THE NEW AGE

INCORPORATING "CREDIT POWER."
A WEEKLY REVIEW OF POLITICS, LITERATURE AND ART
No. 2285] NEW SERIES Vol. LIX. No. 8. THURSDAY, JUNE 25, 1936. [Registered at the G.P.O. as a Newspaper.] SEVENPENCE

CONTENTS.

NOTES OF THE WEEK.

Mr. Anthony Eden's announcement of the Government's abandonment of the "Sanctional Campaign" against Italy is something more than an admission that this campaign has failed, it is an implicit confession that the campaign was never intended to succeed. The truth of this will not be realised by the public just yet, but when the political excitement has died down and the "United Pacifists" of the League of Nations Union have started up another ramp to distract attention from their futility, we shall see evidences creep into the newspapers which will prove that the visible sanctional hindrances imposed on Italy during her conquest of Abyssinia were offset by invisible super-sanctional assistances. THE NEW AGE has more than once indicated the general character of these assistances, and the object at which they aimed. Stated briefly and comprehensively, they originated from Basle, consisted in a co-ordinated scheme of credit manipulation covering the chief European capitals, caused the centre-of-gravity of European political tension to shift away from Rome, and yet at a near enough distance to fortify the illusion of pacifists that Rome was the criminal to be convicted and punished.

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The character of the co-ordination may be indicated by the following illustrative high-financial compacts:—

1. A Basle-London compact to star Anthony Eden as Leader of a Sanctional Campaign.

2. A Basle-Berlin compact to permit Hitler's symbolic occupation of Rhineland.

3. A Basle-Paris compact to exploit Hitler's coup as a means of making France hesitate to follow Anthony Eden's lead.

4. A Basle-Rome compact to refrain from hampering Mussolini's heterodox financial devices for surmounting the minor embarrassments occasioned by the contraction of Italy's external trade (except Oil!)

In racing parlance, the horses, trainers, jockeys, owners and stewards concerned in the race for the Abyssinian Stakes, were variously doped or squared on a plan nicely calculated to let Italy win by a short head, and apparently on her merits of speed and staying-power under the weight she carried, or rather, under the weight which Anthony Eden, who was supposed to be the European Official Handicapper, led backers and layers alike to suppose she was carrying.

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Since writing the foregoing the current issue of *The Week* (No. 166, June 17) has come into our hands. What it says on the situation affords independent corroboration of our analysis. For instance, the editor says that sanctions had been abandoned weeks ago by the mutual consent of the besiegers and besieged alike, and that the only question remaining open was on what date the news of the raising of the siege should be officially broadcast for the information of the impotent electorates concerned. In fact, in a previous issue of this publication he reported that representatives of the heavy industries in Germany and other countries had already descended on Italy to arrange with Italian capitalists mutual plans for developing Abyssinia.

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There is a wide moral to be drawn from this, namely, that the will of the people under the present financial régime can only prevail by adapting itself to accomplished facts. The wishes or demands of majorities and minorities alike, whether registered in the form of votes, or signatures to petitions, or signatures to pledges, have no more force than have proxies signed by ordinary-shareholders in business enterprises. The decision lies with the directorate. In politics the wishes of the electorate are only prompted or ascertained when the directors cannot agree, and these wishes are promptly disregarded when the directors come to an agreement. The result may coincide with some wishes and not with others, but the wishes coincident with the result do not bring it about any more than opposing wishes prevent it. Mass-voting, like mass-betting, settles what general line policy shall be the favourite in the race, but it cannot make the favourite win. A vote is a bet.

Notes on Action.

By Arthur Brenton.

Give the bankers enough rope and they will hang themselves.

* * *

We cannot stop them taking all the rope they want.

* * *

By paying out the rope we suffer in our well-being because it is woven out of our economic security.

* * *

But our loss of economic security is not transmuted into their gain of financial security.

* * *

The law of diminishing returns operates against them—e.g., if we were driven to the point of consuming nothing (or even at a degree less than survival level) the whole system of finance-capitalism would automatically collapse.

* * *

Every victory the bankers win over us marks a stage in their defeat of themselves by themselves.

* * *

If we do not believe this we have not grasped the Douglas Technical Analysis of the credit problem. It is the fundamental basis of actionist policy on our part.

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The problem of action is for us really a problem of turning our helplessness to the best account.

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The solution of this problem consists in our *advertising the fact* of our helplessness and thereby *arousing interest in its cause and consequences.*

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There is no action open to us which is not merely a matter of advertisement—pledge-collecting, petitioning, demonstrating, marching, pamphleteering, and what not, are all forms of advertising, and differ only in degrees of efficiency.

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When I say " we " I mean Social-Crediters plus the middle and lower classes. This larger " we " is powerless to take action. It can only advertise to the higher classes, who, in certain circumstances, might and could take action.

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There is no effective action but that which is described in warfare as besieging or assaulting—blockading or invading. Physical coercion, positive or negative—reducing the enemy to submission either by starvation or slaughter. That is action. Anything less is advertising.

