THE

NEW AGE

INCORPORATING "CREDIT POWER."

ORGAN OF THE NEW AGE SOCIAL CREDIT SOCIETY

No. 2352] NEW SERIES Vol. LXI. No. 23. THURSDAY, OCTOBER 7, 1937. ANNUAL SUBSCRIPTION TO THE SOCIETY 30s.

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Japan and Social Credit

The wholesale slaughter of Chinese civilians by Japanese airmen has horrified the peoples of the world. But we are afraid that it is the dimensions of the slaughter, rather than its manner, that has caused this reaction. As for the root cause it is likely to be still further submerged beneath the flood of moral repulsion let loose by the spectacle. In a mood of savage satire the religious bodies throughout the world may well parody the Christian hymn, and give voice to the lines:—

> There are bombs for little children
> Above the bright blue sky

but then—what?

* * *

This cruel spectacle comes with special and peculiar significance to Social Credit advocates, for was it not in Japan that their witness to the true cause of war first took root outside this country? Many of them will remember that in 1933 the "1930 Club" was knocked up in the night to assemble at the First Avenue Hotel to hear an address from an eminent Japanese lawyer-statesman then on a visit to England. He was referred to by Major Douglas, who had summoned the meeting and presided over it, as the "Colonel House" of Japan. Years previously Major Douglas had visited that country to address the Engineers' Conference, and as a consequence there was a boom in the sales of his books there. (Pirated editions—but true copies: so all was well.) Later, Japan had commenced to show powers of competitive efficiency in foreign trade which puzzled, as well as affrighted, the capitalists of the West. Major Douglas had attributed this to Japan's having applied an "inverted form" of Social Credit technique to her system of pricing for export. So, on the occasion of the meeting just referred to, there were grounds on which the audience of Social Creditors expected to hear from this Japanese lawyer something to their advantage. For one thing they had hopes of hearing something from him about Japan's financial policy and procedure. As things turned out he confined his remarks to the moralistic aspects of imperialism. In one passage he slyly alluded to the similarity between the civilising of Manchukuo by Japan and the civilising of India by Britain. At which, polite laughter. At the close of the proceedings there was a little disappointment about the paucity of useful information; but the audience cheered themselves up with the reflection that the speaker's reticence was safeguarding some deep strategical plan for inverting the inverted Social Credit technique and making Japan the pioneer Power ushering in the New Dispensation.

* * *

Well, to-day, Social-Credit advocates will be feeling that if Japan had really introduced an inverted form of Social Credit the form must have proved too refractory to be turned right side up; and further, that, from what is now happening in China, either Social Credit has been abandoned altogether in Japan or that the inverted form of it is the same thing as orthodox finance.

* * *

The moral of this disillusionment is that Social Creditors should not permit themselves to hope for anything from a financial policy which does not exhibit the essential characteristics of authentic, uninverted Social Credit—to wit, the paying of the Dividend and the regulating of Price in favour of the population of the country in question. Social Credit cannot be put in piece by piece or upside down.

* * *

We apply the moral to ourselves, for we remember indulging in optimistic calculations based partly on the readiness of the promoters of the Conference in Tokyo to permit Major Douglas to read his paper (on finance in its relation to engineering) and partly on the fact that the Japanese Press gave generous publicity to him and his writings at the time of his visit. Our optimism was further stimulated when Japan commenced her dumping-campaign at cut-throat prices; for was not this one of the things which Social Creditors had pointed out was possible for a country to do which adopted Social-Credit principles of internal finance. Further, the political system in Japan lent itself to the quick adoption of a new policy because it was an autocratic system; and this consideration was reinforced by the reflection that the Japanese rulers are more realist in outlook—more prompt to grasp and adopt a new practical idea—than are rulers in our Western civilisation. Lastly, as Major Douglas pointed out, Japan was quite capable of feeding her own population on her own resources, as well as of developing her manufacturing plant. In a word, there was no obstacle to the putting in of Social Credit when once the Government so decided.

* * *

Well, it now appears that they did not so decide. This is not entirely because no Dividend or Discount for consumers has been declared. The reason is that, as we

pointed out at the time we speak of, it was possible for the Government to use public credit, otherwise payable to consumers, for military purposes. That is to say, to give the people a bigger fleet in lieu of bigger meals. To do so would not infringe the technical principles of Social Credit, however much it might outrage the feelings of Social Creditors in other countries. For it would simply amount to the same thing as if the people had received their Dividend and had used it to buy the fleet collectively instead of the meals individually. No, the test of whether the technical principles were operating would be to ascertain whether the cost of the fleet had been defrayed without taxing the people's earnings, or leaving a debt due to be levied on those earnings. Well, under that test it appears, on the evidence available, that Japan has not adopted the technical principles.

* * *

The same conclusion can be reached if we assume, in favour of Japan, that her invasion of China is a defensive measure. On that assumption the question arises: What is she defending? The official answer would be, presumably, her economic safety and financial solvency. If not, the invasion of Chinese territory must be a piece of wanton aggression. We will agree that a Government who adopted Social Credit might be subjected to disguised attacks to which the answer had to be war. But in such an event we should expect that Government to proclaim the reason when declaring war—in fact, long before, since a Social Credit Government has everything to gain by open diplomacy.

* * *

As things are it looks as if the "Basle Brokers" are tapping on Japan's door. The orgy of dumping has involved internal subsidies, and thus internal debt, and has thus created the necessity for imposing higher taxes which will not be forthcoming without increased revenue from foreign trade. Japan, instead of using public credit to achieve independence of foreign markets, has misused it in a way that has increased her dependence thereon. That, at least, is our guess. We remember that a year or two ago a correspondent who had access to Japanese statistics wrote to us to say that he could not discover any indication in them that Japan had departed from orthodox finance otherwise than by going in for inflation. This was not in itself conclusive evidence one way or the other because it did not follow that statistics compiled on orthodox lines indicated that Japan was going to draw the orthodox moral from them. To illustrate our meaning—the statistics of the British National Debt mean something owing *by* the community in the orthodox mind, but exactly the opposite to the Social Credit Analyst. The National Debt is, in principle, a communal asset disguised as a liability. And in conformity with this principle, Major Douglas has suggested in so many words the sharing out of this debt as the way to extinguish it.

