The Political Economy of Monetary Reform:

ideas in Canada in the 1930s*

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Abstract

Proposals to reform money and banking in the wake of the recent crisis appeal to populist politics on the left and the right: if banks caused the crisis then their power must be curtailed to prevent a recurrence. Among these proposals is a series of plans to require banks to back deposits 100% with reserves, or simply to administer money issued by the government. The purpose of this paper is to consider the broad thrust of these proposals in comparison with proposals for reform of money and banking current in the wake of the Great Depression. We focus on the plans in Canada for social credit and those for social reconstruction. While both involved a markedly increased role for the state in money and banking, the ontologies, political philosophy and theoretical rationales were rather different.

Key words: monetary reform, banking reform, Depression, Canada

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Introduction

In the wake of the financial crisis, a range of proposals has been put forward for the state to take control over the supply of money from commercial banks. A representative range of these proposals has been reviewed by van Dixhoorn (2013) and Dow, Johnsen and Montagnoli (2015). Academic work on these proposals has been fuelled by a range of populist sentiment that banks have wielded too much power, causing the crisis and then pushing the costs onto the rest of society. The money supply would either be supplied directly by the monetary authorities and merely administered by banks, or else controlled by the authorities by means of requiring that banks back deposits 100% with reserves. It is anticipated that thus removing the banks' capacity to create credit through fractional reserve banking would prevent the recurrence of financial crisis.

We have been here before. In particular the Great Depression fuelled ideas for monetary reform which hold strong similarities with these modern proposals – most explicitly in the case of the Chicago plan for separating money from credit on which the modern Chicago plan is based (Benes and Kumhof 2013). Then too the plans attracted support across a wide political spectrum. In fact the political philosophy behind discussion of plans for monetary reform was often both confused and dynamic, shifting within the left-right spectrum. Similar policies could also arise from different theoretical frameworks. Thus, for example, the Chicago plan advocated fiscal deficits being financed by money as a means of increasing the money supply, while Keynes had been arguing for fiscal expansion (to boost effective demand) financed by new money creation (Tavlas 1981). That a policy could arise from such different analyses lends weight to its reliability, other things being equal. But since there were also other important policy differences between Keynes and Chicago, it is important to understand the philosophical and theoretical backgrounds to their respective support for monetary financing. The same applies to consideration of the different modern plans for monetary reform. We need to move beyond consideration of the detail of the plans in order to understand the ontology and political ideology being applied.

The purpose here is to illuminate the modern debate by focusing on the political economy of monetary reform in the 1930s in Canada. While there has been more coverage of the 1930s reform debate in the US, we explore ideas for reform of money and banking which arose from the experience of the Depression in Canada, and in particular in the Canadian Prairies. This case study has particular resonance in terms of political philosophy since these ideas for monetary reform which arose from a common experience underpinned the formation of two populist political parties - Social Credit, on the one hand, and the League for Social Reconstruction, on which was based what later became the New Democratic Party, on the other. Some of the ideas were put into practice in Canada and persist to this day. We begin by considering the main external influences on monetary reform in Canada in the 1930s: the ideas of Silvio Gesell (1916) and Major Douglas (1924) with respect to Social Credit, and Keynes with respect to the League for Social Reconstruction.

Ideas for monetary reform in the 1930s

Both Gesell and Douglas advocated moving to a government monopoly over the supply of money, a form of full-reserve banking. Both were part of the underconsumptionist movement, predating the Great Depression, and both pursued the idea of freedom within a reformed private economic system. Both addressed the problem for the general population of the extraction by capital of surplus value, with the consequence of underconsumption, but challenged the Marxian conclusion that the means of production should therefore be socialised. Rather they identified the prevailing monetary system, whereby loaned money earns interest, as the source of the problem.[1] Strict controls over finance were required to promote free competition and to eliminate the extraction of surplus value through interest in order to ensure full employment. The new state money would be put into circulation through government expenditure. This substitution of money-financing for debt financing would contribute to the general reduction in society's debt and the eventual elimination of interest payments; government financing would conform more to shareholding in the commonwealth.[2]

The nature of this new money differed as between the two reformers. Gesell (1916) perceived exploitation as arising from exchange (rather than production), since money earned interest, rather than depreciating like other commodities (Peacock 2013: 175ff). Monetary reform therefore required that money also depreciate in value to ensure that it stayed in circulation. Rather than being held in cash, any investment of saving would then share value rather than earn interest. Gesell therefore advocated that conventional cash be replaced by stamped money notes issued by, and accepted by, government in order to reduce the return on hoarding money; hoarded notes would need to have a stamp attached at regular intervals, as a proportion of their face value. The government would put the money into circulation to finance government spending and would then alter the money supply by raising or lowering taxes.

