THE

NEW AGE

INCORPORATING "CREDIT POWER."

A WEEKLY REVIEW OF POLITICS, LITERATURE AND ART

No. 2146] New Series Vol. LIII. No. 26. THURSDAY, OCTOBER 26, 1933. [Registered at the G.P.O. as a Newspaper.] SEVENPENCE

CONTENTS.

NOTES OF THE WEEK.

The League of Nations.

It cost ten million lives, said Mr. Arthur Henderson, to bring the League of Nations into existence. Query:—How many lives is it worth to wipe the League out of existence?! The answer can be: None—or it can be: Fifty million or any higher number. It depends upon how you approach the problem. If you regard the League as a self-determined body as to wisdom and initiative, a glance at its personnel—which the news-film theatres offer frequent opportunities for the public to take—is alone almost sufficient to convince you of its impotence. You see exactly the same types as those who become, or fag for, Cabinet Ministers in their respective nations, and mismanage the affairs of those nations severally. How shall they manage the affairs of those same nations collectively? They will tell you that by meeting together in one place they get to know each other's point of view, an argument which presupposes that to be able to survey evidence of divergent interests is to be able to reconcile them. That could only be true if they understood the fundamental cause of the economic deadlock. But in that case their assembling at Geneva would be unnecessary, for all the points of view which they could possibly encounter fall into categories which Major Douglas, fourteen years ago, defined and described in their logical relationship to the flaw in the price system. As it is, these gentlemen, being without a notion of the frame of reference in which to adjudicate on the testimonies that they listen to, find that every new point of view adds to their uncertitude, confusion and impotence. They had much better go home where, at any rate, the points of view are smaller in number, and therefore are a less stringent test of their talents.

* * *

The League corresponds to the "national government." The characteristic of such a government is that it is free from what is called "party bias." It purports to be a non-party institution based on all-party support. Mr. Nin, the leader of the agricultural party, Mr. Com, the leader of the capitalist party, and Mr. Poop, the leader of the workman's party, agree to pool votes and form a Nincompoop administration. In principle this has taken place in every country, including those under dictatorships. Thus the League of Nations is the product of nincompoop nominations and symbolises the nincompoop doctrine in a magnified form in the sense that just as the Nin interests, the Com interests and the Poop interests are ploughed into the field of national legislation, so are these merged interests in each nation ploughed into the field of international legislation. The art of the nincompoop legislator, whether national or international, consists in reconciling, not divergencies between economic interests, but divergencies between the political formulae customarily used to represent those interests. The arch-prophet of nincompoopery, Dr. Nicholas Murray Butler, delivered an oration recently whose theme was that of the world state as an area in which the unit of political power was a nation. He described the world of his dreams as a community of "citizen nations." What he was getting at was that the political power of the citizen should be exercised with complete disregard of his economic functional activity and requirements. The true citizen is a man who behaves as if he were outside the economic system. When he votes, it must be for or against an abstract principle affecting wantless beings. Food, clothes and shelter should not occupy his thoughts; for the Nincompoop Government knows that he has need of these things. And so, by extension, does the Federation of Nincompoop Governments know the needs of the citizen-nations. Such is Dr. Butler's vision—a happy Lotos Land in which the rights of citizenship are founded on the disembodiment of the citizen.

* * *

Legislators in Cabinets or in the League would be seen as the impostors they are if they were in fact self-determined in the sense we have postulated. Their opinions and activities, which are all convergent on the Lotos celestialism, would be derided and stopped by terrestrial common sense. But they are not the authors of the doctrines they enunciate or the directions they give: they are only the transmitters. They are the Nincompoop priesthood of the Basle oracle. Their wisdom is that of the bankers who work the oracle.

But, much more important than that is the fact that these bankers are able to fulfil any prophecy or warning that they choose to make the oracle utter. They can thus deceive common sense.

* * *

Conversely, they can make the oracle prophesy in ambiguous or unintelligible terms on any matter of which they cannot foresee the outcome, or the outcome of which looks like discrediting their judgment. They can thus defeat common sense. It stands to reason that when people see the oracle's intelligible prophecies come true without knowing how, they will place their faith in its ambiguous prophecies and be ready, in the event, to look back and say: " This is how it has turned out, so this must have been what the oracle meant us to expect." And on occasions when the oracle is stumped for anything to speak except to make the humble declaration that the future is inscrutable—" One step enough for me "—well then, the whole thing must be beyond human understanding, and must be left for the Priests of Basle to pray about, and for the people to mutilate themselves about.