* * *

However, the events of the last week confirm our correspondent's suspicions. Japan has gone out to fetch money for the Basle Brokers; and fifty-two nations, inspired by the Basle Bankers, are protesting against her manner of fetching it, and are preparing, under the same inspiration, to apply sanctions on the Abyssinian model to this latest disturber of the world's peace.

* * *

The sinister fact behind all this bother is that localised wars suit the Money Monopolist. They serve to keep people apprehensive, and while they are in that state they are ready victims of the subtle suggestion that attempts to better domestic conditions of life threaten the safety of the State. We see that General Smuts has declared that he does not see another great war in prospect for twenty years to come. We agree. Little wars will suffice to keep the peoples quiet until the curse of the Bankers' Peace becomes intolerable—and then the Bankers will bring in Social Credit on a plate and ask for a gratuity. They haven't much time to do it in, either.

Institutional Profiteering

All's fair in love and war. In the war against the Money Monopoly any leader can work up popular feeling against the process of profiteering and the persons who collect the profits. And if such a leader can get into power by doing this it is fair tactics on his part. In fact it would be unfair to him and his policy if he neglected to adopt them, for since he depends on the pressure of numbers to achieve power he is bound to tune his appeal in with the most responsive and widespread prejudices animating the community. He cannot waste time getting people to alter their way of sizing things up. And undoubtedly all the world hates a profiteer with the same spontaneity as it loves a lover.

* * *

Now, to a leader who stands for the Social Credit remedy this presents a problem. How much is he to tell the public? If he merely goes for the profiteer he finds himself in competition with other leaders who are doing the same thing. If he distinguishes his case by saying that profiteering is not the root cause of the trouble his competitors will be quick to insinuate that he is a "capitalist in disguise." They will say: "The obvious way to stop profiteering is to forbid it under penalties or else make it impossible by nationalising production: do you wish that done?—if so, follow us, and don't look for root causes behind the cause that is staring you in the face."

* * *

Perhaps the best way out of the dilemma is for the Social-Credit leader to qualify the word "profiteering" by the word "institutional." The advantage of this is that in institutional profiteering (1) the beneficiaries of the profits are not the people who decide the prices; (2) they have no control over the decisions; and (3) they do not receive the whole of the proceeds. In these three respects institutional profiteering is distinguishable from personal profiteering (now nearing extinction) where a person (or small group) grabs a high profit and pockets it for his own advantage.

* * *

The essence of the distinction is this, that the evil consequences of profiteering are caused by the actions of institutional managements who have no direct personal interest to serve either by charging high prices or by distributing high dividends. Indeed, so far as dividends are concerned, they protect their interests all the more by distributing low dividends, in others words, by limiting personal profiteering as just defined.

* * *

Institutional managements are regulators of profits payable to persons—and the aggregate of the profits so regulated is a high proportion of the national total of profits collected from the public.

* * *

It is true that a private profiteer can also regulate the profit that he draws for personal use, leaving a margin in his business or investing it. If he uses it in his business this will allay public prejudice, particularly among the workers, for they will see, or think they see, employment being increased, or at least maintained. If he invests it outside he is likely to incur reprobation, because the workers will conceive this as an indirect way of living on his profits. But it is highly probable that he would invest in institutional enterprises, in which case his dividends would be subject to the institutional regulation just described.

* * *

This regulation subserves the interests of the Money Monopolists. It is a condition on which they lend credit. A management which priced products at less than they would fetch would stand lower down in the queue at the door of the lending-bank than one who priced them at all they could fetch. Thus the Money Monopolists are the prime authors of profiteering.

* * *

Yet, at the same time, they are in a position to appear as opponents of profiteering, and in fact are as ready

THE NEW AGE
DEBATING SUPPLEMENT
No. 1. THURSDAY, OCTOBER 7, 1937. Gratis. Extra copies 2d. each

Is Capital Charged In Prices?

From J. A. Franklin.

Sir,—It is delightful to see so many letters in your issue of August 26 bearing directly upon important questions raised by Social Credit doctrine. I offer the following commentary.

I suggest it is Mrs. Bing who is "ignorant of the functions of money," for she evidently believes that the payment of interest is a claim on consumers for more purchasing power than has been supplied to them; but, in fact, it is a mere redistribution of income.

If A, having an income of £400 a year, borrows £100 capital from B, whose annual income is the same, and pays him £5 for the loan for a year, then £5 of A's income is transferred to B, with the result that B for that twelve months has £405 to spend and A only £395. No shortage of consumer income is caused, nor is there any problem of "where is the money to come from?" In fact, A pays B for his services, just as he would pay for the services of his doctor or his solicitor. Precisely the same procedure occurs in the payment of bank-interest.

Certainly, I should try to charge people for the use of my machine, because I have foregone immediate rights to enjoyment that I could have had instead of the machine and have run a risk that people will refuse to use it in the end. If they do refuse (by ignoring my machine-made products at market) I find my machine valueless and I lose the £100 it cost. It is because investors undertake such risks in an effort to provide new services that they require to be paid, both for risk and services, in the form of interest. They are doing nothing different from, nor more reprehensible than, the man who demands rent from people who live in a house he owns.

Does Mrs. Bing think it right if I build a £1,000 house and charge £50 a year for the use of it, but wrong if I lend £1,000 direct to someone else to build a house and charge him £50 a year interest on the loan?

I fear Mrs. Best has not quite grasped the essential feature of Major Douglas's views upon which I have been concentrating. Unfortunately, the necessary quotations to establish the point, if made from Major Douglas's own works, would be far too lengthy for this letter. But I would particularly ask her to consult page 24 of "The New and the Old Economics,"* where she will find an admission that depreciation charges as such cause no deficiency, but a claim made that prices are raised above consumers' purchasing power by "charges in respect of the original plant."

Mr. A. W. Joseph, in articles in *The New Age*, since reprinted as a pamphlet, set forth the Douglas teaching briefly thus: When a manufacturer "has built an extension to his factory, he will endeavour to collect the cost of the extension in the price of the goods made by the factory. This is irrespective of depreciation, which may be immediately distributed as payment for renewal." Again: "Make no mistake, it is not merely depreciation which has to be recovered. I agree that depreciation costs may be reissued as payments for keeping the factory in good order. The money value of the shares has sooner or later to be recovered." Mr. Joseph has undoubtedly correctly interpreted Douglas and, in fact, the Major has written a commendatory introduction to another pamphlet by him.

