THE
NEW AGE

INCORPORATING "CREDIT POWER."

ORGAN OF THE NEW AGE SOCIAL CREDIT SOCIETY

No. 2366] NEW SERIES Vol. LXII. No. 11. THURSDAY, JANUARY 13, 1938. ANNUAL SUBSCRIPTION TO THE SOCIETY 30s

CONTENTS.

The Duke of Windsor.

Four items of news concerning the Duke of Windsor appeared in the paper's last week. They were as follows in order of date:

1. Lloyd George dines privately with the Duke and Duchess.

2. Bishop Browne, of Bermuda, removes portraits of them from a newspaper office and destroys them, stating afterwards that he considers it a "perfect disgrace that they should be shown in such a public place." They were the property of a girl clerk, Miss Evelyn Scobel, who is an employee of the newspaper publishers. Dr. Browne was Bishop of Paddington from 1914-1925, and was then appointed to Bermuda.

3. The Bishop of Bradford, Dr. A. W. F. Blunt, has a nervous breakdown. He is the prelate whose public criticism of the Duke (then Edward VIII.) was made the signal for the launching of the ultimatum leading to the dethronement of the then King.

4. The Solicitor-General, Sir Terence O'Connor, golfs with the Duke at Cannes.

The immediate background to these events was the recent discussion in Court circles about what order of precedence should be assigned to the Duke and Duchess—an event which seems to foreshadow their return to England not long hence. The significance of Lloyd George's contact with them lies in the fact that he sent a message of sympathy to the deposed King just after the abdication, characterising the proceedings which culminated therein as shabby treatment. He (Lloyd George) was abroad on holiday at the time.

With regard to the Bishop of Bermuda's escapade it will be understandable to those readers who share our theory that the City and the Navy did not see eye to eye about the abdication crisis, and have not done so since about foreign policy. So it is very probable that in places like Bermuda, where the opinions of the Senior Service are more audible than elsewhere, the Church finds her affiliations with the City more embarrassing than elsewhere. Counting-house diplomacy does not smell sweet on board ship; and until the reason (among other matters) for the Mediterranean trip of the Archbishop of Canterbury and Mr. Pierpont Morgan is satisfactorily explained, there must persist a condition of bad visibility in which it is difficult to distinguish the priest from the moneychanger in the temple of international politics.

In the context of international politics it will be appropriate to allude to the elevation of Sir Robert Vansittart from the position of a permanent official to that of diplomatic adviser to the British Government.* Instead of being a functionary in the carrying out of foreign policy he is now a designer of policy along with other statesmen. It is suggested in some newspapers that for some time before his status was thus raised he had been acting *ultra vires*, and that the Government decided to promote him as an easier way out of this anomalous situation than forcing him to obey orders or abdicate. We raise no complaint. Sir Robert is a gifted and experienced man, and there can be no question of his value to Britain and the Empire *provided always* that his ideas on policy are not going to be inspired from Threadneedle Street. If that proviso failed then his efficiency would be a liability, not an asset, to the people over whose destinies he now presides. On this point we are bound to be a little bit dubious, because if the suggestion just referred to has any foundation, this is a case of rewarding the indiscipline of a civil servant; and since the Civil Service is a collective whole, hired and paid by the Treasury, one cannot help allowing for the possibility that this setting of a bad example to civil servants was risked by the political Government at the behest of the financial Government. (The sailors at Invergordon were not promoted to be assessors of taxes, were they?)

But we can adduce a closer parallel than this What about the Monarchy? Exactly a year ago we reprinted an article contributed by Arthur Krock to the *New York Times*. (See THE NEW AGE of January 14, 1937, page 72.) In that article this writer dismissed Edward VIII.'s relations and intentions concerning his (present) wife as an irrelevant factor in the deposition plan, which was, in his words, to get rid of a "clever King" by "making his position untenable." The writer recalled Queen Augusta's admonition to her son: "George, be a King." And he proceeded to suggest that the "swift" passing of the Abdication and Accession Acts by Parliament was fundamentally based on the inner policy of preventing the "personal qualities" and "mass popularity" of Edward VIII. from "revitalising the place of the sceptre in public affairs." In other words Edward VIII. fell for exactly the same reason that Sir Robert Vansittart is said to have risen. Instead of merely implementing policy he criticised it as well. But instead of being called up higher where his criticisms would be in order, he was told to get out. Critics may question his qualifications to criticise in the sense that he lacked the constructive experience enjoyed by his Ministers, and could not tell them how to put right the things that he saw were wrong. That may be true. No-one knows, however, what was going on inside his mind. All the same, apart from technical qualifications, there remains the Divine Right of the

* The comments of *The Week* on this event are reviewed elsewhere in this number.

Monarch to voice the Divine Discontent of his People. And that is what Edward VIII. was clearly tending to do. Twenty years ago this would have been futile, for then there were innumerable discontents each related, to all appearance, to a cause of its own; and the indicated remedy for each cancelled remedies for others; so that the idea of discontent being divine seemed a meaningless piece of rhetoric. But to-day all discontents are known to be one discontent, and that one discontent is known to have one cause, and one remedy. And since this one discontent afflicts the whole of the King's subjects it is a discontent proper to be voiced by the King. Would Edward VIII. have become the Voice? Allow the doubt if you like. But who other than he showed the incipient sagacity that characterised his words and acts before he left these shores? It was a chance. And the bankers were not taking any chances.

Vansittart's Elevation.

Victory or Defeat?

The Week says that according to the best-informed opinion Sir Robert Vansittart has won a short-term victory over a wire-pulling combination who had hoped to manoeuvre him into the acceptance of an ambassadorship, but has risked a long-term defeat in the sense that the new job that he has jumped onto is like a flying trapeze compared to the job that he has jumped from—that he has gained more scope, but surrendered stability. *The Week* writes obscurely at times. For example, in one paragraph it aligns Lords Astor, Lothian, and Londonderry against Vansittart and Eden, and in the next speaks about "bickering" between the latter two characters. Perhaps this is unavoidable; for the manoeuvres dealt with may be described as short-distance political opportunism practised within the limitations of long-distance financial design. The designers control the ever-changing alignments of the opportunists, and do so by methods which make the question of which opportunist group is victor or vanquished a matter of no moment. The winning or losing of political deck-games does not alter the course of the financial ship. It is the other way round; the course takes the ship into conditions of weather which influence the choice of the games to be played. Apparently, to-day, the shifting of Vansittart is the issue under contest. To-morrow there will be another game, and a changing of partners. Foreign politics is the rich man's darts. And, as in the poor man's pub, the losers pay for refreshments to the profit of the owner of the dart-board.

Notice.

Debating Supplement.

This month's debating correspondence is incorporated in the present number instead of being published as a separate detachable supplement. The consensus of opinion among readers whom we have consulted is that the debating, so far, is not calculated to interest outsiders, and that therefore no purpose is served by publishing it for distribution separately from THE NEW AGE. This is confirmed by the fact that very few extra copies of the supplements have been asked for by readers, or even by contributors to the debate. We must proceed on the trial-and-error principle which now seems to indicate that in order to arouse interest among new inquirers any technical debating matter intended to be put into their hands should be published along with other matter which shows the practical importance of the issues being debated. To use an analogy, if you wanted to interest people in the art of diamond-cutting you would do it most effectively by showing them a diamond ring. On the same reasoning THE NEW AGE should be the setting for the Supplement.

The incorporation of the debating matter need not impede any reader or contributor who wishes to bring it to the notice of new people. We can provide them with complimentary copies of THE NEW AGE upon their undertaking to use them in that way. A minor advantage of this change will be that the debating matter need not be inflated or deflated to fit any exact number of columns as must be the case when you have a standard-sized Supplement. And, of course, the space to be filled, if at weekly intervals, could average two columns instead of a monthly eight columns. This would improve the debating by shortening the contributions. Letters up to the present have been much too long, and have usually covered too many points. Probably the writers will correct this fault when they know that there is always next week to repair the omissions of this week. Let their principle be to ram home one point at a time.

Destitution and Docility.

The average citizen is not a person, but a numerical unit. From the point of view of the bankers the financial destitution of each unit ensures its political docility; and the political docility of each unit ensures its endorsement of the methods by which it is made financially destitute. Thus it is that observance of the axioms of sound finance is all that is necessary to make the Democratic System safe—for the bankers! And not only safe, but the safest, having regard to the imponderable factors in the preservation of law and order. The bankers have no use for Dictators, except insofar as their truculence keeps honest citizens in a state of apprehension, and therefore of docility.

The Investments-Savings Trick.