* * *

Financial mutilation is the magic which causes economic recovery—that is the one universal doctrine preached unvaryingly and all the time to the people. And if the " recovery " is not recognisable, either the mutilation has not been sufficient, or if it has, then whatever follows is bound to be a " recovery " no matter what it feels like. Financial mutilation is comprehensively expressed in the term Deflation, and takes the form of taxation, bankruptcies, reconstructions, retrenchments, disemployment, undistributed reserves, re-investment of income, and compulsory insurance. Such are some of the knives and lancets with which the peoples are enjoined and compelled to cut themselves by the Basle magicians. The dogs may bark, but the magicians carry on.

* * *

Mr. Arthur Henderson's and the League of Nations' policy of Disarmament is a specimen of deflationary mutilation. It would make disemployment certain and leave re-employment problematical. As we showed last week, it would quicken rather than arrest the impulse to war. It is true enough to say that money set free from absorption in war-production can be diverted to peace-production, but there is no reason why this should necessarily happen. The money set free would be at the disposal, not of the Governments concerned, but of the bankers, who could, if they wished, withdraw it from circulation altogether. And if they decided to keep it in circulation they would also decide who should use it, and what for. No doubt they would use some of it on the enlistment, training, and equipment of policemen to make war more effectively on the civil population in case of disorder. That would, of course, come under the heading of " peace production "! But this apart, there is no fundamental distinction between peace-production and war-production in respect of the financial consequences. A British battleship, in time of peace, is equivalent to an idle factory, its officers and crew to unemployed men, and their pay to a dole—the one distinction being that they have to qualify for the dole by keeping fit for work. It is true that a battleship is not expected to earn revenue by the selling of things with a price attached to them; but the fact of there being no such expectation is irrelevant to the fact that the battleship does not function as a revenue-earning instrument. Now whereas this fact constitutes a case for scrapping the ship, it does not necessarily constitute a case for spending the saved money on a factory. The case would depend on whether the additional factory would increase the revenue-earning power of industry collectively. In a closed national credit area it could only do so if the community of consumers had a margin of hoarded (not invested) money. But they have not; and the proof lies in the fact that there is a glut of every sort of thing that they need and would buy if they had the money. That means, in turn, that there is a glut of factory-capacity unable to earn revenue. Therefore, to build a new factory in these circumstances is the same thing as building a new battleship. Whether you baptise it " White-Elephant, Ltd.," or " H.M.S. White Elephant," is simply a matter of taste. It is the same in every closed national area where the same phenomenon is to be observed—that is to say in every country in the world. If you merge the world's territories, industries, armaments and populations you will find that the gain from diverting armament-credits into industrial production would be *nil*. The financial burden of the world's armaments would remain exactly what it was.

* * *

What can happen—and probably would—under a policy of general disarmament is that the change from war-production to peace-production would cause a change from peace-sentiment to war-sentiment in some of the countries affected, the reason being that trade would be redistributed to the danger of those countries. Let us imagine two nations sharing the world's trade, the one spending £50 millions on armaments, and the other £20 millions. Let us picture the armaments as navies. Leaving out of account all questions of military coercion in matters of trading, these navies are non-competitive instruments. The money spent on them may be presumed to be spent with native constructors and, of course, native officers and crews, and so circulates inside the two countries separately. There is no interference here. Again, the comparative efficiencies of the two navies (as to men, design or material) do not matter. The £20 million navy might be stronger than the £50 million one, but since they are built to fight in war-time, not trade in peace-time, the superiority of either over the other would not affect the commercial relations between the two countries. But now suppose them both to decide on naval disarmament for the sake of industrial re-armament, and the passive and contingent menace in the old navies becomes the active and direct menace in the new industries. Factors of international competition, unexploited while the navies had to be financed, would arise in both countries, but without any guarantee that when employed on both sides the old balance of trade between them would be preserved. It would be certain to suffer disturbance, and might do so to an intolerable disadvantage to the losing party. Illustrating this in elemental terms, it is easy to conceive peaceful relations between two countries each occupied with agriculture and shipbuilding, paying the shipbuilding section of the population money to spend on home-grown grain, and hoarding up the ships. But supposing the two populations were now denied the money to build ships unless they could export them at a higher price than they cost, and were also denied money unless they built ships (which means that they must not import ships) then the logic of the situation would make it a matter of commercial policy for both sides to try to sink each other's ships.

