

# THE NEW AGE

INCORPORATING "CREDIT POWER."

A WEEKLY REVIEW OF POLITICS, LITERATURE AND ART

No. 1999] NEW SERIES Vol. XLVIII. No. 9. THURSDAY, JANUARY 1, 1931. [Registered at the G.P.O. as a Newspaper.] SEVENPENCE

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## NOTES OF THE WEEK.

The judgment delivered by Mr. Justice Wright in favour of the Bank of Portugal against Messrs. Waterlow and Sons is one of the most important pronouncements of the year. It occupies two columns in *The Times* of December 23, which readers are advised to consult. Those who wish also to acquaint themselves with the evidence given in this case, which lasted for 21 days, will probably find it in an early issue of the "*Times Law Reports*" which are published at short intervals at the price of one shilling. (It seems likely that the report will extend over more than one issue owing to its great length.) The case arose, it will be remembered, out of the action of Messrs. Waterlow in printing a series of bank notes from plates belonging to the Bank of Portugal and delivering them to a man called Marang who, with his associates, put them out into circulation in Portugal. When the Bank discovered the existence of the unauthorised notes it decided to withdraw the whole series of the Vasco da Gama issue, which was the series which Marang had caused to be duplicated, and to pay the holders new, authentic notes in exchange. This of course necessitated the Bank's printing an extra supply of authorised notes to the same number as there were unauthorised notes in the hands of the public. The face value of the false notes was approximately £1,000,000. The consequence was that the volume of authentic Portuguese currency was expanded by this sum: at least that was the original implied contention of the Bank as evidenced by the amount of its claim against Messrs. Waterlow, which was £1,000,000. The claim was reduced by agreement between counsel to about £600,000 during the trial, and was scaled down to about £500,000 in the judgment. We can assume, therefore, that the net expansion in authentic Portuguese currency is of that amount. The sequence of transactions can be pictured as follows—the

figures being token figures only both as to actual and relative amounts:

	£
True currency, Vasco da Gama series	2,000
True currency, all other series	5,000
Initial total of true currency	7,000
False da Gama notes introduced	1,000
Of which, recovered	500
Balance, false notes in circulation	500
False da Gama notes withdrawn from circulation	7,500
True da Gama notes also withdrawn	500
New true notes printed and issued	7,000
Final total of true currency	2,000
	5,000
	2,500
	7,500

The token balance of £500, measuring the difference between the initial and final amount of true currency, represents the £500,000 which Mr. Justice Wright has provisionally fixed as the sum which the Bank of Portugal ought to recover from Messrs. Waterlow. It is important to emphasise that this £500,000 is not in the nature of a fine on the printers for making a mistake; it was expressly claimed by, and awarded to, the Bank as *damages*—as the replacement of a calculable loss sustained by the Bank in putting extra currency into circulation.

Mr. Birkett, leading Counsel for Messrs. Waterlow, made the following submissions on this question of damage:

- (1) That the Bank neglected to use the services of Messrs. Waterlow which would have enabled it to detect the unauthorised notes, in which case it could have *refused to honour them*, i.e., not replace them, and it need not then have withdrawn the authentic series.
- (2) That, even as it was, the only loss that the Bank had sustained had been the *cost of printing* the new notes with which it replaced the withdrawn Vasco da Gama series. That the Bank was

merely handing out paper of one sort for paper of another sort.

(3) That since the balance by which the Bank had expanded the pre-existing amount of currency (now assessed at £500,000) was in the form of notes which were *not legally convertible into gold*, and which might never be, there was no loss which the Bank could justly claim to recover: at the highest the loss was contingent and problematical. Mr. Justice Wright's rulings on those submissions were as follows (we quote from *The Times*):

(1) "According to the evidence it was the ordinary practice of the bank, so far as it had been called for, that, where a serious falsification of notes was brought to light, the bank withdrew the whole issue of notes because the circulation of false notes destroyed the credit of the issue. Therefore it must be taken that the necessary consequence of such a circulation of spurious notes as took place in the present case would be a withdrawal of the whole issue."

(2 and 3) "The argument that the bank had merely exchanged paper for paper was a fundamental point of the defence, and it called for the most careful consideration. . . . No evidence had been given of when Portugal would return to a convertible note issue, but, putting that aside, he did not feel able to accept Mr. Birkett's contention. In Portugal the notes were the currency of the country. They would purchase commodities, including gold. They could buy foreign exchange, including sterling or dollars, or any currency which was convertible. They could do that because they had behind them the liability of the Bank of Portugal."

It is a counsel of perfection, no doubt, but the lesson we draw from this trial is that there ought to be special tribunals to try cases which raise fundamental questions of credit-policy and credit-technique. The reason is that the Courts at present, when trying issues in which the policy and interests of banks are seriously involved, are unable to apply the Rule of Law, of which the most important feature is the principle of adjudicating *every case on its own merits*. Their inability arises from two causes, the one is that certain merits have been antecedently withdrawn from their jurisdiction, and the other is that certain merits cannot be evaluated and related without reference to the results of post-war research into the credit system obtained by investigators independent of the banking interests. We need not elaborate the second of these causes, as our readers will know what we mean. With regard to the first we must explain further. When Lord Hewart published his book, *The New Despotism*, arrainging Departmental officials for insinuating clauses into Bills which had the effect of preventing private citizens from appealing to the Courts for the redress of their grievances, he omitted to take note of an even worse form of encroachment on the power of the Courts, namely, the passing, over a long period, by Parliament of whole measures, at the instance of the Government, but on the initiative of the bankers—measures which, although not limiting the jurisdiction of the Courts, had the effect of excluding certain subjects from the Rules of Evidence, with the result that the Courts have come to be guided by only those merits of cases on which bankers know that they can succeed. The doctrine that cases must be heard on their own merits is unintelligible unless it means *all* the merit. If the Courts are unable to make a complete survey of relevant evidence the Liberty of the Subject is in as great jeopardy as when the Courts are prohibited from making any survey at all.

Lord Hewart only went so far as to attack the officials' practice of furtively slipping clauses into

Bills, and relying on the "absent-mindedness" of Parliament to get them passed by oversight: but he said nothing about the practice of Treasury experts, in association with bankers, openly laying major measures before Parliament, and relying on its innocent present-mindedness to get them made law. This he should have done; for it is the consequences of legislative enactments, not the process through which they take shape in Parliament, which affect the Liberty of the Subject. We said a good deal bearing on this point when we were reviewing Lord Hewart's book. We pointed out that the administrative bureaucrat had to function under a policy with a time-limit. We observed that practically every instance of "administrative lawlessness" aduced by Lord Hewart took place in connection with financial policy. The offending official did not set out to flout the Courts for his own aggrandisement but was driven by the terms of his imposed job to find an escape from the "Law's delays." It is not these individual subordinates who are the source and inspiration of the abuse, but it is their highest superiors—a private group external to Parliament, independent of Parliament, and more powerful than Parliament. In one word, Bankers.