An old soldier was yarning once about how he and his mates had a lark with a nigger. They presented him with a money-box with a key, and told him that he could save up his money in it. Then they gave him coins from time to time in return for little jobs. The nigger let them keep the box in their custody for safety, being quite satisfied that it was locked and he had the key. So whenever he had a coin to save he would ask for the locked box and put the coin in the slot, grinning more widely on each occasion. But he did not notice that the box was so constructed that the lid and the side where the lock was could be lifted up bodily *in situ*, leaving an open three-sided receptacle like a racquet-court. The consequence was that every "new" coin that he inserted was the original one, abstracted from the box and given back to him. He suspected nothing. To him the key in the hand was sufficient guarantee that each coin was an extra coin so long as the lock was fast when he tried it. "On the last knockings," narrated the old soldier, "this bloke opened his box and found it empty: and you should have seen his face!" The appositeness of this yarn as an analogy to the savings-ramp will need no explaining. It fails in the sequel, however, because the soldiers, having played out their joke, did hand over to the nigger the money he had saved, or thought he had. This might be a hint to Montagu Norman. He is an old soldier, and he used to be fond of a joke. When he came home after the South African War his admirers shoved him in a carriage and trundled him from the station to his home, some pulling in front and some pushing behind. When they got there the carriage was bare—and when they came to look round, behold he was one among the pushers of his own carriage. How he'd got out nobody could discover, and even to-day there is only the hypothesis that he must have changed into the costume of Mr. Skinner, which, so the legend goes, renders its wearer invisible. Anyhow, it was a good joke, because it was over quickly and nobody was hurt. So, as a New Year's wish, let us hope that Montagu Norman will re-discover his sense of humour and not only let on about the joke of the bankers' disappearing-savings box, but also stimulate general laughter at it by coughing up the missing scratch, as Damon Runyon might say.

NOTICE.

If any subscriber who usually receives two copies of *The New Age* gets only one copy of this number, will he send a postcard to the office, and the omission will be made good.

Opera at the Just Price.

By John Grimm.

Sixpence for *Die Meistersinger* is something to talk about. It should make even a Scot purr. You go in at 6.45 and don't come out until after 11 p.m. Allowing for two intervals this works out at three-halfpence an hour. I remember the time when you had to pay six shillings to strap-hang on the rafters of an opera house to hear this work. That is only eighteen pence less than the top price at Sadler's Wells. Yes, for seven-and-sixpence you can sit in the stalls or the front row of the circle cheek by jowl with directors of the Bank of England. And if you cannot afford that honour you can edge up towards those notabilities at prices ranging along 9d., 1s. 3d., 1s. 6d., 2s. 6d., 3s. 6d., and 4s. 6d.—a gentle progression suiting every state of pride and pocket.

So much for quantity and price. But of course it is the quality of the goods that counts. Wagner was a congenital rebel with a Social-Credit philosophy. And it is because this characteristic of him comes out more clearly in *Die Meistersinger* (or, in English, *The Mastersingers*) than in his other operas that I have chosen it as the peg for my remarks. For the story of the Mastersingers is the story of the Bankers; and I can imagine no greater pleasure than if I could be seated as a Sadler Swell No. 1 among the aforesaid directors of the Bank of England in the seven-and-sixpenny stalls, and be allowed to make *sotto voce* remarks to them about the events in the story unfolded by the performers on the stage and under it, especially those under it, whose instruments tell out the thoughts behind the words of the characters.

For these old boys, the Mastersingers, held a charter to formulate the rules of vocal music; and, as might be expected, got to hold the view, and impose it, that a song not composed or sung with the rules wasn't a song. So, you see, they correspond exactly with London's City Fathers. And the story of the opera shows their reactions when an unknown singer arrives in their city with a new kind of song. So readers will understand why I like so much the idea of nudging my bankster neighbours in the stalls, starting with a hard nudge where the old boys on the stage variously register ridicule, contempt and hatred when they hear the notes of the new song. No; just a little before that, when Beckmesser, the marker (the examiner), makes Walther, the singer, listen to a recital of the standardised rules to which he must conform. Yes, and as they are recited, so would come my cues to whisper my comments around and about—"Now, you Fathers of Finance, have a good look at yourselves on the stage. Listen to your rules of sound finance breathing out from the rules of sound singing! All costs must go into prices; prices must not be less than costs but may be anything over cost that the goods will fetch; loans must be repaid on demand" and so on.

Well, there's a jolly end to the opera. For Walther's singing, which is condemned by the masters, triumphs at last when he sings to the people. The song did not seem to fit any of the rules that the masters had taught them, but they liked it; it grew on them; they took up the themes of it; thereby registering the truth that the ultimate rules of singing are enshrined in the hearts of the lowly, not strangled in the scripts of the mighty. The song made the rules, not the rules the song.

The next performances of *The Mastersingers* is on Friday, January 14, at 6.45 p.m., and Friday, February 11, at the same time. Go. And be in time for the Overture. For in it is presented the struggle between the old and the new rules, and the ultimate victory of the new. But not, be it noted, a victory involving the abandonment of the old. No; the victory of the new is the fulfilment, not the destruction, of the old. Dynamic spiral development supersedes static circular stagnation. The proof is painted in tones by the orchestra. First you hear the themes of the Mastersingers based on the old rules. Then are introduced the themes of Walther's songs, based on the new. A challenger has been delivered. Next you hear an alternation between the old themes and the new. The struggle has commenced. Later there comes a chaotic mix-up of melody and noise, which makes you feel as if the system of music itself is expiring in convulsions. But in a few moments the "spiral" and "circular" themes begin to sort themselves out of the riot, and from then on they gradually drop their mutual animosities until, in the closing stage of the Overture, you hear them pick each other like dancing-partners, and blend their steps without losing their individuality.

How is it all done? Well, by Wagner's contrapunctal adjustment of seemingly irreconcilable melodic material. In language more familiar to Social Creditors—by the correct manipulation of the *time-lag*. And, as they do not need telling, this is how the struggle between the loan-credit and free-credit principles of harmonising human relations is going to be resolved. Not that the old principle will be destroyed, but that the new principle will fulfil the old—that is, fulfil the purpose for which the old was once designed but has failed to achieve.

Now I have said enough, I hope, to prompt music-loving readers to turn up at Sadler's Wells. They will not forget the experience.

I will conclude with a growl at the management. The essence of Wagnerian opera is the orchestra. Hence the end of each act is not finished when the singers stop singing, but when the orchestra stops playing. Until then there should be silence in the audience. But unfortunately the functionary in charge of the curtain (they all do it, and always) starts letting it down before the orchestra has finished. And in every audience there are characters who take the initial movement of the curtain as a signal to start clapping. The consequence is that something is lost—sometimes something of importance to the careful would-be listener. For example, the other night this happened at the end of Act II. of *The Mastersingers*. At this juncture the Nuremburg rioters have scattered into their houses at the warning that the Watch is on his rounds. The din and fury of a moment before die out, and the stage is empty and still. Enters the old watchman with lantern and horn, looks round as if he had thought he'd heard noises, inspects the scene, sees nothing, cries out the time of night, invokes God's protection for the honest citizens in his care, blows his horn, and passes gently along his way with the moon looking down on him. As soon as he passes out of sight the orchestra begins to whisper reminiscences of the origin of the riot, as if the walls of the still street were distantly echoing back Beckmesser's fantastic serenade and its violent manner of interruption. But the orchestra had hardly played a couple of bars before that diabolical curtain started to drop, and let loose the premature noise referred to. There is no reason at all why that curtain should move until the last chord has been sounded. In fact it might stay up a second ar so later: What does it matter? So will the management please, in future, disregard tradition and correct this irritating fault?

Review.

Social Credit: A Critical Analysis. By C. W. Peterson. Graphic Arts Building, Calgary, Alta. Price 10 cents, post paid.

This pamphlet is interesting because it assembles what the author calls his "Considered views on the Social Credit philosophy as I see it," and because he is editor of the *Farm and Ranch Review*, and has influence among the farmers. The general drift of the pamphlet is summarised in his early affirmation that the only solution of "the economic and social problem" is "to induce all people to consistently practise the teachings of Christ," indicating the nature of these teachings a little later by an allusion to "The Golden Rule." Starting from that position he denounces the Social Credit objective and derides its technique with no qualification and a good deal of heat.

All we can say after reading his remarks is that if a leader of opinion can hold at one and the same time all the views he expresses, we are forced to wonder what the ordinary public are thinking about Social Credit.