* * *

The question might be asked: Why should the people in a country, who are already paying for armaments through taxation, not be able to buy the products of factories substituted as a result of disarmament? Why should not John Smith get an extra shilling's worth of tobacco as the result of forgoing a shilling's worth of battleship? One reason is that under the present system, wherein prices are unregulated, industries reduce their output upon a decrease in the amount of money in the consumption market. When civilians, sailors and soldiers were disemployed by disarmament, their shopping-money would drop from the wage-level to the dole-level. Prices would tend to fall for a little while, but output would be adjusted downward to a point where the total money in the market showed a profit. A less quantity would be sold at higher unit-prices. Another reason is that if prices fall wages are cut accordingly. A third

reason has to do with the Budget and taxation. It is customary to assume that, given a balanced Budget, any saving in subsequent expenditure accrues to the taxpayer. But not necessarily. For instance unexpected Budget surpluses are by law applied to the reduction of debt. In other words the bankers collar them as loan-repayments and destroy them. True, a saving through disarmament would be foreseen and allowed for in the estimates, and both sides of the Budget might be decreased accordingly. But not necessarily to the whole amount, because the bankers would probably instruct the Chancellor of the Exchequer to make larger provision for debt-service (sinking-fund payments) and to sanction increases in Departmental estimates to cover new capital expenditure. Granted, however, that the Budget were on a lower scale, then the bankers would turn to exploit the taxpayer through the price-system. (Fundamentally there is no difference between taxes and prices—and the term " price-payers " would be a better term to apply to the subjects of the realm.) They would have the choice of several methods of which the chief are:

(a) Calling in overdrafts from industries.
(b) Selling securities.
(c) Reducing ways and means advances or refraining from adding to them.
(d) Raising the compulsory-insurance rates.

All four methods would have the effect of retiring such money from circulation as the lower Budget had left in circulation. And so the increased price-paying capacity of the public would be tapped pretty thoroughly in a very short while. The purpose behind all this is exactly the opposite to that for which John Smith would welcome a reduction in national expenditure—namely, the bankers' policy of keeping the collective quantitative rate of consumption constant at the lowest tolerable level

* * *

We made allusion just now to capital expenditure in Departments. This is an imposition on the taxpayer, as well as a potential handicap on Government enterprise against private enterprise. There is a good deal of it carried on in the Post Office, and it would be well worth the time and trouble of any reader to compile data respecting all the Departments if he has facilities to get them. The practice is most conspicuous in armament-construction. It consists in making the public pay the whole cost of capital construction as the construction takes place. Thus, by the time a new cruiser is completed, the taxpayers have directly bought it through the Budget. Now, as students of Social Credit understand, whereas all taxes come out of personal incomes, not all capital expenditure becomes personal incomes, in fact only a small proportion does so in highly mechanised industries like armament firms. The remark will be made that they ought to pay it all because the cruiser is a useless asset in a commercial sense and should not be financed by loan like a factory. But that moral reflection does not get rid of the arithmetical difficulty concerning where the money comes from. If the earnings of people concerned in the bulding accrue to them at a less rate than that at which the cost of the cruiser is accounted into taxes, other earnings from other activities have to be tapped to make up the difference. The consequence is that costs of other (and useful) assets are left uncovered, and production made unsaleable. Notice that the building of the cruiser has not prevented the making of other things, but that the paying for the cruiser has prevented the paying for other things. Two streams of energy have concurrently created two items of wealth, but the people concerned (who here typify the whole community) are unable to get possession of more than a part of the wealth. Physical fact is at loggerheads with financial accountancy. Of course this dilemma would still remain if no armaments were built, but the custom of covering capital expenditure out of tax-revenue is an aggravation of it.

Bankers' Orders.

The following passages are taken from a statement made to the Finance Committee of the United States Senate by Winthrop W. Aldrich, Chairman and President of the Chase National Bank of the City of New York on February 22, 1933, and reprinted under the title *The Causes of the Present Depression, and Possible Remedies*. (No price or publisher: probably an official publication.)