We suppose we shall evoke common agreement when we say that just law depends on just legislation, which in its turn depends upon a just balancing of all private interests affected by the legislation. If, in the administration of law, it is the Court's prerogative and duty to try each particular issue on all its merits, how much more is it not the prerogative and duty of the Legislature to try every Bill on all its merits. But Parliament does no such thing; and we will make bold to guarantee that upon analysis it will be found that the greater the degree to which financial policy is embodied in any piece of legislation the fewer of its "merits" are debated. The tacit slogan among Members is:—"Anything to do with high-finance, leave to the experts." Yet only a week or ten days ago the House dissolved in an uproar because the British Dyestuffs Corporation was granted an extension of time in respect of safeguarding duties. Members got up and charged the administrators of the Corporation with having brought undue influence on the Government. Now, these administrators, in their own small way, were experts on the fiscal matter in question; but Members did not hesitate to challenge them, and in some cases went so far as to apply the epithet "log-rollers" to them. As it happens, the word log-rolling is an exact description of the process by which financial interests have invariably secured the legislation that they wanted. And not only is evidence ruled out which ought to be admitted in the hearing of suits to which the banker is a party, but much other evidence which could be used with effect against him is not accessible because he alone is in possession of it. So in all important litigation affecting finance the banker enters Court with his case virtually won.

In the case now under review Mr. Birkett made an allusion at one juncture during the hearing to the interlocking of the Portuguese Government with the Portuguese Bank Directorate, but he apparently did not consider that the implication of this fact had any bearing on the Bank's contention that it had sustained damage, for he made no reference to the subject in his speech for the defence. Yet any instructed observer will see that an institution which takes part in the high counsels of the State, and, as we have said, virtually controls the financial policy of the State, is in nothing like the same situation of action as a business organisation whose freedom of action as concerns its self-protection is limited by rules which it had no part in framing. It is one thing for a commercial house which has to fight with others

for its financial existence in a prescribed economy to plead damage, but quite another for an institution which prescribes the economy to do so. In the latter case the aggrieved institution ought not to succeed merely on the ground that it had taken all the steps to avoid or mitigate damage which are *open to ordinary commercial undertakings*, but it ought to show that its loss was incurred in spite of all the steps which the Government could have taken to that end. Apparently the jurisdiction of the Court did not extend that far: it had to adjudicate within the same frame of reference as applies to butchers, bakers and candlestick-makers—an entirely inadmissible frame of reference for cases where one of the parties manufactures currency. "Your bank," said Mr. Birkett to a witness for the Portuguese Bank, "is an institution which manufactures paper currency?" "Yes," admitted the witness, "but so are all other Banks." The examination did not proceed further on this point, but, as we have seen, Mr. Birkett adduced it in his subsequent speech.

Lord Hewart, in his book, referred to a recent episode in which a Revenue Judge protested his bewilderment in face of the complicated legislation which he was called upon to interpret and administer. Here was a Judge specially trained in revenue-finance, and yet unable to make sense of the legislative terms of reference laid down for his guidance. The same element of bewilderment is always present when a bank goes to law. We have on occasions charged the bankers with practising the Spenlow and Jorkins deception. A more accurate picture of their procedure would be one in which there was a real Mr. Jorkins as well as a real Mr. Spenlow. The banker appears as Mr. Spenlow at one time and as Mr. Jorkins at another; and nobody knows exactly when he will be either. As Mr. Spenlow he is a public institution (an "arbiter of commerce" in the late Dr. Walter Leaf's phrase)—he has to preside over the economic game and see fair play. But as Mr. Jorkins he is a private institution involved in the risks and damages of the game itself. "I cannot sanction an expansion of currency," says Mr. Spenlow, "because Mr. Jorkins warns me that this policy is technically unsound." A little later Mr. Jorkins appears, and, referring to exactly the same policy, says: "I cannot expand the currency because Mr. Spenlow won't let me: he says that this policy is politically unsound." Nobody ever sees these two gentlemen together; and unfortunately nearly everybody forgets what the one has said when the other is speaking. What is required is to get them both in the witness-box at the same time.

This requirement was not fulfilled at the trial. Mr. Birkett was only able to cross-examine Mr. Jorkins, whose story was that he had suffered an injury which Mr. Spenlow, who was not in attendance, had been powerless to avert on his behalf. If Mr. Spenlow had been present in court it would have been possible to elicit the fact that this gentleman's "powerlessness" to protect Mr. Jorkins was the outcome of Mr. Jorkins's own desire not to be protected. In other words the Bank of Portugal, having been manoeuvred by the conspirators into adding £500,000 to the currency-issue, and the public having become aware of the fact, was obliged to justify its decision to allow this extra sum to remain in circulation. The Bank could have advised and procured the legalisation of the increase by the political Government, but chose not to do so because of its dislike of any action which exhibited the Government as a protector of the Bank, and as possessing the power of decreeing what amount of currency should circulate irrespective of bankers'

mutual arrangements governing the amount. Another, but minor, objection rested on the technical ground that all issues of currency on Government account are the equivalent of interest-free loans to the Government, and, to the extent of their value, save the Government the necessity of going to the bankers for advances. (In the case of the Marang notes, these appear to have been largely put into circulation as purchase-money for the acquisition of shares, and may be considered as the equivalent of a £500,000 perpetual loan without interest to the investing classes—in other words, a free grant of money.) But the political consideration was the dominant reason with the Bank. It would never have done for the Portuguese public to learn by this object-lesson that currency could be issued without the Bank's knowledge and consent and then retrospectively legalised as new, authentic money, and yet nothing evil happen either to the Bank itself or to any Portuguese citizen or to the Portuguese community collectively. It would shatter the whole fabric of assumptions and arguments which bankers everywhere have been using to teach the public that the limit placed by the Government (i.e. the Spenlow department of their own business) on the total currency issue is always the maximum limit that safety (as calculated by their Jorkins department) will allow. So the Bank of Portugal entered its action against Messrs. Waterlow and Sons, in the hope, since realised, that if it won it would be able to say to the Portuguese public that the extra £500,000 of currency had come out of Messrs. Waterlow's pockets. On the other hand, had it not succeeded, it would probably have gone through the form of "raising capital" to cover the "loss," the actual process of which would have been identical with what the British bankers did in the early days of the war, namely, the Bank would have created new credit and lent it secretly to persons for them, in their turn, to lend publicly to the Bank. But the exact process need not occupy us: there are alternative ways of staging the fiction. Again, the Bank's failure in the action would have been certain to create ill-feeling between Portugal and Britain. In fact, Mr. Birkett experienced the truth of what we have just been saying about the peculiar difficulties that are imported into cases whenever the banker goes to law; for he made a complaint in Court that in spite of repeated attempts he had been unable to secure a single Portuguese lawyer to attend as a witness for the defence. He commented: "The attitude of the Bank of Portugal seems to have become a national affair." In a word, the grievance of the Bank raised international political issues which handicapped the defence, and to that extent complicated the task of the Court in arriving at a true judgment. This experience of Mr. Birkett's is not at all surprising to those of us who realise that the Bank of Portugal, in bringing this action, was fighting to establish certain financial axioms which not only this Bank, but every other Bank in the world was concerned to preserve. It requires no great imagination to realise what a shock would have gone through London, Paris, New York, Berlin and other leading financial centres if the High Court had ruled that a bank could put half a million pounds extra into circulation without losing anything but the cost of printing the notes. The master-axiom of the banking profession is that bankers are trustees for other people's money—that they can only make loans out of money previously lent to them. How necessary it was, then, when the Bank of Portugal had virtually distributed a gift of £500,000 new currency to the Portuguese community, for it to be able to produce someone who had been compelled to repay this gift to it—namely, Messrs. Waterlow and Sons. The additional currency ought logically to be called the Waterlow Notes, and bear a picture of

