep swiftly into death–Aberhart was no more; he was succeeded by the faithful Manning, who would rule the party for another twenty-five years. Then came the end of the depression, the wartime effort, victory and Keynesiansim. By 1947, Douglasism has been cast down the pit of oblivion for good. What emerged thereafter was a well-regulated mixed economy, blessed, eventually, not by the uncouth legacy of the *A+B* Theorem, but by the bountiful discovery of black gold in the fields of Leduc in 1947. It may be noted, in conclusion, that even though Manning shepherded Alberta back to the fold of absentee control, his 'wild years' nevertheless taught him something of the ways of the *gift*, which he could but turn to good use in his lasting role of administrator and steward.

> Revenue from oil bids went into the province's current revenue fund on the theory that it did not represent the depletion of the resource; money from the royalties, which did represent depletion of a non-renewable resource, went into social capital (schools, roads, research, etc.) to replace the oil…From a predominately agricultural province, Alberta became a province in which, by 1961, nearly half of the work force was employed in industries involved in or related to oil (Barr 1974, 141).

At last, Alberta had 'Greek money' galore. This land of heretics appropriated the oil, sold it, and expressed thankfulness for the find by pouring a sizable portion of the proceeds into the sphere of the arts and sciences. But what if there had been no oil below the crust of the northwestern earth?

In 1971 Social Credit lost to the Conservatives and by the following election had begun their slide into dissolution. It was the end of a leading party of a western democracy, which had ruled under the appellation coined by a heretic, whose thought it had entirely repudiated for nearly thirty years.

8. Conclusion

The uncertain pace of his argumentation and the meagerness of his treatises, too flimsy for the scholarly mind and too misty for the common man, have sealed the fate of Douglas after WWII.

Beyond the vehemence of the attacks repeatedly launched against Finance's usurpation of the social credit of the people, the abuses of debt, unemployment, inflation and deflation, the denunciations of Douglas represent an abiding instance of that current of heretical

thought that sought to fashion the solution to the problem of *money*. Within academia, after Keynes closed the door on the episode by passing a humbling judgment of the Major in his *General Theory,* Douglas was never granted appeal –his analysis being ever since found by those few willing to unearth his pamphlets "wanting"[7] No further discussion is provided, the inference being that whatever success the Major garnered, he owed to charisma, not cogent cogitation.

Yet if cast amidst the observations of other heretical thinkers, such as Silvio Gesell, the attempts of Douglas reveal something of import. They reveal that no early 20th century non-socialist blueprint for the eventual reconstruction of the economy was conceived in any form other than as a comprehensive *monetary* renovation of society. Reform, rejuvenation of the institutions, freedom and equality, according to these heretics' viewpoint, could only be brought about through a radical correction of the ways and means of conceiving monetary exchange. And these thinkers made *depreciation* the touchstone of their analyses. It is of interest to note that, in the course of an altogether nugatory and perfunctory exchange between the heretic and his interrogators of the McMillan Committee, it was

[7] "Since the war there has been a spate of heretical theories of under-consumption, of which those of Major Douglas are the most famous. The strength of major Douglas's advocacy has, of course, largely depended on orthodoxy having no valid reply to much of his destructive criticism. On the other hand, the detail of his diagnosis, in particular the so-called *A+B* theorem, includes much mere mystification. If Major Douglas had limited his *B*-items to the financial provisions to which no current expenditure on replacements and renewals corresponds, he would be nearer the truth. But even in that case it is necessary to allow for the possibility of these provisions being offset by new investment in other directions as well as by increased expenditure on consumption. Major Douglas is entitled to claim, as against some of his orthodox adversaries, that he at least has not been totally oblivious of the outstanding problem of our economic system" (Keynes 1973, 370-371).

upon touching the intricacies of depreciation, vis-à-vis Keynes, that Douglas's testimony ran aground, leaving him incommunicado when the time came to elaborate the idea of the Just Price.