Therefore, when Mrs. Best asks "where the real difference lies between charging consumers replacement costs and selling the machine to consumers" she is missing the essential point I was opposing, which is Major Douglas's idea that consumers have to pay not merely replacement costs *but the original cost of the capital asset as well.*

Mrs. Best next overlooks what Mr. Joseph sees (and Major Douglas also sees on that same page 24)—that payments are made to consumers for making repairs and replacements. The *original* £100 is not required for that purpose at all. Workers at those jobs are paid just as are bakers or boot-makers. The costs are part of the normal costs of production. Suppose I run a factory at a total cost of £1,000 a week. I pay out, perhaps, £900 for direct labour on my product and £100 on maintaining the machinery in good order. It is, in fact, possible that I keep a repair shop on the premises. Payments to one set of workers £900 and to another £100. Price of product (ignoring profit) £1,000; consumers' income £1,000. No necessity to finance other "redundant fixed capital" arises, and to hand consumers a free gift of £100 a week as well as the £100 direct payment would be to provide them with £1,100 to meet £1,000 cost and price.

Here "L. C. J." would object that at least some replacements are of a long-term nature and that the money to make them is claimed in prices from consumers before being paid to them. But he has considered only one side of the position. Suppose firm Z charges £10 a week during 1936 for ultimate replacements which are not made and paid for until January, 1937. Then, in January, 1937, Z is collecting only £40 odd (towards January, 1938, work), *but he is distributing* £520. But Z is only one of thousands of concerns, and the similar periodical over-distribution of many of these firms would be occurring during any and every week *of* 1936. It does not require a diagram but merely a moment's consideration to show that the myriad combinations of under-charging and over-paying and, alternatively, over-charging and under-paying must result normally in a collection and distribution approximately equal *at any point of time.*

Which brings us to the question of "reserves," raised by yourself, sir. You very truly point out that these take the form of investments—if they were kept as hoarded cash they *would* cause a deficiency—held against complete obsolescence of my factory. This is merely another aspect of depreciation, which term, used comprehensively, covers not only present maintenance, but ultimate complete replacement. Your argument, please remember, is designed to show that I charge consumers both with depreciation and also the original cost of the factory. But your illustration shows nothing of the kind! It shows me finally with a completely depreciated, i.e., obsolescent, factory, but equivalent assets. What you had to show was an *undepreciated* factory, plus equivalent assets, in order to disprove my statement that "I do not charge consumers both the original cost and the depreciation, and thus find myself in the happy, but fantastic, position of having both the undepreciated factory, plus the money (or equivalent assets), I gave for it."

However, let us suppose that I was so abnormally fortunate as to sell my product at a price that would cover all costs, including maintenance and complete replacement when necessary, and provide me, in addition, with investments equal to the value of my still undepreciated, or completely renewed, factory. What has happened? Simply that I have made 100 per cent. profit, and by returning the money to consumers, instead of spending it on consumption myself, have in exchange acquired new capital holdings. Which brings us round once again to my original simplified machine illustration of the nature of saving and investment (and therefore of reserves also), demonstrating that the process does not cause, as Major Douglas thinks, a double

[* ". . . if we can imagine the modern industrial system doing only so much work upon capital goods as to maintain them indefinitely in exactly the same state of efficiency, then, quite obviously, consumption would be exactly equal to production. Under these conditions, the amount of wages distributed on maintenance would obviously be added into the cost of the end products, and collectively with the wages paid to the final producers of end products would be sufficient to buy the end products, *always providing that no charges in respect of the original plant, buildings, and other capital goods, which were merely being maintained, were charged in the prices of either intermediate or ultimate goods,* and that no one made a money profit."—*The New and the Old Economics.* Page 24.]

set of costs against one lot of *consumers'* purchasing power. The provision of capital assets is a cost met wholly by investors—as they quickly find out if they make a bad investment.

From M. G. M.

Sir,—Mr. Franklin may care to meditate on the manifold implications of the following:—

"A flow of public money for creating employment will not remain in an economic structure and create continuous exchanges of goods and services. It will but pass through such structure and leave dirty marks in the form of mortgages on the living community and on posterity."

(This passage is taken from an article in the "Banker's Magazine" for August, 1936, over the signature of Mr. A. H. Gibson. The remainder of the article deals with credit-creation on lines familiar to Social Credit students.)

The article in question analyses the effects of credit-expansion for public works purposes, and the above extract is a sufficiently graphic summary of the writer's conclusions. I doubt if any Social Credit pamphleteer could better the "dirty marks" analogy.

I am open to correction, but it seems to me that Mr. Gibson has handed our case to us on a plate. It is but a short step from public works to industrial (physical) capital. The methods of financing both are, fundamentally, identical, and under the present financial dispensation the results are identical.

From L. C. J.

Sir,—Mr. Franklin has, I think, missed my point. Instead of dealing with my proposition that there is not normally a sufficiency of purchasing power to meet the *total* claims of industry to depreciation charges (and for the complete presentation of my case I should add profits), he deals with the building up and operation of such depreciation funds as exist. If Mr. Franklin will bear in mind the fact that every industry, at the time of the marketing any of its products, seeks to extract from the pool of purchasing power more than it has previously put into it in respect of such products, he will, I think, appreciate my statement that some industries must inevitably go short. It is important to observe the sequence of events—first production, in which a series of outpayments are made in salaries, wages, fees, rates and taxes, purchase of materials, repairs, and so forth, amounting to, say, 100 units, and then sale, in which, against the 100 units distributed, a claim is made in price of, say, 110 units to recover the 100 units paid out and to obtain such sum as will meet depreciation charges and remunerate capital. Here we have a constant and basic factor in our economic system, operating with different results under different conditions, but with a clearly marked and dominant tendency to create a gap between purchasing power and prices. Under credit-expanding conditions this fault may be partially and, in certain circumstances, wholly concealed; but, with the inevitable return to stable or contracting credit conditions, it again reverts to its former activity or is subject to accentuation as the case may be. I am not, of course, putting forward this case as an interpretation of the A + B theorem, but rather as one which supports the conclusions arrived at by Major Douglas in his method of approaching the problem.

From Gladys F. Bing.