Sir William's pleasant face. No wonder that the Portuguese lawyers, by common consent or intuition, decided to lay low and say nuffin.

The further one probes any piece of evidence in this trial the more obscure becomes the conclusion to which, initially, it seems to lead. Take the question of Messrs. Waterlow's alleged negligence. Mr. Birkett was able to prove that Sir William Waterlow had taken precautions sufficient in number and character to have rebutted the allegation had the transaction taken place between two ordinary business enterprises. He failed precisely because the aggrieved party was a bank and the transaction was the printing of money. For Mr. Justice Wright declared in his judgment that

"It seemed to him . . . that nothing should satisfy the printer of bank notes except the closest and the most stringent scrutiny, and that he should demand the most exceptional proofs that what he was doing was done with the authority of the bank." (Our italics. *Times* report.)

His Lordship based his ruling that exceptional proofs should be demanded on the consideration that the "responsibility which rested on the printer of bank notes was enormous," and he supported this consideration by stating that

"The effect of an unauthorised issue of bank notes might be enormous on the whole life of a nation and the whole stability of an important banking institution."

We have every respect for the coherence and inner consistency of this part of the judgment, and are prepared to agree that within the existing framework of financial-economic custom and practice the learned Judge could not have arrived at any other decision. But those of us who have learned to comprehend that wider framework of reference disclosed in the course of Major Douglas's analysis of finance-economics will see that his Lordship's judgment opens up more issues than it closes. What he has done has been virtually to "state a case"—and state it excellently. It was all he could do in the circumstances. What he has said amounts to this: "On the evidence before the Court I find for the Bank." But a substantial amount of relevant evidence was not before the Court. Nor would such evidence be admissible in an Appeal Court. Nothing less than a special Tribunal with powers to extend the customary Rules of Evidence would bring all the essential merits of such cases within its orbit of jurisdiction. Such a Tribunal should have power to compel everyone with relevant knowledge to appear for examination and cross-examination, and instructions to allow everyone who possesses such knowledge to testify.

As examples of the sort of things that was not explored; what is the nature of the "enormous" effect which unauthorised bank notes "might have" on the whole life of a nation? Must that effect necessarily be an evil effect? Are there no circumstances in which it can be a good effect from the point of view of the community? Have bankers the knowledge and powers which enable them to control these circumstances? If so, on what principle do they exercise them? And there are many more such questions in addition to those embodied in Mr. Birkett's submissions. Again, granting for the sake of argument that after thorough investigation of these issues Messrs. Waterlow and Sons were still held to be liable to pay the Bank of Portugal the £500,000 there would still remain the vital question of the principle on which the amount was to be calculated. It is a purely technical question, and yet it seems to have been settled on what appears to us to be a superficial survey of the technical considerations involved. Mr. Justice Wright did observe that the notes, though not convertible into

gold at the Bank of Portugal, "would purchase commodities, including gold." (Our italics.) As we understand him, he seems to have made the point that these notes (meaning the £500,000 extra which were now in circulation) had a purchasing-power to the holders, and that because the holders had got this new and additional purchasing power through the action of the Bank, therefore they had got it at the expense of the Bank. We do not follow this reasoning. In our view it would only be valid if the Bank were a seller of commodities and gold—and even in that case the conclusion would not be absolute unless it could be proved that the cost of acquiring the commodities and the gold had come out of the subscribed capital of the Bank's shareholders. As a matter of normal practice the Right Hon. Mr. McKenna has demonstrated that when banks buy gold they create new credit to buy it with. The cost of the gold does not come out of any pre-existing fund; on the contrary the bank increases its deposits by the same amount as the value of the gold purchased. (Vide "Post-War Banking Policy.") Thus, suppose the Bank of Portugal to buy £100 worth of gold it could pay for it by a cheque on itself, and the seller would pay it into his account or to someone else who paid it in, with the result in either case that the Bank would have added £100 worth of gold to its assets and £100 to its liabilities in the form of a new deposit. (This is the effect considering the Bank as representing the banking system as a whole and ignoring for the moment the fact that in practice credits issued by banks are not necessarily deposited to like amounts among these several banks.) This is as far as we need pursue the subject for our present purpose, because the Bank of Portugal is not compelled to sell gold and has nothing else to sell. Observe, too, that supposing it was compelled to sell, the effect of its selling would be to reduce its liabilities as well as its assets, and to the same amount.

This question of liability has an immediate bearing on the calculation of damages. Mr. Birkett's submission was that because Portuguese notes are not convertible the Bank had suffered no loss except the cost of printing the new issue. Mr. Justice Wright having been unable to accept it, we must measure the loss on the principle, implicit in his ruling, that the Bank must be recompensed on the same basis as if its notes were convertible at the present time. Taking as a guide the experience we know that the rights of conversion were not in fact exercised by the holders beyond a fractional degree. There was no practical necessity for banks to hold gold to the face value of notes in circulation: the theoretical ideal of 100-per-cent. gold cover did not reflect any interest of the public, to whom the existence or non-existence of bullion in the banks was of no consequence. Nor was the public much more concerned with the convertibility of cheques into notes; here again they did not exercise more than a fraction of their rights in this direction. The point which now arises is this: that the effect of the payment by Messrs. Waterlow of £500,000 to the Bank of Portugal is to give the Bank the power to acquire extra gold to the same value as the total extra note-issue. For when the Bank of Portugal is credited in a British bank with Messrs. Waterlow's payment it has the right to convert this into British notes. And if, as Mr. Justice Wright observed, Portuguese notes can buy gold, so can British notes. Hence the Bank of Portugal can, if it likes, secure £500,000 worth of bullion in satisfaction of its claim. Yet, supposing convertibility to have been the law, it could not

have produced any evidence that its liability in practice to pay out gold was anything like that value. We should suggest that the likely figure would be about one-tenth, or £50,000. This sum, by analogy with bankers' ratios of gold to credit, should adequately support the additional Portuguese issue without risking the stability of the Bank.