The Gesell system was introduced on a small scale in Austria, most notably in Wörgl in 1932-3. Notes called labour certificates were introduced by the local authority and used in payment for labour. The system appeared to be successful as the notes became widely accepted in settlement of payments, including by the local banks, and the local economy apparently flourished. The note issue facilitated the initial increase in employment and its high velocity of circulation encouraged demand and thus further increases in employment. However the system collapsed when the stamped money was declared unconstitutional.

Douglas (1924) also identified money and interest as the source of economic problems, but on the basis of a conspiracy theory whereby he saw the leaders of international finance holding power over capitalists and governments alike through their reliance on debt. The welfare state and the concomitant need for increased borrowing simply exacerbated the centralisation of power with the leaders of finance; indeed he saw trade unionism and socialism more generally as being actively promoted by international finance as a way of accelerating the centralisation of power. Douglas therefore challenged Hobson's solution to lack of effective demand by redistributing income via

[1] Gesell (1916) made a similar argument, along Georgist lines, against extraction of surplus through rent on land.

[2] The aim of reducing outstanding debt, facilitated by a social dividend, was shared with the Chicago plan of the 1930s; see Dixhoorn (2013).

the tax system as not addressing the problem. Like Gesell, Douglas did not see ownership over the means of production as any protection against international finance.

The solution lay in monetary reform, whereby the issue of money would be controlled by the state rather than by banks.[3] But the issue of money would not incur Gesell's carrying costs; Douglas's concern was to ensure that purchasing power be maximised (and thus taxes minimised). The issue of money would be under the control of appointed experts to avoid the influence of finance through their power over governments. Douglas's monetary reform went much further than central control of money issue; that was to be only part of a much more comprehensive social reorganisation designed to eliminate the earning of interest and the power that that granted finance. The new state-run money would be put into circulation in the form of a national dividend paid to every resident willing to work and in the form of state-created credit (up to the value of the economy's assets, including human capital). Effective demand would also be supported by limiting company profits. Companies would be required to discount their prices of consumer goods, and could only raise finance beyond government credit by means of shares of no par value.

Keynes (1936) was similarly concerned that an elevated rate of interest to constrain effective demand. He listed both Gesell and Douglas, along with Marx, as fellow challengers of the Ricardian theory of money and interest (ibid.: 32). Like Gesell and Douglas, too, he saw government spending financed by money creation as a mechanism for lifting the economy out of recession. Keynes was also critical of the power exercised by capital, referring to 'the cumulative oppressive power of the capitalist to exploit the scarcity-value of capital. Interest today rewards no genuine sacrifice, any more than does the rent of land' (ibid.: 376).

But it was central to Keynes's macroeconomic theory that the monetary and the real were integrated in a monetary production economy. For Keynes the cause of persistent unemployment was not limited to interest on debt being too high, but also included the power of equity markets over entrepreneurial investment plans: 'When the capital development of a country becomes a by-product of the activities of a casino, the job is likely to be ill-done' (ibid.: 159). But crucially this critique also involved his theory of liquidity preference, one implication of which was that substituting equity for debt was not the solution. As Townshend (1937) had pointed out, Keynes's philosophy meant that asset prices and therefore investment funding were determined by more-or-less uncertain expectations – there was no 'true' benchmark price. More generally, the factors which lay behind liquidity preference pervaded economic decision-making, forging inextricable connections between the real and the financial. In policy terms, a weak propensity to invest was more of a challenge than high interest rates.

Keynes (1936: 370-1) gave Douglas's theoretical analysis fairly short thrift, particularly given his confused identification of exactly what was being held back from the expenditure stream (according to his 'A+B' theory[4]) and therefore what his monetary reform would replace. Gesell was given more extended treatment (ibid.: 353-8). Classifying Gesell's approach as 'anti-Marxian socialism' (p. 355), Keynes noted that, like him, Gesell had understood the rate of interest to be a

[3] Douglas (1937: 9) explicitly expressed an endogenous money position: 'the well-known principle that every bank loan creates a deposit'.
[4] 'A' represented wages and dividends, and therefore effective demand, while 'B' represented the cost of debt servicing and of intermediate production (Hesketh 1997: 20).

purely monetary phenomenon, and that it might be too high to support a full-employment level of demand. Indeed, unlike Douglas, Keynes seemed to be drawn to Gesell's conclusion that money should therefore incur a carrying cost, discouraging hoarding.

