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CONTENTS.

	PAGE	PAGE
RESISTANCES TO SOCIAL CREDIT	37	
ment—a would-be importer in the midst of would-be exporters.		39
Alberta—resistances to Social Credit no proof that it is unsound—the right of the public to override the experts and demand a practical trial—need to recruit technical students among the public—dividend-legislation necessary to attract recruits—the consequence of a provincial experi-		
RESERVES AND PRICES		40
The accounts of the Rhodesian Corporation, Ltd.—destination of undistributed profits.		
" CANCELLATION " SEQUENCE. By S. R.		
The Clearing House the " cancelling " body.		

Resistances to Social Credit.

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

Because of this they unwittingly make psychological resistances the test of the scientific soundness of the Analysis, quite overlooking the fact that the existence of these resistances is part of the proof of the soundness of the Analysis, that is to say, that it arises out of the fact that there is a universal chronic shortage of purchasing power. Let us illustrate this. If you have a machine whose bearings become hot when working at half speed, and someone comes along and tells you that this is because your lubricant is inefficient, and that if you will use another which he recommends your machine can be driven at full speed, you might believe his claim or not, but you would certainly not test it by calculating how much hotter the bearings would become if the machine were driven at full speed on the old lubricant. To apply such a test would be an absurdity, and it would also amount to an *a priori* dismissal of his claim that the fault lay with lubrication at all. And so with the phenomena of frictions in present-day economic enterprise. Do they not, every one, centre round the one problem of getting hold of money? And is not the problem in every case, that of finding buyers with enough money to pay sellers' costs? In brief, is not money the lubricant of industry? And since the consumption-market is the only place where industry can recover costs, is not the essential element in the lubrication of economic enterprise just this:—money in consumers' pockets? Consumers will pay any price asked if they have got the money; and producers will distribute any amount of money you like on output if they can be sure of recovering their costs. The frictions existing to-day are due to the fact that these "ifs" are not satisfied. When they are satisfied the frictions will disappear. Psychological obstacles to the Social Credit Proposals are mechanically created by the credit-system of the bankers, and they will be mechanically destroyed when those Proposals come into operation. That is the Social Credit claim; and if it is to be contested

it must be by reference to something other than the psychological state of people under the present financial regime.

An objector can now point out that (a) only a tiny minority of people are willing to investigate the fundamental diagnosis; (b) that only a minority of that minority are able to arrive at a definite conclusion about it; and (c) that only a minority of the minority of the minority will arrive at a favourable conclusion. In short, that, let us say, perhaps only one man in several thousand will convince himself that the diagnosis is correct. Let this be granted. But exactly the same objection lies against the alternative diagnosis (whatever it is) which the bankers wish the people to accept. The moral is that all argument either way is useless unless confined to the tiny minority who are able to reach conclusions from the direct evidence. The majority—to all intents and purposes the community—are as incompetent to decide whether the bankers' technique is right or wrong as they are to decide whether the Social Credit technique is right or wrong. The decision must rest with the minority.

But this involves the difficulty that the decision will not be unanimous. Of those who claim to be experts there will be a majority who hold that the Social Credit Analysis has not been proven, and a minority who hold that it has. There will be no impartial superior technical arbitrator to decide which side is right; and since the community cannot make the decision, the issue will remain unresolved. Happily there is one feature of the issue that everybody recognises; it is that one side or the other is wholly right or wholly wrong. Either there is, or there is not, an inherent collective shortage of purchasing power caused by the operation of the two bankers' principles of loan-credit accounting, and there is no room for middle-course temporisers to come along with propositions to graft the principles of Social Credit on to those now operating. The old principles must be superseded or retained; they cannot be merged with the new.

Now, notwithstanding the inability of the public to decide who is right, they are able to decide who shall be assumed to be right. "What? you want a shilling on Carly Boy!" protested a man at a dog-track to his young lady—"Why, my dear, that dog couldn't win with fifty yards' start." The young lady replied: "Never mind, I like his name." Very well, the public have the right to back their fancy. If they like the sound of the idea that what is wrong is that they are provided with too little money, and like this idea better than the idea that what is wrong is that they get enough but misuse it, or that they don't get enough because they misbehave themselves; then they have the right to back the idea, and nobody has the right to stop them. Moreover they are wise to do so when they count up

the unbroken succession of losers that they have backed by the advice of orthodox financial tipsters.