The *A+B* Theorem, the National Dividend and the Just Price are to be set down as loose components of an unfinished system that sought to incorporate *decay* in financial channels of the economy, with a view to establishing a temperately competitive structure of commerce independent of either state or corporate usury.

In retrospective, Douglas's project could hardly be rated a success in any of its articulations, and least of all in its intention to absorb depreciation and make it a pivotal element of it. Nevertheless it has the merit of exhorting modern readership to advert the unavoidable distortions foisted by lending-at-interest upon all economic transactions, and stands out as a reminder that until the "pecuniary issue" is solved, the democratic West is fated to suffer from ills already diagnosed, which, however, owing to the passing of time and the concurrent abridgment of reaction-intervals in the diffusion of financial shocks, might fester anew with magnified virulence.

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John Elliott's Contributions to an Understanding of the Inquiry into the "Wealth of Human Potential"

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The value inherent in the work of John Elliott lies in the overall sense that he was a social scientist concerned with being both a historical scientist and a revolutionary. A revolutionary because, for Elliott, the study of economics was practical, rooted in practice--the study of comparative economic systems. The importance of the empirical study of the distribution of income and patterns of property ownership were just as paramount as the efficiency questions presented in standard economics courses. Until he recently passed away, in 2001, he was the director of the Political Economy and Public Policy (PEPP) Program at the University of Southern California. He held a Masters in Political Science and a Ph.D. in Economics from Harvard University. As a historical scientist, Elliott believed that the history of economic ideas had a special significance. In fact, Elliott felt that history is an interpretation and expression of human nature. He attributed this idea to Marx. It is the study of human nature, what human beings do, and are capable of doing, that holds the solution to the global problems of this new century. Elliott is unique and his understanding of political economy, as communicated by his many publications, and his teaching, should not go unexamined.

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This paper supports the view, held by Elliott, that classical political economy suggests a comprehensive context for understanding all of the issues of the modern world. Elliott's conviction was that the greatest of all classical political economists was Karl Marx, and that Marx's economic model, with its sociologically defined categories, provides insights to the transition of capitalism into a more humanistic social order. The problem of bringing the ideas of Marx into the social science classroom, are worth the effort, if we follow Elliott's teachings. There is the problem of dispelling the popular, pre-conceptions of those who equate the ideas and writings of Marx with the ideology and "religion" of Marxism. Elliott clearly distinguished between Marxism—an ideological dogma, as distinct from the actual study of Marx's own vision of a post-capitalist society, which was his life-long concern. His attention to the history of economic thought and the importance of Marx in understanding contemporary comparative economic systems, helps one understand the exercise of political power, educational philosophy, and modern thought in sociology.

It is, indeed, a paradox that modern schools of economics train legions of students in economics, without ever reading about the history of economic thought, or the ideas of Karl Marx. Perhaps this is because developing such "habits of mind" would lead to radical critical thinking in the social sciences. First, and foremost, Marx was a revolutionary. However, Elliott always expected the modern reader of Marx to understand these ideas in the context of the history of economic inquiry, starting with classical economics and extending to this day. Elliott was convinced, like his teacher Joseph Schumpeter, that "capitalism can not survive." Thus, he was preoccupied in much of his writing with Marx's own conception of a "future society." What will be the characteristics of that future society?

