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Source: *The Australian Quarterly*, Mar., 1936, Vol. 8, No. 29 (Mar., 1936), pp. 6-15
Published by: Australian Institute of Policy and Science
Stable URL: https://www.jstor.org/stable/20629295

Social Credit Movement in Alberta

By J. F. PARKINSON*

The first "Social Credit" government in the world took office in the province of Alberta in August last, following upon its victory at the polls. In view of the interest displayed in the "Social Credit" programme in other parts of the British Commonwealth, this article will attempt to interpret the political history and the economic doctrines of the movement in Canada.

First, as to its origin, the genesis of the movement goes back to the 1920-21 depression. This depression was marked by a severe drop in the price of farm products, the results of which weighed very heavily on the people of a province so greatly identified with agriculture as Alberta. One effect of this economic impoverishment was to cause prairie farmers in general to break away from the traditional two-party system and provide the backbone of the new "Progressive" movement, which elected 65 members to Ottawa in the election of 1921. Another effect was to create a condition suitable to the growth of the "social credit" theory—that the banks (or the monetary system operated, in part, by the banks) was responsible for the fall in prices. The ideas of Major Douglas, Professor Soddy and other European exponents of unorthodox monetary theories were easily transplanted to Canadian political soil, where they were nourished by certain members of the Federal House hailing from the Prairies. In 1923 Major Douglas was invited by this minority group to appear before a House of Commons Committee on Banking and Commerce in order to expound his economic doctrines. Since that time the "social credit" theories have been vigorously expounded in Alberta.

With the lifting of the post-war depression, farmers in the Prairie Provinces and in Ontario largely drifted back into the fold of the Liberal party, and the "Progressive" movement almost disappeared from Canadian politics, until its revival in new forms in recent years. A remnant of "progressivism" remained, however, in the form of the United Farmers of Alberta. This farm association,

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concerned originally only with the application of the principle of co-operation to agriculture, has elected the governments of Alberta ever since 1921. In addition to this, it was able to elect a small but compact group of members to the Federal House every general election until their defeat by the "social credit" movement in the Federal election in 1935. There is something ironical in the fact that the spade work for the "social credit" idea should have been done by the same U.F.A. movement (more particularly by several of its Ottawa representatives), which a "social credit" party ultimately was to sweep out of office.

The U.F.A. members of the Federal House sublimated their "social credit" sympathies in eminently practical and legitimate demands for a Central Bank, for lower interest rates on farm loans, and—when low prices came in 1930—for ameliorative devices such as "reflation," debt-adjustment legislation, controlled exchange, depreciation and the like. In so far as they were enamoured of distinctively "social credit" schemes at all, it was to Major Douglas' brand of "social credit" that they turned. Furthermore, they never doubted that such theories could only be put into practice under powers reserved to the Dominion Government. It may also be remarked, in parenthesis, that the actual U.F.A. government in Alberta was far less radical in its make-up than the group of U.F.A. members elected to the Federal House.

After 1932 the political scene began to change. In the Federal field there had emerged the Co-operative Commonwealth Federation (C.C.F.), a movement which attempts to organize farmers and Labour on a common socialist platform, welding together into one movement a series of separate and regional farmer or labour political organizations. The U.F.A. affiliated with the C.C.F. in 1932 and its members at Ottawa co-operated with the small group of Labour representatives. In so doing the U.F.A. was moving far to the "left" of the provincial cabinet, a condition which, along with other factors, created some elements of discord in the Alberta organization generally.

Meanwhile, Mr. William Aberhart had slipped into the picture. Mr. Aberhart was, until called to take office as Premier of a "social credit" government, the principal of a high school in Calgary. He was better known to Albertans as the head of the Prophetic Bible Institute at Calgary, a radio temple, built with subscriptions from rural listeners. From this Institute Mr. Aberhart has been broadcasting evangelical services every Sunday afternoon for three or four years, so that his radio talks—a mixture of religious prophecy and economics—had become a familiar institution in Alberta long before he came under the spell of Major Douglas. The members of this Bible Class of the radio were ultimately to become his most vigorous political supporters and organizers.

A few years ago Mr. Aberhart encountered a book of Major Douglas and was converted (the word to be taken in its full evangelical sense) to the doctrines from the start. They appeared to explain why the people of Alberta were in such sore economic distress, and how their plight might be remedied. Mr. Aberhart's first pamphlet on the subject was disowned by the Douglas Secretariat in London as "fallacious from start to finish". It contained a type of analysis and prescription quite heretical to the Douglas theory. Mr. Aberhart, however, continued to advocate his plan of putting "social credit" into operation in Alberta—"social credit" in one province alone—and threw the U.F.A. into a flutter by having it brought forward for adoption at the annual convention of that body in January, 1935.