We may deal with some of Mr. Peterson's arguments later on, but there is no hurry, since they are all familiar to students and have been repeatedly dealt with in Social Credit books and pamphlets. In the meantime, we suggest to him that he make an effort to entertain the idea that collective moral defects can be caused and cured by material means, just the same as can individual defects; and that there are problems in economics to which the Golden Rule is hopelessly inapplicable—as much so as trying to cure a gouty old gentleman of profanity by psycho-analysing him.

Dyde in the Wool

Mr. H. A. Dyde, speaking to Albertans on behalf of the United Canada (anti-Social Credit) Association on November 3, 1937, said that Social Credit was founded on "an entirely false" theory (the "A plus B" theorem), and proceeded to try to demonstrate exactly how and why it was "absurd."

The *Edmonton Journal* for November 4 quotes Mr. Dyde as saying:—

"Other Factors."

"You probably will say, well is that not true? We reply that all the factors used by Major Douglas are true, but that there are other factors which he left out of the problem and, therefore, his conclusions are wrong.

"We shall begin our reply to the A plus B error by asking you to bear in mind that the production of any commodity to-day is a prolonged and complicated process and that production is continuous. Take, for example, the making of boots and shoes. The process begins with the farmer and ends with the storekeeper and retailer. The farmer raises cows. He sells them to the butcher. The butcher sells their hides to a tanner. The tanner sells the leather to the manufacturer, and the manufacturer sells boots and shoes to the wholesaler and the wholesaler sells to the retailer and the retailer to the consumer. The answer to Major Douglas's absurd claim is to be found in this process. Please follow this next point closely.

"Skips Process."

"Major Douglas skips the process and leaps to the manufacturer. He then examines the pay envelopes of the workers in the factory and concludes that the total wages, salaries, and dividends paid the factory workers is much less than the total price of boots and shoes, and therefore comes to the conclusion that there is not enough money paid out in the process of production to buy back the commodity produced.

"May we conclude by summarising our finding in that connection. We have shown that Major Douglas's A does not have to attempt the impossible of buying A plus B, because B, unknown to the Major, helps A at many points in the processes of production.

"We simplify this by the following example: You buy a pair of boots to-morrow for $4, we shall say. The merchant may have only distributed a fraction of the price in purchasing power in respect to those boots. If that were all the money available to buy them then, of course, they could not be bought and Douglas would be right.

"But that is not all by any means. The wholesaler, manufacturer, the tanner, the farmer, the manufacturer of the machinery which machined the boots, and the power companies which furnished the power, as well as numerous other organisations, all helped to produce those boots, and amongst them all there was distributed $4 in wages, in payment for raw material and in profits, etc., which were equal to the price of the boots. This fact completely disposes of A plus B, and with it goes all the gilded promises of Social Credit."

Mr. Dyde produces the same "argument" as that trotted out by Mr. John Strachey, the English Communist intellectual, when he attempted, a year or two ago, to explode the A + B theorem. Mr. Strachey also suddenly produced from nowhere a "Consumer" who was not included as one of the producers and distributors; and this strange Purchaser from the Pleiades, like Mr. Dyde's, appeared on Earth with exactly the right amount of cash in his pocket to purchase the finished product! How that cash was conjured from the pockets of the producers-and-distributors into the pocket of this "Consumer" is a magical operation not explained, either by Mr. Strachey or Mr. Dyde.

Now let us see how Mr. Dyde's refutation of the A + B theorem works out, using token figures:—

1. Farmer pays .... for farm equipment	1
2. Butcher pays Farmer for cows	1
3. Tanner pays Butcher for cowhides	½
4. Manufacturer pays Tanner for tanned hides	½
5. Wholesaler pays Manufacturer for finished boots......	½
6. Retailer pays Wholesaler for finished boots...............	½
Price of boots to Consumer......	4
7. "Consumer" pays (?) Retailer for boots	(?)

(Who is this "Consumer"? Where did he get 4 ($) with which to pay the Retailer?)

The trouble is that the whole process-calculation is set out wrongly to begin with.

Did you ever meet a Farmer who calculated the cost of raising cows as "A" costs only? You ask any Farmer, anywhere, whether his costs are wages and nothing more.

And do you think a Butcher could run his business by charging only the cost of wages? You will find he has other costs—"B" costs.

And so with every one of these producers and distributors: each must charge A + B costs into final selling prices.

For example:—

	"A" Payments	*plus*	"B" Payments
1. Farmer pays ...... for equipment ...	½		½
2. Butcher pays Farmer for cows......	½		½
3. Tanner pays Butcher for hides	¼		¼
4. Manufacturer pays Tanner for tanning	¼		¼
5. Wholesaler pays Manufacturer for boots	¼		¼
6. Retailer pays Wholesaler for boots	¼		¼
Price of boots to Consumer	2	*plus*	2 = 4

Thus, using any token figures, it will be found that the consumer purchasing-power available amongst the six men concerned is less than the price of the finished product. In this example 2 is available to purchase 4.

"All helped to produce those boots, and amongst them all was distributed $4," of which only $2 is available as consumer purchasing-power when the boots are ready for sale.

"'A' does not have to attempt the impossible of buying A + B," Mr. Dyde tells us, "because 'B' helps 'A' at many points in the processes of production."

Perhaps Mr. Dyde, or someone else, would like to demonstrate to the Farmer, the Butcher, the Tanner, the Manufacturer, the Wholesaler, and the Retailer, how each can run his business without incurring any running expenses other than wages?

We are reminded, however, that "the production of any commodity to-day is a prolonged and complicated process, and that production is continuous." So if we "prolong" the process, thus "complicating" and making it "continuous," we ought to find that consumer purchasing-power equals the price of consumable goods (boots in this example)?

But you can prolong, complicate, and continue this process in any way you choose: you will not be able to make "A" equal A + B.

For however you do it the "prolongation" or "complication" will turn out to be merely a repetition of the process-table given above. Set down the table, say, three times. They now represent the cost of three pairs of boots, namely, $12. Total consumer purchasing-power available amongst the producers and distributors is $6 ("A" payments). How do you make $6 purchase boots to the value of $12?

It is hard luck when you have taken all the trouble to fabricate a really big bomb (in which "B" costs are left out) and have dropped it on the enemy lines, to see it "explode" and blow itself to smithereens without even destroying a blade of grass.

Thus ends the deadly Dyde Bomb, the Strachey High Explosive Shell, and many another infernal machine designed to "completely dispose" of the A + B theorem.

Try again, boys! There must be a snag in it somewhere—because if there isn't all your economic and financial arguments are bust for evermore.

S. R.

Q. and A.

COMPILED BY UNCLE NED FOR THE LITTLE ONES

Now, Children, we are going to play a most diverting game called "Questions and Answers," which is both amusing and instructive (and, possibly, highly disconcerting).

Q.—Where does coffee come from?

A.—Brazil.

Q.—Why do they grow coffee in Brazil?

A.—In order to destroy it.

Q.—Quite right. How do they destroy coffee in Brazil?

A.—It is taken in bags and dumped in the sea.

Q.—Do people enjoy drinking coffee?

A.—Yes, indeed they do.

Q.—Then why is it taken in bags and dumped in the sea?

A.—Because there is too much coffee.

Q.—Are there people who would enjoy coffee, but who never have it?

A.—Yes; millions of people who have not the money to buy it.

Q.—Did you not say that coffee was destroyed in Brazil because there was "too much" of it?

A.—Yes, I certainly said so.

Q.—How can there be "too much" when there are millions of people who would enjoy it if they could get it?

A.—I . . . I'm afraid I don't quite know . . .

Q.—In fact, you were repeating Montybunk?

A.—I do not know what Montybunk is.

Q.—Montybunk is Bankersblather. All our Public Men blather Montybunk when they make speeches and write articles and give interviews.—Where does wheat come from?

A.—The chief wheat-producing countries of the world are—

Q.—Yes, all right, we know all that. Why do farmers grow wheat?

A.—So that we may have bread.

Q.—Is there plenty of wheat in the wheat-producing countries of the world?

A.—Oh, yes. Very often there is too much.

Q.—What, again? Have you ever seen advertisements saying "EAT MORE BREAD"?

A.—Yes, indeed I have.

Q.—Why should people be requested to "Eat More Bread" if, as I think you said just now, there is very often "too much" wheat?

A.—I . . . I'm afraid I have never been able to understand that.

Q.—Are there people who cannot get enough bread to eat, and who go hungry?

A.—Oh, yes, indeed there are . . . although, of course, no one ever starves (to death, I mean) in our country.