Now, in Alberta, the electorate have given a large majority-mandate for the distribution of a dividend. This is not a demand for a result, it is a demand for a particular means of getting it. The desired result is the distribution of goods, and the mandate for the dividend is based on the belief that the dividend is the best means of getting the goods. The belief is unfounded, say expert critics. But the electors did not choose them in any capacity at all, much less to argue about policy. They chose representatives who would try the experiment. And the first duty of the Government is to bring in dividend-legislation based on authentic Social Credit principles and accompanied by such broad administrative provisions as will indicate to the people what part they are to play in the new system when introduced. There should be a scheme for Alberta on the model of Douglas's scheme for Scotland.

This will have two advantages. It will assure the people that the Government means to bring in Social Credit, the whole of it, and nothing but it. Secondly, it will focus the attention of all thoughtful minds on essentials. It will prompt and assist people capable of studying the technical foundation of the policy, and it will help them also to realise and examine relevant political problems due to arise during the period of introducing Social Credit and after its introduction. Technical instructions are vitally necessary among the people; for technicians fulfil the same kind of function as do crash-barriers round a football ground. They are in the crowd though not of it. They steady the crowd at periods of excitement. They are, in another aspect, guides to the right use of popular political energy, generating it when it is too weak and earthing it when it is too strong. They hold the balance between tameness and wildness. It is they who will be able to interpret or elaborate the significance of the Government's legislation to those around them. Very well, dividend-legislation will attract recruits into this vital service.

Coming back to the critics, those who say that Social Credit is fundamentally unsound have been turned down in advance by the Albertan electorate whose attitude is: Let us try it and see. The best thing that such critics can do is to bend their minds on working out what the consequences will be if Social Credit does not work when it is tried, and what measures will be necessary to repair them. But there are other critics who say that while Social Credit might work in a closed economic area, it cannot work in an unclosed one. In strict logic this world at once it will not work; for, thanks to the bankers, there is no closed area in the world. Abyssinia was the last. But at least these critics would contend that Social Credit needs an economic area self-sufficing in resources, and the modern means of converting them before it can show results.

Well, this contention is more admissible before the bar of public opinion in Alberta, because it does not rest on a denial of Social-Credit fundamentals. These not being at issue the argument comes a stage nearer to general comprehensibility, and moreover raises questions of more practical consequence. Naturally, the people of Alberta will feel it important to know whether a pioneer experiment in that province can do anything for their benefit under present conditions, and whether, if not, their Government's attempt to work it will injure the peoples in other provinces. If it worked in Alberta, and injured people in other provinces, the matter would not be so important unless it could be shown that Alberta's success depended on injuries inflicted elsewhere. Such a proposition is self-evidently true of every economic area under the existing financial system; but it would have to be proved in the above circumstances. There is a vast difference between getting out of a pit by your own efforts and using another's back to help you out.

Now if we make the assumption that the Social Credit theory may be sound—an assumption to which both

these latter critics and the Albertan electors agree—then the results of introducing Social Credit in Alberta may be what Social Credit advocates expect. We put it no higher than "may be"—and that is all that is necessary for our present purpose; which is to reassure, if we can, those people in Alberta who may be doubtful of a pioneer experiment.

Well, the first thing to note is that if the Social Credit theory is sound one result of introducing it will be to set up a reversal of the problem that worries the administrators of every unclosed area under the present system. That problem is to find external markets for exports. But the problem of a Social Credit area, such as Alberta, will be the opposite, namely, to get imports into her own market. In fact, critics themselves take this for granted when they say that Alberta's economic insufficiency is the obstacle to her making a success of Social Credit—that she cannot make herself what she needs to consume. Alberta would appear as the first potential bride for the bank-ridden Jack Sprats. She would want what they did not. She would have buyers needing goods, and they would have goods needing buyers. Of course, there would be a deadlock owing to the refusal of the bankers to consent to the cleaning up of the platter. But the existence of a deadlock of this character when pointed out would open up widespread discussions concerning its solution. Alberta could throw out a challenge to the bankers in this wise.

