

# THE NEW AGE

INCORPORATING "CREDIT POWER."

A WEEKLY REVIEW OF POLITICS, LITERATURE AND ART

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## NOTES OF THE WEEK.

### Social Credit and the Services.

A certain ex-officer of the Royal Engineers is now in practice as an insurance broker. He advertises his service by means of leaflets which, presumably, he sends chiefly to "prospects" figuring in the Army List. His method of advertising is modelled on the pattern first adopted by "Callisthenes" of Selfridge's: it consists in prefacing his selling-talk with *obiter dicta* on past and contemporary events or topics of interest. In some cases his observations logically link up with his service, as, for example, in one leaflet where he tells how "young John Churchill, when presented with £5,000 by the Duchess of Cleveland, bought an annuity of five hundred a year well secured on landed property," thus laying the foundation of his fortunes. The moral here is clear and appropriate:—Come thou to me and do likewise: I will sell you an annuity of £100 a year for life at the price of £1,820 if you are thirty years of age; or at £1,400 if you are fifty.

So far, all right. But one of the series of leaflets is entitled "Social Credit" and consists in a string of assertions which are inaccurate as regards this subject and irrelevant to that of insurance. The leaflet is a piece of gratuitous gossip on financial theory, at the end of which the author breaks off suddenly and says, as it were: Yes, this is what's wrong with Social Credit, and—oh yes, and, by the way, I'm selling insurance! Well; the question whether Social Credit be wrong or right has nothing to do with either the propriety of his selling insurance or the prudential considerations on which his "prospects" would be constrained to buy it. Whatever may be the fundamental financial implications of insurance as a principle, advocates of Social Credit do not walk round advising people to abandon insurance as a practice; so there appears no reason why the author should concern himself about it as a broker. We can see that he might do so as a careful student of credit-finance; but the internal evidence of his remarks rules out such an assumption.

His indictment is that Social Credit (a) is not new, and (b) would lead to an inflationary rise in prices. The

evidence he adduces under "a" is conspicuous for its irrelevancy, and the evidence that he might have adduced under "b" is conspicuous for its absence. The utmost that he proves by such evidence as he brings to the support of the first proposition is that the idea of putting more money into circulation is an old one. That is agreed. And any evidence that he could have brought to the support of the second proposition would have proved no more than that whenever more money has been put into circulation there has been an inflationary rise in prices. That, also, is agreed.

Right. Now let us illustrate the import of these conclusions by an analogy. We will outline the reasoning by reference to electricity. We may imagine someone saying, (a) "The idea of increasing the pressure of current delivered by this power-station is an old one"; and (b) "Whenever the pressure has been increased it has always been accompanied by the blowing out of fuses in the factories served by the power-station. But would that fact exclude all possibility of increasing the pressure? It would under a certain condition, that condition being that the capacity of the wiring installations in the factories was insufficient to carry the current, and that there was no possibility of expanding this capacity. In that case this inexpansibility of capacity would be an insuperable obstacle standing between the process of generating power at one end and the process of absorbing it at the other. The ability to produce current would be checked by the inability to consume it.

Now the Social-Credit analysis and theorem announced by Major Douglas are essentially "new" because they are concerned with something that no previous investigator of the credit-system had ever noticed. That "something" is the *origin and nature of the obstacle* to the effective use of money. In the terms of the analogy, he takes for granted the power of the banking system to raise the pressure of the current (which is admitted even by orthodox authorities) and concentrates on the essential question: Is it true that the raising of the pressure must necessarily blow out the fuses of industry and hold up the production and distribution of needed goods and service? He answers that this is not true, and declares it possible and practical to

adjust the carrying-capacity of industry to any load of credit estimated to be necessary to run its machinery at its full efficiency.

At this point the parallel with electricity ceases to apply with exactitude. We can make it illustrate the point, however, if we suppose that somehow or other such a thing could happen as that no matter what pressure of current the power-station supplied the capacity of the factories to carry it safely were automatically insufficient. That, at any rate, is what is happening in industry. Its capacity to absorb new money and produce new goods is automatically nullified by the incapacity of its customers (the community as a whole) to get hold of new money to meet the new costs. The nullifying factor resides in the principle governing industrial costing. It has nothing to do with the quantity of money in use, but with the way in which its use is accounted in the books of the bankers and industrialists. "The core of the problem is *Cost*," as Major Douglas has declared.

The meaning of this dictum can only be fully understood by a systematic study of Major Douglas's *Economic Democracy* or his latest book, *The Monopoly of Credit*. But it may be apprehended by reference to correspondence which has recently been appearing in *The Accountant*, and from which we have selected, and now reproduce, two letters (from the issue of February 3) written by correspondents with professional experience of finance and accountancy. The content of these writers' contributions should establish a strong presumption in the mind of any disinterested stranger that Major Douglas's theorem discloses the root cause of the economic deadlock. We will first recite the theorem.

**Theorem.** "In any commercial undertaking payments may be divided into two groups. *Group A*. All payments made to individuals (wages, salaries and dividends). *Group B*. All payments made to other organisations (raw materials, bank charges, and other external costs).

"Now the rate of flow of purchasing power to individuals is represented by A, but since all payments go into prices, the rate of flow of prices cannot be less than A + B. Since A will not purchase A + B, a proportion of the product at least equivalent to B must be distributed by a form of purchasing power which is not comprised in the description grouped under A."