The Bank could of course call expert evidence to prove that in banking practice additional currency, when it gets into the hands of banks, can be, and has been, used as a basis for expanding credit up to, say, ten times the amount of the currency. But other expert evidence could be called by the other side to prove that it need not be, and that whether it is or not depends entirely on the discretion of the banking authorities. In fact, there is a new technical word, *Sterilisation*, which is used in financial circles to describe the policy, initiated by the Federal Reserve Board of the United States, of using only a part of its bullion as a basis for credit—or to put it in other words, of fixing the ratio of total credit to total bullion at less than it was entitled to under the bankers' canons of safe financial practice. Accordingly, in the case of the Bank of Portugal, its claim for £500,000 could not be sustained as a just measure of realised damage unless it were able to show that the introduction of the £500,000 worth of extra notes had caused, or was in process of causing, an expansion of bank credit in Portugal to the amount of, say, £5,000,000, and that there were no means by which the Bank could prevent it. If that could be established then on the basis of a ten-per-cent. gold cover the Bank would require £500,000 worth of gold. But we suggest that no testimony to this effect would stand cross-examination.

The one pleasant feature about this case is that the Bank honoured the unauthorised notes by replacing them. Our readers will remember our repeated statement of opinion that note-issuing banks ought to be compelled to replace forgeries. They invented notes for their own convenience, and should not place the onus of detecting forgeries on the public. The practice of the banks of dishonouring forged notes, thereby visiting losses on innocent recipients, is what makes forgery appear to be the worst sort of crime next to murder. Quite recently one or two obscure men got sentences ranging from ten years downwards for making a small number of ten-shilling notes. If by law the holder of such notes could get good ones from the Bank of England the crime would be regarded as relatively trivial. And why should he not? The Bank would lose nothing concrete by it, but would be replacing concrete losses. All the Bank would suffer would be moral injury for which the forger would deserve a suitable punishment. But here is the same old difficulty, that somehow in the eyes of the law whatever the bankers choose to do in any given circumstances is regarded as the necessary consequence of those circumstances. For example, Mr. Justice Wright, when disallowing Mr. Birkett's contention that the Bank of Portugal need not have withdrawn and replaced the Vasco da Gama issue, based his decision specifically on the ground that "it was the ordinary practice of the bank" to do this under similar circumstances, and that "therefore it must be taken that the necessary consequence of such a circulation of spurious notes as took place in the present case would be a withdrawal of the whole issue." (Our italics.) And so, on the same line of reasoning, the law would hold concerning forgery that because it is the ordinary practice of the Bank to dishonour forged notes, the losses visited upon innocent holders by such confiscation must be taken as the necessary consequence of the act of

forgery. Readers can think for themselves of a number of other instances not so conspicuously plain to the average person but equally fallacious—as for instance the doctrine that price-inflation is a necessary consequence of credit-expansion, or that personal savings are a necessary pre-requisite to capital development.

Reference to the "enormous" effect of the unauthorised issue of Portuguese notes recalls Mr. Justice Avory's use of the word, "appalling," in regard to Mr. Hatry's forgeries of Corporation securities. The banks, on whom, it will be remembered, Mr. Hatry planted these as security for loans, were lucky that the proceedings against him were criminal and not civil. We wonder how they would have stood the test of the same criterion of prudence as Mr. Justice Wright applied to Sir William Waterlow. We suggest that they would have suffered the stigma of negligent contribution to the "appalling" consequences following upon the deception (whatever these were). But there: the appallingly enormous distortion of perspective in which otherwise intelligent men view the relations of bankers with the rest of the community makes the latter the scapegoats of all errors of judgment.

We would be prepared to go further and make good the proposition that the reform in the credit and price system which we advocate in these pages would enable the Government and the Bank to insure every individual citizen against victimisation by cheating of every sort, not only against the foisting of spurious notes, but of bogus shares and even of misdescribed goods. Under the new system, of course, the incentive to cheat would be reduced to a small fraction of its present force; but even suppose not, the total money-consideration involved in all current cheating-transactions is such a tiny proportion of the money-consideration involved in the totality of all transactions that the injury would practically vanish when spread over the population. The "enormous effect on the life of the nation" would take the form, even at the worst, of an almost imperceptible rise in the commodity price-level; or, in the almost certain case that the price-level would be progressively diminishing, in an almost imperceptible retardation of the fall. But there is an "at the best" to be considered also. Mr. Justice Wright did not exhaust the possibilities of the use of the unauthorised notes when he merely said that they would buy commodities or gold; for they would also buy materials, hire labour, and set acts of production in motion. Thus a forgery can increase the physical potentialities of domestic consumption as well as decrease them. If we could trace back everything that Marang and his fellow-conspirators did with the proceeds of their crime we would doubtless be able to strengthen our argument. We do know something: they spent some of the notes to acquire shares in the Bank of Portugal itself! And it would appear that this group had hoped to secure a controlling balance of shares, for Marang told Sir William Waterlow that he expected to become a director of that Bank! You've got to laugh, haven't you? No doubt the mere idea of their succeeding would appear appalling or enormous to the present directors of the Bank, but everyone who has studied the tricks of the authorised controllers and manipulators of the credit system will agree with us that the consequence would have boiled down to the substitution of a new, for an old, set of crooks. In our souls we may agree that bankers are men of integrity; but what is sauce for the goose is sauce for the gander, and therefore these men must be judged by the same criterion as were Messrs. Waterlow and Sons and

held to be responsible for the necessary consequences of what they do, no matter how pure their intentions. In a free inquiry we would guarantee to prepare a brief and produce witnesses which would enable Mr. Birkett to transform the issue of the case. There is a worse crime than producing unauthorised money: it is the crime of destroying authorised money. That is the accusation against the banks which we would make good—and our first witness would be the Rt. Hon. Reginald McKenna. It is the actions of the licensed manufacturers of money which are the cause that unlicensed manufacturers of money appear. But the truth is powerless at present. We must wait—and perhaps not long now—until the bankers are compelled to withdraw their Whips and leave the issue of the great debate to the open vote of the House.