Given a quick glance at the seemingly insurmountable problems of globalization of markets, and the recent "failure of consensus" at the Johannesburg Summit on Sustainable Development (attended, in September, 2002, by dignitaries from almost every nation and thousands of famous scholars from around the world, gathered in South Africa), it is best to take on the optimism expressed by Elliott. He recognized that the systemic problems of the market-oriented, developed countries went beyond the bounds of orthodox economic theory. The solutions go beyond the realm of traditional economics, to a revolution in the social and political spheres. The idea that a future social system holds improved solutions to the economic crises of the global economic system is not new. What is important, according to Elliott is that we understand that in Marx we see, not only a revolutionary, but a scientist. That is, we need to know that Marx is not a "Utopian." Rather, his theory is empirical in a historically evaluative sense. His method of analysis is economics, directly addressing and following in the tradition of the great, classical economists, but it goes farther. Marx anticipates Keynes, according to Elliott. Marx anticipates, and outlines a business cycle theory, as well as a topology of economic systems (see Elliott 1978). All of this points to the deep conviction by Elliott that Marx's analysis holds the key, not only to understanding the contradictions of the modern economy, but also provides the solution in the form of endorsing the need for substantial changes in the patterns of ownership of productive resources, as well as changes in the distribution of political power and income around the globe. Modern social science, that rejects the consideration of such a premise, is reactionary and conservative in nature. The movements in educational theory today toward "critical literacy" and "critical thinking" should pay heed to the contributions of John E.

Elliott. Hopefully, social scientists will understand and appreciate Elliott's efforts. Elliott attempts to extend Marx, in much the same way as Schumpeter (1950). Elliott is aiming at a formulation of "the future society," one that addresses the current system's failures. This includes the concerns of the anti-globalization protests. While current media interpretations may view anti-globalization advocates as separate and distinctly different in interests, Elliott draws upon Marx's vision of the future society to link them together. He is drawing upon the history of thought and Marx's topology of economic systems (economic foundations) to construct a "robust vision of the future society."

Indeed, it is unfortunate that the word "communism" has a meaning that Marx, himself, may not have conceived of, or intended. This is of primary concern to Elliott. In particular, it is Heilbroner's (1995) contention that the new "science of economics" find "stabilizing" and dependable relations in the sphere of the economy. Heilbroner's acceptance of the perennial dichotomy between the public and the private spheres of human activity, is precisely the point of departure, and the reason for optimism in Elliott's writings.

This concern is, indeed, one which possesses great merit. Socialism is almost entirely a label attached to political upheaval in low-income developing countries. This is unfortunate, according to Elliott, because Marx's revolution could only take place the most technically competent, and economically advanced countries of the world. In addition, Elliott emphasized that Marx's Revolution (and one can only assume, Elliott's own conviction as well) was a revolution that was, at once, economic, political and social, involving all three spheres of social being. It is self-evident that this interpretation of a "socialist revolution" has never occurred in modern times. Thus, undoubtedly the world as we know it, has not yet realized the potential that Marx, and his modern student, John Elliott foresaw. This is a truly refreshing and revolutionary idea. The next society is only now beginning, and being born within the womb of the current breakdown of the capitalist system.

Only in Marx's system, does the recent disappearance of almost two trillion dollars of corporate wealth, reveal more than the thin veil of "corporate mismanagement and lies." Keynes, himself, agreed with Marx in a deep-seated distrust of those empowered to make investment decisions that affect the rest of society. But it seems that the Post-Keynesian thesis, for all its mathematical elegance might seem to have synthesized Keynes out of existence. Elliott writes with authority in encompassing Post-Keynesian and classical economic thought. Elliott is much more than a fossil who knows his classical economists. His understanding of the role of the history of thought in modern social theory is echoed in education theory by the need to develop "critical thinking," utilizing certain habits of mind, from social thinkers that have come before us.

In discussing the role of politics, or outlining the role of government in a market economy, we often tend to insert a dichotomy between the private and the public sector. We tend to assert that the market works in the public sphere, and that government acts in the public interest if, and when the market fails. Seldom do we consider the critic of capitalism itself. The prominent scholars of education theory, and Feirre (1970) emphasize elements of Marx's theory of capitalist development, they do little to stimulate readers to study Marx, or to read about socialism. While there is increasing attention to the virtues of service learning, there is a neglect of the "inquiry to the wealth of human potential."