Here follow the letters referred to. Nothing material is lost through our lifting them out of their context.

Sir,—The gist of Major Douglas's analysis is that all costs of production enter into price. All costs of production are not, even in the final analysis, available as income. Therefore total income disbursed in respect of the production of any given supply of goods is always less than the financial cost—or the minimum retail price—of those goods.

Let us start with a balanced system. Assume that at a given moment £100 represents total incomes, and that those incomes have been distributed in respect of the production of £100's worth of consumable goods. Since total incomes are not entirely spent upon personal consumption, assume that £10 out of the £100 is invested. That invested money will again be paid out as incomes through some other channel, so that there will be, as before, £100 of total incomes against £100's worth of consumable goods. But in addition there will now be a capital asset to the value of £10. The depreciation charge upon that capital asset will become a cost of production. Does anyone receive an income to meet that depreciation charge?

In short, invested money is available as consumers' income only once, but enters into consumers' prices more than once. The same principle would hold though capital production were financed by a bank credit loan in the first place, and then a public issue placed on the market and the money subscribed used to repay the bank loan.

Since depreciation charges accumulate through every stage, and every subsidiary stage, of production, and finally all flow into consumers' prices, it is clear that the

sum of all the depreciation charges, accounted directly and indirectly into the costing of consumable goods, must form a substantial fraction of the price. It is idle to maintain that the depreciation charge is in effect a form of deferred spending, because it is not disputed that such is the case—when and if it can be collected. But if this analysis is sound it cannot be collected.

Further, since modern production is split up into many stages and is financed largely by bank credit loans, it may frequently be the case that the loan which financed an earlier stage of production has been recalled before the cycle of production has been completed and the consumable goods ready for sale. But costs equivalent to that earlier loan will be embodied in the price of the goods. Although further loans are issued they are issued in respect of further production and therefore generate their own appropriate costs of production. This is a difficult point to explain in words, but examination will show that on the average a complete cycle of production—from raw material to finished article—occupies a period of time greater than the life of an average bank loan. Therefore the industrial system creates costs quicker than it distributes incomes to liquidate those costs, in respect of given supply of goods. It is conceded that the gap is at least partially closed by exports on credit and by fresh capital development.

It is unnecessary to refute the contention that Douglas's constructive proposals would cause inflation, as such a contention can be based only upon a misunderstanding of the analysis.

Yours faithfully,  
H. C. MUNRO.

Sir,—I have followed the controversy on the Douglas's Proposals appearing in your columns with the keenest interest. The criticisms of Mr. Hamilton McIntyre's article reveal that the critics have been too hasty in attacking the social credit case before equipping themselves to do so. The following points should assist your readers in clarifying their opinions:—

- (1) The sole purpose of production is consumption.
- (2) Modern productive processes are progressively eliminating the necessity for human toil in the economic field. But, after all, the object of labour-saving machinery is to save labour. Orthodox economists seem to overlook this fact and assume that the object is to obtain a bookkeeping result by reducing costs.
- (3) The sole purpose of an economic system is to deliver goods and services to the entire community.
- (4) The purpose of a monetary system should be to give effect to this and to provide a true record of what is taking place in the fields of production and consumption. Money is merely a medium of exchange and distribution, and in no sense can it be considered a commodity.
- (5) The relationship between money and real wealth (i.e. goods and services and the means of adding thereto) is determined by prices. In our modern scientific productive system, price is mainly governed by cost. Industry as a whole must recover all its costs of production, if it is to continue to operate.
- (6) All incomes distributed to the community appear in costs and in the main represent indebtedness by the community to the banking system.
- (7) £1,000 saved means £1,000 of unliquidated costs at the point of saving. When utilised to finance further production the £1,000 is re-distributed, but creates £1,000 of further costs—thus, the £1,000 has created £2,000 of costs which form a debt against the community awaiting liquidation. In this manner, one unit of money can be passed through the productive system several times to create several sets of costs.
- (8) An extension of this illustration to the entire field of capital production, and related to this inescapable fact—a continuous growth of money indebtedness by the community in respect of costs attaching to capital-goods production, without the distribution of the equivalent purchasing power to liquidate its indebtedness. Costs attaching to capital goods are costed into prices of consumable goods and services.
- (9) This must result in a growing inability on the part of the community to purchase goods and services for consumption, and a cumulative increase of the burden of unliquidated indebtedness. As the bulk of money is issued in the form of loans to the community, the community finds itself in the position of being unable to liquidate its indebtedness, for it cannot borrow itself out of debt.

The consequences in the economic field which must

arise out of these features are, in fact, reflected most faithfully in the present world situation.

(10) If this inherent fault is to be remedied without a complete destruction of the fabric of the economic system, the monetary mechanism must be adjusted so that the relationship of prices and purchasing power enable the community to purchase its product.

(11) The technical mechanism to give effect to this presents no difficulty once these two facts are grasped:—

(a) That a scientific regulation of prices can be effected in such a manner that an increase in the quantity of money can be utilised to reduce prices to consumers. The possibility of inflationary results can thus be eliminated.