"Your industrialists want markets: we have one. Here is an inventory of what we want. It makes a nice fat order, doesn't it? Many of the items are being destroyed, anyway. So why not treat us like a backward area and use us as a dumping ground. True, our own credit is not acceptable to you; but you did not want to receive payment from other backward areas. You sent cotton-spinning machinery without payment to India, and enabled her to compete with Britain into the bargain. How much better to send us things (and even the means of making them) which we want to consume or use in our area for our own people. We will pay in goods if you like, or rather, if your clients, the industrialists, don't object. They will object, of course—but that is between you and them. Our industrialists wouldn't object, because under our system your imports would not menace their solvency like ours do theirs."

On these rough lines would be opened up an argument tending to show that the supposed or anticipated disturbance caused by a Social Credit experiment in one province could be obviated by the adoption of the same experiment in others. "That's not saying much," some objector may remark, but it is saying a mouthful. For the whole trouble with bank-capitalism is that no area can protect itself against what happens in another by any means at all. Under Social Credit all areas will be importers for consumption. And competition for imports will not cause friction, because consumption has definite limits, while production is indefinitely expandable. Under bank-capitalism all areas are exporters for revenue. And competition for revenue causes friction because revenue has definite limits while the expansion of production are indefinitely expandable, and are expanding unnecessarily under the compulsions of the Work Economy—Produce more: Consume less.

Forthcoming Meetings. LONDON SOCIAL CREDIT CLUB.

Blewcoat Room, Caxton-street, S.W.
January 7, 8 p.m. "Social Credit, Why and How?" by Mr. Best.

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

SOCIAL CREDIT PARTY.

John Hargrave will speak on "The Fight for Individual Freedom," 8 p.m., Wednesday, January 5, 1938, at Headquarters, 44, Little Britain, London, E.C.1.

Reserves and Prices.

The Rhodesian Corporation, Ltd., in their Report submitted to the Ordinary General Meeting held on December 16, 1937, make the following statement.

"The profit for the year was £78,299 6s. 4d., and this sum, added to the balance brought forward of £73,156 13s. 9d., made a total of £151,456 os. 1d. standing to the credit of the Profit and Loss Account.

"After deducting the final dividend of 5 per cent. for the year ended 31st July, 1936, amounting to £55,886 16s. 3d. paid in January last, Directors' additional remuneration £1,333 6s. 9d., provision for Income Tax, etc., £15,000, and £27,347 2s. 4d. carried to Reserve Account, there remains a sum of £51,888 14s. 9d. standing to the credit of the Profit and Loss Account.

"Having regard to the disturbed condition of International affairs and the consequently depressed state of the share market the Directors are of the opinion that the interests of the shareholders will be best served by husbanding the resources of the Company. The Directors, therefore, do not recommend the payment of a dividend for the year under review, and the above-mentioned balance of £51,888 14s. 9d. will be carried forward.

"The Reserve Account now created amounting to £50,000 can be used for the general purposes of the Company."

The Company's Balance Sheet as at 31st July, 1937, discloses the following Liabilities. We assemble them under categorical heads formulated by us for our own purpose (shillings and pence omitted):—

LIABILITIES TO OUTSIDE CREDITORS.		£
Loan Against Security and Interest accrued		30,000
Sundry Creditors (including provision for taxation)		113,598
	Total ...	£143,598
ACTUAL LIABILITIES TO SHAREHOLDERS IN THE COMPANY.		£
Reserve Account		50,000
Unclaimed Dividends		5,024
Profit and Loss Account		51,888
	Total ...	106,912
CONTINGENT LIABILITY TO SHAREHOLDERS.		£
Share Capital issued		£1,466,666
Among the Assets disclosed in the Balance Sheet are the following, under our categorical heads:—		
PHYSICAL RESOURCES OF THE COMPANY.		£
Land, Mining Properties, Machinery, Tools, Stores		874,391
"SECURITY"—RESOURCES OF THE COMPANY.		724,676
Shares in other Companies		724,676
MONEY CREDITED TO THE COMPANY.		£
Sundry Debtors and Payments in Advance		71,183
CASH RESOURCES OF THE COMPANY.		£
Gold on hand and in transit		6,929
Cash at Bankers and in Hand		41,249
	Total ...	£1,718,428

The Profit and Loss Account shows a total expenditure of £83,000, of which £60,000 is for mining operations, £17,000 for all other purposes, and £5,000 for depreciation. The same account shows a total revenue of £162,000, of which £84,000 is proceeds of gold sales, £52,000 "profit on sale of shares," £17,000 net dividends on investments. (These figures are approximate: small items of expenditure and revenue are omitted.) The balance (profit) of this account is £78,299 as quoted above from the directors' report. The report makes reference to a Reserve Account amounting to £50,000. This account appears as such for the first time in the balance sheet. It is made up by the transfer

of £23,000 formerly appearing as "Share Premium Account" and £27,000 appropriated from the current year's profit. It is this £50,000 which the directors say "can be used for the general purposes of the Company."