The U.F.A. voted down the proposal, but Mr. Aberhart proceeded to establish the Alberta Social Credit League, with branches all over the province. The movement spread rapidly, even gathering support from people hitherto prominent in local U.F.A. clubs. Alarmed by this threat, the Alberta (U.F.A.) government put through a motion in the Legislature to provide for the appointment of Major Douglas as economic advisor to the Province. Premier Reid probably hoped that Major Douglas would come over and administer the *coup de grace* to the Aberhart doctrine. He certainly hoped that the appointment would convince all waverers that the U.F.A. interest in "social credit" was genuine. Actually Major Douglas' visit to Alberta did neither of these things. His report to the government on the Aberhart plan, along with the rest of his advice, was couched in such ambiguous terms as to encourage each side to believe that it alone possessed the ark of the covenant of "social credit". Thereupon, less than three months before the provincial election, a convention of Mr. Aberhart's clubs decided to enter the political arena as a new party. The more unique features of the platform upon which the party appealed to the electorate were as follows: Establish the principle of the "basic dividend"; halt borrowing from outside sources; create credit within the province; regulate the spread between the price of raw materials and finished products; establish a "just price" on all goods and services.

Needless to say, the first plank contains the real drawing card. It goes one better than Major Douglas. Major Douglas' proposals, of course, have always included provision for consumer-subsidies designed to equate buying-power with potential production. But the method by which the subsidies are to be granted are somewhat indirect and complicated. Furthermore, Major Douglas, perhaps necessarily, is rather vague as to the amount of subsidy required. Using the same terminology, Mr. Aberhart removed the ambiguity in Douglas by promising to pay every adult citizen of Alberta a "basic dividend" of $25.00 per month as his rightful share in the "cultural heritage" of society. He also said that the money was to be obtained by a levy on production "which would not be a gigantic scheme of taxation," i.e., the "Social Credit" way. His account of how he proposed to issue credit with the aid only of a fountain pen, after the supposed fashion of private banks, crystallized and gave direction to the anti-banker complex common amongst debtor groups everywhere since 1930.

In the provincial election "social credit" candidates, consisting largely of people without political experience of any kind, were nominated in all ridings. Incidentally, the method of nomination was somewhat alien to the more democratic tradition of even the old parties. All candidates had to be personally chosen by Mr. Aberhart from a panel put up by the local committees. Amidst the confusion of conflicting interpretations of "social credit" the new party has survived as a unity only by reason of the common loyalty to the leadership of Mr. Aberhart. This may be regarded as the first application of the "leadership" principle of government in Canadian politics.

The results of the election confounded the prophecies of the most seasoned political observers. The "Social Credit" Party received 54 per cent. of the total votes cast, and—as a result of numerous three and four-cornered contests—56 out of 63 seats. The remaining seats were divided as between 5 Liberals and 2 Conservatives. The U.F.A. were thoroughly routed. Two months later, in the Federal general election of October, the Social Credit Party contested all the constituencies in Alberta and Saskatchewan, 6 out of 17 of the Manitoba constituencies, and 2 of the 16 constituencies in British Columbia. It polled 47 per cent. of the vote in Alberta, 18 per cent.

in Saskatchewan, and did very badly in the other two western provinces. It captured 15 of the 17 Alberta constituencies, and also 2 constituencies in Saskatchewan on the Alberta border. So far there is no evidence of any strong "social credit" movement outside these areas.

Since assuming office Mr. Aberhart has done nothing spectacular; on the contrary, he has continued to grapple with the same budgetary problems which faced his predecessors—and in much the same way—by appealing to Ottawa for financial assistance. Before the election he announced that "social credit" dividends would not be paid until after a good deal of preliminary organization had been done, which he expected to take at least eighteen months. The first step, he now argues, is to correct the existing budgetary disequilibrium. How acute the problem is may be roughly indicated by stating that annual deficits on current account alone since 1931 have averaged about $2 millions, this figure being exclusive of practically all expenditures on direct relief, or on public works of one kind or another designed to provide relief indirectly. The latter expenditures (charged to capital account) over the last five fiscal years (ending March 31, 1935) were as follows: 1931, $12.5 millions; 1932, $21.2 millions; 1933, $9.4 millions; 1934, $8.3 millions; 1935, $10.1 millions. To give perspective to these figures it should be stated that the current revenues in Alberta over the last five years have been approximately $15 millions annually. The current deficits plus the expenditures on direct and indirect relief have been financed by increasing the funded debt of the province from $111.5 millions in 1931 to $139.4 millions in September, 1935. To this must be added an unfunded debt of about $15.6 millions, making a total debt of approximately $155 millions. A recent government statement pointed out that the debt charges are now in excess of $8 millions (or more than 50 per cent. of current revenue).