Sir,—Once again Mr. Franklin attempts to justify the most corrupt tenets of "sound" capitalist finance. He asserts that the payment of interest is merely redistribution of incomes. If, sir, you had printed my previous letter's conclusion, Mr. Franklin could not have wasted time and space with this hoary old delusion.

No loan can finance any series of costs in excess of the sum of itself. Interest is that unpayable excess. If Mr. Franklin's A borrow £100 from B, then A has no means of collecting the £5 a year interest except in prices paid by consumers. It is nonsense to suggest that A can maintain himself and his business by continually subtracting £5 a year from his income and adding it to B's. A would certainly end in bankruptcy. To avoid this he does pay rent to B for the use of his loan, and he can only collect that rent in prices.

I am not concerned at this moment whether it is "right" or wrong for Mr. Franklin to charge the community rent for the maintenance of his machine, but I certainly agree that his parallel of the rent for the use of a house has the same effect on the money-cycle as the charging of rent for the use of a machine or a loan, namely, it creates a gap between total prices and total incomes. Money in any of its three forms (rent, interest, or profit) is always a sum in excess of the money lent to finance its repayment, whether in the form of prices, rents, or interest.

From "Nemo."

Sir,—Will Mr. Franklin please consider the following exposition?:—

(1) A manufacturer borrows £1,000 from a bank to construct an electric lift.

(2) He pays away £1,000 in wages to his employees. (Profit ignored.)

(3) As consumers the employees spend their £1,000 in a department store.

(4) The prices they pay include a margin over cost, which the store allocates to profit, etc.

(5) The store makes a profit of (say) £6,000 on the year.

(6) It distributes £5,000 to its shareholders and earmarks £1,000 to buy a new lift.

(7) The lift manufacturer repays his bank out of his sale to the store.

(8) The bank cancels the credit.

(9) The store will now charge depreciation into its prices—£1,000 over such and such a period. From this analysis it is clear that the employee-consumers have paid £1,000 for the lift and other consumers will pay £1,000 in depreciation charges.

All consumers will therefore pay £2,000, and only £1,000 has been distributed through the agency of the bank loan.

From A. W. Coleman.

Sir,—After reading Mrs. Bing's letter in your issue of August 26 I am left wondering whether she has grasped what the controversy between Mr. Franklin and THE NEW AGE is about.

The question is: Do the orthodox methods of accounting the various costs relating to fixed capital assets produce a shortage of consumers' purchasing power?

Social Creditors say they do; Mr. Franklin says they do not.

Mrs. Bing ends by accusing Mr. Franklin (or any capitalist investor) with "charging the community rent for the use of privately-claimed capital wealth." Putting on one side all questions of social and economic ethics, the technical question is: Does this procedure bring about a shortage of purchasing-power?

The immediate reply is No. The total of consumers' income is unaltered, but there has been a re-distribution. £5 has been collected in small sums from the incomes of a large number of shoppers, and transferred to Mr. Franklin's income.

At this point everything turns upon what Mr. Franklin does with his £5. He can either (a) spend it on consumable goods and services, or (b) invest it. If he does (a) no shortage will occur: if (b) a shortage must inevitably occur.

From B. C. Best.

Sir,—In his letter to you on August 26, Mr. Franklin shows clearly that he has not understood the real nature of the second cost. In his example of the boot factory he shows how the money paid out in the purchase of, or investment in, the machine, is spent before the cost of the machine (whatever title he gives to those costs—depreciation or replacement) appears in prices. It is not a question of having to recover twice £100, as he appears to think, but of having to recover £100 after the £100 has been spent. The cost has appeared in, and been cancelled, in respect of the boots, but appears later, a second time, in respect of the machine. Therefore, Mr. Franklin's reply to L. C. J. misses the point, which is, Where is the £10 per week to come from which firm Z (in his illustration) charges week by week? It can only be collected at some one else's expense, except in conditions outlined by L. C. J., with the result of subsequent relapse into slump. For Mr. Franklin's example shows that firm Z only finds himself the happy possessor of £520 at the end of the year, by collecting and retaining £10 per week from the consumer market without at the time distributing anything to meet the deficit thus made. His quotation from Major Douglas is also irrelevant since it is merely a statement of certain hypothetical, but non-existent conditions, in which industry could be considered as self liquidating.

Mr. Franklin's assumption that a manufacturer will not endeavour to recover his original capital is gratuitous. Maintaining plant in a state of efficiency may involve scrapping and replacing plant which some new invention has rendered obsolete. A manufacturer will, if possible build up sufficient reserves to enable him to face such a contingency without resort to fresh borrowing. But these reserves, although built up out of profits, amount to non-distributed costs, and cause a gap until invested in the new plant, or some other form of investment.

Hence Mr. Franklin's picture of an economic system precariously balanced on the off chance that what is lost on

the swings will be recovered on the roundabouts is pretty, but—and especially in view of the results—non-realistic.

In conclusion, I still contend that there is no real difference between charging consumers replacement costs, and selling the machine to consumers. Anyway, I am sure if I bought a piano and contrived to extract from my friends, whether immediately, or over a period of time, sufficient money to replace my piano when it was done, my friends would consider they had paid for it.

By the way, I notice that Mr. Franklin has not answered my question regarding self-liquidation.

From Paul Laurence.

Sir,—May I make a belated comment on Mr. J. A. Franklin's letter in your issue of August 19?

His argument is that all costs are not paid by consumers because a portion of them is paid by investors, who, he claims, are not consumers.

There are only two possible interpretations of this. He may mean that money invested is money not spent on consumption—in which case he is merely restating the Social Credit theorem that part of the money intended for consumption is short-circuited back to production. Or he may mean that investors are non-consumers because they are banks or similar organisations—again a restatement of the Social Credit case that the financial system can only be kept going by an increasing volume of bank loans.

The origin of his error in logic may be seen by a reference to his example. He begins: "If I receive £100, paid out in the making of boots, and pay it to people to build me a machine . . ."—but he does not explain where the £100 comes from in the first place. The flaw in the financial system occurs at the same point as the flaw in his argument.

From M. L. B.

Sir,—May not the payment for capital goods by consumers be affected without reference to the accounts of the firm involved in the actual outlay, and therefore not shown by reference to their accounts; e.g., if at a given moment both the quantity of consumable goods on sale and the total money available is represented by £100, and a further £50 is created and circulated for the purpose of financing *capital* goods, will not the price of the *consumable* goods be increased to £150? If so, the *capital* goods will have been paid for by the purchasers of the consumable goods.