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The higher classes are able (potentially) through the Cabinet and Parliament to take legal powers to coerce the Money Monopoly by breaking its financial blockade—i.e., going into the central bank business, creating credit and making conditions for the use of credit. Alternatively the coercion could be applied by arresting the representatives of the Money Monopoly and imposing on them a time limit with a death-penalty in which to put the credit-system right themselves.

* * *

By the term " higher classes " I mean those classes next below the banking community. By the term " banking community " I mean to describe that cluster of professional financial institutions who between them have taken control over the borrowings of the community, and have taken custody of the savings of the community. These comprise chiefly the Bank of England, the Big Five, and the Insurance Combine. Thus my distinction between the " higher classes " and the " banking community " is this: that the " higher classes " have interests and purposes to serve which coincide (to however small a degree) with those of even the lowest orders in society, whereas the " banking community " have interests and purposes to serve which are completely irreconcilable with those of the whole community outside.

* * *

This distinction has a vital bearing on Social Credit " actionist " policy. The reason may be best shown in the form of a diagram which any reader can construct in his head. Draw a triangle (upright) and divide it into sections by horizontal lines. For simplicity let there be four sections. Letter them downwards A, B, C, D. Let A represent the banking community at the apex of the triangle, and D the lowest classes at the base, with B and C representing the higher classes in between. Now, as stated in the preceding paragraph, there is something which B, C and D want to accomplish which A does not want to see accomplished, and has power (at present) to prevent. That something may be described as the common desire of producers and consumers to do an increasing trade over the shop counter. Against this, A's policy is to peg down shop-counter trade to approximately a mere subsistence level. So there is an inherent, fundamental conflict of objective between A on the one hand and B, C and D on the other. But only a tiny minority in each of these three groups realise the existence and nature of this conflict. The majorities are too preoccupied with the *derivative* interim conflicts which divide them from each other (e.g., wage disputes, trade rivalries, and so forth). Some of these conflicts are resolved (temporarily) by private economic pressure (where the weaker party has to give in to the stronger, e.g., the worker on strike worn down by his employer, or the independent manufacturer by the Trust). Others call for public economic pressure, in which case the Government has to authorise and implement the pressure (e.g., tariffs, taxes, compulsory marketing schemes, and so on). Now it is these latter conflicts which dominate electoral politics at election time. The big Parties of the State take sides, explicitly or implicitly, in formulating their programmes. So do the big newspapers. The consequence is that when polling-day arrives the attention of the whole electorate is directed to the resolution of B's, C's and D's conscious, mutual conflicts on derivative issues, and is totally diverted from their unconscious collective conflict against A on the fundamental originating issue. The tiny minorities within the groups B, C, and D are unable to prevent this. They can prophesy against A to their hearts' content, and with some effect, during intervals between elections, but directly an election is announced the majorities, like dogs, dig up their old bones of contention against similar majorities in the other groups (not to speak of the power of A to drop them all a new bone for the occasion!).

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From this analysis it seems that two conclusions arise relative to the principles of Social Credit " action."

1. That it will be most fruitful between elections, particularly immediately after an election, when the derivative issues have been decided and got out of the way for a few years.
2. That the object of such action must be to bring about an unwritted understanding between the instructed minorities within each of the groups B, C and D.

3. The method may be best indicated in the form of the question: What is it possible for the minority in the lowest group, D, to do which may encourage the minority in the next group, C, to take stronger action in its own group? And similarly with group C in relation to group B.

I may here be reminded that I began by stating that the only feasible actions open to the lowliest group, where the whole of the *declared* supporters of Social Credit belong, simply amounted to advertising. Let us call this group D. In other words, the minority in group D cannot take action except within the Constitution—and well within it. It is too vulnerable to constitutional reprisals. The small " terrorist " gets the sack from the boss or a sentence from the judge. But the index of vulnerability, so to call it, diminishes as one ascends through the higher groups. Take such an intrinsically futile thing as the throwing of a brick through a Downing Street window, the consequences would be entirely different according to whether it were done by a " group B " person like (let us say) Lord Kylsant or by a " group D " person called Murphy. For assuming that the motive for the brick-throwing were to register a protest against the policy of group A, that group would be unwilling to let his Lordship explain it in Court, whereas they could safely leave Murphy to be giggled out of Court. And they would be all the less willing to let his Lordship be taken to Court for throwing the brick if they had reason to expect his appearance in the dock to be greeted with applause by an assembly of would-be Murphys in the public Gallery.

* * *

This illustrates two important things, the first that a challenge of any sort to group A could be delivered with greater impunity by a minority in group B, and with all the greater impunity if that challenge were foreknown by those who delivered it to carry with it the approval of minorities in lower groups—minorities, moreover, who were ready to make their approval vocal, and explain why to a now intrigued and expectant general public.

