

THE NEW AGE

INCORPORATING "CREDIT POWER."
ORGAN OF THE NEW AGE SOCIAL CREDIT SOCIETY

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Finance and Autocracy.

The humbug of European politics which we analysed last week has been strikingly illustrated by Mussolini's speech reported a few hours later than our comments. Well, Hitler had buried this bone a few weeks previously; and now Mussolini has scratched it up for temporary exhibition. In the meantime the story-touting newspapers are saying that this challenge has "aroused interest" in London. We do not doubt it. The challenge constitutes a topic for public conversations; and as there are lots of pundits who make their living by engaging in conversations of this character, Mussolini has provided them with remunerative employment.

But you will notice that Mussolini omits to say what colonies Hitler must have, when Hitler must have them, or what Hitler will do if he does not get them. Indeed, the phrase: "must have" can be construed to mean: "ought to have"—in which case Mussolini's challenge could be met by a formal expression of regret by the Powers that "Hitler has not got his colonies"!

Anyway, a demand without a time-limit for fulfilment is no demand at all, no matter whether it is accompanied by threats or not. So Mussolini's speech is no more than Mussolini's sentiment. It would be a nice gesture on his part, by the way, if he offered Hitler a piece of Abyssinia to encourage the other Powers.

But the temporary alliance between Mussolini and Hitler purports to be based on something deeper than the redistribution of colonial areas. Mussolini declares that "Bolshevism must be extirpated." Quite so. And since Bolshevism, like Patriotism, has not yet been defined, both he and Hitler can afford to be indefinite about why, how and when the extirpation is to be accomplished. And, for that matter, Stalin can be equally indefinite about the extirpation of Fascism. Furthermore, all three dictators can reserve their explanations why, how and when Capitalism (in its traditional definition) is to be superseded, especially in view of the fact that each has, in his turn, looked to Frank Hodges for financial accommodation. Frank Hodges once stated that the Miners' Federation started a strike on an overdraft; an amusing confession in the ears of students of real politics; but not more amusing than the proposition that Fascism or Com-

munism can outmode Capitalism on mortgages. It is true enough that borrowers can borrow without intending to repay; but it is not true that lenders will lend without first having taken that contingency into consideration.

We are not forgetting that Capitalism *per se* has no money to lend, but only the ability to deliver goods to countries to whom the Money Power grants credits. Nor are we forgetting that Capitalism on its traditional lines may need to consent to be further centralised and disciplined in order to qualify for the continued patronage of the Money Power. In fact, these considerations are part of our case. We referred to Basle recently as the central power-station of the European grid. It is possible, and even probable, that the red, black and brown dictators are being encouraged and helped by the Basle bankers to show which of them, if any, can construct a superior grid to that which Capitalism has built up in the past. In this picture Basle represents a kind of Film Corporation before whom Stalin, Mussolini and Hitler appear as would-be stars undergoing tests for voice and gesture, severally in competition with each other, and collectively in competition with their Capitalist opposite numbers. Collectively they are urging on Basle the submission that a centralised visible tyranny is a better *design* of grid for International Finance to use than has been the partly-centralised partly-visible tyranny known as Capitalism. Severally, each is saying: "My grid is the most effective *application* of this superior design." All three urge, in effect, the following selling-proposition on Basle: "You want the extirpation of independent initiative: We can deliver it." Thus far they stand united as an unholy trinity. But then they fall apart, each separately insisting: "You want the best extirpating-machine: I have it."

If you adopt this theory it explains why Fascists and Communists, while deriding Capitalism in unison, cry down each other's title to supersede it. At the moment the black and red Fascist dictators are walking arm in arm—but that is a temporary alliance of the kind exemplified by the Walrus and the Carpenter, whose mutual relations after the oyster-feast have been left unrecorded. After all, the black dictator does represent a nation whose callous, calculating abandonment of neutrality during the Great War helped to decide the defeat of the nation represented by the brown dictator,

and to deprive that nation of its colonies. From this point of view the capture of the Abyssinian oyster adds injury to treachery.

The same theory also furnishes a reason for Anthony Eden's apparent ascendancy in the counsels of European diplomacy. For if Basle is inviting tenders with specifications and samples from political conscription-contractors it is certainly Anthony Eden who has the task of verifying and comparing the offers. Naturally all three contractors will be sucking up to him and pulling his ear down. And just as naturally Eden comes to be in a position in which he can admonish each in turn when their mutual jealousies betray them into truculence. Behind him would be the authority of the Basle bankers whose attitude might be summed up as follows:

"We see certain merits in your respective systems of government, but before we determine our contract with Capitalism we must be sure that the extension of your drastic modifications throughout hitherto Capitalist areas will not be attended by greater friction, internally or externally, than has attended the application of Capitalist principles. You must remember that, besides looking into your reasons why we should put all our money on you, we have to look into reasons which Capitalism is advancing for retaining our favour. In fact, as you must expect, being practical negotiators, Capitalism is demanding the right to revise the terms of its old contract, and to put in a new tender. So it may happen that, after all, we shall find our purpose best served by a system which incorporates with the old Capitalism the best features of Fascism and Communism.

"We ourselves apply a fundamental principle to these affairs, and it is this: *That so long as deception is effective repression is imprudent.* We do not agree, for example, with Dr. Einzig's approval of the dictum: 'Fortunate is he who likes doing what he's got to do in any case,' as justification for the Fascist principle of forcing people to do things which they may like to do, or may come to like to do when they have done them long enough. There may be cases where love follows marriage; but who would be fool enough to enforce marriage on potential lovers even if it could be foreseen that they would choose each other?

"Further, we have to consider the question not only of whether people like to do what they do, but of whether they like the consequences. And this is where Capitalist Democracy can spare points to Fascist or Communist Autocracy. Since we are talking confidentially we can frankly agree that sound government is invariably unpopular—its unpleasantness to the vast majority of citizens is the test of its soundness. Now, under Capitalist Democracy, the ruling authority is provided with an alibi when dissatisfaction comes. Honest citizens who voted for the particular Government in power blame themselves for doing so, and are blamed some more by other honest citizens who voted against that Government. *Democracy short-circuits responsibility through the masses.* Ministers of State, speaking from well-insulated points of vantage, may make *ex gratia* professions of failure, but they take care to point out that 'people get the governments they deserve'—namely, that inasmuch as Ministers are mugs, the people were mugs to elect them. Whereupon there is nothing for honest citizens to do but vote again, and, this time, not give a mug's vote.