From W. R. Hiskett.

Sir,—The question contained in the latter portion of B. C. Best's letter in your issue of August 26 indicates that this Social Crediter, in common with many others, makes the mistake of not seeing the financial process *as a whole.* Capital production may be financed by investors' savings, or alternatively by bank credit, but the process is self-liquidating in either case.

In any period which may be selected for examination the following operations are taking place. Purchasing power is being distributed to the whole community as consumers, (1) in respect of every process concerned in the production of consumption goods, including the production of raw materials and semi-manufactures and the supply of light, water and power; (2) for the maintenance of capital goods and the replacement of those wasted by depreciation; (3) in the form of interest, dividends, rent, and profits; and (4) in respect of the production of new—that is, additional—capital goods. These make up the total spending power supplied to the community during the period.

At the same time consumption goods are coming on to the market at prices consisting of their total production costs, including depreciation charges, and interest, dividends, rent, and profits (1, 2, and 3), but *not* including the first cost of new capital goods (4). In addition to buying these consumption goods, the community, in the person of certain members of the public who act as investors, has to find the money to pay for *new* capital goods. It has for this purpose the money distributed under (4).

It is only necessary to assume that a particular period contains its appropriate proportion of all these payments to and from consumers and investors, to see that income equals expenditure. The scale on which industry is conducted ensures, in normal circumstances, that this is brought about; but if there is a shortage or a surplus of one kind of payment in a particular period, equilibrium will be restored in another period.

The fact that the money which is distributed to members of the public for their services in making new capital goods is money which, in a previous period, has been distributed as wages, salaries, dividends, etc., does not matter. In any given period of time money is being taken from the community for investment in new capital goods, and money similarly withdrawn from a previous period is being returned to the community in payment for work on new capital production. If the income from the latter source equals the outgoings for investment, spending power will not be depleted in the period.

The "delicate adjustment" which the banking system makes is concerned with suiting the volume of credit issued to the necessities of the situation. If it over-issues, it produces inflation; if it under-issues, deflation is the result.

The matter will be clearer if your correspondent visualises the money in the industrial system as a pool—drawn on by consumers, and fed by the banking system. The extent by which the volume of loans issued exceeds or falls short of the volume of loans repaid, determines the size of the pool. But, whatever the size of the pool, the public, as consumers and investors, repay what they draw from it, and this repayment covers all their liabilities and gives them the right to consume the product. They draw in the form of payments for goods production and payments for replacement of wasted plant and machinery, and repay in the prices of consumption goods. They also draw in payments for construction of new capital goods, and repay when, as investors, they acquire (either directly or by taking over from the bank) the capital assets.

One of the mistakes your correspondent makes is to confuse depreciation payments with payments made to acquire new capital goods. Consumers receive the money with which to meet the depreciation charges included in prices when they receive payments for making replacements; they receive the money with which, as investors, they acquire capital goods when they receive payments for creating new capital assets.

From J. A. Franklin.

Sir,—Major Douglas agrees with Mrs. Bing that interest and profits are an addition to prices consumers are called upon to meet, but in truth, as Mr. Coleman says, and I agree with the whole of his letter with the exception of the last five words, such charges are met by a redistribution of income. (Most curiously, in an article in your September 16 issue, Mr. Coleman demonstrates his failure to realise that gross profits are no more an addition to prices than are net profits. But, of course, they are both in exactly the same category—"collected in small sums from the income of a large number of shoppers and transferred" to the entrepreneurs' gross income.) Let us have one more shot at it, amplifying my previous illustration. I assume that Mrs. Bing can see that if I make X a present of £5, total costs of consumers' goods are wholly unaffected, but he has £5 to meet them instead of myself. Perhaps Mrs. Bing can even see that if I borrow his car and pay him £5 for its use, the situation is the same. What she cannot yet see is that if I borrow £100 from him for a year and pay him £5 for its use, the position is still the same. It is so whether the fiver be regarded by X as interest or profit. Mrs. Bing has two courses open. She can either attempt to show (1) that the fiver, because of my payment, has added £5 to the prices of consumers' goods, or (2) that it becomes a deduction from my means of payment, but not a corresponding addition to that of X. So far she has not attempted either and I do not envy her in her task.

2

It might be interesting, but I hope unnecessary, to extend the simple principle outlined above to its operation in the payment of bank interest and manufacturers' profits, but space is limited.

3

Mrs. Best hits the nail right on the head in asserting that the main point in dispute about depreciation concerns "the real nature of the second cost." It is vital that this should be realised as the most fundamental issue. Before concerning ourselves with the methods by which depreciation charges are made and met, we must see precisely of what those charges consist. Major Douglas's case is that consumers are "charged twice over" for capital goods; the economist replies that they are charged once just as for consumers' goods. Major Douglas says that consumers are charged twice because they have to defray both the prime cost and the upkeep; the economist replies that consumers are merely responsible for upkeep and not for the prime cost. Major Douglas seeing, quite rightly, that consumers have not the money to meet these charges which he, quite wrongly, imagines they have to meet, wants to give them money for the purpose. The economist replies that this would be giving consumers money to buy both capital and consumers' goods and, since they have to buy only the latter, they would use all the money for that purpose with a consequent disastrous price inflation.

4

Mrs. Best correctly sets out the Social Credit contention when she says "the cost of the machine appears in prices."

The answer is a flat denial, based on reference to facts, quite apart from economic thory. It does *not* appear the second time. As Mr. Hiskett says, the first cost of new capital goods is not included in the price of consumers' goods. If consumers use my machine they have to pay for a second one to replace it. They do not have to pay both for the first and the second; I paid for the first, they pay for the second. In other words, consumers are not required to buy capital goods, but only to maintain them, and money for that purpose is paid *to* consumers for making the replacements. Mrs. Best, quite apart from other difficulties, thinks this payment inadequate because she falls into Douglas's mistake of supposing that in addition to replacement costs consumers have to find the first cost of the machine itself, although it has already been found once by investors, and she, therefore, thinks that the original £100 paid for it should remain in consumers' pockets.