(b) That if the monetary system is to reflect facts it is logical to provide the community with increasing unearned incomes, to supplement incomes distributed for work, as human labour is progressively displaced in the field of production. At present the money costs of the machine are carried into prices, but the money equivalent—or "wages" of the machine—is not distributed.

Yours faithfully,  
L. DENIS BYRNE.

If anybody asserts that the theorem, and the reasoning of these two commentators on it, are "not new," let him cite any writer on finance-economics prior to Major Douglas who so much as thought of analysing the structure of costs or of investigating the accepted principle of calculating them. And as for the assertion that Major Douglas's proposals involve an "inflationary rise in prices," we reply that the analysis on which they are logically based discloses the cause of inflation in the past, shows that it could have been averted, and reveals how it can be averted in the future. His proposals embody the method of averting it. So if anyone asserts that they will fail to do so, he must first dispose of the premises or the reasoning on which they are founded.

Consider what "inflation" implies in relation to the physics of economic activity. It implies that the rate of consumption outside the industrial system must remain constant no matter how much the rate of production inside may be increased. It is like saying that if the army authorities were in undisputed possession and control of the manufacture (from first to last) of equipment and rations for the troops, and had access to all the materials, and were in command of all the labour, required to double the quantity, it would be no use putting the work in hand, because there was no way in which the troops could draw upon the extra stores. We would like to hear the general's remarks on the proposition! Any officer could devise a system of tallying up what was made, and of distributing orders on the stores so that everything put in could be drawn out at the same rate. It would be no problem at all, provided that the same authority who directed the work also controlled the tallying and the issuance of orders. There would be no problem of cost, because whatever collective number were to be set down as the cost of the stores, would be offset by the distribution of orders bearing fractions of that number. The counting would be based on the ticket and counterfoil principle. Imagine a pad of tickets and counterfoils each of the denomination of £1. As this was used up the tickets would be detached from the counterfoils. The tickets would go to the troops (or be retained on their behalf by the authority pending the completion of the work) and the counterfoils would be accumulated as records of cost, and (since there would be no profit) the cost would be the price to be charged. At any moment of time during the period of the production programme there would exist a detached £1 ticket for every detached £1 counterfoil. And as soon as equipment and rations were ready, they would be distributed in exchange for tickets, and so the tickets and counterfoils would come together again and be cancelled. Under such a system there would be no such thing as a hold-up in production or distribution; and the greater the production the greater the distribution. It could only happen if, somehow or other, the officer in charge of the pads of tickets and counterfoils

got into a muddle either by losing detached tickets or by totalling detached counterfoils wrongly. But even so, the army authorities would not allow the fact that there were fewer tickets than counterfoils to prevent the distribution of any portion of the stores. "Twenty tickets short?" they might exclaim, "and nobody holds them?—well, then, go and get a fresh pad, give out twenty new tickets, and destroy the corresponding counterfoils." And any practical commonsensible person would say the same. It will be recalled that Hans Sachs, on the evening of the riot in the city of Nuremberg, attributed it to the magic of St. John's Eve whereby the worthy masters, apprentices and people were spun in a vortex of violent disorder all because some lonely glow-worm couldn't find his mate! Very well; and one would be obliged to suppose the same sort of magic to be about if soldiers had to stand in bare feet round bulging boot-stores all because counterfoils had lost their mates.

Now Major Douglas's case is that a muddling of the money-cost system, as just illustrated here by reference to the losing of tickets, is taking place. Everywhere in the world physical need stands separated from physical abundance; and the immediate reason is admittedly that the collective cost of production towers above the collective money-resources of would-be consumers. The tickets of *Income* are snowed under by the counterfoils of *Cost*. Major Douglas claims to prove that these counterfoils of *Cost*, insofar as they exceed in amount the tickets of *Income*, are essentially counterfoils of *Cost*. A little reflection on the illustration we have been discussing will show that under the strict application of the ticket-counterfoil system the validity of a cost depends on the availability of the means of discharging it—whether it be an order on stores (as in the "army" illustration) or a personal income. Conversely, under the same system, the existence of unspent money signifies the existence of an equivalent unrecouped cost. They are two aspects of the same thing, and the dimensions of the one must be the dimensions of the other in terms of any monetary unit. The mere fact that everybody recognises a cost as something which must be recovered (if business is to go on) proceeds from the assumption that its recovery is possible; and people who think about these matters think they can see a reason for this in the fact that costs waiting to be recovered can be wholly accounted for by payments of money out of industry to private individuals at different times in the past. And nothing seems more self-evident than the proposition that if you can prove that an unsold stock of goods costing £1,000, represents successive payments of, say, £100 a year in wages, salaries or dividends over a period of ten years, you have proved that £1,000 now exists somewhere or other with which some person or persons can buy the goods. It ought to be so; but it is not. And the disproof consists in the verifiable fact that the whole of the money (cash plus bank-deposits) possessed by private individuals throughout the world is only a fraction of the aggregated cost-value of the world's industrial plant, material and unsold commodities at any given time. Notice particularly that stocks, shares, bonds and securities in general do not supplement the money resources of the world; quite the opposite; they represent the ownership of something chargeable against those money-resources. For example, say a firm A (representing industry generally) has £100 that a firm B (representing industry generally) has £100 worth of costs to recover and there is only £80 available among its customers. Suppose ten of these own £2 worth of shares each in the firm, making £20. They cannot take their shares to the firm and get goods for them. And if they succeed in selling them, it must be to other customers of the firm, who will then have £20 less to spend. The total money available will remain £80, and the gap between costs and incomes would not be altered.