Q.—If a hungry man knocked at your door and asked for a crust of bread, would you think it was sane to reply, "My dear fellow—"EAT MORE BREAD," and then close the door in his face without giving him anything?

A.—No, I should think it most strange.

Q.—Is wheat destroyed?

A.—Yes, many thousands of tons.

Q.—Why is wheat destroyed?

A.—In order that people may "Eat More Bread"—er—no, I'm afraid that doesn't sound quite right . . .

Q.—Where does cotton grow?

A.—Cotton grows—

Q.—Down on the Old Plantation. What is cotton used for?

A.—Cotton is used for many kinds of fabrics for making clothing and other useful things.

Q.—Why are cotton-growers forced to plow back more than a third of their annual crop?

A.—So that everyone may have all the cotton goods they require.

Q.—I beg your pardon?

A.—Er . . . so that the price of cotton shall be kept up.

Q.—That's better. Are there plenty of people who cannot buy cotton goods—clothing especially—because they have not enough money?

A.—Yes, indeed, there are a great many.

Q.—Is that because there is "too much" cotton?

A.—Oh, yes, they have to go about shabbily dressed, and sometimes in rags, because the cotton-growers grow much "too much" cotton.

Q.—Would a maggot starve because the apple was too big?

A.—Er . . . let me think . . . No, I don't believe it would.

Q.—Where do potatoes grow?

A.—Potatoes grow——

Q.—In the earth. What are potatoes used for?

A.—Potatoes are used to feed pigs.

Q.—Are they also good for human consumption?

A.—Oh, yes; very good, indeed.

Q.—Why do farmers feed them to pigs, and sometimes plow them back, instead of lifting them for market?

A.—So that everyone shall have plenty of potatoes——

Q.—You mean the pigs can have plenty?

A.—I'm afraid I replied without thinking the matter out carefully. It is so that there shall not be "too many" potatoes—that is why they use them for pig-food, or plow them back.

Q.—Are there people who would be glad to have those potatoes, but cannot get them?

A.—Oh, yes; there are many poor people who wish they could get good, cheap potatoes.

Q.—Why cannot they get them?

A.—Because if they got them there would be "too many" potatoes to go round——

Q.—What on earth are you saying?

A.—I mean, the poor people couldn't buy them because they would be too cheap——

Q.—*What?*

A.—Well, perhaps that is not quite right—but if people bought all the potatoes the farmers grow the farmers could never grow enough——

Q.—So the thing to do is not to let people have what they do grow?

A.—Yes, because if farmers grew enough potatoes to meet the needs of the whole community there would be a glut.

Q.—You mean everyone would have had his fill of potatoes and would not buy any more?

A.—Yes, exactly; that is what I mean.

Q.—Would it not be possible to grow enough to satisfy all human needs—and when that was done (but not before) either feed the remainder to the pigs, or grow no more than were needed by human beings? Doesn't that sound like common sense?

A.—Er . . . yes, it does.

Q.—Why are goods and services produced?

A.—So that they shall not be used— no, no; so that they *shall* be used, I mean.

Q.—Then why are wheat, meat, milk, fish, fruit, vegetables, and many other things, destroyed before they can be used?

A.—Because there is over-production.

Q.—Do you know what you are?

A.—Please tell me.

Q.—You are a blockhead.

A.—I do not see why you think so. I have tried to answer your questions intelligently.

Q.—You have failed to do so. Do you understand that there cannot be "over-production" and AT THE SAME TIME people who are in real need of the things that are supposed to be "over-produced"?

A.—Yes, I understand that.

Q.—Where does money come from?

A.—People work for it.

Q.—Of course they do. I did not ask that. I asked: Where does money come from?

A.—Well . . . you have to work to get it.

Q.—I know that. But where does it come from?

A.—I . . . I don't know. . . .

Q.—Does it grow on trees?

A.—Er, no. . . . I don't think so.

Q.—Would you like to know where money comes from?

A.—Yes, very much.

Q.—The dear little fairies make it in their fairy rings. Now run along. Auntie's ready to put you to by-byes.

LETTERS TO THE EDITOR.

Sir,—Is it true that: Since we overpay for the goods we buy (owing to chronic cash-shortage proved by A plus B Theorem), then the greater a country's possessions (and, consequently, the greater the cost of capital upkeep), the greater the misery of the people of the country?

I talk with foreigners every day, and nearly all say: "Why are things so expensive in England when you have a huge Empire at your disposal? Now, in our little country we only pay half the price for this or that."

I tell them to inquire of Montagu Norman, but I suspect that if he gave an answer, it would have to be on the lines of my first paragraph. So I presume he wouldn't give an answer (mustn't let the Old Firm down, what?).

M. D. MUNRO-MACKENZIE.

RESERVES AND PRICES.

Sir,—Permit me to offer congratulations on your "Reserves and Prices." I have never read a better analysis of a balance-sheet. Furthermore, here is actuality; this is not imaginary, as are the arguments of the S. C. Forum; the bank-economists can take this and point out the error if they can find it; I am sending a copy to an accountant, an old friend of mine. He has always agreed with me that the heading "Reserves" is both sinister and totally misleading; he also agrees that most accountants endeavour to hide the truth, since they are legally compelled not to publish an untruth.

H.

ABDICATION PROBLEM.

Sir,—Now that more than a year has passed since the abdication of Edward VIII., perhaps we can hope to review that extraordinary "constitutional" upheaval with less emotional tension, and therefore in a more matter-of-fact frame of mind. I use the word "constitutional" purposely, because, at the time, the abdication question was spoken of in the responsible Press of this country as a "Constitutional Crisis." It seems to me that if it was a constitutional crisis it arose from some circumstance that must have been affected by the law or laws governing the marriage of a British Sovereign.

I have always understood that there was, and is, only one legal restriction applying to a British Sovereign in regard to this matter; to wit, that he or she is not allowed by Act of Parliament to marry a Roman Catholic.

This restriction could not apply in the case of Edward VIII., as the woman he desired to marry was not a Roman Catholic. Am I right in supposing that no other legal restriction can be imposed upon a British Sovereign as regards the choice of a marriage partner; and that, therefore, the pressure brought to bear upon Edward VIII. in December, 1936, by the Prime Minister and by Parliament, was non-legal (if not "illegal"), and may be regarded as a form of "blackmail," since there appears to have been a threat to break-up, suspend, or discontinue the "constitutional government" of the country unless the King conformed to an ultimatum which may be summarised as: "Give up this woman or abdicate"?

I am most anxious to know whether my view, as expressed above, is correct from the legal point of view, and I am therefore hoping that someone with constitutional-legal knowledge will give an opinion

G. S. Wood.

TYPHOID AT CROYDON.

Sir,—It seems to be a deplorable thing if it is true, as stated in the Press, that the Croydon water supply is in some way dependent upon "a well." If that is the truth it would appear that Croydon is no better off in the matter of modern civil engineering than some remote crofter's hut somewhere away up in "The Isles." Much worse off, in fact, for a well in some out-of-the-way spot is far less likely to be contaminated. In the proceedings of the Croydon typhoid inquiry ("The Times," January 7) we read that one witness, Mr. Rimington, whose son died from typhoid in the outbreak, stated that Dr. Holden, the medical officer, and Mr. Boast, the borough engineer, "were asked to investigate local conditions" because "it was thought that the outbreak had been caused by local contamination of the water supply. Residents told them that there was an open cesspit near by, and they were surprised to learn that there was such a thing. Mr. Boast, he thought, described it as astonishing." What is all this about "a well" and "an open cesspit," and how is it possible that there should be either the one or the other in a place like Croydon? The chairman of the Committee of Inquiry, addressing Sir Walter Monckton, K.C. (for Croydon Corporation), said, "There may be some people who would think that my remarks were a premature criticism of some of your clients. What I was referring to was the fact, upon which we are all agreed, that to ascertain whether you were or were not on the high level or the low level supply it would be necessary to have a map." To which Sir Walter Monckton replied: "The system is very complicated."

I want to underline the words, "it would be necessary to have a map." It looks as though the water-supply system is "very complicated"—what with "a well" and "an open cesspit"? So "complicated" that there does not seem to have been "a map" to show how "complicated" it was. It is, of course, easily understandable that, under the present financial system, the Borough of Croydon cannot afford to pay for efficient civil engineering in the matter of its water supply, but you would think it might be possible to pay for "a map" showing whether its "complicated" system was on the "high level" or the "low level"?