The chief feature in these accounts that concerns the student of the Social Credit Analysis is the fact that whereas the Company have spent only £5,000 on "depreciation" (properly maintenance, since the money has been spent) during the financial year under review, they have retained all the profit of the same year amounting to £78,000. Quite a sound policy, let us hasten to add, according to the accepted criteria of prudence under the existing system: but nevertheless a policy which involves certain vital arithmetical consequences when considered in the frame-of-reference of costs versus incomes. Eventually all revenues come out of private consumers' pockets. Profits are included in revenues, and therefore come from the same source.

In the present case we see that consumers have been charged a total sum equal to nearly sixteen times the cost of maintaining the property. The surplus is not being returned to consumers as it would be if distributed as dividends to investors, or if laid out on new physical capital assets and distributed in wages, etc., without subsequently changing this cost into prices.

The exact purpose to which the surplus (£73,000) has been applied cannot be ascertained by reference to the accounts, for (a) it is part of a larger figure representing an accumulation of undistributed profits during previous periods, and (b) this larger figure cannot be directly related to any particular item on the assets side of the balance sheet.

Company accountants do not (and it is a pity that they do not) set out figures of income and expenditure after the manner to which the generality of housewives do, i.e., dividing up their housekeeping income into little piles of money each labelled (so to speak) for a particular claimant; e.g., so much *belonging to* the baker, so much to the butcher, and so on. No; the baker, so much to the obscure, rather than dis-company accounting tends to obscure, rather than disclose, such itemised offsetting of liabilities by assets, or income by expenditure. In fact it cannot do this, because, unlike housekeeping accounting, it does not deal exclusively with actual money received and paid away, but also with valuations of property (whether concrete but also with valuations of property which are not money, and things or paper securities) which are not money, and whose convertibility into money is a matter of guesswork within fairly wide limits.

Nevertheless the allocation of undistributed profits can be identified in principle by the process of elimination. For if profits are collected and are (a) not distributed to shareholders, and (b) not used to buy new concrete assets (new plant, etc.), and (c) not used to pay off external creditors, and yet do not appear as liquid cash in possession of the company, the conclusion must be that they have been used to buy securities in other companies' properties. In that case the undistributed profits are reinvested outside. The question then arises whether the money so reinvested now buys merely transfers holdings of securities in their existing capital. On the answer to that question depends that of the wider, Social-Credit, questions (a) whether the original undistributed profits (or any part of them) get back into consumers' hands, and (b) whether, if they do, the new costs created by the payment to consumers will become extra charges against consumers or not. (Orthodox critics of Social Credit contend that the cost of new physical capital assets is not debited to consumers—hence the importance of the above question whether re-invested profits buy new capital or merely transfer ownership of old capital.)

Well, as readers will see for themselves, the answers to these questions are impossible to find from inspection of the accounts of any one company, or even a group of companies interlocked by security-holdings. In fact, the answers cannot be finally found by anything less than an inspection of the (hypothetical) collective

accounts of all business enterprises put together, and presented in a form (as yet not followed), which is designed to yield the correct answer.

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

The banks (with which we couple the insurance companies) are always holding securities bought with credit of their own creation, and thus, securities not yet absorbed (as the saying is) by the normal investment market, that is, the market where commercial earnings (whether of individuals or companies) are surrendered in the purchase of securities. Into this market undistributed profits are guided by company administrators: and, to the extent to which these profits become available there, to that extent the bankers unload their unabsorbed holdings and pick up the cash and cancel it.

Above and beyond this the banks and insurance companies, as holders of securities, collect every year a large proportion of industrial dividends, *distributed* profits, and use a large proportion of them to finance their own operations instead of passing the money out to their shareholders. Finally, the banks, as the ultimate holders of the Floating Debt, can force the Government to collect from the community in taxes what the community neglect to surrender in the normal investment market.