A core thesis of this paper is that educators need to appreciate a modern interpretation of Karl Marx to uncover the importance of Freirean pedagogy. Many educators and social scientists embrace the Freirean pedagogy, but do not understand it in terms of its ultimate determination. Concepts of empowerment, exploitation and alienation, are deeply rooted in Elliott's portrayal of the transformation of capitalism into a radically different, and more humanistic society. Elliott's many articles may bridge the understanding of Freire's concepts and those of Marx. It is important to Elliott that we see capitalism as a transitional form of society. This is something that has been missed by current commentators, such as Heilbroner (1995, 320):

> The distinctive properties of all capitalisms are the drive for capital, the guidance and constraints of a market system and the blessings—admittedly, often mixed—of a bifurcation of power into two interpenetrative but still independent sectors. To this, however, must be added a capacity for adaptation and innovation that results in a spectrum of capitalist performances, a spectrum that is visible in the intensity of the drive for capital, the degree of freedom accorded to market dispensations, and the boundary between the public and the private realms.

There is no denying that the drive for profit has accelerated innovation and cost cutting innovations. Elliott's (1987) commentary on Marx is revealing in its insistence that "history may be described as the process of the movement toward human emancipation [from exploitation] and the supersession of alienation." Inherent in this approach to social theory is a rejection of neoclassical economic theory, a view of humans as atomistic consumers, maximizing individual utility. Marxian theory, parallel to the approach to education of Freire, perceives human beings as creators and developers of talents and abilities, as needing bonds of community, and as potentially and primarily cooperative in nature.

It is important to note that the next historical epoch, to which Freirean Pedagogy is leading the way, is not some utopian fantasy. Inherent in the work of Marx is the assumption that capitalism is necessary for a transition to a society which expresses the "termination of the condition where the needs of some are satisfied at the expense of others." Elliott's writing emphasizes that as long as it is not possible to provide, simultaneously the "necessities of life" for all members of society and an economic surplus for capital accumulation, there must always be a ruling class disposing of the productive forces of society, and a poor, oppressed class (Marx and Engels 1976, 6, 349). In this event the "needs of some," i.e., society's need for accumulation (and the luxury needs of the capitalist and propertied rich) can be satisfied only at the expense of others. Some segment of society will sacrifice the "necessities of life" for the rest of society. Conversely, when it is possible to provide an economic surplus for accumulation and the 'necessities of life" for all, then a capitalist-worker class division is no longer an economic necessity. It is the productive zeal in capitalism that provides the material possibility for the dissolution of the capital-labor relation, and consequently, provides the objective possibility of ending exploitation and alienation of human beings from living in a society which supports human development to its true potential.

According to Elliott, classic statements of the future society are to be found in Marx's writing from the 1840's, notably *Contribution to the Critique of Hegel's Philosophy of Law* (Marx, 1975). It is undoubtedly this future society Freire's theory supports and endorses. Marx postulates a "commonwealth embodying "man's communist essence" within contemporary society. This realm of labor and material production, however, has been divorced from the state, or public life. Consequently, society and humans are bifurcated into a private realm of atomized and isolated individuals and a public, civic realm of alien state power, dominated by the wealthy, capitalist class and its attendant state bureaucracy.

What sets Freire apart is his reconstruction of Marxian concepts in terms of addressing the current dehumanization of people of color and marginalized groups. Thus, Freire attempts to bring together problems of race and class, which appeals to the concerns within the contemporary movement, broadly characterized as "critical literacy." Such a movement is moving toward Marx's ideal, as characterized in the writings of John Elliott. Both the movement toward "critical literacy" and the growing literature surrounding the seminal work of Freire, run parallel to the characterizations of the "future communist society" which is characterized and defined by Elliott.