"You will tell us that this is very cowardly, and you will boast that you do not fear the acceptance of responsibility for what happens. But there are two answers to that. The first is that you underrate the psychological effect on peoples of the idea that what is wrong is their own fault—'when each distrusts his neighbour, and none distrusts the State.' Rulers are in power not to show off their courage, but to get things done. And mutual distrust below is the strongest foundation for freedom of action above.

"Our second reason is that it does not suit us for you to accept responsibility for what goes wrong. We cannot see

you falling on your swords to expiate your mistakes. And yet if you do not, what guarantee have you that expiation will not be visited on you? We do not mind that in itself, but the trouble is that we should be involved in the expiation. We fancy that when the test came your courage would fail, and that since you have renounced all chance of laying the blame on your people you would turn 'King's evidence' against us. You know as well as we do that throughout the world there is being spread the story that the bankers are at the bottom of every mischief. The story is catching on, too; and if it goes on catching on we can't trust any dictators to refrain from exploiting it in their extremity. At least, not at present.

"We say 'not at present' because events may force us to use agencies of repression. Propaganda concerning the Money Monopoly is spreading among Capitalist Democracies. Capitalism carries the defects of its virtues as a vehicle of deception; for while it enables us to tell the people what they ought to know it also enables others to tell them what they ought not to know. We cannot shout these critics but we cannot silence them. We cannot control the Press department of the Capitalist system to that degree without thereby repudiating principles of freedom which we ourselves have taught the people to swear by. Yet, unless we repudiate them, our accustomed channels of communication will permit a two-way traffic of education, and in course of time our powers of deception may become seriously impaired. In that event we should resort to repression. We should accredit a Fascist movement which would teach the people that their troubles were due to the obsolescence of Capitalism; that no matter how they voted they would not be better off until the mischievous chief of independent industrial enterprise had been eliminated; that therefore the nation's affairs must be run by experts who must not be impeded by cross-currents of news and opinions. On these grounds we should empower the Fascists to hold up all educational traffic. We should hope to do this before our activities behind the Capitalist system had been discovered; but if not we should tip the Fascists to attack us for them, so that the people would look upon the triumph of Fascism as the defeat of the Money Power.

"In the meantime, however, we see no reason for breaking with Capitalism, but we shall watch with interest your various experiments in the direction of turning human beings into performing animals."

In some such language as this Anthony Eden might be reasoning with the red, black and brown supplicants for Basle's favour. And we would not be surprised if the high financial diplomacy behind him is responsible also for the arrangement whereby the Duke and Duchess of Windsor have displayed an impartial curiosity to know what Fascist Germany and Democratic America can teach each other. Readers will have noted signs of disquietude in certain London newspapers about the visits of the Duke and Duchess to these countries, and hints that the British Government should take steps to define and regularise their status and function.

What we would like to believe is that the contagion of Social-Credit knowledge and ideology which the Duke, when Prince of Wales, caught off Charlie Chaplin, has gained in malignancy, and that he is carrying it among all the Big Noises with whom he comes in contact. In that case (and it is not so fantastic as it may sound) then the more countries he visits the better.

Hargrave's Address.

"Forward to Social Credit."

John Hargrave will give the above address at the headquarters of the Social Credit Party, 44, Little Britain, on Wednesday, November 3, at 8 p.m. The meeting is open to non-members.

*The *New York Daily Mirror* (controlled by Hearst) states that the Abdication had more to do with the distressed areas of South Wales than with his desire to marry Mrs. Simpson. —"something must be done"—to the distressed areas of South Wales than with his desire to marry Mrs. Simpson. The visit of the Duke and Duchess to the United States, says that journal, is a "blow to the British bigwigs." [*Daily Express*, October 30.]

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DEBATING SUPPLEMENT

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Mr. Franklin has seen, and replies to, the letters which precede his in this Supplement; but not the letter following his. A further letter from Mr. Temperley we publish in "The New Age," as it raises deeper issues than the above.

From A. W. Coleman.

Mr. Franklin makes a serious error in the third paragraph of his first letter in the October Debating Supplement.

After showing that no shortage of total consumer-income arises from the transactions of Messrs. A. and B. (which is correct) he goes on to say that "Precisely the same procedure occurs in the payment of bank interest."

That is not so. Consumer-income paid to a bank in the form of interest becomes for the moment bank revenue. The bank can get this back into consumers' hands as income by reissuing it as salary or bonuses to staff, as dividends to shareholders, or as loans to customers. Issued as dividends to shareholders or as bonuses to staff, no new costs are attached to it. But issued as salaries to staff or as loans to customers, new costs (bank charges) are attached to it, and must increase the ratio of costs to incomes.

So unless Mr. Franklin can show that the whole of the interest paid to a bank is reissued as bonuses and dividends, a shortage of consumers' purchasing power must necessarily ensue.

It is almost amusing to find Mr. Franklin, in his second letter, accusing me of refusing to separate the function of investor from that of consumer. Separation of these two functions (with particular stress upon the consequences of the former) is the string upon which all Social Creditors are continually harping.

The trouble here is that Mr. Franklin is using the word consumer in one sense, and others of your correspondents are using it in a different sense. The result is likely to be general misunderstanding and stalemate unless contributors to this discussion will agree to a rigid definition of the terms consumer and investor.

We are all consumers all the time. Only a few of us are investors, and that at intervals. Or, more correctly, only a few of us are *voluntary* investors; unfortunately, we are all *involuntary* investors.

My article in your issue of September 16 was, in effect, a suggestion that much of the misunderstanding just referred to might be avoided by confining discussion to total consumer-income, and comparing its rate of generation with that of total costs. Mr. Franklin agrees to this, provided "total costs" is correctly defined. By it, I mean the total finished goods and services whatsoever, whether consumable or capital.

Mr. Franklin then shows a series of balanced payments between a group of consumers and seven men at seven windows. That sort of thing is as easy as it is futile. As Mr. Hiskett puts it: "It is only necessary to assume that a particular period contains its appropriate proportion of all that income equals expenditure."

Quite so; but why should we accept any such assumption? However, the eighth man is about to enter, and I await developments with interest.

From L. C. J.

