Resistances to Social Credit.

Recent correspondence that we have received from Alberta shows that the claims of Social Credit are being misunderstood even in quarters where there is a sincere wish to understand them. This misunderstanding arises from the neglect to investigate first things first—a neglect which comes from critics (i.e., friendly critics) who would like to believe that the soundness and feasibility of the Social Credit analysis and proposals cannot be properly analyzed by the manner of a man on a horse in a fog and no compass. Most of the arguments that we have examined proceed on lines which show that those who use them have not made up their minds whether the Social Credit Analysis is sound or not, and who appear to believe that they can reach a conclusion about the soundness by contemplating the various resistances which they think would be removed by an attempt to administer the Social Credit Proposals.

Because of this they unwittingly make psychological resistances the test of the scientific soundness of the Analysis, quite overlooking the fact that the existence of physiological resistances is part of the proof of the soundness of the Analysis, that is to say, that it arises out of the fact that there is a universal chronic shortage of purchasing power. Let us illustrate this. If you have a machine whose bearings become hot when working at full speed, and someone comes along and tells you that this is because your lubricant is inefficient, and that if you will use another which he recommends your machine will be driven at full speed, you might believe his claim or not, but you would certainly not test it by calculating how much hotter the bearings would become if the machine were driven at full speed on the old lubricant. To bring such a test would be an absurdity, and it would amount to an a priori dismissal of his claim without any trial with lubrication at all. And so with the phenomena of friction in present-day economic conditions. Do they not, every one, centre round the problem of getting hold of money? And is not the problem in every case, that of finding buyers with enough money to pay sellers' costs? In brief, is not the lubricant of industry? And since the commodity-market is the only place where industry can create costs, is not the essential element in the lubrication of economic enterprise just this—money, in consumers' pockets? Consumers will pay any price asked for anything they have got the money; and producers will distribute any amount of money you like on output if it seems to be the sure way of recovering their costs. The frictional costs day-by-day are due to the fact that these "ifs" are not satisfied.

When they are satisfied the friction will disappear. Psychological obstacles to the Social Credit Proposals are mechanically created by the credit-system in its present form, and they will be mechanically destroyed if the Social Credit Proposals come into operation. That is why the Credit Proposals must be contended with.
Reserves and Prices.

The Rhodesian Corporation, Ltd., in their Report submitted to the Ordinary Shareholders meeting on December 16, 1937, make the following statement. The profit for the year was £28,299 6s. 4d., and this sum, added to the balance brought forward of £73,190 13s. 9d., made a total of £515,459 0s. 1d. standing to the credit of the Profit and Loss Account.

After deducting the final dividend of 5 per cent., for the year ended 31st July, 1937, amounting to £5,856 10s. 3d. paid in January last, Directors' additional dividend £13,333 6s. 9d., provision for Next Reserve £37,547 as 2d., the Reserve Account, there remains a sum of £51,888 14s. 9d. standing to the credit of the Profit and Loss Account.

Having regard to the disturbed condition of International affairs and the consequently depressed state of the share market the Directors are of the opinion that the interests of the shareholders will be best served by basing the resources of the Company on the dividends for the year under review, and the above-mentioned balance of £51,888 14s. 9d. will be carried forward.

The Reserve Account now created amounted to £60,000 can be used for the general purposes of the Company. The Company's Balance Sheet as at 31st July, 1937, discloses the following liabilities. We assemble them under categories headed by us for our own purpose (shillings omitted):

**LIABILITIES TO OUTSIDE CREDITORS.**

- Loan Against Security and Interest accrued $30,000
- Sunday Creditors (including provision for bad debts) $13,598

**TOTAL.** $143,598

**SPECIAL LIABILITIES TO SHAREHOLDERS IN THE COMPANY.**

- Undivided Profits $50,000
- Profit and Loss Account $5,024
- Reserve Account $57,888

**TOTAL.** $112,912

**CONTINGENT LIABILITY TO SHAREHOLDERS.**

- Share Capital $4,466,666
- The Assets shown in the Balance Sheet are all the assets under our control.

**TOTAL.** $4,466,666

**FINANCIAL RESOURCES OF THE COMPANY.**

- Land, Buildings, Machinery, $1,404,486
- Stocks $847,301
- Accounts Receivable Other Companies $749,057
- Money Owed to the Company $71,413
- Stocks and Payments in Advance $1,466,666
- Cash Owed by the Company $6,500
- Cash in hand and in transit $4,249
- Total $7,284,438

**TOTAL.** $7,284,438

The Profit and Loss Account shows a total expenditure of £3,050,000, of which £2,050,000 for operations, and £5,000 for other purposes, and the total reserves amount to a total reserve, of which £4,000 is proceeds of sold assets, and £5,000 is on sale of shares, £17,300 net dividends, etc.

Following are some of the figures for the profit and loss account:—

- For the period, £5,856 10s. 3d. paid in January last.
- Directors' additional dividend £13,333 6s. 9d.
- Provision for Next Reserve £37,547 as 2d.
- The Reserve Account now created amounted to £60,000 can be used for the general purposes of the Company.

**FREE HORSEFORD.**

**SPECIAL LIABILITIES TO SHAREHOLDERS IN THE COMPANY.**

- Undivided Profits $50,000
- Profit and Loss Account $5,024
- Reserve Account $57,888

**TOTAL.** $112,912

**CONTINGENT LIABILITY TO SHAREHOLDERS.**

- Share Capital $4,466,666
- The Assets shown in the Balance Sheet are all the assets under our control.