5

Certainly the manufacturer usually holds a portion of his real depreciation charges as reserves for later use, and it is true that there would be none distributed "until invested in the new plant, or some other form of investment," to quote Mrs. Best. But it is only "until"; when the investment is made they *are* distributed. They are not distributed only if the business man hoards his reserves as cash, a practice which is simply not done for obvious reasons. Even if he merely puts his receipts on deposit at the bank, the bank invests them, again for obvious reasons.

6

I have referred to reserves at this point because even here we get this same root Social Credit misconception still dogging our footsteps, for Major Douglas would assert once again that the new investment value must appear in future prices against consumers, and that therefore these unfortunate people have liquidated one cost only to find another one of equal amount totted up against them. The investor, he would say, has handed them the money to buy the consumable goods he himself has foregone, but only on condition that they find the money to pay him back the amount it cost him to acquire his new investments. In other words, to pay him for his capital assets although he remains the sole legal and factual owner. The reply is, of course, that it simply is not true that consumers have to pay for what they never get. No community, based on such flagrant injustice, could exist for a week.

7

That it is not true it hardly takes an economist to demonstrate. It is a matter of ordinary experience, as we can see by considering the case of Mrs. Best's piano. She says, very justly, that when her friends have worn out her piano she expects them to have paid her its original value. But the distinction it seems so difficult to get Social Creditors to see, since Major Douglas has never seen it, is that Mrs. Best would not expect both to have the original cost repaid her and still have the piano in its pristine condition. That would be as unreasonable as if, although she has been paid the whole cost of the piano, she were to go to her friends and demand that they, having worn it out, must now buy her another to replace it. There is the crux of the argument. Douglas's conception is precisely that Mrs. Best must charge not merely a sum to cover the cost of a new piano to replace the old, but must, on top of that, receive the sum she originally gave for the instrument, which is the same as arguing that she should receive a new piano as well as the money to buy one. In short, that an investor requires 100 per cent. return on his investment, quite apart from profit or interest.

8.

It can be admitted at once that, were this true, consumers would not be able to find the money; in fact, they would refuse to attempt the task, just as Mrs. Best's most generous friends would refuse to hire her piano if she required them to pay its value twice over for the privilege of using it. Substitute the machine for the piano and we get back to industry, and perhaps the position will now be clear. The £100 paid for the machine is quite rightly retired, because that first cost has been finally defrayed. The investor bought the machine, consumers are now required merely to maintain it; or to replace it when completely used up in their services, which is the same thing. They do not also have to pay the investor a sum representing its first cost.

9.

It is in this failure to understand the nature of investments in relation to price of consumers' goods that Major Douglas goes astray. It is interesting to see Mr. Coleman following him. In his article in THE NEW AGE of September 16 he is no doubt right in insisting that the Social Credit case can be supported only by a refusal to separate the function of investor from that of consumer. But that is about as scientific and helpful as to investigate travel and to refuse to consider motoring and flying, on the grounds that everyone at some time or other walks. Even worse—and the parallel still remains exact—is it to insist that the miles ridden have not been travelled because they have not been walked. Social Creditors do not see that the investor, by riding (investing), has completed the journey (the cost-cycle) just as effectively as if he had walked (consumed).

10.

Mr. Coleman views the problem correctly when he says we are concerned with the rate of generation of total consumer-income in comparison with the rate of generation of total price, provided that he means price that consumers have to meet, but he will never get the answer right by overlooking one part of the stream of consumer-income on the one hand, and on the other importing non-existent charges into the price of ultimate commodities. By that method he can prove anything he chooses; even that two and two make five. But he is setting up a Social Credit world of his own, which bears no relation to the business one in which we live.

11.

As I have said, it is important to distinguish Major Douglas's fundamental error with which we have just been dealing from the other point to which Mrs. Best proceeds and in which "L. C. J." joins her. They are worried by the belief that, *merely in order to maintain* capital assets, consumers are, as they think, required to meet charges before they receive the money with which to pay them. So far we have been concerned with the nature, and therefore with the volume of costs, and found that Major Douglas gratuitously increases them by adding in "book" or "allocated" costs which are certainly not there. We come now to an entirely different matter—the methods of financing the real depreciation charges, which all are agreed are there.

12.

Social Creditors at this point allow that no difficulty would present itself if they could see that payment for maintenance and replacement work proceeded simultaneously with, and at the same rate as collection of, depreciation charges. Well, that is precisely what does happen. To see this we have to consider not merely an isolated instance, but the total "rate of flow." I must repeat that "L. C. J." and Mrs. Best fix their attention exclusively upon the collection of depreciation charges and ignore their distribution. In my example, they see the £10 collected from, but not the £520 payment to, consumers. Or, more precisely, they do not see the £520 *being distributed constantly by other firms during* 1936.

13.

Let us again try to construct a true picture of what really happens. Imagine seven men stationed behind seven little windows, such as are used for pay-boxes at theatres or for the tote at racecourses, each marked with a different day of the week. Suppose each man demands from the public, representing consumers, £10 each day, but pays out £70 at the end of every seven days, and that each started on the day marked over his particular window. Now, when the procedure has been running for one week—and industry has, in effect, been running on in that way for umpteen years—the state of the going is that each day seven men are collecting £10, that is, £70 in all, *but each day one man is paying out £70*. The rate of distribution is the rate of collection. That is unquestionably what is normally happening in the process of collecting and paying back depreciation charges in respect of existing capital equipment.

14.

There is nothing in the process which requires, as "L. C. J." contends, a collection of 110 monetary units, as against only 100 paid out. *Industry has to recover its costs; not something in addition to its costs.* Not even profits are an addition to costs, as we are trying to get Mrs. Bing to realise. I also hope that "Nemo" can now, by a consideration of what I have said above, see the flaws in his own reasoning, since it faithfully follows the path trodden by Mrs. Bing, Mrs. Best, and "L. C. J."

15.

There remains to be considered what happens in an expanding economy. Suppose an eighth man opens a little window to collect £10 a day. Social Creditors think he cannot do it except at the expense of the other seven. But obviously. . . . However, my allotted space is filled, and we must consider this later. In any case, let us get the groundwork cleared first and, above all, a clear view of this absolutely fundamental divergence concerning "the real nature of the second cost."

September 20, 1937.

to discipline the profit-taker as are the most extreme leaders of the "Popular Front." But the profiteering which they object to is not the squeezing of profits out of the public by institutional managements, but the squeezing of dividends out of the managements by the investing classes of the public. And it is therefore their policy, in the field of political controversy, to make the public believe that the evil of profiteering lies in the distribution, not the prior collection, of profits.