* * *

The power of the banking community is so great as to appear unassailable. But this very greatness is a weakness; for they must not be seen exercising it. Their ascendancy rests on the very incredulity of the public which Social Credit advocates come up against when they declare what the bankers' powers are and how they can be wielded. " No; " says the refractory mass-mind; " the bankers cannot do such things, and if they could they wouldn't." What the public need is an object-lesson. Nothing less will dissolve their incredulity. No constitutional demand can bring about an object-lesson, because it can be defeated by constitutional postponements and emasculating amendments with which the bankers appear to have no connection. Again there is no dramatic quality about a constitutional demand: it is ineffective advertising: the public don't take interest in it. This was forcibly and grotesquely illustrated over last week-end, when a sitting of the Legislature in Washington on an important taxation measure involving £100 millions had to be suspended on receipt of a radio-message from New York that Max Schmeling had knocked out Joe Louis—members surging across the floor of the House, cheering, back-slapping and hand-shaking like mad. Perhaps it is just as well that the sitting was suspended; for goodness knows what they wouldn't have voted for in their excitement.

What is needed is a dramatic event—some surprise action, preferably one which thrusts on the banking community the embarrassment of having to counteract it by a form of counter-action which involves constitutional law. It is not necessary that such action should be taken for the sake of furthering Social Credit, nor for any other impersonal motives. It is only necessary that the action should consist of an actual or symbolic occupation of the bankers' usurped monopolistic territory, or should consist of direct resistance to their attempt to enlarge their territory by further usurpations. If it fulfils these conditions it can be reconciled with the fundamental common interests of the whole of the non-banking community. A somewhat distant approach towards this kind of eventuality was to be seen when the Duke of Westminster found a loophole in the Income-Tax laws through which he avoided paying a certain sum of money in taxes, and was able to get judgment in his favour against the Inland Revenue. The next step along this line would be for someone (or some group) to go further and find a loophole in the Constitution—or make one *just at the place where the public would disapprove of its being closed up again* when they were put wise to what was afoot.

* * *

Naturally, this line of attack could only be undertaken by comparatively influential people in business or society, or both. Whether any such people will do such a thing—will have the resolution to resolve themselves into a lightning-conductor to attract the current of bankster reprisals—is a question to which nobody can give an answer. But there is this to be remembered; that the continuance of the Money Monopoly in power will result in provocations to every group subject to its control, from the top to the bottom of the social pyramid. And in the present and progressive enlightenment emergent from Social-Credit scientific exposition, more and more people in each grouping will become aware of the true source of these provocations, and in so doing will realise the fundamental community of interests which bind them together. Sometime, somebody is bound to make a stand; and one of the most useful lines of Social-Credit activity is to mobilise as much support in advance for such action. This of course amounts to preaching tolerance of unconstitutional acts. Because of that it will be frowned on by those credit-reform organisations which depend for their maintenance on wide support in terms of adherents and monetary contributions. The British public associate unconstitutional acts with *coups d'etat* after the Hitler and Mussolini model, and are not prepared to risk a dictator here.

* * *

This is only one out of several difficulties which must prevent anything like uniformity of method in Social-Credit political action. Any recommended policy will be subjected to at least three main tests:

1. Is it based on sound logical reasoning?
2. Is it feasible?
3. Is it expedient.

Then, as regards the methods for carrying it out, there follows the fourth test—this time a personal one:

Am I willing to take part in carrying them out?

And this is the rock on which any narrow selective policy will split if its promoters try to secure for it the active co-operation of the whole movement.

" If Social Credit is adopted who will do the dirty work? " is a familiar question to be heard at meetings. And the same kind of question will arise when any plan of action to push Social Credit is proposed. " Dirty work," here, is uncongenial work, that is, work which is only to the taste of a minority of people. Examples of such work are provided in (a) House to house canvassing: (b) wearing uniforms: (c) marching in the streets.

In the end, believers in Social Credit will work for it in the way they like best; and the nearest approach to a successful national leader of the Movement's forces would have to be someone whose declared policy allowed room for the widest range of spontaneous activities.

His function would be not to *tell* the members of the Movement what they must do for him, but to *show* them what he can do for them.

The Prospects of Social Credit.

[Extracted from an article in *The New English Weekly* of June 18, 1936.]

Antagonisms, both significant and otherwise, have arisen between different sections of the Social Credit front, upon which this journal, with good reason, has so far suspended judgment. It would have been worse than useless to air divergencies which might be reconciled and which public discussion might only widen; especially at the moment when Social Credit was becoming an affair of State in Canada, Australasia and elsewhere, and when first efforts were being made (against inevitable difficulties) to mobilize united action here. The essential business of the *New English Weekly* lies in Social Credit education, which is an integral function of action, upon which concentration was never more necessary.

Two circumstances now make it advisable, however, to break our silence upon this aspect of Social Credit. One is the course of events in Alberta, which is likely, if its lessons are not rightly assimilated, to re-act unfavourably on propaganda. The other is the development, amongst Social Credit advocates, of rival policies of action in which many disbelieve altogether, and insistence upon them in a sectarian spirit which may hinder the growth of a solid backing in general opinion. At the moment, there seem to be even more growing pains than growth.

Such a critical phase might well have been foreseen. For years Social Credit exposed a scandal and revealed a truth, arousing keen intellectual interest and high hopes, and relying on appeals to reason and public opinion. Whilst Major Douglas, the late A. R. Orage, and others, secured its discussion more or less privately in influential places; it spread, mainly through Orage's writings, all over the world. In Britain, no attempt was made, or was possible, to organize a political, still less a mass movement. The widespread believers were intellectually united by the reading of the same literature, but unco-ordinated for action. A sprinkling of enthusiastic groups and individuals, they worked separately, only once joining their forces to organize a National Petition in 1926.