Notice again that although it is true that at any given time industry possesses things which the public do not

want to buy and have no use for (factories, plant, etc.) it is irrelevant to the argument. It would only be relevant to an inquiry into whether the excess of industrial costs over personal incomes is an evil or otherwise. The point here is not whether the excess matters, but how it happens. In terms of our illustration: how does it come about that there are a greater number of detached counterfoils than of detached tickets—more grass-widowers than grass-widows, so to speak?

The process cannot be described very well by reference to the illustration because it is bound up with factors which would not be present under military management, namely: unregulated pricing, voluntary and involuntary investment out of incomes, and, behind these, and causing them, the operation of a dual system of control in which the industrialists, masters and men alike, are in charge simply of the machinery of production, while the bankers are in charge of the machinery of money. The bankers run the money system for the opposite purpose to that for which industry exists. Whereas industry collectively exists to provide the community with the highest possible output of rations, industrial enterprises, considered severally, are obliged, as a condition of obtaining bank-loans (which in these days means as a condition of survival) to provide the lowest possible output of rations. That which everybody but the banking classes considers is the true purpose of industry the bankers declare to be an obstacle to industrial progress. The policy of the bankers compels industry to adopt accounting-principles which automatically cause a shortage of external purchasing-power. The correspondence we have published indicates the manner and extent to which those principles do so, and incidentally explains why their operation has been so long unsuspected.

We consider that the attempt to discredit Social Credit in the eyes of military officers is a significant and sinister portent. The Royal Standard connotes something vastly different from the Gold Standard; and the loyalty to the King of the vast mass of soldiers, sailors, and civilians alike is incompatible with subservience to alien financial policy or toleration of its consequences.

### The Treasury and the Bank.

The subjoined passages are extracted from *The Treasury*, a work by Sir Thomas L. Heath, Joint Permanent Secretary to the Treasury, 1913-1919. (Published by Putnam's, 1927.) They will be seen by readers to be excellent material for quotation in speeches or writings concerning the status, powers, and policy of the Bank of England. We thank a correspondent ("T. C. W.") for having found and transcribed them. The reference in the first quotation to the laying of the minutes of the proceedings of the Court of Directors before both Houses of Parliament deserves attention. We should like to hear some more about this; for we do not recollect any occasion on which it has been done. As for the rest of the quotation, it should interest the public to be shown that when Parliament authorises expenditure, the authorisation is subject to the veto of the Bank and is ineffective unless approved by the Bank. When the House of Commons votes money, apparently all it does is to present the "public services" who require it with a letter of introduction to Mr. Montagu Norman, who will then tell them if they can have it. It may be pointed out, too, that the salaries and conditions of employment of all civil servants (i.e., the officials who run the public services) are directly prescribed by the Treasury, which is the same thing as the Bank. So it will be seen that if the Bank of England were to announce to the House of Commons every year how much money might be spent, and for what objects, and if the terms of the announcement were held to constitute an enactment, a great deal of time now spent in debates and other empty formalities would be saved, and on the other hand a great deal of enlightenment would be vouchsafed the public on the real meaning of "demo-

cratic" government in its modernised form. Here follow the quotations:

Page 78. . . . Now an Act of 59 Geo. III., c. 76, requires that, whenever it is deemed necessary for the public service to make any application to the Bank of England for any advance authorised by Parliament, such application must be made in writing by the First Lord of the Treasury or the Chancellor of the Exchequer for the time being to the Governor and Deputy-Governor of the Bank to be laid before the Court of Directors of the Bank; and a copy of all such applications made in each year together with a copy of the minutes of the proceedings of the Court of Directors on each such application and of the answer of the Court thereto has to be laid before both Houses of Parliament by the proper officer of the Bank. The practical effect is that the Chancellor has to write to the Governor and Deputy-Governor four times a year (towards the end of March, June, September, and December) to ask them to move the Court of Directors to consent to advance during the ensuing quarter such amounts as may from time to time be required for the public service at such rates of interest as may be arranged. A second paragraph in each letter proposes generally that the advances shall be made either on the credit of Ways and Means or on the security of Treasury Bills, according as may be arranged at the time of each advance, and that the precise amounts and the particular security shall be first agreed informally with the Bank and then notified officially to the Bank by Warrant over the signature of two Lords of the Treasury.

Page 135. . . . But, of course . . . it is the duty of the Treasury to fight, always and in all cases, impartially, for economy and, even though beaten time after time (as it commonly is in these days), to come up smiling for the next bout. It has been the victim of many attacks, sometimes from exalted persons, as witness the remarks of the late Lord Salisbury in the House of Lords on January 30, 1900: "I say that the exercise of its (the Treasury's) powers in governing every Department of the Government is not for the public benefit. The Treasury has obtained position in regard to the rest of the departments that the House of Commons obtained in the time of the Stuart dynasty." The obvious pre-justice betrayed by this utterance robbed it of any real sting. It should be read with another remark by the same master of irony. On February 5, 1895, Lord Welby, ex-Permanent Secretary to the Treasury, moved the Address in the House of Lords in answer to the Queen's speech. In complimenting him on his speech, Lord Salisbury spoke of him as "a noble Lord whose words I have listened to with deep submission when we both occupied seats at the Treasury."