I am glad to appear before you in response to your invitation, not because I have any panacea to present, but because I think it eminently desirable that there should be frank interchange of opinion between those who are charged with responsibility for government and those who are charged with responsibility for finance and for other phases of the economic life of the country. It is in some ways unfortunate that the political capital and the financial capital of the country should be separated. Misunderstandings between the financial community and the Congress have created many needless difficulties. I feel sure that many of these misunderstandings would pass away and better co-operation would exist if we knew one another better personally, and had the opportunity of talking more frequently and frankly with one another.

If the Congress and the Treasury give definite and convincing evidence of their intention of dealing with this problem with full responsibility, they will strengthen the credit of the government and, in my opinion, the government bond market will take what bonds are really necessary for the meeting of this emergency. If, on the other hand, there is an evasion or failure to grapple with the problem earnestly and courageously, or light-hearted adoption of a borrowing programme without consideration of this point, the government will speedily find its securities sinking in the market and the market wholly unreceptive to new issues except at very high rates. The credit of the government is basic to every other credit, and we must protect it unflinchingly.

The second of these passages illustrates what we have said about the bankers' prophecies. The prophetic section here is qualified by an " if " but that does not affect our main point, that the prophecies can be made to come true and apparently of their own accord. For notice here that Mr. Aldrich talks as if the bankers were unable to intervene or were aloof from intervention,or both—as if the whole thing would take place while they were asleep. It is the " Congress and Treasury " who can " strengthen the credit " of the Government. It is the " bond market " which can " take up " bonds or be " wholly unreceptive " to them. It is "securities " which will " sink " in the market. It is the " credit " and the Government which must be " protected." Of course his mention of a market connotes persons operating in it, but he leaves it to be assumed that these operators are independent gentlemen whose purpose is simply to make profits with the least risk of loss in the attempt, and whose policy is only affected by the same calculations as those which any other private enterprise takes into account. Nobody would suppose that Mr. Aldrich (with partners) was himself the " bond market," and that the operators had no more option whether to buy or sell, or to fix the prices of, Government bonds than an office-boy to fix the Bank Rate. This is doubtless one of the many " misunderstandings " which would " pass away " if, as Mr. Aldrich says, " we knew one another better "—that is to say if he could get to know such members of the Finance Committee as would keep their mouths shut and act on his advice. In that case there is no doubt that the contemplated " better co-operation " would exist—these loyal and discreet committeemen might even find the " bond market " receptive to issues of their own personal bonds at very low rates of interest, if any!

Mr. Aldrich spoke one wise formula without intending to. The credit of the Government is indeed "basic to every other credit." But that credit is not the credit expressible as borrowing powers which he implicitly lays down, but that expressible as lending powers. It reflects the fundamental right of the community to transmute its real credit into the financial equivalent thereof.

Gaitskell on "A + B."

"If the formula be abandoned in favour of a statement to the effect that 'deficiency' arises out of depreciation charges, then it will be seen that this is not true providing that workers are employed in replacing the machinery and receive A payments equivalent to the B depreciation charges." (H. T. N. Gaitskell on the A + B Theorem.)

If a factory costs £1,000 to build and is depreciated at the flat rate of £50 per annum, that charge (in current prices) can be offset "providing that workers" receive wages at the rate of £50 per annum to "replace" the factory. Assuming that the ratio of the wage cost to the total cost of the original factory is as 1 is to 10, this ratio will presumably apply to the total replacement cost. If so, the effect of the above proviso must be that physical replacement takes place at ten times the rate at which physical deterioration requires it—or, in figures, that replacement work must be done to the total amount of £500 per annum in order to distribute £50 per annum A payments to the workers. This conclusion harmonises quite well with the Social Credit analysis. It confirms a familiar proposition in Social-Credit teaching, namely that current prices can be paid by current incomes under the present system provided that the banks issue a continuous and progressively increasing amount of credit. In this case the provision is satisfied, and within the limits laid down by Mr. Gaitskell, no deficiency arises. What would arise would be a deficiency of enthusiasm on the part of the bankers for this method of equating incomes to prices.

Irish Notes.