Such parallels are apparent in Elliott's interpretation of Marx's "robust vision of the future communist society. Going against the interpretation of the leftist American economist R. Heilbroner, Elliott seems to adhere to the convergence of the private realm of the market and the public realm of the state. To integrate these two realms and overcome this alienation requires the establishment of a "true democracy" constituting the essence of all forms of social constitutions and of socialized man. Elliott points to the U.S. trend toward universal suffrage, extended to a potential dissolution of both the political state and civil society. Again, Elliott is tracing an evolution through different socio-economic forms of society. He recreates themes in Hegel and Marx's critic of Hegel. Here, Marx distinguishes between mere "political emancipation," progressive though it was relative to earlier forms of feudal despotism, and genuine

human emancipation. This emancipation is shaped by the radical reconstruction of socio-economic life and the supersession of the separation between the private and public realms of society and among humans based on an egoistic pursuit of strictly individual gain. "Political emancipation," by dissolving the direct political and theocratic rule of feudalism and by establishing rights–of liberty, property, equality before the law, and security– was a big step forward toward human emancipation, even though its benefits disproportionately accrued to the bourgeoisie. On the other hand, "throwing off the political yoke meant at the same time throwing off the bonds which restrained the egoistic spirit of civil society." (Elliott 1987, 3)

This requires that human beings recognize and cooperatively organize their own powers as "social forces" and no longer separate social power, as distinct from themselves, in the shape of political power (as in the power of political parties as shaped by campaign contributions, as opposed to genuine, and universal, democratic political participation).

To further elucidate history's direction, Elliott cites Marx's commentary in *Notes on James Mill.* According to Elliott, Marx indicts both the self-estrangement and the mutual estrangement, which is rooted in private property, the separation of labor and capital, and market exchange relations. Under these conditions, the aim of labor and production is not the cultivation and creative exercise of human powers and talents, but the immediate, selfish aspiration of possession, of having. "Because individuals use others as mere means to the realization of their own ends, society is not a genuine community, but a mere shadow of what it has the potential to become. It is a "mere semblance, based on mutual plundering." (Elliott 1987, 6)

What Freire shares with Elliott is the vision of a future in which:

> people conduct production as human beings. In these circumstances, work would be a free manifestation of life and an expression of individuality, and objects produced would be a visible objectification of individual human powers. Each individual would be directly and consciously aware of, and obtain enjoyment from, fulfilling the needs of others. Each person would serve as a mediator between other individuals and the human species, thereby serving (and being recognized as serving) to complete the essential nature of others and thus being linked to others in bonds of thought and love. Finally, each person, by directly contributing to the expression of the life of others, would thereby directly confirm and realize his/her “true,” “human,” “communal nature” (Elliott 1987, 4).

At this point we have established that Elliott draws on Marx to present a "robust" vision of capitalism's transformation into a future communist society. This is a postulated historical trend that many social scientists will not endorse. This is probably because of the fact that, unlike Marx's vision, the socialist revolutions of the last century have not delivered continual material progress; they have been tightly controlled, bureaucratic, and highly authoritarian in nature. Elliott maintained that none of these "socialist" regimes bear semblance to Marx's revolution. First, they do not occur in the highly industrialized nations. Secondly, they are not simultaneously political (change in governance structure), economic (rapid advance in technology and relative plenty), and social (return to "species being" and cooperative consciousness) in character. Elliott maintained that Marx's revolution can occur in a country like the United States.

Finally, it is important to point out that the revolution that Elliott draws out from Marx's vision, is forged inside the crucible of a highly advanced technical and materially proficient capitalist society. It brings on a truly democratic society, not like a representative democracy in which one can witness an Electoral College, distinct from a more truly democratic, and technically possible form of real democracy. It is at this juncture that we come back to Freire and his observations that the "critical consciousness" of minorities and other groups who are "marginalized " by the "dominant culture" gives hope to Elliott's vision of transformation.