Even the Douglas Social Credit Secretariat was originally conceived as no more than a bureau of information. But in 1934, when Major Douglas returned from something like a triumphal progress in Australia, a Conference was called for the political mobilization of the Movement's resources, and a line of policy was laid down, which led to the " Electoral Campaign."

The Electoral Campaign, as all of our readers know, remains the official policy, and only those groups who take an active part in it are recognized by the Secretariat as affiliated members. It is not quite so widely realized that this policy has led to the secession or exclusion of a great proportion of the movement The Secretariat aspired to lead; and it seems possible that many of the remainder are obeying " loyally " but without conviction.

Current Law and Order.

II.

(Concluded from THE NEW AGE, May 28, 1936.)

It is all very well to be scathing and satirical about these ponderous reports* presented to Parliament by Command of His Majesty from time to time, but their compilers are honourable gentlemen, with high academic and indeed noble qualifications; and, moreover, they take themselves so seriously as they lay down the law for the governance of their fellow men. Yet the more one reads what they write in the light of modern knowledge of the way things are made to happen in the real world of men and affairs, the harder is it to disbelieve the ancient allusion to a people " having eyes and see not, which have ears and hear not."

Nor is it easy to believe that this partial sight is wilful and deliberate as some would aver. Hence, one is driven to the conclusion that it must be the product of intellectual processes similar to those of physical inbreeding, which have hardened the sinews of the mind and given it a permanent set akin to a glass eye; with a fixed stare in a single direction.

There are ample signs in this report of the Committee being often near their wits end. Their work, the report declares, was " mainly concerned with the form (shadow†) rather than with the substance of the existing law," and it might never have ended: " had it not been recognised that our task was not to achieve logical perfection, but to produce an instrument for practical use "!

These worthy gentlemen felt, and to their credit seem to have felt strongly, the limitation imposed in their terms of reference by these words " making the law as intelligible to the taxpayer as the nature of the legislation admits, *whilst leaving substantially unaffected the liability of the taxpayer.*" In paragraph 25 they appear to be washing their hands of responsibility for the consequences of what they call reproducing laws which are chaotic, defective, and anomalous. They call attention to their straits between desires and dilemmas, and declare " what the Courts have pronounced to be unintelligible, the Committee could not be expected to understand," and were given no power either to investigate or alter. They therefore leave it to Parliament which they say, " alone holds the secret of its intentions in the matter."

Yet in paragraph 19 where they describe the method of income-tax legislation as one of " improvisation," they excuse one of its commonest characteristics—obscurity—as being *necessarily* so, because they are " *verbal statements of arithmetical formulae* "! " Income-tax legislation must, by its very nature be abstract and technical, and can never be easy reading " they say; and then add, " It is concerned with principles and methods of calculation which it is difficult to express in words without an appearance of complication, as anyone will realise who attempts to describe in writing even a simple mathematical process. Burke's classic dictum is as true of the form as it is of the substance of taxation: 'to tax and to please, no more than to love and be wise, is not given to men.' " Thus the Committee, appointed by Mr. Churchill, comes of the same school as its appointer, who said, " the more it displeases, the more sure of its rectitude the Chancellor may be," or words to that effect.

* Income Tax Codification Committee Report. Vol. I. H.M. Stationery Office. Price 8s. net. Command No. 5,131. First part of review THE NEW AGE, May 28, 1936.
† Our interpolation.

But we must part with this review. The report is a legal salad. A hash of legerdemain. Men, whose honesty is a natural necessity, not a legal virtue, cannot stand up against an intellectual profession which, while claiming words to be the tools and weapons of their profession, burden and oppress their fellows, those who look up to them, with statutory enactments in which a single word can have no less than eight different meanings, and sometimes more than one meaning in the same sentence. It has been said of some oaths and bonds, " that they are more honoured in the breach than in the observance." And something like this has been written, " if there be any virility left in British character, a firing party will be required to despatch certain exalted individuals on the day the next war breaks out." Of these two propositions I prefer the former, for an intelligent breach of the laws conceived in ignorance, and enforced without shame, will render firing parties unnecessary either at home or abroad. It only remains to add, this review quite naturally merges into the subject matter of the articles now appearing on Entropy and Social Dynamics. J. G.

Entropy and Social Dynamics.

By J. Golder, M.I.Mech.E.

IV.

From a consideration of the seven elementary experiments set down at random in the last article, it will be seen that entropy pervades everything, and that its value is related to those critical conditions of matter and energy where changes occur and where inertia is to be overcome.

We have also seen that the human body has long since ceased to develop, and that evolutionary law has operated through the body as a medium (almost as light through a lens) giving to that body a power so great as to be comparable only with that attributed to Deity in the annals of the species. As man, finding nature so friendly in providing such principles as the lodestone as the lever reveal, has transferred his burden, so, it would seem, does the creato-motive force, which has attracted, developed and inspired his inquisitive intelligence, transfer its load in turn to the man. He thus becomes responsible for a load entirely different in kind, i.e., creative.