But Keynes (ibid.: 357) argued that there was a flaw in the Gesell plan which would significantly erode this benefit: other liquid assets would thereby become more attractive relative to notes (or deposits if treated likewise). Whatever is classified as money is not unique in its liquidity: offsetting the liquidity premium on money with carrying costs would simply divert demand to alternative liquid assets. Further Gesell had neglected to develop a theory of liquidity preference to explain why the rate of interest was always positive (potentially depressing spending plans), quite apart from the power of finance to extract surplus. Keynes's theory of liquidity preference showed that the demand for money and the rate of interest are unstable, such that targeting the stock of money would itself promote instability: 'the tendency of today─rightly I think─is to watch and to control the creation of credit and to let the creation of currency follow suit' (Keynes 1923: 146).

Effectively Gesell and Douglas were trying to create a barter economy in the sense that workers would be paid their full product, assets would take the form of equity, and money would simply be a mechanism for exchange, with no liquidity premium. This conflicted with Keynes's ontology of a monetary production economy. He concluded rather that, if the rate of interest was the result of liquidity preference rather than the Classical natural forces, it was open to management. But such management required a market in government securities. So, while Keynes advocated money financing in a recession, he did not seek to eliminate the market for debt. Nor did he advocate reform of what constituted domestic money.[5] Keynes advocated a 'cheap money' policy enforced through the practices of debt management (Tily 2007). However, since cheap money might not be sufficient to overcome the weak animal spirits of entrepreneurs or the short-termism of financial markets, socialised investment might need to be the ultimate policy for getting an economy out of a recession (Keynes 1936: 378-80). It was expectations of rates of return, and confidence held in them, which ultimately determined expenditure plans.

Darity (1991) explores the common features of Gesell and Keynes's political philosophies, arguing that they shared the view that capitalism required some reform in order better to promote individualism. Keynes (1925) implied that he was politically closest to Liberalism, given his distaste for Conservatism and the Labour Party; as in other respects, Keynes pursued a 'middle way'. But he saw the need for central direction, which he advocated be administered by semi-autonomous public agencies, although it would be challenging: 'The transition from economic anarchy to a regime which deliberately aims at controlling and directing economic forces in the interests of social justice and social stability, will present enormous difficulties both technical and

[5] Keynes (1942) did make proposals for a new international money. While this was later than our period of interest, his plans are interesting in relation to the discussion here. Keynes proposed a supply of international money (bancor) which would be endogenous to the needs of trade, not targeted. But there would be a charge equally on debit balances and on surplus balances. The rationale was similar to that of Gesell's stamped money, namely that surplus countries should be encouraged to adjust by increasing imports, thus easing the adjustment burden on deficit countries. But inter-governmental settlements were not subject to the liquidity preference and near-monies on which Keynes based his critique of Gesell's plan.

political' (Keynes 1925: 305). This central direction had to steer a course between fascism and 'Bolshevism'.

But when Keynes addressed the long run, he barely raised the issue of the financial sector.[6] The implication was that careful management (as in a cheap money policy and prioritising financial stability over monetary stability) would be the best approach to limiting the sector's damaging economic effects, Gesell's solution being unworkable. Indeed he later argued that the workings of the financial sector were a necessary evil until economies advanced such that capital was no longer scarce: 'For at least another hundred years we must pretend to ourselves and to others that fair is foul and foul is fair; for foul is useful and fair is not. Avarice and usury and precaution must be our gods for a little while still, for only they can lead us out of the tunnel of economic necessity into light' (Keynes 1930: 331). This was a far cry from Douglas's political philosophy, which was based on intolerance of the financial sector's power.