Elliott recognized a common thread running through both Marx, and (we can infer) Freire. Freire was, undoubtedly, influenced by Marx. But, more specifically, both presuppose considerable confidence in human potentialities. This shared vision is more than merely a new form of society. It is a characterization of the substance of human potential, of the quality of life for authentic human beings in a genuinely human community. It is important that both Elliott and Freire differentiate between the familiar socio-institutional form, and the quality of life and markedly distinct social relations (i.e., socialism as an institutional form of society in which the self-interest and the profit motive, the egotistical and corporate ethos of greed, are no longer the driving motive of the system). Elliott refers to the institutional characteristics, such as the end of the capital labor relation, wage-labor, and private ownership of the means of production as Communism-F (the institutional form). It is plausible that both Elliott and Freire are more interested in supporting a second aspect of Marx's vision of the future "communist" society. This aspect, Elliott calls Communism-S and refers to the expected changes in the quality of life and the character of human relations under the auspices of the new society.

This robust vision of communism embodies the type of qualities that will be most important if the global capitalist system is to survive the stresses and strains of ecological dangers, the difficult challenges of ethnic, racial, and religious hatreds, not to mention the tensions inherent in the alarming spread of weapons of mass destruction. It is this conception of Communism-S that is echoed in the works of Freire, as a prominent figure in the "politics of education." What is common in these visions of the future society is a radical reconstruction of the human condition and the quality of human life. This Communism-S is the expressed Freire's concept of "creative alienation, " it is the condition necessary for the negation of that alienation. Liberatory education is about empowerment, by means of acting from the standpoint of "critical consciousness." This is all about reconstructing the human content of social perception. What are the intellectual sources of such a vision of human as well as social reconstruction? Below is a popular quote from Marx which embodies the ideality of human potential under the new society:

> Communism as the positive transcendence of private property as human self-estrangement, and therefore as the real appropriation of the human essence by and for man; self as a social (i.e., human being -- a return accomplished consciously and embracing the entire wealth of previous development. This communism, as fully developed naturalism, equals humanism, and as fully developed humanism, equals naturalism; it is the genuine resolution of the conflict between man and nature and between man and man – the true resolution of the strife between existence and essence, between objectification and self-confirmation, between freedom and necessity, between the individual and the species.

> Communism is the riddle of history solved, and it knows itself to be this solution. (Marx 1974, 297)

Presumably, the integration of individual and society should unleash human creative powers (and reduce social impediments thereto) and, simultaneously, stimulate high productivity and material abundance. In contrast to a system bounded by private property, the aim is to cultivate the inner wealth of individuals and their self-realization the cultivation and exercise of human productive powers as an inner need in a life of social expression, not labor and production as a mere means of acquisition and possession in a life of "having."

One can postulate that it is possible to work toward what Elliott calls communism-S, within the boundaries of a capitalist society—that is, without dissolving private ownership of the means of production, still working toward an inclusive multi-ethnic and multi-racial society. The writings of Freire and the movement in education, termed "critical literacy," are based on a vision that incorporates a large component of ideality and one that presupposes considerable confidence in human potentialities. This is not merely what Elliott calls Communism-S, as a form of human society. It is also a characterization of human substance, of human potentials, of the quality of life for authentic human beings in a genuine human community.

One final consideration, worth noting, is that the sources of Marx, Freire, and the movement toward "critical literacy" are rooted in two fundamental intellectual currents. In modern, idealist political rhetoric, Martin Luther King's immortal "I have a dream" speech, echoes the same vision of a society embodying certain human, and indeed, moral qualities, with the same roots. These two currents in Western culture as identified by Elliott are:

(1) the Hellenic tradition, notably Aristotle,
(2) the Judeo-Christian tradition(s).

The underlying roots of the educational movement toward critical literacy are an outgrowth of Marx and modern followers, like Freire. But the roots of this tradition go back as far as Aristotle's methodology. Indeed, Aristotle devotes much thought to the moral qualities embodied in Communism-S, and it is still worthy of great interest today. For Aristotle, to determine what is the "good society" or the "good life" for man, it is necessary to establish what is "natural" for humans. That which is in accord with human nature is (morally and ethically) "good." Similarly, for Marx, the moral qualities embodied in Communism-S are derived from his theory of what is natural to humans, what is concordant with human nature. Marx insists that we must deal with human nature in general, and then with human nature as modified in each historical epoch.