I do not think Mr. Franklin has done justice to the argument which I put to him. I am not contending that a deficiency of purchasing power necessarily results from the collection of depreciation charges or the realisation of profits. There is, it seems to me, little room for controversy on this aspect of the case, which is obviously determined at any given time by the ratio operating between the sums which industry is able to obtain by way of depreciation charges and profits and the expenditure or distribution which it is making from such sources. My contention is of a different nature, namely, that there is not normally a sufficiency of purchasing power to meet the whole of the claims of industry to depreciation charges and profits. Mr. Franklin has effectively illustrated many of his points, and I do not think I can do better than endeavour to follow his

example. Let us assume, for the sake of convenience (a) that we have ten industries engaged in the work of producing goods and services for the community (b) that in a given period of production they each make outpayments for salaries, wages, rates, taxes, and other working expenses of 100 units, or 1,000 in all (c) that at the end of the period all the goods and services are offered for sale (d) that in the competition of the market which follows seven of the industries are successful in obtaining in price 110 units each or 770 in all. In this situation it follows that, since only 1,000 units have previously been paid out, the remaining three industries must share in 230 units, which, under equal conditions, means that they must all either sell at a loss or be left with goods on their hands.

Now the point I am urging upon Mr. Franklin is that no matter how the seven successful industries dispose of the surplus of 70 units which they have available to cover depreciation charges and profits, a self-liquidating economy cannot be reached. Even if all the 70 units immediately become available as purchasing power through interest and dividend payments and industries secure the 70 units against the three unsuccessful industries they would still only obtain 300 units and therefore have no surplus over their outpayments for depreciation charges and profits.

This illustration, which of course excludes detail for the sake of bringing out clearly the dominant and governing factor, is not in any way invalidated by pointing to changes in credit conditions, since such changes can only at best temporarily ease the position, nor is it affected in any way by the fact that there is a continuous overlapping in periods of production, since normally the same fault vitiates every period.

I cannot help but think Mr. Franklin must feel a little uneasy in his mind in arguing for a self-liquidating economy when the facts of poverty, unemployment, wealth restriction and destruction, depressed industries, and distressed areas speak so loudly against him, and I invite him to reconsider his position in the light of these facts and the argument I have put to him. I would also ask him to ponder over the great discoveries which modern science has placed at our disposal to the immense enrichment of our productive resources, and, by way of contrast, to reflect upon the stultification imposed upon us by an adherence to the parsimonious theories of the orthodox economist.

From Gladys M. Bing.

Mr. Coleman re-states the point at issue between THE NEW AGE and Mr. Franklin: Do the present methods of accounting costs relating to fixed capital assets produce a shortage of purchasing power?

Social Creditors answer Yes—but for half a dozen demonstrably false reasons, Messrs. Franklin and Hiskett, champions of capitalist finance, answer no.

Mr. Coleman agrees with Mr. Franklin that the taking of rent, profit, and interest is merely a transfer of incomes, but he thinks a shortage occurs if the interest is re-invested in capital plant and not spent on consumable goods.

Mr. Coleman's social difference between capital goods and consuming some economic difference between capital goods and consumable goods. There is no difference. The fabric of any capital asset is produced only when its production is financed by a loan—exactly as the production of soap is financed. In the production of capital plant the loan-money is distributed in total to the processors of soap. The materials in the capital fabric are *economically* as irrevocably "consumed" as the soap. The final price of the capital structure can be paid if the structure is marketed exactly as with soap. (If the structure be demolished and re-erected, a new loan will have to be issued to finance the activity.) The fact that soap disappears physically more quickly than a con-

crete factory has no effect whatever on the fact that a flow of soap produces a flow of profit exactly as a farm, factory, or mine produces a flow of profit, and in each case the profit is a sum in excess of the money invested to produce factory or soap.

In short, investment does not produce a shortage of purchasing power. But Messrs. Coleman, Hiskett, and Franklin all fail to see that the fact of investment per se has an effect on society quite different from the taking of interest or profit. To withhold incomes from the consumer-market—either to save or to re-invest, or to allocate to reserves, does nothing but withdraw (and vary) effective demand, and so reduce prices to meet it. It creates no shortage.

To be strictly scientific there is no shortage of purchasing power. B costs are distributed incomes. But there is an inflation of prices beyond the sums loaned, and distributed, to pay them.

Mr. Franklin has had another dream wherein he gives away fivers to X, just for love in one case, and for the hire of a car in the second case. This is a mere transfer of £5 from Mr. Franklin to X. True, but if Mr. Franklin continues giving fivers to X, he must either collect some more fivers from his customers in prices, or become penniless himself. As nobody engages in industry with the purpose of becoming penniless, the dream is frivolous and irrelevant.

But Mr. Franklin borrowing £100 from X at 5 per cent. p.a., shows that he needs money to finance, say, a book-stall. He distributes the total £100 to the processors in the book, stall, and other industries. He must, therefore, lose money or recover in prices £105. His books are so priced, but he has distributed only £100 so that £5 worth of books remain unsold unless he can capture £5 worth of purchasing power from the customers of the fish stall next to him. This he does, if he is lucky. The fish man has distributed £100 to pay £105 in prices, so that when Mr. Franklin collars £5 of his distributed £100 there is £10 worth of fish unsold.

But X receiving his £5 from Mr. Franklin, spends it on fish, and we have again the same £5 worth of goods unsold. The fish man repeats the effort of glorious competition and collars £5 of the ice cream customers' £100 worth of incomes—and on ad infinitum.

But at the end of the first year £5 of goods remain unsold: the figure by which prices were inflated beyond the £100 lent to pay them.

In the second year X subtracts another fiver from the bookstall customers' £100 worth of incomes, and the scramble after customers is repeated all through the stalls with the exact mathematical result that £10 worth of goods remain unsold. After a few years one of the stalls must go bankrupt, or raise an overdraft, so that the bank's "delicate adjustment" raises retail prices by an additional £5 interest.

That is what Mr. Hiskett calls "seeing the financial process as a whole," and the bigger the whole the bigger is the gap created by the taking of interest.

Mr. Hiskett doesn't see this because his picture of "the pool" is faulty. He fails to see that the interest on every loan must be subtracted from the principal of some other loan, and even when interest is spent in full upon consumable goods, that it has already raised prices beyond the sum of the principal. Nobody puts money into the pool for love (as Mr. Franklin gives away fivers!) They put money into the pool with the express intention of taking out more than interest from sums put into the pool by subtracting their do this by inflating prices above the sum of distributed costs. As distributed costs are the only sums put into the pool by investors, and interest never has been put in at all, it follows that distributed costs can never equal distributed-costs-plus-interest (prices).

From "Nemo,"

Mr. Franklin so consistently eschews consideration of the bank loan cycle—which the Social Credit case is founded on—that I am impelled to put forward another parable for his comment.

A manufacturer borrows £1,000 from a bank to finance the construction of (say) a shoe-making machine. Let us suppose he pays away the whole of this £1,000 in wages to his employees.