From my point of view it is on a pretty low level throughout, not to say "primitive," but we await the official findings of the inquiry. Meantime, what about a bit of Social Credit logic in that inquiry? I say deliberately, here and now, that the Croydon Typhoid Outbreak could be traced back to the sink-the-borough-in-debt policy of our banking system, and I hold the Bank of England responsible for all such "complicated" (antiquated?) water-supply systems. This Croydon outbreak is not something into which medical officers alone should make inquiry. It is a case also, and primarily, for the Minister of Public Credit. Where is he?

E. L. Houghton.

TIN-PAN ALLEY?

Sir,—I tell you straight, I am fed up with the Social Credit movement, as such. (I'm not sure whether, as a Social Crediter, I am permitted to use the words "Social Credit"?) The whole thing strikes me as being like a pack of kids yelling "Yew shan't play in our backyard!" at one another. The childish and spiteful attack made upon Hargrave, because of his "intrusion" in Alberta (to which I am glad to note, he has made no reply), was the last straw in a series of Tin-Pan Alley antics that began with the attempt to squeeze The New Age out of existence. Considering the state of affairs over here, I am beginning to wonder whether Mr. Aberhart didn't have some other obstacles to face besides those put in his way by the bankers. Before I follow the example of the dormouse and curl up to hibernate until all this kiddies' playground stuff is over, I don't ask anyone to explain what the game is, who's playing who, who's winning, nor whether there's a prize at the end, when all's said and done. The whole thing is fatuous enough without explanations.

K. M. J.

"CANCELLATION" SEQUENCE.

Sir,—I have read with interest the article by S. R. on the above subject, but I, for one, am not yet satisfied. I know the Green Shirts have a song they sing about "Cheque-books for All," but, as I understand it, the National Dividend would be issued in the form either of ordinary paper-money, or some kind of "ticket" which would, in effect, be (paper) cash. If such "cash" is issued it would, so it seems to me, "pile up" somewhere in the bank accounts of firms or individuals. It would not pass through the Clearing Houses at all, since they only deal with cheques. Perhaps someone would put me right on this point?

I may be a "mug," but I am, Sir,

Not Quite Convinced.

LORD TWEEDSMUIR ON FINANCE.

Sir,—In view of the fact that Lord Tweedsmuir (John Buchan, the well-known author) is now Governor-General of Canada, and, as such, is likely to find himself in a position in which he must consider the situation created by a Social Credit Government in the Province of Alberta, it may be of interest to give the following quotation from his novel "A Prince of the Captivity" (Hodder and Stoughton, July, 1933), as published on p. 308, in the May, 1935, edition:—

"That streak of light does not depend upon Germany, but upon the world outside. It does not altogether depend upon the governments. They may be difficult at times, but I think they will be reasonable, for, after all, they understand their own interest. As for the Press, it does not greatly matter, since the Press is not an independent power. But there is a great and potent world which the governments do not control. That is the world of finance, the men who guide the ebb and flow of money. With them rests the decision whether they will make that river a beneficent flood to quicken life, or a dead glacier which freezes wherever it moves, or a torrent of burning lava to submerge and destroy. The men who control that river have the ultimate word. Now most of them mean well, but they do not see far, and they are not very clever; therefore, they are at the bidding of any man who is longsighted and a master of strategy. Such a man has the future of the world—the immediate future—in his hands."

Edward Morgan.

"It is advisable to do all in your power to sustain such newspapers, especially in the agricultural and religious Press, as will withhold patronage or favours from all applicants who are not willing to oppose the Government issue of money. Let the Government issue the coin and the banks issue the paper money of the country, for then we can better protect each other.

"To repeal the law enacting national bank notes, or to restore to circulation the Government issue of money, will be to provide the people with money, and therefore seriously affect your individual profits as bankers and lenders."—*American Bankers' Association Circular, 1877.*

* * *

"Capital must protect itself in every possible manner by combination and legislation. When through a process of law the Common People lose their homes, they will become more docile and more easily governed through the influence of the strong arm of government applied by a central power of wealth, under control of leading financiers.

"This truth is well known among our principal men now engaged in forming an imperialism of capital to govern the world.

"By dividing the voters through the Political Party system, we can get them to expend their energies in fighting over questions of no importance. Thus by discreet action we can secure for ourselves what has been so well planned, and so successfully accomplished."—*(Attributed to an article in an American bankers' magazine of (circa) August 26, 1924. Can any American reader give the reference?)*

Forthcoming Meetings.

LONDON SOCIAL CREDIT CLUB.

Blewcoat Room, Caxton-street, S.W.

January 14, 8 p.m. "In essentials, Unity; in non-essentials, Liberty; in all things, Charity," by Mr. W. L. Hunt.

January 21, 8 p.m. "£5 Monthly for All for Life, in addition to wages and salaries, with a lower cost of living," by Mr. Brame Hillyard.

January 28. "Social Credit and War," by Mr. B. S. Higgins.

DEBATING SECTION.

"Who knows only his own side of a question knows little of that."

Note.

Mr. Franklin's letter contains replies to those which precede it in this section, but not to those which follow, which he has not seen.

From Gladys F. Bing.

Sir,—Mrs. Best and Mr. Coleman are at cross purposes with Mr. Franklin on the pivotal point in my argument, which is still obscure to them. They are both trying to convince Mr. Franklin that the price of every bar of soap bears a fragment of the *cost* of the soap-factory, and Mr. Franklin is, quite soundly, denying this mistaken assertion.

The confusion lies in the persistence with which the Douglasites insist that consumables bear (in their prices) the *cost* of capital fabric.

Actually the *cost* of capital fabric is irrelevant in pricing consumables—except in so far as such cost determines interest or rental value. This fact is obscure to Mrs. Best and Mr. Coleman because they still think that spending money on soap factories is something different from spending money on bars of soap. Economically there is no difference, and the price-income gap only emerges upon the taking of interest on the money spent on the soap factory. It does *not* arise in the mere spending of incomes upon bricks (for factories) instead of on soap.

Mrs. Best's confusion is stated by her when she says that "the purchase price of a capital asset has to be recovered, thereby creating a debt against the community."

In actual fact there is no attempt to recover the purchase price of a soap factory in the price of the bars of soap. The purchase price of the soap factory is recovered when the owner sells the *factory* to someone else to make, say, candles in it.

The factory is, as Mrs. Best says, a debt against the community because its owner charges a *rent* for the money with which he purchased it. That rent (and communal debt) is something apart from, and in *excess* of, the *cost* of the factory. It is apart from, and in *addition* to, the purchase-price received if it be sold.

That very fine and vital point is what Mr. Coleman means when he says that "Capital goods are not taken out of the industrial system." But the *goods* are taken out. Capital *goods* come and Capital *goods* go—even as bars of soap—but their rent goes on for ever. Capital goods are only a debt against the community because they demand rent, interest, and profit (usury) in excess of the sums they have distributed in the course of their construction, and these usury-costs are in *addition* to their costs.

A block of real property, price £1,000, is a liability to its owner unless it yields him a return of 10 per cent. Its rent is fixed to obtain the yield, not to recover the cost. That 10 per cent. includes upkeep (depreciations), which costs are distributed to the upkeep traders. The owner, over a period of years, will, thereby, recover £1,000 or more from his tenant; will maintain the property, and will still be able to sell it for another £1,000 in the property-market.

That simple fact appears to be a closed book to Mr. Franklin and only half-open to the Douglasites. It is closed to Mr. Franklin because of his astonishing notions on profit, namely, that "the acquisition of profits is an exchange of goods effected by means of money-tokens." As Douglas's definition of *Credit* (Econ. Dem.) and Marx's whole analysis of money unite in proving Mr. Franklin's curious ideas totally false, I need do no more than point out that *profit* (real increment) is not the result of any exchange effected by money-tokens. It is the result of the application of energy to raw wealth. That application is motivated and financed by money-tokens, and the same number of money-tokens will purchase the total product of energy—but they will not purchase the product and pay rent, interest, profit, or taxes as well.

However, I suggest Mr. Franklin will contribute usefully to this discussion if he drops the trail of the Bankers and proceeds with his illustration of borrowing £100 from X to run a bookstall. In The New Age supplement of November 4, I proved to him in simple arithmetic that X's £5 interest (not to mention Mr. Franklin's £10 profit) left £5 worth of goods unsold.

Mr. Franklin ignores that demonstration, and tells me to ponder upon miracles that he is too shy to elaborate or explain.

May I beg him, therefore, to give us his answer to the bookstall problem. It is not useful merely to tell me to ponder again because I am wrong unless he shows me how and where I am wrong, and, at the same time, demonstrates his own rightness. Mr. Franklin should ponder this: No loan can finance any series of costs in excess of the sum of itself.