Ideas for monetary reform in the 1930s in Canada

While there was active discussion in the US about monetary reform, the direct influences in Canada, and particularly in the Prairies were explicitly Gesell and Douglas, and implicitly (as we will argue) Keynes. The Prairie economy of Canada in the 1930s was dominated by small farms and other small businesses operated by settlers, or the children of settlers. The banking system, as introduced by Scots in the early nineteenth century, had been modelled on the concentrated UK branch-banking system. The Canadian banks were governed by the same 1844-45 Bank Acts which had brought Scottish banks under the strict Currency School principles of control as the rest of the UK banking system. As a result the Scottish banks had developed a very cautious approach to lending and this was carried over to the Canadian banks. As a branch-banking system (and in contrast to the unit banking system in the US), the banks were managed centrally, in Toronto and Montreal[7], and were associated with the Canadian political establishment. In the early 1930s there was no money market or bond market in Canada, only a stock market. There was no central bank and the notes in circulation were the liabilities of the chartered banks.

The monetary circumstances in Canada in the 1930s are documented by the Canadian Macmillan Commission on Banking and Currency of 1933, on the basis of which the Bank of Canada was set up, as a central bank, in 1934.[8] Particular attention was paid to the credit constraints experienced by farmers in the Prairie provinces of Alberta, Saskatchewan and Manitoba, where farm income had dropped by two-thirds between 1928 and 1932. The chartered banks (whose directors, it was noted, lived almost exclusively in the rest of Canada) provided farm credit in the form of overdrafts for terms of 3-4 months. The banks justified this short term by the fact that the loans were usually unsecured, requiring regular monitoring. But the term was short relative to the production cycle, and rendered farmers particularly vulnerable to foreclosures when incomes fell. But the

[6] See Chick's (2013) account.
[7] The Bank of Nova Scotia's titular head office was then in Halifax.
[8] See Curtis (1934) for a commentary.

Commission's conclusion was only that the situation required mutual goodwill on the part of borrowers and lenders, together with moral suasion from a central authority.

The main outcome of the Commission was the establishment of such an authority in the form of the Bank of Canada (see further Ryan-Collins, forthcoming). Among the political forces behind the design of the Bank of Canada was the emerging left-wing party, the Co-operative Commonwealth Federation (CCF), founded in Calgary in 1932 and already the official opposition in Ontario and Saskatchewan by 1934. It was recorded in the Commission Report that discussion of the CCF proposal for nationalising the banks had been ruled out. However there was an important provision consistent with both Social Credit and CCF policy, that the Bank could lend directly to the federal and provincial governments as required, i.e. it was to be a government's bank rather than a bankers' bank.[9] Although initially private, the Bank of Canada was very quickly nationalised when a new Liberal government took federal office in 1935.

Problems with farm credit had already arisen in the 1920s due to a serious fall in farm incomes, so there was a longstanding resentment of the behaviour of the banks. The hardships which followed directly from the treatment by the banks of small borrowers led to a populist call for a radical change to the provision of finance. This populism included suspicion of vested interests in the Canadian (financial, economic and governmental) establishment located in Ontario and Quebec. Social credit ideas had already been aired in Canada in the early 1920s (Douglas 1937: 15). An MP from the left-of-centre United Farmers of Alberta (UFA) party had raised the issue of bank reform during the decennial revision of the Bank Charter Act in 1923, and encouraged the calling of Douglas as a witness (although Douglas's advice seems to have been ignored). Douglas became an adviser to the UFA which was in power in Alberta from 1921 to 1935, and then to the Social Credit administration which won power in 1935 under the leadership of William Aberhart.

The Social Credit party was formed in 1935 in Alberta and played an important part in Canadian politics until its demise in the early 1990s. The party also gained power in British Columbia in 30 of the years within the period 1952 to 1991, but abandoned social credit ideas from its policy programme there. There was a view, notably among the Quebec wing (the Créditistes), that reform of money and banking should be introduced at the federal level, but the party never wielded enough influence in Ottawa to introduce social credit measures. However social credit ideas were central to the platform of the new Social Credit party which went on to govern the province of Alberta from 1935 until 1971, and resulted in a series of policy measures there.

Douglas was the primary influence on Aberhart, although the latter's motivation was more religious than fear of conspiracy. Aberhart's s plan was to limit the scope for finance to interfere with personal liberty by replacing bank credit with social credit created by the provincial government and put into circulation by means of payment of a social dividend for residents and credit to business. Banking and payment of interest would be discouraged and business profits limited by a 'just price' policy and an unearned income levy. But the scope for social credit policies was restricted initially by the high level of provincial government debt and maturing bank loans. Austerity policies, including raised taxes and a balanced budget policy, were forced on Aberhart by an adviser sent by the federal government and the Bank of Canada (Douglas 1937: 74). Aberhart

[9] Similarly pre-existing central banks in other countries were moving in the 1930s to a stance of supporting government policy.

was forced politically to abandon the idea of requiring residents to lend all savings to the government and the province defaulted on its debt in April 1936.