* * *

Now, the Social Credit leader holds this to be an inversion of the truth. The evil resides in the collection, and is mitigated by the distribution. So what is he to say to the public? If he agitates against profiteering without discrimination, he and his following will very soon find themselves surrounded by allies who, to say the best of them, would be quite content to re-distribute incomes by a levelling-down and spreading-out process. And as the bankers would be backing this attitude with moral and financial support, this surrounded Social-Credit leader would eventually find himself and his following absorbed in what would virtually be a "Bankers' Popular Front."

* * *

Opportunely enough, after writing the foregoing, we have seen the leading article on "Rings and Prices" in *The Times* of October 2. This article has been inspired by the Report of the Committee of Public Accounts under Sir Henry Bunbury, which recently pointed out the existence of a price-ring round the Post Office. The writer of the article—just as we would have expected—suggests that there are two sides to this ring-business, and that the public are ready, in certain circumstances, to approve it. For example, he says, the public would not approve competition so keen as to give rise to "anti-social" consequences, e.g., the "plight of work-people" engaged in the less efficient enterprises. On the other hand the high price of milk for consumption purposes charged by a "ring" of the Government's own creation is a reminder how a "policy for producers" can "defeat itself." (Why not: "defeat the community"?)

Then follows this profound reflection:

"All policies founded on sectional views must be tentative, and sooner or later there must be an examination of producers' interests from the standpoint of consumers' interests with the purpose of finding the larger interest which comprehends both."

This is to pose the problem exactly as the bankers would have it posed. It divides the public into two "sections"—shareholders and shoppers. By doing so it insinuates that the larger comprehensive interest to be looked for is one which will be served by regulating the incidence of *dividends* on prices. That third "interest" is really the one which stands between the profits charged to shoppers and the dividends paid to shareholders. That is to say, the Money Monopolists' interest as interceptors and confiscators of the community's earnings.

* * *

A later passage in the article drives home our point:

"Sir Henry Bunbury is satisfied that the prices charged to the Post Office were reasonable. . . ."

So that there is

". . . no occasion for public fear that the Post Office is the prey of marauding manufacturers."

How did the Committee test the reasonableness of the prices? The writer supplies the answer. He remarks:

"In pursuance of its duty, it has looked at the cost of materials and equipment supplied to the telephone department of the Post Office."

Quite so: it has looked into the cost in relation to price, and has satisfied itself that the margin of profit is "reasonable"—that it reflects a moderate return to the capital subscribed by shareholders.

* * *

We can accept all this as true. But Sir Henry Bunbury, as Accountant General of his department, will agree that there is such a thing as an overheads-factor used in assessing cost. And he will agree that if that factor were unreasonably large the smallness of profit added to the cost would not make the price "reasonable." Lastly, he will agree that neither he nor anybody else—not even the cost-accountants of the firms supplying the Post Office—can tell what is a reasonable overheads-factor. We know of a case where a board of directors debated whether this factor should be 120 per cent. on direct charges or 280 per cent. And this is by no means exceptional. It illustrates the truth that costing under the present system is a matter of gambling. And just as gamblers try and get the longest odds they can on their bets, so do cost-accountants. They do it in conjunction with the sales departments: they guess the highest overheads-factor, and their colleagues test it by the trial-and-error method in the market. If the article will fetch the price demanded, then the overheads-factor is correct. If not it is corrected. And, by the way, when business managements complain, as they often do, that they are obliged to sell *below cost* to get orders to keep their men at work, they mean (to themselves) that they are not getting overheads covered to the extent they guess they ought to, or to the extent that they have hitherto been able to.

* * *

We can now come back to the question of propaganda tactics. If a Social-Credit leader directs his attack against "*institutional* profiteering" he can derive the benefit accruing from the use of the word "profiteering" while incurring the least hostility on the part of people who live on profits, and while guarding himself against the danger of being confused with other critics who indict profiteering indiscriminately.

* * *

The present writer was once approached (after he had spoken at a meeting at the London Social Credit Club) by a young Communist, who asked whether Social Creditors were not betraying the under-dog by excusing the capitalists' rapacity as regards paying low wages and exacting high prices. "Do you say that we ought to leave off kicking the capitalist?" The reply of the writer was as follows:

"No, my son. You go on kicking them as hard as you can. I stick to my contention that the bankers are robbing them while they are robbing you; but that is no reason why you should stop resisting their exactions. On the contrary, it is a reason for you to stiffen your resistance. For the more you let them recover their missing money out of your pocket the less likely they are to inquire who has got hold of it. What I wish you would do is to give them the right reason for kicking them; or rather, give them the right answer to their complaint that it is wicked as well as useless for you to kick them. Tell them that this is the same as if the cat with the burnt claws complained that it had not got any chestnuts. Allow them their case that they can't afford the reliefs you demand; and make it your own case. Say to them: 'We are kicking you precisely *because* you cannot give us what we want—because you do not *go out and get it from the people who have taken it.*'

"If you take that attitude, then the harder you are able to kick the capitalists the better from my point of view. It tends to jolt them into the idea that they had better pass the kick up where it belongs. Mind you, I am not saying that the way you administer your kicks is worth the risks you run; but as you like doing it that way it is your business. Far be it from me to cramp your style. It might succeed. One cannot tell. But if it fails, the failure will lead on to positive results, provided that you justify your attempt by reference to the facts that I have been telling you to-night. Shock tactics make news; and news so made has educational value. If you identify the shock with the right reason the reason will live on even if the shock dies out. In the meantime, it is for me as a Social Creditor to tell the capitalists that if they assist you to get what you want from the place where it is hidden there will be a rake-off for themselves. This thought may vex your spirit. You feel revengeful. But if you will try to see them, like I do, more as fools than knaves, you will get rid of that feeling. When you kick them tell them that you are chastising them for their own good like a fond father, and that one day they will thank you for doing it."