Though the body of a man be a somatic cul-de-sac, he is not a moulded product, like a die-casting. He is born, not made. He is the product of developing processes characterised by continuity and conformity towards a destiny which may be unknown, but as to which its direction is not unknown. But as we have seen, the power age has been reached, not by conforming to the laws of nature, but by illustrating them, and even opposing them. All man's power generations, distributions, transformations, and exchanges have been and are continuously being brought about by disturbing nature's stabilities, by creating potential differences; and instead of being " smitten of God and afflicted " for grossly defying the law, nature rewards his insolence by doing his work for him as she rights herself and regains her just dynamic balance through his labyrinthine machines; because that is nature's way.

Now an examination, however superficial, of the power age reveals it as a sphere of the mind. Mental activity, mental energy, is the only explanation it is possible to give when we contemplate, e.g., such works as are under the control of the Metropolitan Water Board, the L.C.C. sewage system, the lighting, power, and transporting systems of London.

It is not necessary for our present purpose to consider whether such works are in any fundamental sense necessary, desirable or perfect after their kind. It is, however, important to notice that the same restless energy of mind has this year produced the Queen Mary, the Hindenburg airship, Amy Johnson's aeroplane, and Clem Schon's wings, as well as submarines, stratoplanes, and many other things *made*, but impossible to *market*.

The thing to be noticed, and noticed carefully, is that while these things represent the triumph of mind-energy over men, materials, and forces, co-operatively re-produced by past and up-to-date effort, they were each (not all) conceived originally in the brain of a single individual.

This brings us back to the relationship between the body and the mind of a man. In article II., para. 3, ether (the vehicle of light and sound) was described as a highly attenuated gossamer-like substance, and I suggest this substance is similar to what we call the metals. When a man is said to be put on his mettle, the allusion is to his mind. Different metals have different characteristics and behave under stress and strain in accordance therewith. Indeed, to be brief, if the literature dealing with the mind and its workings be examined, the analogy will be found almost perfect.

The mind may therefore be correctly described as the secondary end towards which cosmic energy strives, whilst the third end of the same striving may be the soul, and the fourth, the spirit. And just as the mind may be said to be composed of metalliferous substances, so may the soul and spirit be considered as consisting of gaseous substances, the spirit being a state or condition as far removed from that of a gas as a gas is from liquid.

This may read dreadfully materialistic to those persons who claim to be experts on matters of this kind. It may also be conducive to much exasperation and even derision, but it will be better to reserve judgment and consider the temperature-entropy chart by which solar energy has been directed to human use before turning away in disgust at what looks like another competitor in the jargons of psychology.

Now in nature there are no paradoxes, and in natural law there are neither exceptions nor anomalies. If there were, our power age would be impossible. Our machines would not work to their specified objectives and the profession of engineering would be discredited. Paradoxes, exceptions, and anomalies are parts of human speech and language, and they therefore belong to that domain between the body and the soul which is responsible for errors of observation, and instruments, which together tend to keep those two apart, and retard development by frustrating the exercise of the fourth. That domain may well be called no-man's land, for it is in the mind of man where perpetual motion is misinterpreted as perpetual strife, and that the " Battle of Entropy "* must be waged if the righteous dynamic balance characterising his own prime-moving machines is to become a characteristic of himself.

* This is the name given to the controversy which raged in the opening years of the present century among physical philosophers and engineers when entropy values were beginning to have use-value.

The Waterlow Case.

Mr. Gavin Simonds's arguments before the House of Lords (1931).

[Following numerous requests from correspondents we publish further passages from the hearing of this Appeal.—Ed.]

III.

Mr. STUART BEVAN: At page 414 you will find some more answers. I do not want to interrupt my learned friend's argument.

Mr. GAVIN SIMONDS: If I may say so, I entirely accept what my learned friend says. The problem then is, if I am right, to quantify this obligation which the Bank incurs by the issue of this note. Now let me take them in turn. The obligation to give paper for paper is obviously an obligation which cannot be regarded seriously from the point of view of pecuniary damage. What is the pecuniary loss? The obligation to deliver a new piece of paper printed with the same words and figures upon it is not an obligation which imposes upon the Bank or any bank any pecuniary loss except the cost of printing. There can, with great respect, be no doubt about that. Then, my Lord, the next point was this, the real obligation is in due course, if and when the moratorium is suspended, to pay in gold, whatever sum in gold may then be decreed, a matter of arrangement and a matter which must be affected by the number of notes which are extant. If there are few notes there will be a larger sum in gold per note, and if there are many notes a smaller sum in gold per note. You cannot quantify that as a liability, and Mr. Justice Wright and Lord Justice Scrutton accepted that view. For the purpose of measuring the pecuniary loss involved by the enhanced liability of the Bank in respect of a greater number of notes you can ignore gold, that is what Mr. Justice Wright said and what Lord Justice Scrutton said, and I submit that that is quite right; you may ignore gold. Then, my Lords, the other point is this, that at some time or other it is possible, I find it very difficult to envisage, but it is possible that a new form of currency may be introduced and an obligation may be imposed upon the Bank to honour in that currency. How can that be quantified? What pecuniary loss is any jury to say has been suffered by the Bank, because that obligation has been imposed upon it? I say it is naught.