In order to rescue his social credit agenda, Aberhart planned to create new money which would enter the economy by means of the payment of a social dividend to all residents as a minimum monthly income (thereby avoiding increased external indebtedness, see Asach 1999). But Aberhart was drawn, much to Douglas's (1937) disapproval, to Gesell's idea of stamped money to encourage its circulation. In August 1936 Aberhart introduced 'prosperity certificates', issued by the provincial government, backed by Canadian dollars and requiring a 1% stamp per week. There had been an earlier experiment with locally-issued money in the small Alberta town of Raymond in 1932. As with the Wörgl experiment in a similarly small community, the experiment succeeded because the new money was widely accepted within the community. But the province-wide scheme was not accepted widely enough for success, due to distrust of the certificates relative to alternative forms of money. In any case the scheme was ruled out by the Supreme Court.

Aberhart also sought to address the power of banks more directly. He abolished the provincial sales tax, envisaging increased taxation of banks as an alternative source of revenue, and sought to influence bank lending policy in Alberta. He also sought to promote credit unions. But the federal government overturned much of this legislation. One plan which did succeed, in 1938, was to set up Alberta Treasury Branches to compete with banks. They were set up as savings banks in small communities without bank branches; the number of bank branches had fallen from 424 in 1920 to 180 by the mid-1930s. By 1939 there were 29 full-service Treasury Branches and 271 Agencies in operation throughout the province, taking deposits, making loans and providing a range of provincial government and other financial services. Ideally the plan would have been eventually to take all private-sector financial institutions into public ownership, but in practice this was only achieved with respect to fire insurance.

While social credit policies were not pursued much further by Aberhart or his successor, Manning, remnants of social credit policy persist. The Alberta government has periodically made lump sum payments to residents, reminiscent of the social dividend, there is still no provincial sales tax, and the Alberta Treasury Branch system continues to thrive. In Canada more generally there is a longstanding practice of governments at federal and provincial level issuing non-negotiable savings bonds, separating a portion of government finance and household savings from the financial sector. Finally there continue to be state-run auto insurance in several provinces. But there was never any experience of full reserve banking in the sense of a monopoly on government-issued (or 100% government backed) money.

While Social Credit became a right-wing party in later years, it was more politically ambiguous in the 1930s (Hesketh 1997: Introduction). Social credit policies had been espoused first by the somewhat left-wing UFA government in Alberta which was defeated by Social Credit in 1935. The Social Credit party at that point appealed to the left's critique of capitalism and more generally of the centralisation of economic power in eastern Canada. Aberhart's plans involved some intervention in business activity, not just finance, as part of the social reorganisation required to allow the new monetary system to work. But the policies which were enacted did focus primarily on limiting the power of finance.[10]

In the meantime the same experience of small farmers in the Prairies in the 1930s had spawned another new party on the left: the Cooperative Commonwealth Foundation (CCF). Their policies drew on the ideas about the socialisation of finance which were developed in the 1930s in Ontario by the League for Social Reconstruction (LSR). This was a group of left-wing intellectuals, several of whom had been educated in England. The LSR was modelled on the Fabian Society, which had been set up to promote non-Marxist evolutionary socialism. The LSR's ideas were embodied in the 1933 Regina Manifesto for the CCF which was established in Calgary in 1932 as an amalgam of farmers' groups, the LSR and the Ginger Group of federal MPs. The CCF merged with the Canadian Labour Congress in 1961 to became the New Democratic Party, which has maintained its status as Canada's left-wing party ever since, governing in a series of provinces (notably in the Prairies) and forming the official opposition in Ottawa in the 2011-15 government.