"Cancellation" Sequence

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

[Note: Mr. B. H. Vos, in a letter to *The New English Weekly* for January 9, 1936, takes "the figures of the Green Shirts' pamphlet"—i.e., the *£300 a Year per Family* (of four) Manifesto, in order to show "why credits given to consumers must 'pile up' as deposits in the banks."

"What," asks Mr. Vos, "will happen to this money if it is distributed?" and answers correctly in his next sentence: "It must eventually find its way to the banks."

1. *£300* is drawn as National Dividend by a family of four persons over a period of one year. They spend the *£300* on goods and services, and this sum passes to various retailers. So far as this family is concerned, the *£300* is cancelled.

2. The retailers need the *£300* to cover *£300* of costs incurred in stocking and running their businesses. They have to spend it all, except their normal net profits on this extra turnover. The net profits on this amount must either be spent on retail purchases (in which case these profits are cancelled so far as the retailers are concerned: they cannot spend their profits more than once), or the profits are saved, and will be spent at a later date on retail purchases, with the same result. (Profits saved and invested are "out of action" as consumer purchasing-power. Profits never spent at any time are completely wiped out as consumer purchasing-power, and have been cancelled by therefore, the *£300*, less normal net profits on that extra turnover, is cancelled.

3. The *£300*, less retailers' net profit, passes to and through various wholesale firms. The sum received is needed by the wholesalers to cover costs incurred in stocking

and running their businesses. So far as the wholesalers are concerned, the *£300*, less their normal net profits, is cancelled.

4. The *£300*, less retailers' and wholesalers' normal net profits, passes to the manufacturers, and this sum is needed by them to cover their production-costs. So far as the manufacturers are concerned, the *£300*, less their normal net profits, is cancelled.

5. The total *£300*, as Mr. Vos pointed out, "must eventually find its way to the banks," but not, please note, in repayment of any bank-loan debt owing to the banks, because the *£300* was a National Dividend issued as a *gift*, not as a *loan*. The banks do not need this *£300* to cover costs, and therefore have no claim to it. The gift has done its work in liquidating *£300* of costs right through the consumer-distributor-producer system, and has "found its way to the banks." To whom does it now belong? It does not belong to anyone. It has cancelled costs all through the system, and does not exist either as a debt or a credit. So far as the banks are concerned, therefore, the issue of *£300* is cancelled.

That is all very well (someone may say), but how will the banks cancel this *£300* when it has "found its way" to them?

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

"Transactions by clearing cheques—i.e., by cheques not clearable by the same bank within itself, but clearable through the Clearing Houses, total about *£40,000,000,000* per annum." (Sir O. Stoll, in his *Statement of Evidence* before the Macmillan Committee of Finance and Industry, February, 1930.)

If we suppose that a National Dividend of *£300* per family of four has been distributed, it would amount to *£M3,500*. The Clearing Houses would, therefore, have to deal with a total of *£M43,500* per annum. That is quite a simple matter.

They would, as now, cancel the *£M40,000* bank (loan) credits originally issued via the productive system; cancel the *£M3,500* National Dividend social (non-loan) credit originally issued direct to consumers, and notify the National Credit Office of that fact.

The total of *£M43,500* has been cancelled right through the system, and we begin again at:—

1. *£300* is drawn as National Dividend by a family of four persons . . . etc.

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

Thus, if consumer credits remain the same in each consumption-production accounting period, the total increase will be no more than the original *£M3,500*; which sum can be distributed—and will ("must") "find its way to the banks"—over and over again, as many times as you choose to perform this simple operation in book-keeping, without fear of a "pile up" either in the pockets of the community or in the books, tills, safes, strong-rooms or vaults of the banks.

The notion that it might be possible for someone somewhere, or for everyone everywhere, along the producer-distributor chain to collect the extra *£M3,500* National Dividend by putting up prices, arises only when "cancellationists" ignore—as they usually do—the application of the Price Factor. We have purposely made no mention in the foregoing sequence of the Price Factor and its proper application, which is the adjustment-key to the whole operation of keeping a proper balance between consumption and production (incomes and prices).

There is no "cancellation problem."

S. R.

NOTICE.

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

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