The same sort of attacks will continue to be made; but the Treasury may take comfort from the deliberate opinion of the recent Committee on National Expenditure, that "nothing should be done to detract from the efficiency of the Treasury machine for controlling expenditure and effecting economies."

### The Children's Allowance.

"You must not say that," said a Judge a few weeks ago to a prisoner who had pleaded his hunger in excuse for theft. "No person need starve in this country. Quite true if you ignore the time lag, or if you accept the proposition that a man starving on January 1 can fast for a month if he is certain of a meal on February 1. Last week Mrs. Hinckley, of Bolton-road, Hampstead, passed herself. The doctor said that she was in a condition of starvation when she died. The lodger and three sisters of her husband, herself, one lodger and three dependent children. On January 8 Mr. Hinckley, who was unemployed, had his benefit cut down from 32s. to 14s. 6d. Allowing for rent received and rent paid out Mrs. Hinckley's job was to make a net family income of 21s. 6d. per week feed three adults and three children as well as paying for coal and gas.

Subsequently to the cut Mr. Hinckley had applied every week for a reconsideration of his case, giving details of the family budget. He was told that the matter would come up for consideration in February. Quite so. "In February." It was true that Mr. Hinckley began her fast for the children on January 1—but never mind, the authorities would have a look at her in February. Let her feed upon that assurance in her heart and be thankful.

"My wife was a wonderful cook and housekeeper," Mr. Hinckley told a *News-Chronicle* reporter. "On Saturday night," he continued, "she went to look at the shops—looking was as far as she ever got." On January 29, just a few days previously, there was someone talking in a shop where talking is as far as anybody ever gets. It was Sir H. Betteerton in the House of Commons. He was reminding the House that, although there was something to be said for raising the children's allowance from 2s. to 3s., a majority of the members had already "accepted the view that the Insurance Fund should be solvent and self-supporting." Do not press for the shilling now, he said in effect, but leave it to the Statutory Committee to consider in due course. This was the 21st day of Mrs. Hinckley's fast. The Statutory Committee would have to be guided by the "state of the Fund" when they went into it later on. Mrs. Hinckley was to die in fourteen days. By 200 votes to 104 the House decided to leave the matter to the Committee to consider according to the state of the Fund—later on. It was 11 p.m. and Mrs. Hinckley's children were tucked up in bed with Mrs. Hinckley's twenty-first supper inside them. She might not have missed it so much had she been an old woman. But she was only thirty-three.

### "A Mad World."

"Is it not odd that, although there are millions of people in civilised lands who are going about hungry and cold and shabby because they have not the money with which to buy food and clothes, farmers (in some parts of the world) should be burning wheat and sowing less than half the cotton they used to sow in the cotton belt?"

"Is it not strange that in Europe hundreds of thousands of poor people have to drink sham coffee made out of straw and cheap flavouring because they cannot afford to buy fresh coffee, while in Brazil, where the coffee comes from, they are burning coffee in the railway engines, and the Government of Brazil has given orders that no new coffee trees must be planted for the next three years?"

"Is it not queer that in Germany hundreds of thousands of men and women are 'tightening their belt' because they have not enough money to buy the beef that used to come in from Denmark, while the other day in Denmark 250,000 cows and bulls were killed and their carcasses burned because the farmers of Denmark can no longer sell at a profit to Germany?"

"In Holland a short while ago 100,000 baby pigs were killed and burned. In Portugal they have poured the wine has been allowed to fall and rot under the trees. Rubber and in South America, but the workmen have not been allowed to gather it. In the U.S.A. soldiers have driven workers and merchants from the oilfields so that they shall not draw up the oil from under the earth. Miles of sugar canes from the West Indies have wasted their sweetness on the plantations, where no man has been allowed to pick them. Thousands of jute plants in India have been left standing. Tons of dead fish have been thrown back into the seas by fishermen who caught them."—(From *The Modern World*). Quoted in *The New Economics*, 10/11/33.

### "Of Banks."

"First, a bank ought to be of a magnitude proportioned to the trade of the country it is in; which this bank is so far from, that it is no more to the whole than the least goldsmith's cash in Lombard Street is to the bank. From whence it comes to pass, that already more banks are coming; and I question not but banks in London will ere long be as frequent as lotteries. The consequence of which, in all probability, will be the diminishing their reputation, or a civil war with one another."—Extract from *An Essay on Projects* by Daniel Defoe.

### Canadian Conditions.

EXTRACT FROM A CANADIAN CORRESPONDENT'S LETTER.  
"Financial conditions in Canada are bad. Four provinces are bankrupt. The Federal Government is facing a \$100,000,000 deficit or more following \$220,000,000 last fiscal year. Relief in the capital city is costing twice as much as last year—\$80,000 for November last year moved up to \$160,000 this year, and so on. The Government leadership is dumb."

### Words, Sounds, and Things.

Box: You mustn't pronounce "crumb" *crumb*, but *crum*; the letter b is silent—like the letter t in "fancy."