From "Nemo."

Sir,—Mr. Franklin states that he has dealt specifically with the question of depreciation costs; but I must confess that I find his comments lacking in consistency at precisely that stage which is most crucial in this discussion. For instance, in Supplement 1, page i., paragraph 4, he writes: "Certainly, I should charge people for the use of my machine," and in dealing with my shoemaker analogy (Supplement 2, page iii., paragraph 1) "To finance the operation the firm again borrows working capital."

Let us be quite clear that we agree on fact. I accept, in substance, the definition put forward by the Australian Banking Commission as quoted in The New Age of October 21. "The effect of charging depreciation as a cost is to provide . . . a fund for the replacement of those assets." In the case of our shoemakers the depreciation cost will be over and above all other outpayments from their organisation, which latter payments will also appear as costs levied on their customers.

In Supplement 2 I said that, in order to provide this fund, the shoemakers must collect other incomes figuring as costs in other production. In other words, the shoe-buyers must forgo consumption of other products in exchange for the use of the machine. It is perfectly true, as Mr. Franklin says, that when the fund is disbursed for replacement work (the rate does not matter) the individuals engaged in replacement will be able to purchase the production from which the shoe-buyers have abstained; and that, henceforth, "depreciation-abstention" will be balanced "replacement-consumption."

It is the cardinal principle of our whole economic system that, if an individual produces £1 worth of physical wealth for the community, he is entitled to draw from the community £1 worth of wealth for his personal satisfaction. Mr. Franklin coined a useful phrase when he said that the original machine had "cost the shoemakers £1,000 of work." So it had. And what had they consumed? Nothing. Their incomes were used and retired, via the bank loan, to "defray finally the first cost of the asset." They consumed nothing. They produced wealth. The matter may be tabulated as follows:

	Production.	Cost.	Consumption.	Payment to Bank.
1. Shoemakers.	Machine.	£1,000.	Nil.	
2. Shoe-buyers.	Other production.	£1,000.	Nil.	Depreciation Fund.
3. Replacement Workers.	Machine.	£1,000.	Other products, £1,000.	Other production costs.

Net increase in production 1 asset. Net increase in costs—depreciation. Net increase in *effective* demand—nil.

The critic will, no doubt, point to line 2, and claim that the shoe-buyers have consumed the machine. They have not. By producing "other products" and abstaining therefrom in order to meet the depreciation cost, they have, in effect, defrayed the physical cost of replacement. Therefore they have not consumed the asset.

It follows from this that, not until the shoemakers collect cash equivalent to the original cost of the asset, and spend the proceeds in the consumption market, will they balance consumption with production. And this, so long as "business remains business," and "capital" is regarded as "capital," *this* is precisely what they will not do. The asset, therefore, represents a definite immobilisation of consumption rights.

From L. C. J.

Sir,—I appreciate Mr. Franklin's difficulty in dealing with a number of contributors who are approaching this problem from different angles but I should like to press him for a more specific reply to the analysis which I have put before him. He will, I think, agree that I am not raising any point on the day-to-day maintenance of an asset but confining myself solely to the provision made for the replacement of an asset at the end of its useful life. He will, I think, also find that I am not disputing his statement that so long as the community is replacing its plant at the rate of its depreciation net income is not affected or the further statement that profits may be regarded as a redistribution of income. Both these statements, as well as others of a similar nature, appear to me to beg the question as to whether total incomes are normally sufficient to meet total prices, including all claims to depreciation charges and profits. In dealing with this question I agree we must take into consideration the fact that both depreciation charges and profits, when realised, come back into the pool of purchasing power in aid of consumers' income, and that a rough balance may possibly be struck at any given time between abstractions from and restorations to consumers' income of monies of this nature. But that does not deal with the real point at issue between us, namely, the extent to which depreciation charges and profits are realisable. In the attempt to isolate my difficulty and present it in a simplified form, I am asking Mr. Franklin to assume (1) that there are ten industries, which each act both as producers and distributors, in supplying the needs of the community; (2) that in a given period of production they each make through the medium of their working capital (which I have defined) outpayments for salaries, wages, and other working expenses of 100 units or 1,000 in all; (3) that in the competition which follows, seven of the industries succeed in obtaining in price 110 units each, making 770 units in all. In this situation, I say that the remaining three industries must go short of their depreciation charges and profits as, on a total distribution of 1,000 units, they can only obtain initially 230 units against their working expenses of 300 units and can never secure, under the most favourable conditions in which we can place them in this cycle, more than an additional 70 units, representing the surplus which the seven successful industries have obtained for depreciation charges and profits. I am prepared to discuss with Mr. Franklin the complexities which arise when, instead of one industry performing the functions of both producer and distributor (as, of course, is sometimes the case) we have a number of separate industries each taking a different part in production or distribution, but I hesitate to enter upon this question, and also upon the larger question of the relationship of an isolated cycle of production to the system as a whole, unless Mr. Franklin will, in the first instance, confine himself to the position I am putting before him and to the definitions upon which my case rests. Broadly speaking, I contend on the first question, that the complexities referred to do not fundamentally alter the situation and, on the second question, that since the difficulty I have mentioned permeates every cycle of production it permeates the whole system, subject only to such temporary relief as may from time to time be given under credit-expanding conditions.

I conclude by suggesting to Mr. Franklin that when he refers to facts as supporting his theory he should deal with those set out in my letter appearing in the November Supplement.

From B. C. Best.

Sir, Mr. Franklin, in his answer to me in your supplement of December 9, entirely missed the point. I asserted his argument to be question-bagging not because it assumed that "the public who pay do receive the money," but because it assumed that the public who pay already have the money, that is, receive the money previously to, and in anticipation of having to meet the charges. Since capital costs appear in prices (i.e., the building up of reserves) before being distributed as wages for capital replacement—and only a part of these costs will be distributed as wages—the money can only be made available if capital is being renewed and produced at a rate sufficient to do so.

Mr. Franklin's assumption that it is reasonable to suppose this must naturally take place, ignores the whole logic of the tendency of increasing industrial efficiency, which results in a progressive economy of labour, and consequent diminishing of that part of capital costs distributed as purchasing power. The absurd result of this, as I pointed out, is that capital production is valued less and less for its utility purpose, and more and more for its financial purpose (ie., producing wages, or purchasing power). Failure to take this into account means failure to take a realistic view of the matter.

Mrs. Bing also fails as a realist, for in her letter to you (December 23) she continues to ignore the point that it is in the *purchase*, and not in the *financing* of the two kinds of "capital" goods that the "distinction" which is also a vital "difference" lies. For as a shopper, buying a "utensil," I wipe out the debt which the financing of its production has entailed. But as an investor, buying a "stamping machine," although I cancel the debt entailed by the maker of that machine when I invest my money in it, I proceed then to transfer the debt to the consumer (without at the same time distributing any purchasing power to meet it), by including in the price of the utensil made by the machine the cost of replacing that machine when worn out.

From J. A. Franklin.

Sir,—I did not "ignore" Mrs. Bing's bookstall illustration; I devoted a paragraph (bottom page 2, November 4) to exposing its fallaciousness. Perhaps I was too brief. Let us take it in more detail. It concerned the payment of interest, so we will keep to that and leave rent, profit, taxes for the next performance.

Mrs. Bing says "no loan can finance any series of costs in excess of the sum itself." That is true (except that it may be recovered and used again and again, which is irrelevant to our present purpose.) But it is equally true that costs cannot be in excess of the sum of the loan itself. Mrs. Bing states the first proposition but fails to realise what it implies; to the second she is consequently blind.

It will be remembered that she postulated that I borrowed from X £100 to run a bookstall, and that I paid £5 as the cost of the loan. She then made the amazing assertion that my costs would be £100 plus £5. My reply is that any business man, let alone an economist, could tell her that, having borrowed £100 to cover costs to be incurred, I should use £5 to pay X to cover that capital cost and £95 to cover all other costs. Payment of the wages of capital to X is in just the same category as payment of wages to my shop-assistant, and one payment is as much part of, and defrayed from, the loan as the other. If I proposed to incur a total of £105 costs I should borrow £105 and incur £5 plus £100. Capital costs are part of total payments; it is the payments which create the costs; there is no other way of creating them. Deliberately to exclude a payment from one side of an equation but to include it on the other, of course, produces a mathematical absurdity.

In every case the total distributed costs, including interest, are financed by the loan. That is the purpose of the loan. In fact, with undertakings of any size, the first cost to be considered is usually the current market rate for loans. This is not a matter of theory; it is sheer inescapable fact, as the merest tyro in industrial costing could inform Mrs. Bing.