These employees decide to form a shoe-making company, and by the process of abstaining from consumption use this £1,000 as capital. They become "investors."

They go into business and purchase the loan-financed machine they have previously constructed from their former employer.

The employer repays his bank out of the sale. The new company will now include in the price of the shoes a "cost" covering the depreciation of the machine. But the "income" which they "distributed" has dis-

appeared with the repayment of the loan. It no longer exists even in the books of the bank.

They must therefore collect other incomes figuring as costs in other production if they are to meet their legitimate charges.

Mr. Franklin will notice that: (a) In principle, no party in this sequence has done anything which does not occur in ordinary commercial practice.

(b) The volume of effective demand is not in question until the bank cancels the loan repayment.

(c) We are "worried" not by the fact that investors charge depreciation before they distribute replacement incomes, but after they have liquidated loan-costs in respect of capital production.

(d) The loan has financed the delivery of the asset to the community; it has not financed its consumption by the community.

(e) If the community is to meet the charges in respect of the asset, it is absolutely vital that the loan be renewed for the financing of new production.

The last point is worthy of consideration in view of the piling up of "redundant" capital visible in the real world; it illustrates why, as Douglas has said, it is becoming necessary to build battleships in order to buy cabbages.

From J. A. Franklin.

I have a great regard for Mr. Coleman's determined hunting of the snag, and so, perhaps, he will forgive me for describing his ideas about interest paid to banks as fantastic. According to him, if I pay interest to a bank and it uses that money—as it does—to defray the cost of a clerk's salary, then it has created a new cost against consumers! It no more does so than when I pay my dentist for his services and he pays his mechanic. Mr. Coleman proceeds to say that if the bank loans the interest—which it does not, for it does not loan its capital or profits except in investments—then any other joint stock company does by investments—then the charge would cause another deficiency. But the Coleman is the interest payable. So that even if it were used for arguing this payment would be all right if it were used for dividends or bonuses. But what a muddle! Mr. Coleman can do better than this.

I agree about the importance of definitions. I suggest that people are consumers in the economic sense when they defray the cost of consumable goods; they are investors when they defray the cost of capital goods. A man who buys chalk has not to pay extra because another man buys cheese.

I apologise to "L. C. J." for not having grasped accurately the point he wishes to make. I hope I have it now, but I feel that he rejects true Social Credit doctrine and has substituted a private difficulty of his own. Nevertheless, his illustration in no way demonstrates that "there is not normally a sufficiency of purchasing power to meet the whole of the claims of industry." He thinks it does because he falls into one or two rather grievous errors. He does not deny—as Social Creditors do—that his 1,000 units are available to meet the 1,000 units of cost, but he fails to recognise that industry has to recover only its costs, not something extra, and that (1) profits are not an addition to costs, and (2) depreciation costs are distributed. All his picture shows is seven firms making a profit and three coming out all square, but it does not show the simple reason failing to collect their depreciation, for each of them that, in ordinary industrial practice, for each of the 100 units of cost would naturally include the depreciation costs. All these firms are forced to distribute payments in respect of depreciation, and these are just as much ordinary and legitimate costs as payments to their clerical staff, and must be included in the 100 units.

As regards the last paragraph of his letter, I hope it can be understood once and for all that opponents of Social Credit are no less eager to help to benefit the community than the followers of Major Douglas. Every reformer on earth, monetary or otherwise, points to the same facts as do Social Creditors, and claims them as "proof" of the soundness of his own peculiar analysis and panacea. But the existence of abuses is not proof of the inherent soundness of any suggested specific remedy. Opponents reject Social Credit just as they would reject prussic acid as a remedy for a sick man. In their view it will increase the poverty and abolish the plenty.

I fear that Mrs. Bing hardly belongs to this supplement. She takes one little bee from Major Douglas's bonnet, not even the queen, and imagines she has the whole hive. Her bookstall illustration concerns payment of interest, not of profits. Very good; but she is no business man, otherwise she would know that if I borrowed £100 at 5 per cent. I should distribute £95 to book and other industries and £5

interest to X. Her picture merely shows me incurring £100 costs, which require me to recover £100 so as not to "lose money." No wild-goose chase after additional fivers is started at all.

"Nemo" merely restates the case I have tried to deal with specifically in my two contributions to the first supplement, and a reply entails going over the same ground again. Still, here it is again. It is true that his company "will include a cost covering the depreciation of the machine." But this new cost is financed by new distribution of equivalent income; it is not the original cost repeated. What is repeated gradually is the construction of a second machine to replace the first as it wears out. As for the first, so for the second—people have to be paid to make it whether in parts by gradual replacement, or as a whole for complete obsolescence. To finance the operations the firm again borrows working capital, the necessary proportion of which is devoted to depreciation work. Consumers have to replace industry's capital assets at the rate they use them up. If industry is to keep its assets in first-class order it has to have the "used-up" parts replaced at the same rate. It can achieve this only by getting workers to do the necessary work, and it has to distribute incomes to get the work done. These costs are financed in exactly the same way as other industrial costs.

It is worth noting that obsolescence is one of the legitimate costs of capital upkeep. It is now being suggested editorially that this is charging consumers both prime cost and maintenance. Clearly it is not; it is merely charging for maintenance, and workers have to be paid to make a brand new machine just as to make new parts for an old one. It is true that just as some firms will under-estimate the rate of obsolescence, so others will over-estimate. The latter will have overcharged consumers for the products, in so far as they can do so in a competitive world. The result? Merely that they have made unusually big, perhaps exorbitant, profits just as though they had overcharged for any other item in their costs. But that does not cause any "deficiency" of purchasing power. It simply transfers purchasing power to the firm from the pockets of other people. They can then use it for direct consumption via bigger dividends or, via reserves, pass consumption rights to others in return for capital holdings.

"Nemo" wants the original £1,000 of his illustration to remain in existence until the machine is worn out. But the absurdity, not to say injustice, of such a thing should be obvious. Suppose the money remains the property of the shoemakers. In that case, they will have obtained their factory for nothing. Suppose that instead it is given to those individuals who will buy their shoes. Those people are, in effect, getting the factory for nothing, although it cost the shoemakers £1,000 of work. Consider it how you like, and you will see that the popularly comprehensive objection to Social Credit, that it is an attempt to get something for nothing and, therefore, would not work, would seem to be well grounded. Suppose the shoemakers have the £1,000 for the factory worth £1,000, then they could sell the factory for £1,000 and make 100 per cent. profit on the deal.