**TOTAL.** $4,466,666

**FINANCIAL RESOURCES OF THE COMPANY.**

- Land, Buildings, Machinery, $1,404,486
- Stocks $847,301
- Accounts Receivable Other Companies $749,057
- Money Owed to the Company $71,413
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accounts of all business enterprises put together, and presented in a form (as yet not followed), which is designed to yield the correct answer.

But although this manner of investigation is not open to the student, the question of what becomes of re-invested undistributed profits can be answered in principle.

The reason is because every successful company dispenses with its surpluses on the same principle. Taking them all together, each invests some of its undistributed profits in the others. They all sell securities to each other. Yet, if that were all, they should collectively hold the proceeds of this counter-selling in the form of liquid cash. But they do not. No important company you like to name holds cash to more than a fraction of its reserves (its undistributed profits). Where does the cash go? Well, it finally goes into the banking system; where it is cancelled. And it goes partly in repayment of bank-loans, and partly in the purchase of securities held by the banks. And by going in these ways it goes out of circulation altogether. (Vide the Rt. Hon. Reginald McKenna.)

The banks (which we know the insurance companies) are always buying securities bought with credit (as the saying is) by the normal investment market, that individuals or companies are surrenders in the purchase of industrial securities. These are saved by the company administrators; and, to the extent to which these banks are not all, they cancel the unabsorbed holdings and the market, where commercial securities (whether of the same or different character) are surrendered in the purchase of industrial securities. These are thus saved by the company administrators, and, to the extent to which these banks are not all, they cancel the unabsorbed holdings and the composition of industrial securities, distributed profits, and, to the extent to which the banks have unabsorbed holdings and pick up the cash and cancel it.

Above and beyond this the banks and insurance companies, as holders of securities, collect every year a large proportion of industrial securities, distributed profits, and, to the extent to which the banks have unabsorbed holdings and pick up the cash and cancel it. Finally, the banks as the ultimate holders of the Flotation Debt, will force the Government to collect from the community in taxes what the community neglect to surrender in the normal investment market.

"Cancellation" Sequence

"If I issue a dividend, how do I get it back?"—Aberdeenshire, December 17, 1936. (The Alberta Report, page 2.)

[Note: Mr. B. H. Vois, in a letter to The New English Weekly for January 5, 1934, writes as follows: "The figures of the Green Book Manifesto, in order to show "why credits given to customers must "pick up" at the banks," are distributed, and not cleared correctly in his next sentence.

"If it must eventually find its way to the banks,"]

1. £30 is drawn as National Dividend by a family of four persons over a period of one year. They spend the £30 to the banks. So far as this family is concerned, the £30 is cancelled.

2. The retailers need the £30 to cover £30 of costs incurred in storing and running their businesses. They can spend it all, except their normal net profits on this turnover. The net profits on account must either be spent on retail purchases (in which case these profits cannot spend their profits more). If they are saved, and will be spent at a later date on retail purchases, the same result. (Profits saved and invested)

3. The £30, less normal profit, passes on to the various wholesale firms. The sum received by the whole-salers is needed to cover costs incurred in stock.

and running their businesses. So far as the wholesalers are concerned, the £30, less their normal net profits, is cancelled.

4. The £30, less retailers' normal net profits, passes to the manufacturers. And this sum is needed by them to cover their production costs. So far as the manufacturers are concerned, the £30, less their normal net profits, is cancelled.

5. The £30, as Mr. Veis pointed out, must eventually find its way to the banks; but not, please note, in repayment of any bank-loan owing to the banks, because the £30 was a National Dividend issued as a gift, not as a loan. The banks do not need this £30 to cover costs in a loan. The banks do not need this £30 to cover costs in a loan. Therefore, they have no claim to it. The gift has done its work in liquidating £30 of costs right through the consumer-distributor system, and has found its way to the banks. To whom does it now belong? It does not belong to anyone. It has cancelled costs all through the system, and does not exist either as a debt or a credit as far as the banks are concerned, therefore, the issue of £30 is cancelled.

That is all very well (someone may say), how will the banks cancel this £30 when it has "found its way" to them?

We are dealing here, let us remember, with the banking system—"the banking system"—and not with any one bank in that system.

Transactions by clearing cheques (i.e., by cheques not clearable by the same bank within itself, but clearable through the Clearing Houses, total about £30,000,000,000 per annum)." (Sir G. Skell in his Statement of Residence per annum.) Before the Macmillan Committee on Finance and Industry, February, 1929.)

If we suppose that a National Dividend of £30 per family of four has been distributed, it would amount to £30,000,000 per annum. That is quite a sizable sum.

They would, as now, cancel the £30,000,000 bank (cheques issued credited originally issued via the productive system; credit the £30,000,000 National Dividend social (non-bank) credit the £30,000,000 National Dividend direct to consumers, and notify the National Credit Office of that fact.

The total of £30,000,000 has been cancelled right through the system, and we begin again at:

1. £30 is drawn as National Dividend by a family of four persons...

and so on through the whole sequence of the next period of consumption and production.

Thus, if consumer credits remain the same in each subsequent production period, the total amount which will no more than the original £30,000,000 will find its way to the banks—over and over again, as many times as you choose to perform this simple operation. It is the principle, in fact, of keeping a proper balance between consumption and production (income and profits).

There is no "cancellation problem."