Where the primary goal of Social Credit was banking reform, for the CCF the goal was to restructure capitalism (Melnyk 1986). The LSR had therefore included its proposals on monetary reform within a broad programme of socialising the economy. They documented the way in which power was centralised in the financial sector by means of interconnecting ownership and management between the different types of institution.[11] But there was further the 'signal weakness of the financial system', the 'morganatic marriage between industry and finance' (Research Committee of the League for Social Reconstruction 1935: 305). The underlying argument was that the corporate sector operated in such a way as to cause economic instability. Bank lending policy tended to aggravate that instability, even though the underlying cause was businesses' investment policy. Monetary policy was deemed insufficient and, even if bank lending were all directed by the state, this would still not allow sufficient control to generate full employment; control was required of alternative sources of finance. In particular, large corporations could keep retained earnings idle. The proposal was therefore that, not only banks, but all financial institutions be brought into state ownership (Forsey 1944).[12] The central bank would act as a Head Office for the banking system, which would continue to be staffed by professional bankers. The aim was to direct credit within the economy as well as financing government spending with new money.

There were therefore important differences from the social credit proposals; indeed there was direct criticism from the LSR of social credit ideas (ibid.: 315-26). First, while the LSR proposed a general programme of nationalisation, Social Credit only considered nationalising finance. Second, the LSR held no conspiracy theory about finance controlling industry – rather the situation was interpreted as mutually-reinforcing power structures. Third, bankers were not vilified on moral grounds. Instead it was made explicit (ibid.: 303) that the banks' lending behaviour followed from prioritising the profit motive over the public interest in the same way as any other kind of company. This was the nature of a modern capitalism. Fourth, there was no attempt to introduce a new kind

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[10] An exception was the establishment of the Alberta Marketing Board in 1937.

[11] This interconnectedness occurred in spite of the longstanding tenet that the five pillars of finance should be kept separate: chartered banks, trust and loan companies, the co-operative credit movement, life insurance companies and securities dealers.

[12] The proposal to nationalise banks to the Macmillan Committee had been submitted earlier by two of the authors of the 1935 LSR report.

of money, although there was discussion of removing the interest then paid on deposits which the banks had maintained in order to encourage saving. Fractional reserve banking would continue, but on the basis of credit creation directed by the public sector. Fifth, while the Social Credit view that money was endogenous to bank lending decisions was shared by the LSR, the view was moderated by an understanding that there was scope for monetary management: ‘the reactionary tendency is to deny outright that banks create deposits. The monetary crank, on the other hand, presses the argument too far in the other direction, by asserting that banks alone can, and do, determine the volume of deposit-currency’ (ibid.: 289).

If Social Credit as a political movement ended up on the right and the LSR espoused socialism, did they together constitute the two political poles between which Keynes located his middle way? But in classifying the socialist pole, Keynes (1925: 299) described the Labour Party as one ‘which hates or despises existing institutions’. This does not fit the LSR (or indeed the CCF or the NDP) which operated within the existing democratic framework. This was consistent with the aims of the Fabian Society which was their model. Rather I would argue that the LSR’s analysis holds much in common with Keynes, seeing money and interest as elements of the overall capitalist system, i.e. a shared ontology. In practice in any case, CCF and NDP policies have conformed to Keynesian demand management and institutional design aimed at ‘controlling and directing economic forces in the interests of social justice and social stability’ (Keynes 1925: 305). Successive CCF or NDP provincial governments have brought a range of activities within government control as crown corporations. Further, the CCF government of Saskatchewan, elected in 1944, pioneered the introduction of a public health service (Medicare) in Canada.[13]

While the LSR analysis and subsequent policy-making thus seem to accord significantly with Keynes’s analysis, concrete evidence of Keynes’s influence is hard to find. But clues might be found in the background of the members of the group who were economists. The LSR proposal for the nationalisation of banks was presented to the Macmillan Committee in 1933 by two economists, Irene Biss and Joe Parkinson. The 1935 LSR Research Report was also authored by them, together with a third economist, Eugene Forsey.[14] Forsey, like many others in the group, had been a Rhodes scholar at Oxford. While Parkinson had been at the LSE, it is known that he was a Keynesian (Horn 1980: 25), although it is not documented how he came across Keynesian ideas.

It is therefore most likely that it was Biss whose Keynesian influence was pivotal. She had been an undergraduate at Cambridge, had studied under Keynes and was a member of the ‘Heretics Society’ with which Keynes was associated (Cameron 1999), Keynes also having been one of the first members of the Cambridge University Fabian Society. Further Dobb was also associated with the Heretics and published a critique of social credit (albeit in 1936, after Biss’s time in Cambridge). Although Biss, under her married name Irene Spry, continued throughout her life to move in Keynesian circles, her contributions were primarily in Canadian economic history. There may thereby have been a further influence on her thinking about money and banking, since she studied at the University of Toronto with Harold Innes. His staples approach explored the influence of dependence on external finance on the development of staple industries in Canada, although it

[13] Other provinces, and finally the federal government, thereafter followed suit.