Yet this is just what Major Douglas wants done. In "Warning Democracy," after outlining his usual analysis, he produces his remedy as follows: "With a view to meeting this situation, one of the first requisites is to deal with the immobilisation of bank credits in fixed assets. There are many ways of doing this, and perhaps one of the simplest would be the automatic writing up of the bank credits of any limited company to correspond with the increase in its fixed assets, as certified by a Chartered Accountant, during a given accounting period."

Frankly, this is absurd. No individual or group of individuals is entitled to have both his assets and the money he or they gave for them, any more than I ought to have there is just as little sense in giving money to the man in the street just because Selfridge and Co. own a store in Oxford Street. The man in the street has not got to buy that store; he has to maintain it and is paid income to do so. Because of this, the "monetisation" of capital assets would merely put that money into consumers' hands and resulting fantastic rise in prices.

I gather from "Nemo's" first sentence that he thinks that financing by means of bank loans produces different results from financing out of proprietor's own capital, where there is no bank loan to be repaid. The only difference is that the wages of capital go as interest to the bank instead of direct to the entrepreneur. This, together with Mr. Coleman's letter and parts of the other correspondence, shows that we ought to begin at the beginning, and naturally I agree with "Nemo" when he says that Social Credit is founded on Major Douglas's conception of the nature

and practice of banking. In an article in THE NEW AGE of January 22, 1925, headed "A plus B and the Bankers," Douglas said: "Notice that this theorem depends fundamentally on the problem of the beneficial ownership of credit." He alleges a bankers' monopoly of credit. Now, there are concepts fundamental to Major Douglas the truth of which depends not upon theory but upon ascertainable fact. Perhaps the most important of these is the belief that the banks own the money they create, so it is obviously important first of all to examine the real position and powers of the banking system, especially as a clear understanding here is vital to an appreciation of what is happening in Alberta.

As we are, I hope, out to examine only authentic Social Credit, it is essential to set out as precisely as possible just what it does assert, and for that purpose I shall quote at length from the work of Major Douglas, from THE NEW AGE, and from responsible Social Credit publications.

First of all Major Douglas draws attention to the fact that the banks "create" money or credit. We need not stay to argue about that. It was in the text-books of last century, and is denied only by unorthodox monetary reformers, such as Claud P. G. Jacob. So far so good, but here at once agreement ends, for Major Douglas next introduces an assertion, peculiar to himself, that the banks are the actual owners of the money they bring into existence. It is not unfair to say that nowhere does he attempt to prove this; he appears to think that it is too obvious to be worth arguing. Let us see what he and his responsible followers say.

(1) In "Warning Democracy," page 104, he writes: "The question at issue, fundamentally, is whether, when a banker creates and issues a loan, he should be repaid (which assumes that the loan belongs to him) or whether (which assumes that the credit is a public asset) that the credit is he should not be repaid (which assumes that the credit is a public asset). That is the simple and fundamental issue of this controversy."

(2) Before the Canadian Banking Committee: "When the blocks of purchasing-power are created, they are created the property of the banks. It should be done as the property of the country; it belongs to the public. The banks pervert of the country; it belongs to the public should get should be paid for their services, but the public should get the benefit."

(3) In THE NEW AGE, November 3, 1932, he says: "Practically all money is actually created by the banks, and claimed as their property. There is now no argument possible about this, nor is it, in fact, denied by bankers themselves."

(4) In THE NEW AGE, October 22, 1925, he writes: "A banker actually creates money, just exactly as though he coined or printed Treasury Notes. He lends this money, which is an assertion by implication that the money belongs to him. You do not lend something which belongs to the person to whom it is lent."

(5) In his speech at Belfast on November 24, 1936: "It is the claim to the ownership of the money which is the core of the matter. Any person or any organisation who can create practically all the goods produced by the community the price-values of those goods and, therefore, the claim of the virtual owner of those goods and, therefore, the claim of the banking system to the ownership of the money which it creates is a claim to the ownership of the money."

(6) He writes on May 11, 1933: "The Banking system actually creates all but a very minute fraction of this money, and in existence and claims the ownership of this money, and since this money is the only effective demand upon wealth, it is true to say that all wealth is held by the population of the world as a debt to the banking system."

(7) Editorially, THE NEW AGE stated on August 25, 1932: "The Bank can acquire any property it likes by creating the credit with which to buy it."

(8) "A. B." in THE NEW AGE, August 18, 1932: "The ultimate owners of all property, whether pledged for loans or not, are the bankers."

(9) The Editor, Mr. Barclay-Smith, in the New Era, May 30, 1935: "What astonishes the student is that banks . . . keep their staffs on niggardly salaries, when the said salaries do not cost the banks so much as a brass farthing to pay!" (His italics.)

(10) The Social Credit Movement of Victoria, in a broad-cast address reprinted by the New Times, December 24, 1936: "A bank usually buys things with its own cheque, a cheque drawn on itself . . . one surprising thing is that, if a bank wants, say, to put up a new building such as those palaces you see in the best position of our cities, it GETS IT FOR NOTHING." (Their capitals.)

Those passages set out the Social Credit argument fairly, squarely, and unmistakably. Yet, although it may require a reasonably competent economist to point out the exact nature of the mistake underlying them, it should be obvious

that a theory which can lead to such "surprising" conclusions, so contrary to facts known to everyone, must have gone wrong somewhere. Where?

The ordinary man may not have the highest opinion of the collective wisdom of our legislature, but he does know that they are not such blind fools as calmly to have allowed for a century or two certain Joint Stock Companies for the benefit of their shareholders costlessly to acquire any amount they covet of other people's wealth and to run a business where it costs nothing to pay the staff and nothing to acquire palatial accommodation. Yet that is undeniably Social Credit teaching as we have seen.

Let us work backwards through the quoted passages. The last four are the most obviously untrue, but they are perfectly logical deductions from the earlier ones. Then take Nos. 5 and 6. Douglas has said, as every economist since the first has either said or taken for granted, that money is not wealth. Yet here he is falling into precisely that confusion. Walk down the street. Is it true that all the real wealth in that street is merely held as a debt to the banks and therefore is, ultimately, the property of the banks? The business premises, the stock? Of course it is not true any more than it is true that the house Jones may own and the furniture in it is the property of the banks. It belongs to Jones both in law and in fact. Not merely do the banks not own other people's premises and goods and chattels, but, as we shall see more fully presently, they are quite unable to create even a penny of money with which to buy them for themselves. It cannot be too emphatically emphasised that neither the Joint Stock Bank nor the Bank of England nor the banking system as a whole can create money any more than you or I can, to meet their business expenses, their business losses, or to be used for reserves, or for the payment of dividends.