Marx was naturally aware of this, and his objection to it on the grounds that the recipients of the £95 have to work for their pay but that X does no work yet is paid simply because he is a wealthy man has intelligent point. But the Douglas-Bing contention, based on insufficient acquaintance with the facts, is without any substance whatever.

I am leaving profit to another occasion, but to avoid future confusion I would point out that I did not say that profit is the "*result* of any exchange effected by money tokens." I agree that, physically, it is the "result of the application of energy to raw wealth." What I did say was that the ultimate allocation and distribution of profit which has resulted from labour applied to raw material is effected by money-tokens, but requires no increase of them for the purpose.

* * *

Now for "Nemo." His shoemakers buy a machine for £1,000 and the money goes out of circulation. Right; he says that for their money (ultimately work) they should draw £1,000 worth of wealth. Well, they have done so. Is a machine not wealth? They could have bought something else but they preferred a machine. Agreed that they have not "consumed" a machine; nor have I "consumed" if I have bought a house, but I obtain ownership of something I want and the right to use it as I wish, and that is just what the shoemakers have done. In each case "incomes were used and retired." "Nemo" does not answer my question as to whether he expects the shoemakers to get the machine and yet keep the money. If anyone else, it would have to be given, which would be equivalent to giving them the shoemakers' machine gratis.

But "Nemo" cannot see why the original money is not required in shoe-buyers pockets when they come, in effect, to buy bits of the machine in the shoes of which they are the final consumers. The reason—once again—is that shoe-buyers (taking them, of course, to represent consumers as a whole) are concurrently being paid incomes equivalent to the depreciation charges specifically for the purpose of making good the physical depreciation of the machine.

"Nemo" told us, in Supplement 2, that he is not worried, as some are, by the fact that certain individual firms collect depeciation charges before they distribute replacement-

incomes. That is not his particular problem. So when he says "the rate does not matter" he presumably means that it has nothing to do with his special argument. Otherwise, of course, it is of the utmost importance, as Mr. Coleman will rightly assure him. (If money charged for depreciation is "immobilised" and not being returned to consumers for the purpose for which it was collected and at the same rate, undoubtedly trouble is caused—this is a subject of special study by economists.)

In view of the fact that he realises that depreciation is made good by payments from the shoemakers to replacement workers, it is strange that "Nemo" should make the ambiguous statement that "the depreciation cost will be over and above all other out-payments!" The depreciation cost *is an outpayment* to replacement workers; that is why it is a cost. It is only "over and above" other costs in the sense that it is a part of the costs; it is as though he were to say that salaries are over and above all other costs—they are so no more and no less. That leads him on to the wholly untrue conclusion upon which all his argument hangs, that "the shoemakers must collect other incomes figuring as costs in other production." Absolutely, no! The shoemakers themselves distribute incomes equal to their total costs, including depreciation. Supposing they were to produce so many shoes at a cost of £1,000. That cost will be comprised of, say, £100 to replacement workers, and £900 to all other factors of production. These combined payments constitute their total costs, and to meet them they have distributed equivalent incomes totalling £1,000.

* * *

I feel that I am unable to do justice to "L. C. J.," for I am not at all sure that I know precisely what he is driving at. Perhaps other correspondents can help. The quite definite thing I do see is that he follows the Social Credit technique, founded by Major Douglas and pursued in their various ways by Mrs. Bing, "Nemo," ano others, of finding a discrepancy between prices and incomes by the simple process of leaving out an item or two when they total up income and adding an item or two when they total up prices.

Like "Nemo," he defines a firm's outpayments as everything but their payments for making good depreciation. He then calls this total the firm's costs, but a moment later he is telling us that really the costs are greater than this after all, and that they cannot collect the extra units he has now light-heartedly introduced after arbitrarily excluding them previously. It would make discussion so much easier and clearer if the fact were realised that a cost is a payment and a payment is a cost. Most contributors to the Supplement are still bedevilled by Major Douglas's idea that a cost can be created by writing figures in a book. There I will leave it; no doubt "L. C. J." will write again.

* * *

Unlike "Nemo," Mrs. Best is still disturbed by the belief that consumers are asked to contribute to replacement reserves before receiving the money to do so. (I gather she is not concerned now about current maintenance-depreciation.) I must protest that I had not "entirely missed the point," however inadequate Mrs. Best personally may think my treatment of it. On page 1 of Supplement 1 I addressed myself specifically to the objection that "some replacements are of long-term nature, and that the money to make them is claimed in prices from consumers before being paid to them," again on page 4, and directly and incidentally since. Is that not precisely Mrs. Best's point?

I fear I can do little more than recapitulate. But I would suggest that her contention is really based on the same one-sided reasoning upon which I have commented above. Moreover, she looks so hard at one tree that she cannot see the wood. These "before" and "after" pictures are artificially constructed images, and do not form "a realist view of the matter." It would be as reasonable for me to point out that the average production period of a finished article is six months, that the workers at every pre-final stage are paid before the goods come to market, and to conclude that therefore for six months they had nothing to spend their money on. In so arguing I should be overlooking the fact that simultaneously with these payments other goods were then ready; she is overlooking the fact that simultaneously with charges other incomes are then ready.

It is not necessary for money to be distributed solely in respect of the object for which it was collected, any more than it is essential that the man who receives his money for baking loaves should spend all his income on bread. In the first case, it is sufficient if it is distributed; in the second it is sufficient if it is spent. And the quite certain fact is that reserves are distributed; the only alternative is to hoard them, which just simply is not done. They are returned to consumers via investment. I dealt with that in the paragraphs marked 5 and 6 in the first Supplement.

I do not "suppose" that capital is being renewed and replaced at the rate it is depreciating. Like everybody else, I see it happening in front of my eyes, though supporting statistics are available. The progressive economy of labour, as a matter of fact, results in an increase of capital equipment. Far from this resulting in "consequent diminishing of that part of capital costs distributed as purchasing power" it does just the opposite. The whole of capital costs are distributed as purchasing power, not just part of them. In fact, it would result in a real inflation of consumers' income and a consequent rise in price of consumables but for the circumstance that mechanisation increases the number of ultimate commodities while reducing the unit-cost and price. The idea that there are obliging individuals or institutions willing to acquire capital assets not for their utility value but in order to provided incomes for wage-earners is quite without foundation. Not even Government armament schemes come within that category. Examples, please!

One question. Assume the truth of Mrs. Best's picture. Z, a manufacturer, wants to charge £10,000 over a period for renewals, a fund which he is merely going to put by—hoard is really the word—for ten years until he actually makes the renewals. The Douglas remedy is applied, and consumers are given the £10,000 to pay Z—buckshee additional money. After ten years Z pays them out of this money again to make the replacements. There is obviously no increase in consumable goods at that time consequent on his distribution. Capital goods, not consumables, are produced. What is the result? Inflation. Lord Tavistock logically advocates taxation as the remedy, not for the present purpose of taxation, which is to redistribute income, but in order to cancel it. Other Social Creditors jib at this for various reasons. But hush! here comes the bogy cancellation-man!

I hope I do not trespass on the ladies' enclosure, but I would point out that fixed assets are no more "a debt" against consumers because they are asked to replace them as they are used up in their service than are raw materials the stock of which they are similarly required to replace as they use them up.

* * *

To return to the study of banking. Major Douglas bases his economics on the belief that when banks create credit they *ipso facto* become the owners of that money. He himself has summed up his creed in the A plus B theorem, the truth of which, he rightly insists, depends upon his views of the nature of banking. A large number of Social Creditors are impatient of A plus B, yet to Douglas it is all-important. In THE NEW AGE of September 29, 1932, he said: "The only objection to leaving the A plus B theorem alone is that on the conclusion derived from it depends the fate of a whole economic system, and together with it a civilisation." He could hardly claim more for it!

There can be no doubt that but for the ideas Major Douglas formed concerning banking operations Social Credit would never have been born. Yet it is clear that he laboured under a complete and vital misapprehension of the facts. He has put his convictions into admirably concise form in his statement that the banks are "licensed forgers." That phrase is an exact epitome of his belief. Yet it would be as sensible and as correct to call the Master of the Mint a licensed forger, or to assert that any Chancellor of the Exchequer personally owns all the money received from taxation.