In the meantime Messrs. Waterlow and Sons can rest assured that the people of Portugal are none the worse for the misunderstanding. They are perhaps a little better off for it. As Sir William testified in court, there was great agitation and lamentation in Lisbon when he went there soon after the discovery of the crime; but the people of Portugal did not share in it. They got a pleasant thrill out of it. For the Portuguese Judge who had to deal with the case began by ordering the arrest of the Governor of the Bank of Portugal. *So Jorkins went to jail.* A few hours later the Government ordered his release. *Thus Spenlow got him out.* On two occasions during subsequent proceedings, so Sir William told the Court, this Judge broke into tears. And the same emotional tension was experienced at the Bank. The Directors and officials would not receive Sir William, but told him that what he wanted to explain or propose he must communicate to the police, or, at least, in the presence of the police. And so all round official quarters reverberated this hullabaloo—detectives, handwriting experts, magnifying glasses, microscopes, quartz-lamps, colour-matching, note-printing, note-swapping, crying judges and all the rest of it except laughing cats. What was it that old Hans Sachs sadly ruminated in his soliloquy "Mad, Mad, All The World's Mad"—the whole City of Nuremberg thrown into a riot the previous evening over a quarrel between two rival lovers? "But there," old Hans suddenly comforts himself, "I forgot—it was St. John's Eve, when magic is about—of course, now it is all explained—it must have been some glow-worm couldn't find its mate: I'll be bound that that's what caused it." Or, in the language of the High Court, the Nuremberg riot was the "necessary consequence" of a she-worm's negligence to keep an appointment. However, as the Spaniards say, "tomorrow is also a day"—and we are told that the sun has been observed to rise as usual in Portugal.

#### MONEY.

[A suggested Pantomime Chorus.]

I do—want—  
To get hold of some mon—ey;  
I do—I do.  
I do—want—  
To get hold of it quick—ly;  
Don't you—don't you?  
We don't care a hoot where the currency comes from,  
Or whether the colour is red, or green, or blue;  
But we do—want—  
To get hold of some mon—ey,  
We do—we do.

A. B.

## Current Political Economy.

A Government Committee of Enquiry appears to be so called because it commits nothing, neither itself nor the Government which appointed it. The method of appointing the members of such Committees of Enquiry is designed to produce stalemate. A few extremists representing the various branches of innocuous opinion are chosen so as to neutralise one another. They are then given a year or two to see the world and his wife at the Government's expense, and for each member to ask them leading questions, the replies to which are calculated to score off the other members. At the end this committee of fanatics, whose hands are tied by professional attachments to various organisations, not only present conflicting reports; the reports they present embody precisely the views the signatories held before they became official enquirers on behalf of the community. Thus after a year or two of time which the community should consider lost, and the Government does regard as gained, the position is what it was at the beginning. The Committee of Enquiry, in brief, is a device by means of which Government not only washes its hands of responsibility, but does so in a way certain to prevent any responsibility from arising.

Two such Committees of Enquiry reported recently. The Licensing Committee, after asking many thousands of questions, produced three sets of opinions, one in favour of leaving ill alone, another in favour of State control, and the third in favour of prohibition. The Committee on Capital Punishment was not quite so prolific, but it was possibly more creative. A majority of one, signing a report which quoted freely from poets and philosophers, recommended some departure from the method of hanging as the way of deterring would-be murderers. The first reflection prompted by the work of these two committees, apart from major futility, is the folly of Committees of Enquiry sitting in isolation, and following their own lines without considering the work of the others. For example, it is ridiculous to treat the abolition of Capital Punishment and the inauguration of Prohibition as possible in the same country. It is established that Prohibition elevates the sale of illicit liquor into the most profitable industry. It is difficult to imagine an American schoolboy wanting to be anything so much as a racketeer. The idea of abolishing the death-penalty for murderers and immediately afterwards sending machine guns to subdue racketeers—or strikers—is so ludicrous that it ought to appear so even to the English.

If the masses of men are to be kept in a state of semi-consciousness, content to accept doles in peacetime, and lice and sudden death in war-time, there are two things they must have: the company of women and access to fermented liquor. The renunciation of either of these can be only a voluntary act, inspired either by some religious motive, or by the deepening of self-consciousness, or by the desire for an increase of power. Montaigne told of one of his relations giving up alcohol to render more bearable the caprices of the other, Montaigne did not subsequently found that the one was necessary to render the bearable the caprices of the other, is that the chief reason why people forswear alcohol is a high degree of individualism, which is frequently anti-social. Further, anti-social individualism is the chief cause of premeditated murder, and the artificial stringency of the financial system is the chief cause of anti-social individualism. Hence the Committee on Finance, and those on Licensing and Capital

Punishment, were actually all enquiring into the same problem.

Once the two Committees are seen to be linked together, their terms of ideal reference are entirely changed. The one question of primary importance for the Capital Punishment Committee to answer was whether, in the event of abolition, murders for insurance-money or legacies would increase. Nearly all other murders belong to the realm of pathology rather than law. The hanging of the insurance-money murderer is in actual fact less a safeguard for possible future victims than a safeguard for the company's funds. The murderer is deterred, if at all, not by more social impulses so much as by the knowledge that the insurance company will take a lot of trouble to trace the death home to the beneficiary. Society pities the murderer for jealousy. It hates the murderer for money. It hopes for mercy in the case of the former, and would add the whip to hanging in the case of the latter. The reason why it feels so violent as to hate is not pity for the victim: it is fear for itself, fear of the temptation to think out a better technique for avoiding the financial stringency which it shares with the murderer. In view of the complete failure of prohibition in America the only questions of primary importance for the Licensing Committee to answer related to whether, if every individual were offered the degree of self-respect obtainable with a minimum income of five hundred pounds worth a year, to drink or not to drink might safely be left to individual option. The reports of these two committees, in short, should be corollary to the effect of the report of the Committee on Finance. That is why they appear before it.

If the time should come when a Committee of Enquiry is regarded as a help to legislation, when a definite, intelligent, lead is required from it, it will probably be appointed somewhat in the manner of the present jury. The jury system has defects, which have been often enough pointed out. But no jury requires, under the guidance of a judge, several years to come to the separate conclusions with which it entered the court on the first morning. The one advantage of the jury system is that under it the ordinary man is still responsible, under oath, for a just weighing of evidence and decision. That it must be an unanimous decision is a further safeguard. A dozen men chosen from the jury list, guided by a judge, and locked up until they produced an unanimous report, would have produced, in far less time, a report far greater in value than either of the two official committees have presented; than, indeed, any other Committee now sitting will present. The jury's lack of specialised knowledge of the subject, and freedom of its members from preconceptions, would be an advantage. Under oath the jury would present an unanimous report based on the evidence alone, a report reflecting that very rare thing, free intelligence, which would have been exercised by men who had to be genuine inquirers.

BEN WILSON.

#### CURRENT FUDDLE.

"In these dire dark days of the demoralising dole may I share with your readers a bit of cheer, and perhaps of provocation to some to do likewise? I quote from a letter just received from a woman, whom I have known for many years, which will speak for itself. 'I went to do two days' work, but I had to be brought home and I was ill for a week. . . . It seems as soon as I try to do a little work I am taken ill. My husband is trying to do a little business because he has to rent a little place to make the sweets in, so I am 6s. a week short to what I was when he was drawing dole money. But he is much happier.'—M. RUSSELL, Rosslyn, Sidcup, Kent."—Extract from letter in the *Times*, December 29, 1930.