[14] Other economists in the group were Henry Cassidy, Eric Havelock and Lorne Morgan (see further Horn 1980).

was the physical characteristics of staple products which were the primary causal factors (see further Dow and Dow 2014).

Concluding Reflections

We have seen some important strands emerge from this experience of ideas for monetary reform in Canada in the 1930s. In particular the social credit approach saw finance as the source of economic problems, planning a social reorganisation that could make money separable from the rest of the economy, robbing private sector finance of its power. The socialist approach of the LSR on the other hand saw finance as integral to the capitalist system such that addressing the damaging aspects of finance had to go alongside public sector involvement in production in order to stabilise the economy at full employment. This understanding was consistent with Keynes's ontology and his theoretical explanation as to why the social credit money of Gesell would not work. In particular, for Keynes, the nature of a monetary production economy was such that credit conditions are influenced fundamentally by liquidity preference, which in turn is influenced by the expectations of economic conditions (and confidence in these expectations) which determined expenditure plans. Further, since liquidity preference can be satisfied by alternative near monies, the money supply cannot be controlled at a target level. It was therefore misguided to attempt to control the supply of a particular form of money.

Keynes's argument is illustrated by our recent experience with monetary policy which holds some aspects in common with social credit. Quantitative easing is a roundabout method of monetary financing of the fiscal deficit, while negative official interest rates are equivalent to Gesell's stamped money. But if there is not enough confidence to support expenditure plans, any additional money supply does not translate into increased effective demand but rather is hoarded. Further, if confidence in expectations is weak, the liquidity premium is high, so that even negative nominal rates need not deter demand for liquidity – or else alternative sources of liquidity, like bitcoins, are sought. At the same time, general attempts to reduce governments' debt threatens the financial system with a shortage of good collateral (Dow 2014).

The Keynesian critique applies likewise to modern full reserve banking proposals. The plans hold much in common in terms of a theoretical perspective (see further Dow, Johnsen and Montagnoli 2015), which accords more with social credit than with Keynes. Although they are different in many other respects, all full-reserve banking plans envisage one form of money, held for transactions purposes, controlled directly by the state. Either this money would be issued by the state in the case of the Positive Money proposal (Jackson and Dyson 2012), or else controlled indirectly through the requirement to hold 100% reserves whose supply is controlled by the state. Fractional reserve banking would cease to exist, and finance would generally be the outcome of an intermediation process conducted by private sector institutions without state protection. These reforms would not have the support from the radical social reorganisation proposed by social credit in the 1930s and would therefore have to succeed within a continuing capitalist system.[15]

The ontology underlying full reserve banking proposals generates a different monetary theory from Keynesian theory. Just as with the League for Social Reconstruction in the 1930s, there is a different interpretation of the nature of the problem with capitalism from which financial instability arises. On this basis, Keynesian reform discussion focuses on ways of creating a more stable financial environment, both for the financial sector and for the real economy, by means of regulatory, cultural and institutional change. Rather than eliminating fractional reserve banking, the aim is to harness the power of such a system through a return to cooperation between banks and central banks (Dow 2014). The focus is on credit rather than money, and the viability and social desirability of projects being funded. The concern is not with the level of debt as such, but with the quality of debt, and the need for public sector provision of funding where social desirability overrides risk. Overall the aim is to have institutional structures which ensure a range of assets and liabilities whose prices are not overly vulnerable to instability.

Economists in the Keynesian tradition are concerned with reform designed to reduce financial instability and the consequent social costs just as much as the full reserve banking proponents. But there is a different understanding of what is possible, by way of reform, in a monetary production economy with a highly-sophisticated financial sector and also what is required (Kregel 2012). In practice, governments pursuing the LSR manifesto in Canada in the 1930s and beyond have sought reform in a more gradual process of state involvement in the economy than wholesale nationalisation. This approach is one which can be pursued further, in order to stabilise capitalist economies, as Keynes (1925: 305) put it, by 'controlling and directing economic forces in the interests of social justice and social stability'.

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[15] The Positive Money proposal has been taken up by different groups advocating wider social reorganisation of different sorts, but the monetary reform proposals are presented as separable.

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