Cox: But there isn't a letter t in "fancy."

Box: Just so. That's why it's silent.

This verbal fooling exhibits in a crude form the refined tricks of speech with which bankster apologists bewilder and deceive the public on the subject of monetary science and policy. Their ability to do this with success is the outcome of our educational policy under which, broadly speaking, there are two systems of teaching, the one for the few who are to be rulers, and the other for the many who are to be ruled. The few are trained to be conjurers, and the many to be deceived by the tricks. You may say, if you like, that the conjurers themselves, or many of them, are so trained as to be deceived by their own tricks. However, the main point is that the two systems are clearly differentiated, while, at the same time, they are complementary expressions of an underlying principle of Deception. We need not elaborate reasons why this must be so, for readers will appreciate that where, as in this country, an autocratic principle of Government is to be successfully imposed through democratic forms, deception is inevitable.

The two systems overlap, of course. Everybody learns reading, writing, and arithmetic, for example. And rulers and ruled alike are taught the elements of various extras such as chemistry, physiology, etc. But at later stages education is split up into (a) a group of specialised trainings for various functional activities which are to be engaged in by the many under governmental direction and supervision; and (b) into another group of trainings proper to the functions of direction and supervision to be engaged in by the few. And it will be found that the trainings in group "a" do nothing to forewarn or equip the population, juvenile or adult, to see through political deception; while those in group "b" do a lot to facilitate the practice of deception.

The result can be described in the phrase: Blind leaders of the blind; or, more appropriately, by the phrase: The blindfolded led by the blinkered—for this allows a place for the high-financial oligarchy who, with seeing eyes, perform the operations of blindfolding the led and blinkering the leaders through the educational system. This may clarify our antithesis of a fortnight ago when we set Science against Pseudo-Science, Mechanism against Vitalism, Determinism against Volition, and so on. It was not our intention to do more than point out that the principle of Determinism is disregarded, or denied, or ruled out, in fields of inquiry where it operates, and that this is brought about by the banking oligarchy, who know that it operates, and how it operates, and who apply it for their own ends while at the same time teach the people to ignore the fact and consequences of its operation. We have no concern with the theory of Determinism as an ultimate truth (or otherwise), but we assert that within the economic system it affords the explanation of the universal deadlock in all its manifestations, material or moral. We are not denying a place to "Free Will," but are relegating it to the one place where it operates, which is among the banking place where it operates, which is among the banking oligarchy. Hence it may be said that the Social-Credit remedy will have the effect of extending the operation of "Free Will" throughout every field of activity constituting the economic system. The general distribution of "free credits" will in fact amount to the general

diffusion of "free will" among all classes in place of its present concentration in one class.

There are two extreme attitudes possible towards an unexplained phenomenon—to face up to it as a subject of investigation, or to kneel before it as an object of veneration. The first is characterised by the propensity to search for the cause of the phenomenon irrespective of where the search leads; and the second by the propensity either to avoid searching for the cause altogether, or else to invent a congenial hypothesis to account for it and to seek the cause only in the direction indicated by the hypothesis. The first will not tolerate a censorship of evidence: the second seeks to impose one. Both propensities exist in any given human personality, but in different degrees in different personalities. In some the first entirely dominates the second, and in others the second the first; and in the majority they are more or less in balance. The first extreme gives you your "Gradgrinds" and the second extreme your "Chadbands"—while the balanced intermediates give you your majority of more or less common-sense types. (This, of course, presupposes that other propensities are equal, and the two under discussion are the only variable factors.)

Every little boy and girl, sang Gilbert and Sullivan, is born a little Liberal or else a little Conservative. And every newborn child has its own natural affinity for what may be termed physicalism or psychism as a principle of thinking. Leaving extremes out of account, the new generation will have a collective affinity for psycho-physics as the guiding principle. And this would express itself in a balanced and orderly mode of thinking if the educational system through which all have to graduate were in the hands of supervisors whose policy it was to promote the free expansion of individuality. But this is not the case. The educational system is in the hands, in the last analysis, of Financial Authorities, and their educational policy is designed to turn out an autocracy of "psychsters" who shall govern by the consent of a democracy of "psychists."

National philosophy, which is *Physics*, is insulated from moral philosophy, which is *Ethics*; and the consequence is that economic phenomena, failing to respond to ethical treatment, are relegated to the domain of mental philosophy, which is *Metaphysics*.

Tabulate a list of the big figures in the world to whom the people are taught to listen—Dr. Nicholas Murray Butler, General Smuts, Professor Einstein, Dr. Eisler, and so forth—all dealers in morals or metaphysics or mixtures of the two; and all of them getting away with it because their myriads of dupes have been denied the proper training of their critical faculties, and access to fields of investigation where they could be fruitfully used.

It has been remarked several times in these pages that two subjects of teaching, namely (a) logic, and (b) phrenology, have been omitted from general curricula. Logic enables the student to detect false reasoning—it is his protection against dialectical deception. Phrenology enables the student to understand his own mental potentialities, and those of others—it is his protection against the risk of self-deception as well as deception by others. This science is the nexus between physics and psychology. It is the foundation of psycho-physics. For that precise reason Finance objects to it, and trains psychsters whose public homilies perpetuate the idea that no such nexus exists, and that physical law has no validity except in relation to inanimate matter.