## Prolegomena to the Study of Race.

By F. Le Gros Clark.

It is time we began to study the problem of racial intermixture and antipathy. I would like to see a university founded for the purpose. Suppose, for example, that America revolutionised her economic life and solved her problems of production and distribution. Would that settle the question of relationship between black and white? Not permanently, since this question, though partly economic, is fundamentally an emotional one.

There is no great hurry; but there is no excuse for postponement. Every year humanity is complicating its own problems by some fresh experiment in Racial confusion. In Palestine, for example, we have the problem of Jews and Arabs. In East Africa we have a triangular arrangement of Africans, Indians and Europeans. How much further is it going? What is the solution?

Theoretically speaking, a drastic readjustment of the economic system is going to mean, that every Kaffir and Zulu in S. Africa has a greatly increased claim on consumable goods. That renders him relatively independent. He may—and probably will—demand education; and follow this by an agitation for political and economic rights. Can he be refused? And if he be not refused, we are faced with a South Africa wherein four or five definite racial types are intermingling. As a matter of course a kind of pacific struggle for existence would ensue. Each type would be endeavouring slowly and subtly to squeeze out the others.

There exists, for instance, in South Africa a population of some scores of thousands of Indian immigrants. With what rapidity would these adapt themselves to their new home and begin to multiply, were every moral and economic restriction lifted from them? It is impossible to say. They might in time prove themselves more capable of surviving than either natives or Europeans.

On the other hand, it is notorious that certain races tend—when their own culture is broken up—to lose heart and fall into a decline. So far, no white race has to my knowledge ever had to face such an ordeal. It is difficult to make any generalisation. The negroes in America have tended to increase prodigiously under the most unfavourable cultural conditions. One can scarcely determine *a priori* the stamina of any given race. But one might at least question whether the whites in South Africa would—if they lost their present artificially dominant position—readily adapt themselves to new conditions and survive the shock.

The situation in the East is even more complex. The Chinese, an exceedingly hardy and adaptable race, are spreading in a slow tide of immigration over the East Indian archipelago. If it were not for the existence of certain political restrictions, the movement would probably be far more rapid. Remove all limitations, and it is only a matter of time before the Chinese have settled in large numbers along the Northern shores of Australia, worked their way up through the Straits Settlements, and begun to encroach on India itself. There is little doubt in my mind that, in the inevitable "struggle for existence" the Chinese will tend to develop at the expense of any type with which they come in contact—Malay, Dyak, Burmese, and even Europeans. What is to delay them? Machine-guns? In a world committed to the idea of economic freedom the thought will be preposterous.

So much for the problem. What my University will have to discover is whether it can be solved fairly and amicably. My professors will study, for example, the question of intermarriage between

various types and the advisability of encouraging an ultimate racial fusion. In this they will not shrink from the most extreme possibilities. They will examine the chances of a complete racial amalgamation between Jews and Arabs, between Jews and Europeans, and even between whites and negroes in the U.S.A.

The problem will not be an insistent one for some years to come. The first necessity is an economic readjustment. It is partly because we realise that the solution of economic difficulties will only open the door to emotional problems of a far more complex character, that we continue to endure the Industrial and Financial chaos wherein we find ourselves.

### On the Creation of Credit.\*

Misconception has not disappeared from the question of creation of credit by the banks. Some time ago Major Douglas published a critical examination of a number of bank balance sheets. He maintained that it must be concluded from the balance sheets that discounts, loans, and overdrafts, are included both as assets and as liabilities. Some students are, however, still unsatisfied. Along with others who, while confident that credit is multiplied exactly as Major Douglas stated, nevertheless find the facts unconvincing, they would doubtless welcome a more detailed presentation of evidence. The periodical statements issued by banks (including their balance sheets) are so unsatisfactory, even to themselves, that Lord Cunliffe's Committee on Currency and Foreign Exchanges after the war advised amplification. It is proposed therefore to confirm entirely from other sources that loans, etc., involve the creation of *new* purchasing-power, regarded as *deposits*, and that the money they represent has no existence.

Let us turn to text-books on banking operations. "Bank Organisation, Management, and Accounts," by Mr. J. F. Davis, M.A., LL.B., Lecturer on Banking at the City of London College, is, perhaps, not intended for students of credit. Rather is it meant for the youth whose interest in banking centres on the task of attaining a managership. To him, therefore, the chapter on loans and securities (page 95) is purely technical instruction for operating the system. Students, however, will appreciate the light thrown on the *origin of credit*.

"The amount (of the loan) is posted to the debit of the customer's account in the loans ledger, and to his credit in the current accounts ledger." Already, we see, the entry is on both sides, and wherever one entry appears, it must be set off by the other. From page 130 to page 132 a complete specimen set of bank accounts is given, from which the student may easily trace that in the *final balance sheet* the *fact of the loan* is the banker's asset, and the amount posted to his customer's credit the banker's liability. The new deposit thus created is entirely in excess of all real deposits and has no monetary basis whatever.

The register of securities deposited by the receiver of the loan as proof of good faith, etc., is not part of the accounts proper. Only in the event of a loan-receiver's inability to repay would it be necessary to realise such securities, in order, for the sake of the banker's solvency, to meet the credits in the accounts of the people to whom the loan had been transferred by the receiver. The banker is aware, however, that when borrowers are unable to repay, such securities depreciate and ultimately become unsaleable. Such securities are, therefore, not an asset; they are a mere forfeit. The bank's only asset is its client's probity, and his ability to recover the credit, represented in the books by the *fact of the loan*. No money of any kind is ever in question. Nothing is involved

but entries in books by bankers, whose willingness to transfer such entries is accepted as a discharge for goods.

The extraordinary reply has been made at least once that this duplication of entries is merely an accident of the "double-entry" system of book-keeping, and, if the proof were left at this stage, it would conceivably be repeated. If, indeed, this reply were correct, the whole case would be a laughing stock. Let us now, accordingly, take the "Theory of Credit" (McLeod), 1890, a work intended, according to the preface, as a complete manual on credit, and subscribed to by bankers all over the world. The following quotations speak for themselves. Moreover, they are a sufficient reply to all who would excuse the abuses of the banking system by sheltering it, with other lapses, behind the war. Book credit was not a war measure; the war simply accelerated its production.

Page 370: "... After monetary panics had passed away it has been invariably observed that banking deposits greatly diminished. This has often been attributed to persons withdrawing their balances. Such assertions are erroneous. The banks have as much cash as at other times. . . . In the depression, fewer bills were created and offered for sale to the banks. If they have fewer bills to discount, the banks cannot, of course, create deposits. A diminution of deposits is not necessarily a diminution of cash but it is a contraction of credit."