The Catholic Bulletin for October relates how the new political re-orientation known as the United Ireland Party, differs from all previous Irish parties in that it enjoys the distinction of having four leaders: Dr. Cosgrave, General O'Duffy, Mr. MacDermott, and Mr. Dillon. It has also promised to bring to an end the economic war between England and Ireland. Another point in the programme is to displace the Irish language from its attained status in Irish education. One of the results of Mr. de Valera's policy that the Irish Nationals should receive the first pickings of national production comes from the Clare Mental Hospital, where the committee have decided to increase the stock of milking cows to the full carrying capacity of the 75 acres of land attached to the hospital. Of the 664 patients, 500 were receiving no milk at all except in their tea. The medical officer in charge recommended that there should be a pint of daily milk for every patient.

While English farmers are at a loss how to dispose of their surplus milk, Free State farmers have established wholesale milk depots at Liverpool and Blackpool for handling the large exports of pasteurised milk and cream from the Free State. *The Catholic Bulletin* very rightly affirms: "No Irish dairyman, farmer, land holder, has any right to export milk at all, unless and until the entire Irish population has had plenty of milk available for everyday use as a primary foodstuff, at a price well within the reach of the very poor. The same applies to all other primary needs; potatoes, bread, meat . . ."

Of the 1,268 school children in Co. Carlow recently examined by the medical officer of health, only *three* were free from all defects. Fifty-one per cent. of the children were found to be suffering from dental disease. At the same time we are informed that surplus Irish honey of excellent quality is now seeking an outlet in this country, to add to the glut of English, Dominion, and foreign honey already waiting a market here. The Irish honey would be better consumed at home, particularly amongst children of rural districts. Medical officers state that honey does not rob the teeth of calcium as do the cheap sweetmeats made from the over-refined and devitalised white sugar of commerce.

R. H.

The Social-Credit Library.

Mr. Grierson has written a pamphlet* with the evident object of getting business men to examine the economic problem from the price-end, and by reference to the price-income ratio. He clearly outlines the central issue raised by the A + B Theorem, but without citing the theorem in terms of "A" and "B," or attributing it to Major Douglas. He does, in one place, however, cite THE NEW AGE, *The New English Weekly* and *This Prosperity*. He refers to "social-credit critics in Great Britain" as claiming to demonstrate that a deficiency of purchasing power automatically occurs under the present system of finance and accountancy. His method of approach to his readers is to submit this thesis to their judgment. In discussing it he substitutes the sign P.P. (i.e., purchasing power) for Douglas's sign "A," and the term "prices" (at cost) for the sign "A + B." Hence the sign "B" (as used in Social-Credit arguments) becomes, in Mr. Grierson's terminology, the "deficiency of purchasing power." Hence the proposition, as he puts it forward, is simply that "Price" is greater than "P.P."—the context making clear his meaning that accounted costs are greater than distributed incomes. Thus: "Critics . . . have been saying that no firm or organisation distributes enough P.P. (Purchasing Power) to buy the output of the organisation." A little later, having alluded to the investment factor in the social-credit analysis, he says: "It is argued from this that one unit of purchasing power has gone into the cost and price of two different issues of production, while only one unit of credit will be available to buy" the production.

Mr. Grierson's object is not to elucidate the arguments for or against the truth of the main proposition; so he will not assist students who are struggling with the A + B Theorem as such. What he does is to call attention to the lack of data—"detailed items of evidence" —referable to the question of (a) what *proportion* of price is in excess of purchasing power, and (b) what *specific kinds of charges* constitute that excess proportion. This lack he proposes to attempt to supply. After alluding to various estimates made by Social Credit advocates of the aforesaid proportion, he chooses a middle figure and postulates 50 per cent. "as an estimate of lost, deflected or postponed P.P." He then submits two Tables. No. 1 is an estimate of purchasing power distributed—the amounts to different classes of recipients being stated as percentages of the total price. No. 2 is an estimate of the proportion of price "diverted indefinitely or permanently from the channels of purchasing power." The estimate is built up of thirteen major classes of charge, and seven minor ones, most of the former being individually assigned a percentage of the total proportion, and the remainder collectively so.