Listen to this definition of phrenology as it appears in *The Large Type Concise English Dictionary* (Annandale):—

"PHRENOLOGY. A doctrine which professes to found a philosophy of the human mind upon a presumed knowledge of the functions of different portions of the human brain obtained by comparing their relative forms and magnitudes in different individuals with the propensities and intellectual powers which these individuals are found respectively to possess." (Our italics.)

Of the series of italicised words the first three combine to falsify the fact that phrenology is a science establishing the law of *division of functions* in the brain and the *uniformity of the pattern of functional location*. The word "human" suppresses the fact that the law and the uniformity apply equally to animals and birds, and thus dismisses a wealth of corroborative evidence of the truth of the science. The words "presumed," "comparing," "different," "these individuals," combine to suggest that phrenological investigators have jumped to dubious conclusions from insufficient data. The truth is that Dr. Gall, the discoverer, collected data for twenty years before he opened his mouth about their meaning. And every phrenologist during the hundred years since has added to the data, Professor Severn alone has made 250,000 delineations of heads in his lifetime; so that the total number during the century must run into several millions. Phrenology exemplifies what is called inductive reasoning in its purest form, based on an imposing number of direct observations. Waite and Row, in their book, *First Lessons in Logic*, speaking of induction, refer to the universal belief that prussic acid is a deadly poison. How do we know this? It has only been tried on a vanishing fraction of humanity past and present, and yet we feel positive that any individual who takes it in a given quantity will die. Why? Because the consequences of taking it have been identical in every observed case. We should smile if some lexicographer referred to our belief as "a doctrine which professes to found a philosophy of the properties of prussic acid upon a presumed knowledge of the reactions thereto of the human organism obtained by comparing its effects on different individuals." What then, shall we swallow some and see?

Why, then, is phrenology ignored or only alluded to in a flippant tone? The reason is given in histories of the science, namely, not that its conclusions were unsound, but that it was not good for people to accept them. Phrenology was considered "fatalistic," "deterministic," and "subversive of morals and religion." On this ground the Austrian Government forbade Dr. Gall to write or lecture on it; and he had to emigrate to France in order to continue his work. Perseverance was not to be investigated as a scientific problem, but to be reserved as a psychic mystery. Accordingly we witness to-day the research of a century trampled down by the "Four Horsemen of the Apocalypse," Freud, Jung, Adler, and Groddeck—stewards of the magic of the Subconscious, whose oracular pronouncements obliterate the knowledge patiently accumulated on psycho-physical principles of research.

Psycho-analytic research may issue one day in some useful discovery or other, but whatever the discovery may be it is superfluous to the knowledge which we deal with the urgent concrete problems which face a humanity at the present time. Its superfluity makes it a diluent of existing knowledge and the cause of a new distraction of thought. We used to be taught by the Church that God and the Devil, Heaven and Hell were external to us. The psycho-analysts place all four inside us. They've gone one better than Campbell, who taught the doctrine of Divine Immanence, and have merged with it the doctrine of Diabolical Immanence. We are asked to conceive our personalities as the cockpit of ghosts at war. No wonder that the "human factor"—that allegedly indispensable element in economic salvation, is "incalculable!"

All who support Social Credit as a business proposition, and who mean business about it, will do well to ponder the implications of the bias in educational policy to which we have referred. We all have our preferences for side-lines of thinking and teaching, and there is no harm in the fact, but it is our duty to see that, as pursuers of an objective, we do not get side-tracked by side-lines.

Obituary.

It is our mournful duty to record the loss of yet one more supporter of Social Credit in the person of Mr. A. E. Kennard, who died at his home at Raynes Park on February 5. He achieved fame as a bonsetter, and accounts of his life in the Press contain records of several of his notable successes in operations on both rich and poor sufferers. Some readers may recall the queues of poor patients which at one time used to form up outside the City Temple when he was demonstrating his skill there. Mr. Kennard was too busy to give time to political work of any kind, but up to two years ago he was accustomed to turn up at THE NEW AGE Dinner, there to renew personal contacts with his friends in the Movement, and to hear Major Douglas's views on contemporary events and tendencies in relation to the Social-Credit Theorem. He was to have been a doctor, but at the age of nineteen "circumstances forced him" to leave college and "earn his own living," as the *Star* puts it. "Circumstances"—a blessedly vague term, isn't it? Let us rather say the "crooked bones" of the economic structure. He became an apprentice in a Newport shipyard. In a short time he was so successful in treating accident cases at this yard that the proprietors built him a surgery on the premises. He came to London in 1920 and practised in Park-crescent. To readers of this journal it will seem quite natural that this man, whose principle of surgery was that of manipulation, not mutilation, should have paid his tribute to the manipulative principle of economic surgery which distinguishes Major Douglas's proposals from all other social remedies. And now it is left to us to hand him our garland of remembrance and say him our farewell.

Sleep; and if life was bitter to thee, pardon,  
If sweet, give thanks; thou hast no more to live;  
And to give thanks is good; and to forgive.

Depreciation.

Doubt would appear to be present in the minds of some critics as to whether Depreciation is a cost or simply an appropriation of Profits to Reserve.