When a forger successfully prints and passes a note he gets goods and services to its value for the cost of printing, because when he hands over the note he incurs no corresponding liability. When a bank hands out a note it gets nothing of the sort; goods and services are obtainable with the money by any possessor *except the bank*. Similarly when it makes a loan or purchases securities it automatically and inescapably credits someone with a corresponding claim upon itself. As the authors of "Modern Money," just published, says: "It cannot be too much emphasised that deposits are not something a bank *has*, but something it *owes*, and is liable to pay to its depositors, or to someone else on demand." For the same reason it is untrue to say that a bank obtains securities "for nothing." Again, a forger could do that, but a bank owes the securities to its depositors, who are the ultimate owners. This is obvious where a bank is wound up, for then the securities have to be sold to meet the claims of the depositors. But though, perhaps, not so immediately obvious, that is just the situation the whole time the bank is in existence. The full implications of this, especially as concern debt, national and otherwise, we must examine on a later occasion.

For the present, we cannot do better than dwell upon the central fact, which is the clue to an understanding of the whole subject. It lies in this indisputable fact that every bank-loan or purchase of securities by a bank creates a deposit. Mr. McKenna, questioned about this recently, said: "It is perfectly true, precisely and completely true. But neither Major Douglas, Mr. Aberhart, nor any other Social Creditor I know, has ever really understood it." He added later in the interview: "What a banker lends is not usually cash at the moment of the loan but his ability to pay cash at any moment—in other words, his credit." We can learn a lot by a study of the reply Major Douglas wrote, copies of which he sent to the Canadian Press. He said:—

"I am specially concerned with your statement, 'What a banker lends is his (i.e., the banker's) credit.' In order that there may be no misunderstanding on the matter I will venture on a flat contradiction. He does nothing of the kind. He lends something whose only value or credit depends, first, on what it will buy, and, secondly, whether anyone wants to buy what it will buy. To claim that both production and consumption are the banker's property, which is the only realistic meaning which can be attached to your statement that it is the banker's property which he lends, seems a little indiscreet. It is part of the banker's stock-in-trade to claim that money has some intrinsic value of its own, but I do not think such an idea is held by anyone who understands its nature."

Major Douglas is here merely underlining his failure to understand; he repeats his mistakes. As I have tried to make clear here and in previous supplements, *it is precisely because every loan creates a deposit that the banker is utterly unable to claim production and consumption as his property or any ownership of money which is lent. That* should really be self-evident.

Nevertheless it remains true that "what a banker lends is his credit." That is, he lends his credit to the transaction. Confusion is caused here by the various meanings, general and particular, which are expressed by the one word "credit." We most of us find it convenient to obtain credit from retailers. That certainly does not mean that we get money from them! It simply means that our promise to pay is accepted as trustworthy. Getting "warmer" we may note that if Jones guarantees Smith for a £100 loan at a bank or elsewhere, he is lending his credit to Smith. He says that if Smith does not repay, then he will. And that is just the way in which a bank lends its own credit. The situation is well summarised in Geoffrey Crowther's "Ways and Means":—

"Suppose I go to a bank and borrow £100. I don't come out with 100 £1 notes. All that happens is that the banker says, 'You want to borrow £100. All right, I will owe you £100, and whenever you want it I promise to pay it to you.' What has happened is that we have exchanged debts. I have put myself under the obligation to pay £100 to the bank, and the bank has undertaken to pay £100 to me. A bank is in fact a dealer in debts. But there is this very important difference. If I want to buy a motor-car for one hundred pounds and offer my IOU in payment it will not be accepted. But if I say to the car-dealer, 'Look here, instead of paying for that car in £1 notes, I will ask Lloyds Bank to owe you that £100 instead of owing it to me.' Accordingly I write a cheque for £100—that is to say, I write to the bank and say in effect, 'Dear Mr. Lloyd, you remember that £100 you undertook to owe me? Well, please owe it to the car-dealer instead. With kind regards, yours sincerely.' . . . In the course of the slow development of banking, people have come to have confidence in the bank's promise to pay. My IOU or yours is not accepted in payment for goods and services. But the bank's IOU is accepted."

Thus the bank lends its credit, i.e., its good name, its trustworthiness. It is as unreasonable to object to this as it would be to object to a railway company giving out a bit of paste-board in return for money. The point is that they themselves guarantee certain services to the purchaser of the ticket, or to anyone else to whom he passes it, and experience has taught us that they will carry out the promise.

There are admittedly many traps for the uninstructed in all this and it is tragic that Major Douglas should not merely have walked into them himself but should have led others after him. When he "ventures on a flat contradiction" he is contradicting something which he himself is implying, not what McKenna said. He is confusing the credit (the credit-worthiness of its reputation) which the bank undoubtedly lends, with the credit or cash—the money—which is the substance of the loan. The former belongs to the bank, the latter does not. When Jones guarantees Smith, the money Smith gets does not belong to Jones. In the instance where the bank lends its good name to Smith, the money does not belong to the bank. In both cases it belongs to Smith for the time being and then to whomsoever receives it from him. In either case, should Smith default in repayment, the guarantor has to pay the money. In either case the guarantor makes a dead loss—the bank in exactly the same way as Jones.

There is no "monopoly of credit," except in the sense that every individual and every institution has a monopoly of his, or its, own credit. Major Douglas's use of the phrase is in reality quite meaningless, for it is wholly unrelated to the facts.

From A. W. Coleman.

Sir,—May I once more express my disappointment at Mr. Franklin's failure to come to grips with the problem, and deal with the eighth man?

It is a pity he wasted so much space with the subject of *short-term* maintenance—the week by week overhead charges for running repairs. These are not in question, and have nothing to do with the problem. We are only concerned with those charges (to quote L. C. J.), "made with the object of providing a fund to meet an expenditure which it is estimated will require to be made at some future time on the replacement of an asset at the end of its useful life."

In his own illustration of a £100 factory he tells us that even if £1 per week is collected and hoarded for 100 weeks before being paid out for a major replacement, *there is no deficiency*. £1 per week abstracted from consumers over a period of two years, whilst consumable products to this value are rotting, and yet there is no deficiency! Only "some disequilibrium"! Methinks a rose by any other name would smell as sweet.

But there is *one* condition under which Mr. Franklin would be right, and there would be no deficiency.

An economic system composed entirely of businesses which I classified as Group II. in my article published in your issue of December 9, would provide such a condition. If we agreed to forget their Group I. days, and let bygones be bygones, we should have a state of affairs in which (to quote Mr. Franklin) "the community is merely replacing its plant at the rate of its depreciation," and "the purchasing power taken from consumers in depreciation charges is equated in the same period by an equal amount paid to consumers for making replacements." Assuming no hoarding by consumers and no deflation by bankers, there would be no deficiency of purchasing power.

This is the state of affairs pictured by Mr. Franklin in his illustration of seven men at seven windows. It is a stabilised economy, moving with uniform velocity.

Its great merit, in this connection, is that it provides the necessary basis for discussion. It is a basis upon which we can all agree.

But the world in which we live is one of economic *acceleration*, i.e., it contains an ever-growing mass of Group I. businesses. So it is up to Mr. Franklin to introduce his eighth man at once There is not the slightest need to wait "until the nature of bank credit is properly (!) understood." For the purpose of this particular problem, Mr. Franklin's own views on bank credit may be accepted in toto—without prejudice to any future discussion. He may have carte blanche with the nature of bank credit, but he must introduce this eighth man right away, and he must deal with Chap. III. of Mr. P. W. Martin's "The Flaw in the Price System" and/or Mr. Temperley's thesis in your issue of November 4. In other words, he must face up to the "working capital" problem.

In conclusion, I have one serious charge to bring against Mr. Franklin. He quotes me as saying that "charges against consumers will continue to be made in respect of capital goods unbalanced by any payments to consumers." What I said was very different, viz.: "Charges against consumers will continue to be made in respect of capital goods unbalanced by any payments to consumers unless the industrial system is expanding and getting into debt at an ever-increasing rate."

I do not think that Mr. Franklin would deliberately misrepresent my views so grossly, and I can only conclude that he did not consider the final and qualifying clause of any importance; whereas, of course, it is vital to a proper understanding of the self-liquidation problem. And I am confirmed in this conclusion by his query on page IV.: Does industry maintain its assets or not? Surely Mr Franklin can see the irrelevance of such a question here. What would be relevant, in this connection, is an inquiry into the relationship between the maintenance and growth of capital assets, on the one hand, and the growth of *long-term* indebtedness to the banking system on the other hand.

Published by the Proprietor (ARTHUR BRENTON), 12-14, Red Lion-court, Fleet-street, E.C.4, England, and printed for him by THE ARGUS PRESS, LIMITED, Temple-avenue and Tudor-street, London, E.C.4, England ('Phone: Central 3701).