It is the Hellenistic tradition that portends the making of the "good person" within the "good society" or "communitas." Following Aristotle, Marx situates humans within nature, but differentiates the human species from other animal species. What makes us "human?" He postulates that labor is consonant with the essential nature of all human beings (as distinct from other animals) as it is free, conscious, rational, creative, purposeful, and social. Genuinely human labor occurs within the framework of an authentic community, a community whose members treat each other as ends rather than means and have the power and the need to mutually recognize and respect each others' labor as embodied in the greater society. Torrez (2002) has detailed a concept for bringing forward this type of community by advocating "cultural consonance" in the development of classroom curriculum.

Culturally consonant curriculum advances self-determination (free and conscious shaping of one's own destiny) and self-actualization (free and conscious shaping of one's own development) as part of "natural" human life. Without supporting and cultivating (in classrooms and in labor) such human experiences human beings are:

(1) powerfully constrained in the development of specific capacities and human needs; and
(2) subject to the caprice of conditions of others.

In other words, without liberating experiences they exist (following Freire), in what would presumably be a realm of *alienation* from truly authentic human potential, and *exploitation* of their labor for purposes not of their "free" choosing. There are moral themes undeniably at work here.

If the Hellenistic ideal of building the "good society" is one current that is necessary for human development to its "true potential," the other intellectual roots of human or moral elements of that vision belong to the Judeo-Christian tradition(s). Elliott makes his case by drawing parallels between Marx's vision of the future society, humanity, and community and that of the Judeo-Christian tradition(s). In liberation theology, as well as in the movements associated with the work of Freire, there is a distinct flavor of the liberating power of education. Four scriptural dimensions will be used here, cited by Elliott. First, God acts through and as history to bring liberation to the oppressed (as in the Exodus out of Egypt). Second, God identifies with the poor and the oppressed, and demands justice, not just charity. Third, Jesus proclaimed a forthcoming Kingdom of God which would bring a total revolution in existing socio-political structures and the creation of a new, qualitatively different, and irreversible form of community. Fourth, Jesus condemned wealth—both relative to poverty and as the love of money—and attacked money as the very foundation of injustice and exploitation, the disintegration of community. The Book of Acts (Book of Acts, 4: 32, 34-35) in the New Testament, described the early Christian community as a kind of communist society. The early Church Fathers viewed the early Christian community at Jerusalem as an example of God's plan for property relations. Put in reverse, it is precisely these elements of the Judeo-Christian tradition(s) which find secular analogues in Marx's historical argument, as identified by John Elliott, and are also the roots of the current movement for "critical literacy."

It is important to Elliott that we see this emerging future society as the unraveling of socio-historical trends and tendencies, not as a Utopian fantasy. He carefully lays out a historical explanation of the processes whereby capitalism brings forward the new society. Given the movements for "critical literacy," the popularity of the ideas of Freire concerning the development of "critical consciousness," the associated notions of "empowerment" and "praxis," it is possible to discern a growing secular trend toward Communism-S as fashioned by Elliott. While we see no clear global trend toward Communism-F, it is interesting that the developing nations that gravitated towards "pro-market" reforms, are having so much economic turmoil. Also, the resolution of current international tensions would seem to have a resolution in the ideals of Communism-S, as opposed to a resolution based on armed, military intervention. Certainly, those who oppose war speak of a "community of nations" and warn against unilateral action and its attendant problems of instability. Of course, only time will tell if the ideas of "critical literacy" are the magnet that manages to hold us together as a world currently on the brink of environmental disaster,

and embroiled in geopolitical, ethnic, and religious divisions.

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