What, therefore, is the nature of Major Douglas's mistake? Curiously enough, it is revealed by a consideration of a principle to which he delights to draw our attention—every bank loan creates an equivalent deposit. All very true; but there Douglas's mind stops. He does not proceed to consider what those bank deposits are. That the essential thing to grasp about them is that they are debts owed by a bank; that they are the bank's liabilities to the community. Unfortunately here we, too, must stop for this month, leaving unsaid most of what must be said.

From B. C. Best.

In the course of his reply (October 7) Mr. Franklin remarks—most truly—that, "If consumers use my machine, they have to pay for a second one to replace it." What is this, however, but recovery of Capital? The point he misses, though, is that the cost of this Capital (machine) has been distributed, spent, and cancelled, before the cost of it appears in the prices of the goods it turns out, and there is no money equivalent being distributed to meet it unless machines are being made at a sufficient rate to do so.*

Mr. Franklin's picture of the men stationed behind the windows begs the question, since he assumes the £10 demanded by each man is already available in the hands of the public to meet it. As this is the point in dispute, his argument gets us nowhere.

Mr. Hiskett likewise assumes that charges for maintenance and depreciation are a source of income before they appear as costs in prices. Furthermore, one finds that, even taken at its face value, his argument gives no assurance of equilibrium, except in "normal circumstances," whatever that may mean. He ignores, or seems to, the dislocation and trouble caused by disequilibrium in—presumably—abnormal circumstances, and the effect such would have upon the efforts to restore equilibrium; he appears to accept the consequent disasters as part and parcel of the system, to be regarded as axiomatic and unalterable. He also allows that the success of the system depends upon the income "incentive to ensure that spending power will not be depleted in any period." Thus Mr. Hiskett presents us with the picture of an economy in which the primary function of capital production turns out to be the provision of incomes to meet charges, as the disasters accompanying any decline in this specific form of production relate directly to the depletion of necessary purchasing power, rather than to have, in short, to make certain goods, whether we want them or not, in order to enable us to buy the available goods we do want. A more idiotic, wasteful, and extravagant economy it would be hard to imagine, leading, as it must, to

* Or, to quote Major Douglas, "In other words, the money creates a second price value, but does not produce any fresh money."

over-capitalisation, and/or the struggle for foreign markets, with its eventual culmination in war.

Mr. Hiskett's answer to my question contained in the last portion of my letter is summarised in his statement that "the delicate adjustment" which the banking system makes is concerned with suiting the volume of credit issued to the necessities of the situation." I like "is concerned with," since Mr. Hiskett immediately qualifies his statement by saying: "If it over-issues, it produces inflation; if it under-issues, deflation is the result." Does Mr. Hiskett attribute failure to comply with "the necessities of the situation" to the ill-will or incompetence of those who operate the system. In either case, if he has seen the chart showing the rise in the rate of suicides which follows the deflationary policy of the banks, he can hardly imagine that I find his answer in any way reassuring, if that is what he intended it should be.

Ill-will or incompetence apart, however, the fact is that alternation—booms and slumps, "prosperity!" and depression—is involved in the arbitrary rules of the system itself, although the physical facts of the situation in no way warrant it.

If all Prices Were Taxes.

Here is an intelligence exercise. (Social Credit is round the corner.)

Assuming feasibility, how would it work out supposing the banks debited the Government with loans issued to producers, and the Government recovered them by a tax on consumption-sales?

Example. Assume a banker, a producer, and ninety-eight others, making a total of 100 consumers. The banker lends £100 to the producer; and the 100 consumers receive £1 each. The nominal cost of the products is £100. But the actual cost to the producer is nothing. He has paid out £100, but as this is public credit and is not repayable by him, he has neither the title nor the need to appropriate any of it when paid in over the counter. Hence his revenue will be wholly attachable by the Government. His price to consumers will be the same as the tax to be levied on him.

Further, the rate at which he collects the price will be the same as the rate at which the Government collects the tax.

That rate can be decided by the rate at which the products can be finished up in consumable form. Assume a unit period of one week (for a sales-tax on consumables is largely collected at that interval of time). If the whole of the products are ready for consumption in a week the price (and tax) will be £100 for that week. But if not, suppose only one-tenth of them could be ready, the tax need be only £10 for that week. And *pro rata* for any other proportion. Assume that one-tenth is the weekly rate of convertibility to consumption uses, consumers will pay £10 in price out of £100 in earnings. This will leave them with £90 unspent at the end of the first week. Against this there will be £90 worth of produce to be delivered over nine weeks at the tax-price of £10 per week.

Will this produce inflationary results? It can do so, but not for the same reason as it would do so under present actual conditions. For there is no compulsion on producer to recover more than the £10 per week; whereas under the present system he might have to recover the £100 in the same week as he borrowed it, quite irrespective of how much or little of the product had reached consumers. So if there is inflation it will be because the producer chooses to profiteer and the Government chooses to let him. The Government can stop him either by controlling the price of the product or by attaching the whole revenue from sales.

But there will remain a special, and novel, reason for inflation. For if, as assumed, consumers have £100 to spend and there are only £10 worth of products ready, the producer will have the embarrassing task of keeping grabbers from getting more than their share. For example, the first ten customers entering the shop could buy all the stock, leaving the other ninety with nothing to take home but money! (Humorous, isn't it?) So, to avoid riots, the producer will feel impelled to raise his price to his early customers sufficiently to have stock left for the later ones.

In these circumstances he will prefer the Government to take on the job. The Government can permit him to charge £100 instead of £10, and take from him £100 instead of £10. This transfers the surplus £90 from the consumers to the Government. But since, by hypothesis, the Government need not pay the banker more than £10 per week, it can hold the £90 to the consumers' credit, and pay them £10 a week for nine weeks in addition to their earnings on account of new production during those weeks.

J. G.

Notes on Australian Banking Commission's Report.

By Arthur Brenton.

III.