The LORD CHANCELLOR: Supposing you go to the Bank and say: Well now, that 500-Escudo note only cost you one penny, I will give you one shilling for it; you will make 1,100 per cent. profit because it will cost you only one penny to renew it, let me have it and I will take a few more at that price.

Mr. GAVIN SIMONDS: The Bank could not do it.

The LORD CHANCELLOR: They would not.

Mr. GAVIN SIMONDS: No, they would not.

The LORD CHANCELLOR: They would not lose anything by doing it.

Mr. GAVIN SIMONDS: No.

The LORD CHANCELLOR: They would make 1,100 per cent. profit.

Mr. GAVIN SIMONDS: Because they have to manage the currency. May I put the question rhetorically: if your Lordship's question is right, why did not they issue notes up to the margin of their potential circulation at the time? Why is not a Bank of issue rich beyond the dream of avarice? Because there are other considerations which intervene to prevent it doing so, because it does not want an undue inflation, whatever it may be, not for its own sake in the least, but for the sake of the currency it manages and the people of the country. I shall have to elaborate this, my Lord, but it is in my submission a quite fallacious way of looking at this case to assume that an inflation hurts the Bank. The Bank is not injured. Was the Reich Bank injured? It issued notes for billions and billions of marks and it was not injured by that; the Reich Bank needed no further capital to carry on its business after the inflation was put an end to. I have ventured to write out what are, in my submission, the obligations of the Bank upon the issue of this note. The legal implications are those and nothing more. Now what does it get in exchange? It gets in exchange 800,000 other bits of paper, commodity value, I suppose, the same or substantially the same. Of those 800,000, 600,000 I have assumed, using rough figures, were its own notes previously issued; therefore, the legal result of its getting these notes is that a liability exactly similar to that which I have stated is gone, the Bank is relieved of a liability in respect of 600,000 notes; but in respect of the other 200,000 which it did not issue it is, I will assume, not relieved of any liability; therefore, the difference in the transaction is simply this, that there are extant 200,000 more notes than there were upon which that liability of the Bank arises. That, and nothing else, in our submission, is the result upon the Bank of this transaction. There was extant this liability in respect of 600,000 and is now extant its liability in respect of 800,000, and it does not, in our respectful submission, matter in the least, if it was true to say we would have issued the 200,000, which we did issue, in exchange for false notes for some other purpose, because there is no abridgment of the issuing power; we are not dealing with that, if there is anything for which they wanted to issue their notes, they can still issue them. If there is any profitable purpose for which they can issue their note, they can still issue it. They have suffered no loss, there is no claim here for any loss of profit in their business; so that you have absolutely nothing but this, that there are 200,000 notes extant which were not extant before, in respect of which the Bank's liability arises, and what their liability is I have endeavoured to set out as clearly and as accurately as I can.

Now I do say that this only is the pecuniary loss that they have suffered, and when Mr. Justice Wright said, as he did, "they are damaged by having to assume liability on those notes without getting anything in return," I accept that they did get a liability without getting anything in return, and the liability is that which I have ventured to state. Where I do humbly join issue with the learned Judge is when he goes on to say that the notes must, for this purpose, be taken at their face value. Why?

The LORD CHANCELLOR: Just read the next sentence.

Mr. GAVIN SIMONDS: "I think this argument is correct and I think these notes must be taken for this purpose at their face value just as they would be if they had been issued by some other institution that is not a Bank of issue"—Reason No. 16. Always you come back to Reason No. 16. If you disregard the real point, which is the difference, the measure of liability, it is the increased liability and the cost of printing and nothing else in this case.

My Lords, this further test occurs to me; it may be that in the circumstances of this case, the practical course for the Bank to pursue was to call in the issue and give new notes for old notes, but it would be easy to conceive circumstances in which they might attain the same end by adopting a different course. Let me assume that the Bank receives information which satisfies it that a number of false notes have been put into circulation which are indistinguishable, but that the source of that supply has been closed; they have found the conspirators and found their plant, and they are satis-

fied that all the evil that can be done has been done; therefore, they decide to say nothing; the notes are exchangeable. Now what is the damage that they have suffered then? They treat those bad notes as good notes; they do not give another bit of paper in exchange; they treat the notes as good notes, and what is the damage the Bank has suffered? It has suffered this, that there is extant a liability upon these bad notes which it treats as good notes, that and nothing else: Or, my Lords, supposing, to take another step which might be a practical step, supposing instead of saying nothing it is satisfied that the source of supply has been closed and that a sufficient remedial measure will be to require the holders of that issue to bring their notes for endorsement, to be endorsed with some certificate of validity, and that the bearers of the notes instead of getting an exchange will bring them to the counter and get an endorsement by the Bank, the signature of the Governor or whatever it may be, that this note is valid; exactly the same end has been attained, the false notes have been admitted into the currency. What is the damage that has been suffered? Nothing, except that there is an increased number of notes upon which there is a liability. Now it is deemed expedient to take neither of those courses, neither to say nothing, nor to endorse the false notes with a certificate of validity, but to give new good notes in exchange for false. What is the difference? No difference, my Lords, at all; no difference except this, that there has been the cost of printing the new notes taken into consideration; that and nothing else. How can there be any difference to the Bank of issue, except the cost of printing, between giving a new note in exchange for the old and endorsing upon it a certificate of validity. And yet there is no damage laid in this case if that had been done; it is not suggested in this case that if the Bank, satisfied that the source of the Marang notes had been closed and that the notes were to be payable, indistinguishable, had done nothing, it is not suggested that would have done any damage.