For example Mr. Hawtrey says, "... If he (a producer) has got to include the provision for depreciation in his costs it is because he has got to spend something some depreciation is not in respect of what he has spent, it is in respect of replacement in the future. . . ." (My italics.)

Mr. Augustus Baker, too, appears to have this in mind when, discussing factories purchased out of profits, he says, "The country has increased its permanent assets by one factory, the cost of which has been liquidated by those who want a permanent asset. No new cost remains unmet; the investors do not want to sell the factory or they would not have bought it." The implication being, of course, that any charge included in book-cost for Depreciation is really a profit or reserve but not a cost.

In addition to these "E.63," a recent contributor to THE NEW AGE, did not appear to be too happy with the term Depreciation, for at different points in his excellent article he applied the word to (i.) Past Costs (Depreciation), (ii.) current upkeep (MAINTENANCE), and (iii.) provision for future replacement (Renewals or Replacement Reserve).

It is probable that the difficulty springs from the fact that most commercial men these days have some knowledge of the principles of Book-keeping and unconsciously develop the habit of thinking in terms of Double-Entry Book-keeping.

But Accountancy, dealing as it does with the transactions of individual businesses, has to make use of rules which, though necessary for the purpose of compiling accurate comparative statements, are altogether misleading when employed to give a true picture of economic happenings.

An example may illustrate our meaning.

The X.Y. Company, having built a factory costing £7,000, and having installed machinery and equipment costing £25,000, produces goods during its first twelve months in respect of which the financial outlay is £150,000. Its sales (including profit) total £170,000, and it holds stock-in-trade (at cost) of £10,000. The conventional accounts would record something like the following:—

Trading and Profit and Loss Account.		Trading and Profit and Loss Account.	
Dr.	£	Cr.	£
To Purchases,		By Sales .....	170,000
Wages, Repairs,		.. Stock on hand...	10,000
etc., etc. ....	150,000		
To Depreciation —			
Machinery .....	2,500		
To Depreciation —			
Buildings .....	350		
Profit .....	27,150		
	£180,000		£180,000

Now let us consider what essentials are required to prepare accounts representing the bare facts.

In the first place we shall assume that money settlements were effected in respect of all transactions. Moreover, moral questions relating to the origin of the Capital of the undertaking will not concern us. Costs are costs no matter whether paid out of money raised by theft, profiteering or simply bank loans.

True accounts for the period will therefore show:—

Cash Outlays.		Cash Income.	
Dr.	£	Cr.	£
To Cost of Factory...	7,000	By SALES .....	170,000
do. Equipment .....	25,000	.. DEFICIT .....	12,000
do. Production .....	150,000		
	£182,000		£182,000

It will be seen that whereas in conventional accounting the X.Y. Company has already managed to show a profit of £27,125, in actual fact it has still to make £12,000 more profit before it will clear its costs.

We need not wait to listen to the complaint that assets in the form of a factory, equipment, and stock in trade, are still available. Money and assets are not interchangeable terms as most commercial people know to their cost.

Because of this we may say that the only reason for manufacturers not attempting to recover all financial outlays in the first cycle of production is that they know the price can't be paid. No question of conscience arises.

Other things being equal the manufacturer to get the Sales is the one able to carry forward the greatest proportion of costs to the future.

Depreciation is one of those costs, but cost it is.  
"ACCOUNTANT."

The New Zealand Reserve Bank Bill.

Captain Rushworth, speaking at the hurried debate on the Bill, tried his utmost to obtain an official statement as to who asked for this Reserve Bank Bill. No satisfactory answer was forthcoming. The Chairman of the Bank of New Zealand, in his annual address, said: "The Reserve Bank Bill is being put through at the dictation of London financiers." The Captain said that it was high treason to remove the control of the monetary system from the constitutional authorities of King and Parliament and to present it to a group of private individuals.

Captain Rushworth informed an astonished House that the principal reason for calling the World Economic Conference last year was to bring into existence an international monetary system based on gold and controlled by irresponsible directors from the Bank of





### The New Despotism.

"The British Treasury has an easy way of putting the law right if it is held by the Courts to be wrong. Two years ago in the Finance Bill there was an innocent clause which the House of Commons passed with hardly any discussion, but behind which there was an interesting piece of history. A man receiving a gratuity of £300 a year from his late employers denied that he was receiving a pension and declined to pay income tax on it. An action was entered by the Treasury, and it lost its case in every Court up to the House of Lords. Then came the innocent paragraph in the Finance Bill, and the law was straightened out as the Treasury desired. The American action in relation to the Astor Trust Fund is a matter of big money, and the American law machine seems to be working with its usual slowness. Nearly three and a half million pounds is the amount involved, the point being whether the creation of this trust fund did not evade the payment of inheritance tax. Under protest the demand was met, and then the Court decided against the Treasury. Now the higher Court has reversed the judgment. What next? Why not consult our Treasury?"—*The Courier* (Dundee?), January 10, 1933. (The headline is our own.—Ed.)

### The Calory Standard.

The British Medical Association says that 3,400 calories in food daily are the bare minimum to afford adequate nutrition. The Ministry of Health say that 3,000 are enough. The B.M.A. compute that on their standard a man can be fed for 5s. 10d. per week. The Ministry's standard would work out to about 5s. 2d.—(*News-Chronicle*, January 5.)

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