Well, this reply appeared to satisfy the young man. He and his like cannot be dissuaded from trying out the feasibility and usefulness of the tactics that appeal to

them, nor (in the present writer's view) is it the duty of the Social Creditor to reprobate any independent action that conforms with the principle: *Resist Demands.*

* * *

In conclusion it is worth while to consider profiteering in its physical frame of reference. For industry as a whole does not make a profit in money. It cannot collect more money than it has disbursed. But it can deliver fewer products than it makes. More to the point, it retains more products than it needs. The undelivered products are the "profit." (A profit which is mostly sterilised.) Since undelivered products represent renunciation by the community as a whole (not particular sections, as *The Times* seems to suggest) profiteering, in its institutional sense as described, is a burden on all alike, and the removal of that burden will subserve a universal common interest, or, in the words of *The Times,* the "larger interest which comprehends" both that of "producers" and that of "consumers."

"The New Age."

Debating Supplement.

Supplement No. 1 appears to-day. In it will be found references to letters which have appeared in THE NEW AGE but are not reprinted. But they are not such as to impair the intelligibility of the arguments. In any case contributors who think we have left any "loose ends" hanging out can tie them up in the next Supplement, which we hope to issue on November 4. We have had to make a beginning somewhere, and have reprinted such letters as we think represent the main angles of approach. New letters appear in their order.

We are pleased to say that critics of Social Credit have taken our hint about expenses, and are defraying part of the cost of this Supplement. This is as it should be; for the ordinary Press denies publicity just as much to them as to Social Creditors, on this subject. THE NEW AGE Supplement is their only platform. Readers' comments and suggestions will be welcomed as regards making it useful to students.

Obituary

ARTHUR KITSON.

The passing away of Arthur Kitson means the loss of a man who will one day figure in history as a leading pioneer in the work of founding the modern Credit Reform movement. For half a century he had been insisting in speech and writing that the root cause of the economic problem was in the banking-system. He was an implacable opponent of Deflation, and challenger of the rights of the banking community to dictate the financial policies of nominal Governments. Towards the end of the War he warned the public of the ramp which was contemplated, and subsequently perpetrated, by the interests behind the Cunliffe Committee. When, in the interval between his prophecy and its fulfilment, the Social Credit Theorem was announced to the world, Kitson generously gave it his backing in an article entitled "The Cure for Unemployment," published in *The Times Trade Supplement,* and afterwards in book form.

Kitson's temperament was strongly emotional. In private life he was generous-hearted and free-handed. He lived his philosophy. He was no scratcher and saver. What money he made he spent, and not all on himself. When, for example, the League of National Awakening (an organisation exclusively promulgating Douglas's Theorem) had to be wound up, Kitson was first of those who came forward to share the loss with the promoters. This gesture was all the more striking because the logic of Social Credit dismissed Kitson's anti-Deflation prophesying as having no constructive value—as being, at best, an arch without a keystone. This was true; but then, of course, the truth could not have been palatable to him. Nevertheless, he paid his whack towards the keystone like a good sportsman—all honour to him.

Kitson never held himself out to be a Social Creditor. It was not that he disbelieved the soundness of the Social-Credit diagnosis and remedy, but that his emotional temperament did not permit him to concentrate on the essential, but undramatic, material on which the flaw in the costing system had to be disclosed and its compensation established. He was more at home as a purely destructive critic; and his prowess in this direction has been acclaimed by all who heard his speeches or read his writings. He could content himself (and probably did) with the reflection that at least he was creating an atmosphere in which any sound constructive proposals would attract the attention and support that they merited.

Well, such is the alchemy of the Almighty that even the dross of our human imperfections can be transmuted into the gold of perfected human relationships. And so with our warm-hearted old friend, Arthur Kitson. Where he fought is nothing; what he fought and how he fought is everything. He fought a good fight, and henceforth is laid up for him a crown of righteousness against that day which shall herald the advent of the New Economic Dispensation. *Requiescat in Pace.*

LETTERS TO THE EDITOR.

PROFITS AND PURCHASING-POWER.

Sir,—Whom the gods destroy they first make mad, and that state appears to be overcoming so many Social Creditors that your timely comment on private investment may do more for Social Credit at this moment than you imagined.

Hargrave is the only member of the movement with enough political acumen to proclaim insistently "Fascism is Finance" (though it is more correct to say Fascism is Capitalism in extremis, because there would be no bankers if Capitalism were a self-liquidating system).

However, we now have two Social Credit papers hailing an article in a Fascist paper wherein an exponent of Social Credit (which, remember, was first called Economic Democracy) draws an alluring parallel between the virtues of Fascism and their replicas in Social Credit. In addition, we have forthcoming a public meeting in a Social Credit hall where this exposition will be repeated. The Secretariats' weekly "welcomes this evidence of sympathetic interest."

Therefore, I thank you, sir, for reviving that neglected tenet of Social Credit: that new production shall be financed with new credits and not with private investment, in THE NEW AGE, September 30, for it will help to scotch this outbreak of Musso-touting in the Social Credit movement.

The Fascist madness, of course, all comes of presenting Social Credit as an economic machine without any politics, and it can only be cured when you proceed with your explanation of the truth that "Capital in Prices" raises prices above the sums distributed by capital-money to pay them. Your readers will then face the truth that Capital is Debt—and we pay the interest on it. If you add that we still pay the interest on it (be it a cheque, factory, or land), whether the debt is held by a wicked banker (who wrote it up), or the nice man next door (who saved it up), you may do something towards establishing a mental stability in Social Creditors that will begin to put life into them, and at the same time frighten off those prime enemies of socialised profit: the Fascists.

Fascists can yelp slogans about "Bankers" better than Social Creditors. Further, Mussolini, Schacht, and Chamberlain can make bankers sit back and do a little "monetary-reforming" against their grain in order that Capitalism shall survive a little longer. Blackett, of the Bank of England, showed them how.

But if Social Credit is explained as a system for putting professional investors out of business the Fascists will soon leave it alone.

GLADYS F. BING.

Major Douglas and Alberta.

Major Douglas has written to *The Daily Telegraph* of October 2 to say: "I am not Chief Reconstruction Adviser to the Alberta Government" and "I have not advised Mr. Aberhart in regard to a new line of action."

Forthcoming Meetings.

LONDON SOCIAL CREDIT CLUB.

Blewcoat Room, Caxton-street, S.W.

October 8, 8 p.m. "Italy and the Money Power," by Mr. A. R. Reade.

October 15, 8 p.m. "Social Credit from a Topical Standpoint," by Mr. E. W. Harrison, of Birmingham.

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 (Telephone Central 3701).