In brief, what Mr. Grierson does amounts to taking a total price of, say, 100 (pounds or dollars) and (postulating that fifty are distributed and fifty not) analysing the distributed fifty into four classified factors, and the undistributed fifty into about twenty. This done he devotes the rest of the pamphlet (and the bulk of it) to explaining why he has chosen the factors shown in the two Tables, and how he arrives at the approximate percentage figures assigned to them. In so doing he adduces data in great quantity drawn from authenticated political and commercial sources—in fact, the whole section is composed of classified compilations of such data under headings corresponding with the Tabulated factors. Thus, he starts with a section headed "Watered Stock" (the first item in Table 2, with an assigned figure of 2 per cent.), and quotes several examples of "watering." Then come, in order, "Plant, etc.," "Bank Charges," "Bonus Stocks," "Raw Materials," "First Cost and Depreciation of Plant

Machinery," "Waste" . . . and so on including "Bankruptcies" and Reserves and Reinvestments.

Sufficient has been said to show that Mr. Grierson's plan is most efficiently adapted to its end. The very look of the pamphlet will inspire respect on the part of the business man: it talks the language he understands, and it quotes authorities he is accustomed to listen to. Needless to point out, it will be invaluable to students of credit theories who have little or no acquaintance with commercial finance and particularly so to Social-Credit speakers and writers. Mr. Grierson tactfully says at the beginning that he is not drawing final conclusions himself, but is offering data and comments which will, he hopes, assist his readers to draw such conclusions for themselves. This implied suggestion that the business man (if not any man of intelligence) is capable of judging the main thesis as well as the professional financier, is on the right lines. The main obstacle to conviction is the "authority complex," and anything that is done to make the non-banking community realise that "Jack is as good as his master" is a valuable asset to Social-Credit propaganda.

* *A Study in Purchasing Power*. By Frank Grierson. Published by the author at 29, Russell Avenue, Ottawa, Canada. 8 pp. Price, 5 cents.

Do Banks Create Credit?

A correspondent says that he finds Mr. McKenna's statement that bankers' loans create deposits insufficient to convince people whom he is trying to interest in Social Credit. One of them, a member of the legal profession, stoutly maintains that bank credit is "based on securities," i.e., that it has a "real" backing. Even if that were true it would not disprove the proposition; it would only mean that there was a limit to the amount of credit that the bankers could lend, and the original proposition could be expressed by the Social Credit advocate as: "Whatever credit the banker is able to lend creates deposits." It comes to the same thing.

Now, our repeated advertisement of Mr. McKenna's statement has never been intended to secure conviction, but only to arouse interest and inspire confidence—that is, to get people to regard it as a serious proposition worth testing for themselves. When they do so they can be faced with other authorities far antecedent to Mr. McKenna, and far more weighty in the sense that they are (or were) non-political instructors of candidates for the banking profession. Thus McLeod's "Theory of Credit" (1890), a complete manual on Credit, and subscribed to by bankers all over the world, contains the following:—

"In the depression fewer bills were created and offered for sale to the banks. If they have fewer bills to discount the banks cannot, of course, *create deposits*." (p. 370.)

. . . .

"To say that bankers are merely agents between those who wish to lend and those who wish to borrow is entirely untrue. . . . A customer lends money to a bank but at the same time has free use of it." (p. 374.)

. . . .

"Suppose the banker buys £40,000 worth of commercial bills, his profit being, say, 4 per cent. . . . In exchange for those bills he would *create credits* . . . *technically named Deposits*—to the amount of, say, £39,600 (three months' interest at 4 per cent. deducted)." (p. 363.)

Another authority is J. F. Davis, Lecturer on Banking at the City of London College, who, in his book, "Bank Organisation, Management, and Accounts," says:—

"The amount (of the loan) is posted to the debit of the customer's account in the loan ledger, and to his credit in the current accounts ledger." (p. 95.)

Thus, when John Smith borrows £100, the banker creates and holds at his disposal a deposit on current account, and debits him with £100 on loan account. As soon as John Smith draws and spends it, the collective amount of credit in circulation is £100 greater than before. Considering the bank as representing the banking system generally, John Smith's expenditure increases the deposits of all the other depositors by £100: it is added to, not subtracted from, the deposits in the bank previous to the loan. The new deposit changes hands; that is all; and it will remain out in circulation until John Smith repays the bank, whereupon the loan is cancelled and the deposit ceases to circulate. In Mr. Davis's book (pp. 130-132) a complete specimen set of bank accounts is given illustrative of these processes —not, be it noted, to support the case o a political propagandist, but to teach young would-be bankers the nature and significance of their job. Again, it may also be noted that the truth of what he, and McLeod (and other technical instructors) have been teaching was never seriously questioned until Major Douglas showed what the practical consequences could be when banking was (as it is) conducted by a Monopoly for anti-public ends. The objection to Mr. McKenna's statement as being technically incorrect is a cloak for the real objection that it is politically indiscreet—it lets the public know too much—it constitutes a minor breach of the unwritten official-secrets code with which the monopolistic financial hierarchy have hedged round their purposes and methods.