The first italics are mine; the second, the author's.

Page 374: "To say that bankers are merely agents between those who wish to lend and those who wish to borrow is entirely untrue. . . . A customer lends money to a bank but at the same time has free use of it. The banker employs that money promoting trade. Upon the strength of having acquired it he buys debts with promises to pay, to several times the amount of money he possesses.

"... the quantity of credit a bank may create is determined by the ratio of demand for actual money to the total credit created."

Page 363: "A banker never buys bills with cash. That is the business of a bill-broker."

"A banker with £10,000 real deposits may argue that such cash will support a greater amount of credit by several times.

"Suppose the banker buys £40,000 worth of commercial bills, his profit being, say, 4 per cent. . . . In exchange for these bills he would create credits, debts, rights of action—*technically named Deposits*—to the amount of, say, £39,600 (three months' interest at 4 per cent. deducted).

"His accounts would stand thus:—

Liabilities.		Assets.	
Deposits	£ 49,600	Cash	10,000
Profit	400	Bills	40,000
	50,000		50,000

(Author's own table.)

Is it not plain that bankers record their loans both as assets and as liabilities; that they create credit, that is, fresh purchasing-power in excess of all distributed purchasing-power, to compete for existing goods; that so long as repayment is assured they may issue credit to any extent provided they have currency enough to meet *currency* demands; and, finally, as a corollary, that so long as the transfers of credit are effected by cheque, they may, contingent on the receiver's power to repay, issue credit without limit? Bankers make their profits by lending money they do not possess, money which, in fact, has no existence until they lend it

That credit is created by bankers; that it constitutes an inflation of existing demand, and therefore a tax on the community, are obvious, but overlooked truths of great significance. Such truths may gain attention only by expression in a startling form, and produce the defence reactions: "I can't believe it"

it can't be true." Anyone who undertakes to bring home a truth which has reached this stage, which is literally kicked off the doorstep at sight, will be guilty of much over-determination before he succeeds. Such is my apology for continuing the subject.

The only real money is currency; whether paper or metal; it bears the sanction of the community. To counterfeit it is a crime. But bankers have created the equivalent of money as fast as industry could give them satisfactory guarantees as to its return. Banking is simply a money-making business.

Apart from the creation of credit by somebody, how could the payments representing money exceed in one day the total money in circulation and in reserves? How could the total credits to the *current* accounts of bankers' clients continually exceed the total currency in existence? A banker is liable to pay current account balances at any moment. Yet, according to the Rt. Hon. R. McKenna, the total amount of currency, gold, silver, copper, and *bank-notes*, in circulation in 1914 was £128 millions, and in banks £75 millions. The credit balances of bankers' customers exceeded £1,000 millions. In 1919 the total currency in circulation and reserves amounted to approximately £594 millions, against credit balances exceeding £2,000 millions. No wonder the British Association concluded that the business of banking was not the receiving of deposits in order to make loans, but the *making of loans in order to create deposits*.

Obviously great supplies of currency are unnecessary. Only wages and a decreasing amount of salaries are nowadays paid in money (reflecting, of course, on retail trade). Credit is indispensable, and has no limit except the capacity to re-collect it in return for goods. Simply to advocate that its issue should not be permitted to inflate the price of existing commodities, but should nevertheless bring into market all the future goods the country's machinery can create, is plain common sense and good economics.

A. NELSON.

### Scottish Nationalism.

Mr. Thomson\* is "not a Nationalist in the accepted sense," as the publisher announces. No definition of that phrase is given either by author or by publisher—does it mean that Mr. Thomson is not a member of the National Party of Scotland? If so, then his long-continued "sitting on the fence," shying books and pamphlets at those he calls "absurd old men and middle-aged doctrinaires," goes to show that he himself appears to be a dogmatic "young man in a hurry."

He advocates the restoration of the Kingdom of Scotland, with a resident Viceroi in her capital. A large part of his pamphlet is devoted to the consideration of sovereignty; of Scotland's relationship with the Privy Council and with the League of Nations; and of the machinery for their bearing on the Nationalist movement, it is likewise true that they are of secondary importance. The most important question, so far as Scots readers of THE NEW AGE are concerned, is that of economics. Yet our pamphleteer has only this to say of it:

"Whether the National Party of Scotland should have an economic policy is to so great a degree a matter of tactics (and therefore of opportunism) that it does not call for discussion here. But that Scottish nationalism, as it grows more conscious of its own meaning, will evolve an attitude to economics seems highly probable."

Mr. Thomson seems to be unaware that it is this very "attitude" of indifference to, or ignorance of, economics which is at the bottom of all the industrial trouble throughout the world to-day, and not only in Scotland. He knows, however, that the "new" form of nationalism is "not a victim of the almost superstitious respect for Parliament which characterised the older nationalism." Thus, while he dismisses economics as irrelevant for the present, and remains

\* "The Kingdom of Scotland Restored." By G. M. Thomson. (Toulmin, 1s. net.)

aware of the futility of politics qua politics, Mr. Thomson is driven to concentrate on aspects of the question that are still further remote from the primary issue. His pamphlet, indeed, betrays evidence of that Calvinistic product of the Scottish mind—the penchant for drawing-up and nicely rounding-off in simple logical sequence a programme that maps out each step in the conduct of the individual from the cradle to the grave and even beyond it. The framework of the body politic is in his thesis to the last vertebra, but the animating spirit is absent—the life-giving economic spirit which "the world" might imagine should best express the Scottish ethos. This cart-before-the-horse "attitude" is familiar to all propaganda; and it tends only to split rather than to close up the ranks of any movement.

Our author seems to be obsessed with the subconscious fear that "them there Socialists" may get the upper hand in the movement towards Scots Independence, for he deprecates the use of such evil-sounding phrases as "the ascendancy class," and so forth. Advocacy of kingship is as likely to antagonise the "have-nots" as would the preaching of even the mildest brand of "Socialism" disturb the "haves." Perhaps that is the object of Mr. Thomson, since he apparently chooses to remain aloof from the Party organisation? He patronisingly suggests that the National Party is "perhaps bankrupt of constructive thinking," whereas the fact is that much of what he urges is already embraced in the general policy of the Party. It may be a pleasant problem in logic to work out a theoretically watertight doctrinaire programme for the attainment of Scottish autonomy. But it cannot be too clearly understood that any form of political self-government must be ultimately impotent, unless a clear realisation is held of the fallacy of orthodox economics. To dally with kingship and the League of Nations is merely to grasp the wrong end of the stick.