What Mr. Aberhart would like is a reduction in interest costs through a conversion operation. Mr. Aberhart and some of the other provincial Premiers made proposals at the December Dominion-Provincial conference for a gigantic conversion operation designed to reduce provincial debt charges—to be undertaken by the Federal Government (possibly on the Australian model, to which several Premiers referred). It is not yet clear whether the Federal Government will agree, or indeed whether the provinces are prepared to pay the requisite penalties. The Government of Alberta has sent out letters to leading bondholders and dealers, setting forth the conclusion that debt adjustment is necessary to Alberta if obligations are to be met and budgets balanced. The letter suggested that bondholders should get together on a refunding scheme which, while reducing interest, would give them greater security for this investment. While submitting no definite scheme, the Government suggested that it might issue a perpetual security (similar to British "Consols") for approximately $80 millions of debt, and serial bonds (with full Sinking Fund provisions) for the other half. But it went on to say that "on both forms of security, an interest rate of approximately 2½ per cent., plus the full sinking fund, would approximate the annual capacity of the Province to pay on debt account."

It should be mentioned that this rate is even lower than that at which the Federal Government has been able to refund its maturing debts, and that Alberta bonds are practically all uncallable. It is difficult to see, therefore, how Mr. Aberhart can lighten the debt burden without Federal support unless a miracle happens, and bondholders voluntarily offer themselves upon the altar. Incidentally, Mr. Aberhart has decisively rejected the possibility of escape by way of debt repudiation. Nor, by his own admission, is there much likelihood of spectacular economies in the controllable section of Government expenditure, which have been reduced by 15 per cent. already over the last three years.

If we accept Mr. Aberhart's admission—for which he gives no reasons—that a balanced budget is an essential preliminary to the initiation of "social credit," it would appear that, failing an enormous recovery in wheat and cattle exports and export prices, his "social credit" plans will remain in cold storage for some time. There are signs, however, that some of his supporters are already becoming inpatient, and he may be forced to make a beginning sooner than he anticipated.

How practicable are the pre-selection "social credit" proposals of Mr. Aberhart? We may test their value, first of all, by examining the theoretical framework around which they are built, as found in a little "Manual of Social Credit," written by Mr. Aberhart for widespread circulation before the election.

The diagnosis made of Alberta's ills is, roughly speaking, to the effect that "there is a lack of purchasing power in the hands of consumers". This deficiency is explained, however, not in terms of the "A plus B Theorem" so dear to the orthodox "social credit" circles, but simply as the result of the introduction of machinery. People whose jobs are usurped by machines have no purchasing power, and thus "they cannot get the goods piled high in factories and warehouses. Thus there is no need to produce more, and the great factories become silent and there is much less purchasing power. So the disease becomes very bad, for we have fallen into the vicious circle." This is the first of the "three great poisons at the root of our troubles". It seems a particularly naive explanation of the jump in unemployment in Canada from 90,000 in 1929 to possibly 800,000 in 1932. There is no suggestion in the Manual of the possibility that the decline in the export trade might have something to do with the unemployment in the secondary industries and services. Nor is there any mention of the fact that the "great factories" of Canada are not located in Alberta at all.

The second cause of the trouble lies in "wild-cat profiteering". According to Mr. Aberhart, "this intensifies the trouble by making the purchasing power less efficient. The dollar will not secure as much goods as it formerly did." Mr. Aberhart proposes to use the spread between the prices of raw materials and the finished product as the source of the levy out of which he will pay the "basic dividend". Dividends of $25 a month to all adults—with smaller payments for younger people—will require roughly $10 millions a month. It is not made clear how the money necessary for the initial monthly payment is to be obtained, but subsequent monthly dividends are to be "recovered" from the "cycle of credit" by a special levy on production, which, presumably, will have already been expanded enormously under the stimulus of the first dividend expenditures.

Thus, second in importance to the Dividend in the scheme is "an automatic price control system to fix a Just Price at which goods and services will be available." In amplification of this the Manual relates: "It is the intention . . . to reduce the spread . . . in the marketing and processing of goods. On account of the increased turnover that will be produced by the augmented purchasing-power through dividends, salaries, commissions and so forth, it is felt that the producer and distributor will be able to carry on their business with a closer margin of profit or commission on turnover. Thus the province will be able to collect a levy that will provide the basic dividends."

To explain how the scheme might work, Mr. Aberhart uses an illustration from the wheat, flour and bread business in which a bushel of wheat bought from the farmer for 60 cents is processed into fifty loaves, selling for $3.50. He anticipates that a small levy at each stage of the processing of wheat might net the Government of Alberta 65 cents (say, 25 per cent. of the value of the finished product)—and similarly with other goods processed or marketed within the province.