Since the Rt. Hon. Reginald McKenna has recently been in Canada expressing his views about Social Credit, it will be appropriate to point out that the Midland Bank, of which he is chairman, has on occasions disclosed "Reserves" equal in amount to the whole of its subscribed capital of about £11,500,000. The latest return puts them at £14,000,000. Here is proof that its shareholders' financial capital has virtually been collected back from the community—and in addition to the cost of maintaining their physical bank (or any bank for that matter) were questioned as to why the Reserves were so high, he would probably point out that the bank's property (e.g., its premises, calculating machines, etc.) would fetch very little money in the event of a liquidation; for it would not be easily adaptable to other purposes, not to speak of the fact that all property tends to lose value under conditions of quick liquidation. Therefore, he would say, it was sound financial policy to accumulate Reserves in the form of easily marketable securities, so that the proceeds from selling them would make good the loss on selling the bank's own property. Ideally, the amount of the Reserves should be enough to reimburse the shareholders in full, even if the bank's property fetched nothing at all. This swings-and-roundabouts policy is followed by all successful profit-making enterprises—and justly so, since they are under an obligation to repay shareholders if the business is wound up. But the community have to pay the profits on the swings which are used to buy the roundabouts. Further, the policy involves this paradox, namely, that the enterprises which accumulate Reserves most quickly to insure against liquidation are the enterprises least likely to be liquidated.

"To him that hath shall be given" is the overriding principle of the bankers in the matter of making loans. And an enterprise which accumulates Reserves spreads its risks not only to the advantage of its shareholders but also to that of its creditors—of which the lending banker is "Creditor No. 1." So Reserves are the basis of borrowing-powers; and since borrowing-powers are a condition of survival in modern competitive industry, the accumulation of Reserves is imperative whenever possible and to the extreme extent possible. That is why it is an overriding rule in commerce that the price of an article shall be all that it will fetch, regardless of what it has cost. The margin is, of course, surrendered by the community out of their earned incomes, and they get nothing in return through the consumption market. Neither do the investing classes of the community—the margin being "retained in the business," as the saying goes.

(To be continued.)

Communism and Fascism.

The following extracts from the First Interim Report of the Engineers' Study Group on Economics are interesting as showing what impartial and practical types of mind make of the objectives and claims of Communism and Fascism:—

PROPOSALS OF THE COMMUNIST PARTY.

The ultimate aim of the Communist Party is a classless society in which everyone works according to his ability and receives according to his needs. It considers that this requires as a preliminary a whole historical period (The Transition Period) in which to raise the level of production and to abolish all survivals of capitalism both in economy and in the minds of men. During the Transition Period payment will be according to the quantity and quality of work performed. The attempts of the old ruling classes to restore capitalism will be crushed by the Dictatorship of the Proletariat (all who perform useful work). This and indeed all forms of coercion will cease as the old ruling classes die out and Communist habits of thought and action become universal.

It is held that the Dictatorship of the Proletariat involves the overthrowing of the capitalist class by superior force (The Social Revolution), and substituting a State apparatus based and controlled by the working class, elections being held on the place of work. The Revolution will be made by all discontented sections including the colonial peoples and sections of the so-called middle class. The Workers' State will immediately nationalise land,

banks, transport, foreign trade and large scale industry. Small scale industry and trade will be strictly controlled and absorbed during the first part of the Transition Period. Production and wages will be increased according to a central plan, leisure time increased, and a complete system of social insurance introduced. The Colonies will be given liberty to secede, but trade and other relations will continue on the basis of mutual requirements. The largest possible proportion of the working class will be drawn into the work of administration in order to convert them into conscious practical socialists and to prevent the growth of bureaucracy. As capitalism is overthrown in the various countries these will be federated into a World Federation of Socialist Soviet Republics.

Prior to the overthrow of capitalism the Communist Party exposes its corruption and leads the workers in strikes, demonstrations, etc., in the struggle for better conditions and against War and Fascism, in order to strengthen and educate them to take power when a serious economic crisis or War renders this possible.

THE FASCIST PROPOSALS.

The Fascists believe that the paradox of Poverty amidst Plenty exists, and say it is due to uncontrolled individual competition and the lack of general planning in industry and commerce.

The industrial side of the Fascist State will be organised in a series of Corporations, one to each main industry, on which both employers and employed will be represented. The controlling body will be the National Corporation, consisting of representatives nominated by the industrial corporations, and functioning as an Industrial Parliament. Private profit and ownership are retained, the profit incentive being regarded as valuable and difficult to replace. But both profit and ownership will carry definite responsibilities, and profit will be restricted if necessary in the national interest.

Fascism welcomes the advances of science and promises to seize every chance of increasing productivity and leisure. Higher wages plus insurance and superannuation schemes will be introduced, but the inevitable rise in prices strictly controlled. Currency will be managed and based on a price index number. Banks will be controlled but not nationalised, and credit for speculation will not be allowed.

On gaining power, the Fascists will pass a General Powers Bill giving the Fascist Cabinet a free hand to put their proposals into force without delay. Imports will be controlled by scientific protection, and a National Investment Board will be set up to control investment in the National interest.

Fascism has no use for immortal principles in relation to the facts of bread and butter, and defines liberty as freedom to enjoy some of the fruits of life, a reasonable standard of living, a decent house, reasonable hours of leisure, unmoled private happiness, and the hope of material success to set the seal on private ambition.

The Fascists consider Fascism the only practical alternative to Communism, and that existing political parties in this country are out of date and out of touch with reality.

LETTERS TO THE EDITOR.

PRICE-INCOME SHORTAGE.

Sir,—I offer what I consider to be a complete reply to Mr. W. R. Hiskett's letter in your issue of October 7. It is also a reply to orthodox criticisms of the last fifteen years. I have never seen it drawn out in a plain, scientific form. It is time the argument was made fool-proof.

It is required to prove that the action of "saving of Incomes-paid-out-by-Industry followed by their reinvestment in Industry" tends to cause a deficit of incomes in relation to costs, which deficit grows by arithmetical progression.

Let us assume as a "taking-off-ground" a constant industrial situation in a closed system, with constant output; with constant issue of weekly Income (including wages, salaries, dividends, and profits); constant spending of all Income-money on retail goods (services understood); constant costing of weekly production; constant immobilisation of Income-money on purchase of commodities ("cancellation"?) of Income-money on purchase of completed retail goods; constant re-issue of such Income-money for continuing constant production.

Production will be in all stages of progress at any moment, and its costs will include: raw material, machine production, capital goods, depreciation, replacement, rents, taxes, transport, selling, etc., all costs that make up the eventual price of the retail article (or service). Once steady, no new money will be needed to keep the system working. It will be self-liquidating.

(Note that "retail price" is the minimum solvent price, that is: cost including profit.)

From this "taking-off-ground" we make our observations.

Let the issue of incomes per week be I in £ sterling. I represents also the total weekly addition of costs to all goods in progress, i.e., the increase in value of all goods in progress, i.e., the "step-up" of total costs.

Therefore I equals the Price (R) of all retail goods completed during that week and lifted up on to the counters of the retail market.

(That step in the argument may need a little thought—it is mathematically accurate.)