Mr. STUART BEVAN: Indeed!

Mr. GAVIN SIMONDS: It is not, with respect. I hear my learned friend say "Indeed," but I venture to submit it is perfectly transparent from this case that the whole claim is laid upon the exchange of good notes for bad.

(To be continued.)

Capital in Retail Prices.

The argument that capital costs are not charged in retail prices seems to rest on the following reasoning.

Take as an illustration a person, A, representing that part of the community with a margin of income to invest, and B, representing that part with none.

Let A be supposed to get £40 in a month and B £20. And suppose that in that month A invests £20 and spends £20; and B spends all his income, £20.

In that month, let it be called January, suppose that AB construct a machine costing £20, and that this is what A invests his £20 in—the £40 worth of goods being made and consumed by them in the same month.

Suppose a banker lends the required £60 on January 1 and retires it on January 31.

Thus we get the following sequence of events: Bank lends AB £60; AB pay themselves £60 for their services; A pays £20 for the machine and £20 for goods; B pays £20 for goods; the bank gets the £60 back and cancels it.

Notice that AB get as much income, in this illustration, as the total cost of *capital* plus *goods*; there is as yet no shortage of income.

Now as to the question whether capital costs are charged in retail prices, this amounts to inquiring whether A will charge B anything in the next month, February, for the machine made in January.

Before attempting an answer, it must be borne in mind that the ultimate object of the inquiry is to ascertain whether consumers as a whole can get into a position of being unable to meet retail costs as a whole. It is a question of how AB get on in relation to the bank, not how A or B get on in relation to each other. Whatever money A may collect from B in respect of the machine in February the collective February income of AB is unaltered. It represents a transfer of consumer income *within the ranks of consumers*. So it cannot cause a shortage of consumer income.

Next it should be observed that if charges on account of A's machine go into retail prices, A will pay half the charges himself, for he is a consumer to the same amount as B, namely, £20. This is by the way, but it serves to remind the reader of the vital truth that "investors" are not to be separated from "consumers"—that the basic interest of the investor is a consumer-interest.

Let us illustrate by taking some hypothetical cases.

Case 1. In February the January machine is worn out and not replaced: and the £20 is put into prices. Then, of this charge, A pays £10 and B £10. Thus AB return to A the cost of the machine, namely, £20, of which A pays £10, thus being in the position of having surrendered £10 for nothing. However, the main point is that AB discharge the cost of the machine in retail prices.

So far so good. But one cannot assume AB to receive in February the same income as in January. They got £60 then because they were constructing the machine. To get £60 in February they would have to be constructing another. Since, by assumption, they are not, i.e., they are not replacing the machine, their income is not £60, but £40.

Per contra one cannot assume the complete wearing out of the January machine without assuming also that there had been a tremendous increase in the quantitative output of consumable goods, and a tremendous decrease in unit-prices. For since no new machine is being made, the whole of the wear-and-tear on the original machine must be attributed to the making of consumable goods. In that case AB might be expected to make their £40 go further than the £40 they paid for consumable goods in January.

But would they get £40? In January they were employed in making consumable goods without the help of the machine. Let us say that they had put in twenty full days on the job. In February they might have to put in only ten days, perhaps five, or even less. Obviously it would be a short time because the wearing-out of the machine occurred in such a short time. Call it ten days. Then if AB paid themselves the same rate per day's work as before their income would be £20.

They couldn't pay themselves more, because the banker wouldn't lend them more if he followed out existing rules for lending.

Case II. AB construct a second machine at the same cost as in January. The first machine is worn out during February as in Case I. On the figures used in the illustration AB would receive £20 more income than in Case I., where they did not replace the first machine, but yet £20 less income than in January, because the January machine would have put them on half-time with half-earnings, as explained. They would get £40.

Case III. AB construct a second machine and at the same time make good the wear-and-tear of the first. Here the figuring out of the result becomes more complicated. Firstly, it depends on rate at which the wear-and-tear proceeds during February. The maximum rate would be 100 per cent. as in Case I. where the machine was completely worn out or used up. On the other hand it might be 10, 5 or 1 per cent., which would answer more closely to what happens in practice. But it is worth while considering this maximum rate if only to remind ourselves that there is no essential difference between maintaining a machine and constructing one. For if AB use up the first machine and construct another in February, they have simply done the thing which is conventionally called "maintaining" the first machine, or "making good" its "depreciation." So the act of maintaining original capital in this physical sense is the act of constructing new capital; so that if the cost of maintenance goes into prices the cost of new capital goes into prices. And since all original capital was once new capital, all capital of every description and age has been, or is being, paid for in prices.