A little simple arithmetic will reveal the extent to which this device will fall short of the objective. The levy, it is admitted, can only be placed upon goods manufactured or processed in Alberta—not upon raw materials exported abroad or to other provinces. The choice of wheat for illustration purposes is most unfortunate for the "Social Credit" case, and should have warned Mr. Aberhart. Most of Alberta's wheat is not processed into bread (or even into flour) in Alberta itself. Indeed, 63 per cent. of the production of Alberta in 1932 consisted of farm products, most of which was destined for shipment outside the province. The gross value of all the products of manufacturing industry was roughly $55 millions in that year. A levy at each stage of the processing, comparable with that used in the illustration fom wheat, might realize a little over $10 millions. But the "basic dividends" promised will require perhaps $120 millions annually. It therefore follows that this promise can only be fulfilled if the volume of manufactures in Alberta is increased twelve-fold as a result of the stimulus to production given by the distribution of "social credit" purchasing-power. Such an expansion is hardly to be expected even under the most ideal form of economic organization, let alone one in which production is, and must continue to be, highly specialized along export lines.

The reason for the failure of "social credit" advocates to appreciate the nature of their economic problems lies in their refusal to consider the structure of the economy which lies beneath the monetary or bookkeeping surface. Mr. Aberhart exemplifies this form of economic astigmatism. Having discovered that it might be possible to extract $10 millions by a sales tax (under another name) he begins to play with the concept of the velocity of circulation of money.

"I am told on good authority that the town of Vermilion (Alberta) did $8,000 worth of business with $1,000 of post-dated cheques in four months. That is a circulation of twice a month. If the circulation in the Province was only once a month, we would have to recover ten million dollars only to carry on the full issuance of the basic dividends as long as they remained at $25 a month. Four hundred thousand people at $25 a month would amount to $120 millions a year. If the cycle was once a month, $10 millions of credit would handle it all." Generally speaking, Mr. Aberhart manages to perform miracles of logic with the aid of analogy. Indeed, analogy is his chief intellectual weapon. It is unfortunate that they are mostly false. In the case of the town of Vermilion he could have concluded, legitimately, that a local government might borrow small sums from the public for a limited time by the issuance of non-interest-bearing scrip, providing the scrip was generally acceptable in lieu of money, a proviso which would depend on the amount of the issuance and the provisions for its early conversion into legal tender. It would be false to conclude, as Mr. Aberhart does, that this experiment proves that more goods were actually produced than would have been produced had the "money" not been issued. It is equally illusory to imagine that a larger authority, such as a province, will be permitted to contravene the terms of the British North America Act by issuing currency.

Even assuming that the province of Alberta were permitted to issue something which was identical with money (if it were less than that the money could and would depreciate in terms of Dominion notes) there is no reason to believe that it would cause production to increase. The principal effects would be seen in an inflation of the prices of such Albertan commodities and services as were consumed at home, and in a resultant widening of the spread between farm prices—which are on an export basis—and the costs of farming. The distortions in the price system which would result from the addition of new money alone would aggravate the existing economic dislocation.

But the discussion of what might happen becomes largely academic in view of the fact that Mr. Aberhart is unlikely to surmount the obstacle of the Constitution, which reserves the issuance of currency to the Federal authority.

His proposal to establish "just prices", which will give every producer in Alberta "a fair commission or turnover" without "exploiting the purchasing power of the consumer", is within provincial jurisdiction. It is another matter, however, to establish "just prices" for commodities which are sold in competitive markets in other provinces or abroad. Nor is there any recognition in the economics of "social credit" that prices must be free and flexible—and frequently "unjust" —if they are to perform their function of governing production in accordance with changing supply and demand conditions. It is probable, therefore, that this part of the plan will resolve itself into the fixing of minimum prices paid for certain purely domestic services, and the establishment of minimum wages for certain workers in Alberta. This is hardly a new development in the field of Government intervention, even in Alberta.

The third and last defect in the present system, according to Mr. Aberhart, is that "The investment of surplus funds leaves the realm of commerce, where huge profits are the aim, and enters the realm of bond investments where interest is the main consideration. Thus the flow of credit is retarded so that the rate of interest may be maintained." His remedy for this curious state of affairs has very little relation to the disease. There must be "a more continuous flow of credit." People, he says, must spend their basic dividends and other incomes by the end of the year following their receipt, or invest them in Government bonds. Further, "all producers will be allowed temporary supervised credit to enable them to serve the citizenship in the best possible way . . . In order that credit may be adequate to provide and distribute goods, the State must be prepared to issue credit without interest to bona-fide producers and distributors. This will prevent hoarding for the sake of making high interest."

But this part of the plan, like the issuance of basic dividends, is postponed until after the budget is balanced. In the meantime, Mr. Aberhart's Government will be glad to receive all the loans it can raise, and will pay interest thereon, even though it does have the effect of "retarding the flow of credit."

Toronto, January 6, 1936.