According to Mr. McKenna the totals of currency and deposits in this country in 1914 were respectively £203 millions and (about) £1,000 millions. By 1919 they had become respectively, £594 millions and (about) £2,000 millions. Where did the extra £1,000 millions of deposits come from? Not from abroad, as someone might suggest; for the same expansion took place in every other country during the same period. They were additional deposits created by additional loans.

A Continuous Process.

By A. W. Coleman.

Most Social Creditors are probably familiar with the argument of opponents that, though the money issued as income in respect of any given product cannot buy that product (for the very good reason, as Major Douglas long ago pointed out, that it is not in the market to be bought), yet money issued in respect of new product to replace it will be able to do so, for, after all, "industry is a continuous process."

It would perhaps be justifiable to reply by facing such an objector with a list of the bankruptcies and capital reorganisations of the past twelve years or so, and asking him if that is his idea of "a continuous process." As a matter of fact, industry never has been a continuous process except in a very loose sense; it has progressed by alternate booms and slumps, of varying lengths and varying intensities.

But the idea of a continuous process appears to underlie a criticism of consumer-credit to which the last eighteen pages or so of Mr. Augustus Baker's recent book, *The Control of Prices*,* have been devoted.

On page 157, speaking of Major Douglas, Mr. Baker says:—

"He would agree that incomes reach consumers through the productive system and are industrial costs, in fact, he rightly insists on the need to think of purchasing power as so arising: it emanates from the banks, is paid out by producers and traders in the course of producing and distributing goods, and becomes the means of buying the goods so created. Yet he maintains that it can never buy all of them at a price equal to their cost, for the cost of the goods produced by any industrial unit includes not only money distributed to individuals, the ultimate buyers of all commodities, but also sums paid to other productive organisations. It is admitted that these latter payments, which for conveni-

* This article is not to be taken as a review of Mr. Baker's book. The passages quoted from it have been selected to illustrate and confirm the thesis of the article, and therefore may not give a balanced and comprehensive account of Mr. Baker's views on Social Credit.—A. W. C.

ence may be grouped together as overhead charges, have also at some time been distributed to individuals, but as most of them have long since been spent on goods produced earlier, they are said to be no longer available to buy the consumable output in whose price they figure, having been repaid to the banks from which they were borrowed, and cancelled.

"The answer, in brief and general terms, is that just as those sums which figure as overhead charges in the price of current output were spent, at the time when they were payments to individuals, upon consumers' goods ready for sale at that date, into the price of which they did not enter, similarly we may use for the purpose of buying current output those sums which are to-day being distributed to individuals for producing materials that will create overhead charges in the future. So long as the flow of money continues undiminished, no matter for what kind of production, current output can be sold.

"For example, suppose all consumers' goods to be boots, emanating from one large factory, and all external charges to be payments made to a tannery for leather delivered and paid for once a week; then the tanners will purchase their share of this week's boots with the money they have just received for tanning the leather to be used in next week's boots. Each week the tanners can buy a further share of boots with their current earnings from the tannery. If tanners and bootmakers each earn £100 a week, the total cost of a week's boots is £200, which is also the consumers' weekly income. The boots can be sold for what they have cost."

The argument and the example chosen both refer to a stabilised state of affairs. It is quite possible to imagine a community in which *everything* was stabilised, even to such normally fluctuating things as wants and desires, catastrophes, harvests, population, unemployment, etc. In such a community the industrial plant would be maintained in a stabilised condition no processes would ever be improved or new methods introduced; the same amount of goods and services would be produced and delivered month by month, and the same amount of income distributed. Banks would create new credits just as fast as they cancelled old ones. Industry would always be in debt to the banks, but the debt would be constant; it would always have an unsaleable surplus, but the surplus would be constant. The unemployment insurance fund would always be insolvent, but to the same extent, and the Chancellor of the Exchequer would always have a deficit, but a constant one. In terms of A + B, the A payments made in respect of new intermediate products and the maintenance of existing plant would balance the B costs in the prices of goods and services on consumers' markets.