Assuming 100 per cent. depreciation in February AB will really construct two machines—destroying the January machine during the process. If the cost is £20 for each machine the immediate result appears to be that AB will get £40 in respect of machine construction. If so, they will have enough money to pay the cost of the January machine (£20) and leave £20 to meet other costs making up consumption-prices. (What the total cost may be doesn't matter here, because the argument is not intended to settle the question of whether incomes will meet prices. That question will come up later. The immediate question is how to relate AB's incomes to "capital" operations.)

But will AB get £40? No; and for a reason which arose under Case I. In that case the January machine was shown to halve their wages, received for making consumable goods, because it halved the time they took on the job. In Case I. they were making nothing else but consumable goods; for they were not replacing or repairing the January machine. In the present case (III.) AB do all three things together, and the January machine is helping them to do all three things. In rhetorical language the January machine is renewing itself and reproducing itself as well as working on materials emerging as consumable goods. Keeping to the assumption in Case I. that the machine halved their working hours on making consumables, so, in Case III. will it halve their working hours on everything they are doing. The consequence is that the scale of loans, costs and wages applying to the January operations will go by the board in February. The banker won't lend so much, AB won't receive so much, and yet the January cost of the original machine will appear in February undiminished. It will figure as £20, whereas AB won't get £20 (but only £10) for replacing it. In other words the 100 per cent. maintenance charge will be double the maintenance wages. If so, any maintenance charge at all will (on the labour-saving property of the machine assumed in the illustration) will be double the maintenance wages received by AB.

To sum up: the purport of this admittedly incomplete analysis is to raise the question whether, even if it be true that consumers are charged only with depreciation of "original capital," they thereby avoid being faced with collective prices in excess of collective incomes. This will be elaborated in another article if necessary. A. B.

LETTERS TO THE EDITOR.

CAPITAL CHARGES IN PRICES.

Sir,—Mr. Franklin is making something of a mountain out of a molehill over this question of whether the prime cost of capital assets enters into prices, because it matters very little whether it does or not.

The Social Credit analysis shows a deficiency of purchasing power arising as a result of, amongst other things, the appearance in prices of sums allocated to reserve funds.

Of these, the most important are the sums set aside for depreciation, and in recent articles I have concentrated on these because their allocation is compulsory under all conditions, no matter what other obligations may have to be met. The firm which does not allocate charges for depreciation is heading for Carey Street.

Mr. Franklin quotes Major Douglas to the effect that each time money is saved and invested a new cost to that total is created against consumers. Now, whenever the sum invested is used to augment working capital, i.e., to increase production from existing plant, that statement is strictly and obviously true; and if any one at this date still has doubts about it, he should consult "The Flaw in the Price System" (Chap. III.), and follow Mr. P. W. Martin's personally conducted tour into the wilderness with the Children of Israel.

But it is not so obviously true when the sum invested is used for the construction of new capital equipment, and Mr. Franklin has fastened upon a sentence of mine in an article on "More Investment Difficulties" (THE NEW AGE, May 28), to the effect that, in the case of a company financed by non-redeemable shares, no new cost against consumers is added at the time. But he has failed to grasp the significance of those all-important words:—at the time.

At the time, we have the creation of a new capital asset; but, with it, there is the creation of a new capital liability—a liability to maintain that asset. A careful perusal of the article just referred to will show that every subsequent successful attempt, by a business directorate, to discharge that liability results in a deficiency of purchasing power.

The existence of the deficiency is demonstrated by deducing the minimum conditions which must be fulfilled in order to mask it. In a closed credit area, it can be *masked* just so long as the conditions specified are met, but it cannot be *made good*. As soon as the required rate of new capital development falls off, the deficiency begins to show up. The situation is rather like that of the drug-addict; the patient can only be kept going by continually increasing the dose.

Ignoring past prices, and confining the discussion to future prices, it will be seen that the argument applied, in the article, to depreciation charges, applies equally to all allocations, whether compulsory or optional. If a business directorate is under any obligation to allocate sums for other purposes than depreciation, these sums must appear in prices before they can be allocated out of gross profits. Since profits come out of prices, the distinction between "additions to prices" and "deductions from profits" is meaningless here. In the case of Mr. Franklin's two firms making boots, the only relevant point in this connection is that the *minimum* prices of the boots made by the latter firm must be "all that much higher" than the *minimum* prices of the boots made by the former.

The essential point to note is that the deficiency of purchasing power is dependent on the *total* of the sums allocated. The total which *must* be allocated in any given case depends on various factors, one of which is the terms of the investment-issue.

Yours faithfully,

A. W. COLEMAN.

Forthcoming Meeting.

London Social Credit Club.

Blewcoat Room, Caxton Street, S.W.

June 26th, 7.45 p.m.—"The Simplicity of Social Credit," by Miss Prewett.

NOTICE.

All communications requiring the Editor's attention should be addressed direct to him as follows:

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Published by the Proprietor (ARTHUR BRENTON), 70, High Holborn, London, W.C., England (Telephone: Chancery 8470), and printed for him by THE ARGUS PRESS, LIMITED, Temple-avenue and Tudor-street, London, E.C.4, England (Telephone: Central 3701).