I is able to buy all the retail goods lifted-up, and therefore I is equal to their price R . I equals R .

Now at some moment of time a variation in this constant process is made: during each week certain of the earners of income I save a part S and next week invest it in Industry, which means that S is spent in issuing incomes S' to produce further goods, or rather to "progress" further goods, to an additional value of P' equal to S' equals S .

The first week of the new system the retail price R will not increase, but I will have been diminished.

In the first week: I minus S will have to meet prices R .

Therefore goods value S will remain unsold.

In the second week, on the reissue of S as S' , I will be increased by S' but the saving still continues.

During the following weeks: I minus S plus S' is able to meet R . There will appear to be no deficit.

The weekly saving goes on till at length the additional costs of S' per week begin to swell the total prices of retail goods arriving on the counter—till R becomes R plus P' .

After this point the constant situation will be represented by I minus S plus S' (equals I) has to meet R plus P' , which it cannot do. This causes an accumulating weekly deficit of P' , or, in other words, of S .

If weekly savings, S , are, say, 2 per cent. of total weekly

Income I , the accumulating deficit, being 2 per cent. of R per week, will amount to R in fifty weeks. Therefore,

after one year of this "constant" situation of continuous saving, the available I or purchasing power of the whole community, issued during one week, would be required to meet an accumulation of R unsold retail goods plus the normal retail weekly addition R to the retail counter.

If the percentage saved is less, the deadlock is postponed a while.

The fact that this deadlock does not happen to the full extent in practice is helped by savings S and New Money M being weekly issued through Industry in such a way as to postpone the arrival on the retail counter of articles (or services) bearing the corresponding costs, P' and M' .

I minus S plus S' plus M is more than able to meet R if P' plus M' have not yet reached the price tickets of retail goods. But the day must come, in spite of the most extravagant issues of M , for a breakdown in the system.

Investments in, and loans for, production of very early stages of progress of goods are encouraged, in order to postpone the deadlock. Such investments and loans are, for example, those for Government work, armaments, municipal work, etc., whose cost will not appear, unless as figures of debt, for many months or even years. Destruction of sumption goods (so-called); export without corresponding import, are other compensating factors.

Clearly the addition of any quantity of new money through Industry—adding to costs of goods—can only be a temporary alleviation, and is worse than useless as a cure.

The investment of savings is the cause of this effect. There is no moral objection to savings, but we Social Creditors affirm, backed by the above mathematical support, that the evil effect of such lack of balance through saving must be avoided by issuing Income-money otherwise than through Industry, in addition to that Income-money that through normally issues.

Hence our demand for National Dividends and the like.

R. N. TEMPERLEY.

DEPRECIATION "FUNDS."

Sir,—In your comment on a letter in THE NEW AGE you approve critics' statements that the investor cannot maintain his assets and also accumulate a fund to pay himself out. You go on, however, to show that this is exactly what the investor is compelled to try to do in certain circumstances, and in this you are quite right.

I wonder if it would be of interest if, as one not entirely unversed in these matters from a practical standpoint over the past forty years, I ventured to supplement your remarks with reflections which occur to me offhand.

Assets must be maintained to a certain degree always; the

exigencies of continued operation, economic production, and the maintenance of competitive selling power render at least a minimum of repairs and renewals unavoidable.

You refer to the contingency (not at all foreign in my experience) of something happening to deprive the assets, regardless of their condition of maintenance, of their earning power actually and potentially, thereby necessitating the closing down of the plant. Such an occurrence might take place either suddenly or at the expiry of some anticipated period for various reasons, such as the cessation of demand for the product, due to its supersession by some new invention or process, the plant meanwhile being incapable of adaptation to substitutive manufacture. If such an emergency arose without warning, being also unforeseeable, the occasion following when the assets came to be liquidated on a break-up valuation would be regarded universally in commercial circles as a definite business failure, even a catastrophe, and the resultant deficit would be deemed by the investor to be an absolute capital loss, which it would be notwithstanding that good dividends might have been paid for many years.

On the other hand, supposing the eventual extinction of the business could have been foreseen, no body of directors of any concern could escape severe censure for sheer bad administration and dereliction of duty if they had failed to provide, by means of the equivalent of an adequate sinking fund (in accordance with the canons of impeccable accountancy and sound finance), for the ultimate repayment in cash of the capital represented in the business, i.e., on the extinguishment of its earning power.

In the absence of any known or concrete threat to the continued existence of a not unsuccessful business, the integrity of maintained capital assets is always implicit in the calculations of the investor, and their value held to be realisable, if needs be, in some form or at some time, from other investors in the capital goods market—possibly from competitors desiring elimination of rivals—otherwise the process is as above described.

You are certainly correct in this so far as it goes: that the investor, according to orthodox standards, has to make the community, if he can, buy the assets as well as pay for their maintenance, when he knows there is going to be no other investor to take over those assets on the basis of the going-on valuation, if and when he decides it is necessary to close the plant down and to retire from the business.

T. A. T.

AUSTRALIAN COMMISSION ON DEPRECIATION.

Sir,—It is difficult to see what is wrong with the Australian Commissioners' statement that depreciation charges do not cause a shortage.

In the example given of a £1,000 factory which becomes obsolete in twenty years, depreciation charges recover the £1,000, so that at the end of the twenty years the investor has his £1,000 and a factory which has been maintained in its original condition but is financially worthless. The £1,000 may again be invested, the factory rebuilt, and the cycle repeated. As a Socialist would say—no money profit, no shortage.

Where the trouble begins is in the building of an extension. The £1,000 is booked for the rebuilding of the factory every twenty years, so that additional money is required. If it is assumed that the extension is to cost £1,000 then the sum must be charged, so that at the end of twenty years the investor has £1,000 for a rebuild and £1,000 to finance the extension. The result of this method is that after the original extension has been built, say, three times—the original and two rebuilds—consumers have paid for four.

A depreciation fund often contains hidden profits, but it is the manner in which the fund is spent which determines the amount of shortage.

When spent on renewal there is no shortage, but when spent on extension there is a shortage to that amount.

[In paragraph 2 Mr. Mackay's "investor" spends £1,000 (on maintenance) and collects £2,000. That is what the Commissioners are saying; but without explaining where the extra £1,000 comes from.—ED.]

Forthcoming Meetings.

LONDON SOCIAL CREDIT CLUB.

Blewcoat Room, Caxton-street, S.W.

November 5, 8 p.m. "Freedom," by Mr. T. L. Drury, chairman, Social Credit Federation (Southern Area).

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