Under such conditions of uniformity it is not difficult to envisage industrial production as split up into equal batches. During the process of making any one batch the community would receive just sufficient income to buy the similar preceding batch, now on the market, and so on, indefinitely.

The flaw in the system revealed by the A + B analysis would never be apparent so long as everything proceeded with uniform velocity. The flaw would be there, but it would only become apparent if the whole process were brought up all standing; then we should discover a mass of "price-values" on industrial markets and consumers' markets of which only a small percentage could be purchased by the unspent portions of incomes remaining in consumers' pockets and banking accounts. They could only purchase the whole of it by earning incomes in the course of producing a similar mass of price-values to replace it.

Has this imaginary state of affairs anything in common with the actual conditions obtaining to-day? It is true that if a modern community suddenly ceased working it could only purchase a small proportion of the outstanding price-values which it had created. But there the similarity ends.

A modern community includes a small but considerable percentage of scientific research workers, engineers and others, whose business it is to improve processes and design new machines whereby any given product can be produced with the expenditure of less, and ever less, human labour. The result is that in order to distribute sufficient income to buy a given batch of product, the following batch must be larger, because incomes are only distributed in respect of human energy expended, and this is being progressively displaced by mechanical energy. For the same reason, the batch following that one must be larger still, and so on, indefinitely.

In other words, in any community where capital equipment is developing and extending, there will be a shortage of purchasing power on consumers' markets unless such development and extension is continuously accelerated, so that the A payments made in respect of it can meet the continually expanding B costs figuring in the prices on consumers' markets.

Now in Mr. Baker's illustration of the tanners and the bootmakers he is envisaging a stabilised economic state in which the incomes earned during any one week equate with the prices of the goods produced during the previous week, and in which, presumably, the incomes include the wages paid for current maintenance of tanning and bootmaking plant. If no one makes a profit, or if profits are promptly distributed and used to buy boots, then all the boots can be sold, week by week. That is admitted.

But Mr. Baker then goes on to deal with the illustration given by Major Douglas on pages 13 and 14 of "The New and the Old Economics," in which production is divided into five processes, all in progress simultaneously. The five factories distribute £10 each per week, making a weekly income distribution of £50. Major Douglas then assumes plant charges in all cases equal to 100 per cent. of the labour costs, which brings the weekly cost of the product to, at least, £100.

Mr. Baker objects to this, and claims that:—

> "the illustration has no use and no validity unless the five processes are assumed to cover all the operations necessary for a given product. But if they do this, no other external charges can be postulated, and consequently no deficiency of money is disclosed."

In other words, Mr. Baker refuses to get away from the stabilised industrial condition. If he had read on carefully to page 24 of "The New and the Old Economics" he would have found that Major Douglas had granted him his point, given stabilised conditions—the "continuous process." There, Major Douglas says:—

> ". . . If we can imagine the modern industrial system doing only so much work upon capital goods as to maintain them indefinitely in exactly the same state of efficiency, then, quite obviously, consumption would be exactly equal to production. Under these conditions, the amount of wages distributed on maintenance would obviously be added into the cost of the end products, and collectively with the wages paid to the final producers of end products would be sufficient to buy the end products *always providing that no charges in respect of the original plant, buildings, and other capital goods which were merely being maintained, were charged in the prices of either intermediate or ultimate goods*, and that no one made a money profit."

How far such conditions are divorced from those of to-day it is scarcely necessary to point out. Wherever scientists and engineers are busy, the system requires that cost-accountants shall allocate book charges—depreciation, etc.—in respect of all new capital equipment. These overhead charges are industrial costs, which are transferred from business to business along the various chains of production until they finally appear in the prices of goods and services on consumers' markets, where they can only be defrayed as fast as consumers receive incomes in respect of current production.

With the result that, to quote again from "The New and the Old Economics": ". . . the purchasing power to pay overhead charges on a scale which is legitimate from the plant owner's point of view does not exist, except in times of wholly excessive capital production or quite abnormal exportation."