Much of Scotland's present-day misfortune began at Geneva some centuries ago; it is hardly likely that it will end there by drawing the attention of the League to her industrial misery—a universal epidemic to-day. All forms of "democratic" government are nowadays held suspect. The world is undergoing the transition stage of emergence from the old Politics to the new Economics. If the leaders of Scottish Nationalism remain unconcerned with this significant trend of social evolution, then the "movement" is already at a standstill. A resident Parliament, fumbling with the orthodox economics under which Ireland is labouring and unsupported by the economic power possible under the Douglas system, would be merely an under-graduate attempt to play "Hamlet" without the Prince of Denmark. The difference between "seeing red" and seeing red, white, and blue depends on one's angle of vision of the political shield—witness the failure of all parties in all countries to solve the industrial-employment problem. By coming out boldly for the Douglas Economics, with its eminently practical solution of the financial enigma, the Scottish National Party would rise at once above the petty jealousies of the orthodox English parties. It would provide a platform upon which unity would be possible on the most liberal terms in the attainment of our social objective.

WILLIAM BELL.

### Reviews.

Sinon, or The Future of Politics. By E. A. Mowrer. (Kegan Paul, 2s. 6d.)

Publishers' notes on book-jackets come increasingly to resemble the headlines of American newspapers, as do also, of course, the headlines of English newspapers. They serve to give a précis rather than to arouse curiosity. By merely reading the book-jackets on the stall one could obtain a tabloid knowledge of present-day literature, while scarcely offending the bookseller.

"The brilliant author . . . greatest interest . . . changing world . . . After discussion of essential nature of politics, first as science then as art, he surveys the five predominating ideas, Equality, Nationalism, Individualism, Efficiency and Internationalism. From this he concludes that a state of crisis exists. . . . The alternative to downfall, war, and revolution, is a more conscious attempt to avoid the examples of Italy and Russia, and to achieve a world organisation similar to that of the medieval world. The future of politics is more politics; better politics can be achieved only by better individual politicians."

In spite of this thorough précis, I have read the book. It contains far too many references to the obvious—such

\*Reprinted from Credit Power, October, 1923.

as that Bryce pointed out "the truth that literal Christianity and politics are incompatible"—and depends entirely on erroneous philosophy, namely, that the instinct for dominion over others is the political constant. The answer is simply that if it had been there would never have been any such thing as neurosis or mental conflict. Where, as at present, the will-to-power predominates, it destroys other wills which equally require expression; and it leads to almost universal neurosis. Where the will-to-power is not effectively checked by other wills, character cannot develop. Mr. Mowrer's mediæval world organisation is a world-state, which would, of course, be arising too soon, merely necessitate world revolutions. Finally, better politicians can hardly be possible if will-to-power is the constant. Mr. Mowrer is in a squirrel-cage. The book is cleverly written. But with all history at its disposal, its facts are selected to fit its theme; and nearly every sentence, apart from the facts, provokes qualification or contradiction. The book is negatively brilliant and positively barren. A. N.

**The Legend of Abd-el-Krim.** By Vernon Symonds. (The Elzevier Press, 91, Regent Street. 3s. 6d.) In the preface Mr. Symonds prophesies that at least one person will be amused by this play, namely Abd-el-Krim. The worse of it is that the amusement of Abd-el-Krim deprives the rest of the world of their share of the entertainment. Abd-el-Krim is an exile on Reunion Island—a delightful name for it—because of his part in the Riff rebellion, in which he fought for European ideals with soldiers who did not understand them, against a Europe which merely preached them. Mr. Symonds says frankly that he has dramatised an idea rather than a man, and excuses for that reason departures from historical accuracy. But he does not say how faithful he has been to the legend. This is disconcerting. In reading the play I wanted to know, not how much was Mr. Symonds, how much legend, and how much history, but certainly how much was Mr. Symonds and how much legend which always, of course, absorbs as much history as is appropriate. I am sorry that the reality of the person of Abd-el-Krim prevents production. The Lord Chamberlain objects to real people as much as to mythical ones. The ban in this case is the more regrettable in that the Abd-el-Krim of the play was surely an actor who accepted the world as a comedy stage; and even more regrettable in that, as the dramatisation of an idea, the play is good enough to stand on its feet without the name of any historical personage as its title. The action marches along confidently, the dialogue is crisp, and the characters are well-cut. If the histrionic character of Abd-el-Krim gives the play a romantic air, that does not much matter; it merely serves to satirise the romanticism which Europe attaches to imperialism, to the process by which so-called savages are persuaded to mortgage their country for armaments to defend it with; and inevitably suffer foreclosure, invasion, and annexation, because they cannot pay. Mr. Wyndham Lewis would, of course, strongly object to the romanticisation of a man with a skin other than white; but all mankind loves a play-actor, and where among the whites are they now to be found? P. B.

**Love in the Machine Age: A Psychological Study of the Transition from Patriarchal Society.** By Floyd Dell. (Routledge. 12s. 6d.) Mr. Floyd Dell is a quite popular American novelist, who has set out to compile a psychological treatise, which he is perfectly entitled to do, so long as he can deliver the goods. Indeed, psychology lies particularly within the province of the novelist who deals with real men and women and not with the cardboard and sexless puppets characteristic of so much English fiction. But Mr. Dell does not deliver the goods. He has written a lengthy and somewhat pompous volume, such as might have been compiled by any fairly intelligent reader of Freud or Jung, Adler or Jones, and has merely added another to the list of unnecessary publications on the subject. Had the author been content to turn out a brief textbook for the use of the average newspaper reader, "Love in the Machine Age" might have had a certain value, but this is merely a large-sized service in claiming that this book is "comparable in scope and breadth with Havelock Ellis's great six-volume work," an assertion which goes somewhat beyond the licence accorded to "blurbs." DAVID OCKHAM.

**A History of Socialism.** By S. F. Markham. (A. and C. Black. 7s. 6d.) Messrs. Black's histories are well known for comprehensiveness, orderliness, and simplicity. Mr. Markham's "History of Socialism" is written to take the place of Kirkup's standard "History of Socialism," which by this time needed revision. Mr. Markham's work is excellent and

readable for seekers of information who have not adopted a strongly critical bias beforehand. Those who have, while not often finding fault with Mr. Markham's history as long as history is the only thing in question, will want to dispute his emphases wherever the forces described or omitted are still operating. For example, why should a history refer to Henry George at length and not at all to Flürscheim, who demolished George and wrote a vocabulary intelligible today? "Guild Socialism in the immediate post-war years promised to have a growing influence. . . . (it was an effort to solve modern economic problems by applying the Guild system of medieval society. A. G. Penty, S. G. Hobson, and G. D. H. Cole were its exponents. . . .) Apart from the error in Mr. Penty's initials. None of these statements is good history, and should be entirely re-written. Further, long before 1930, up to when Mr. Markham's history goes, the source of National Guilds (which became the Guild Socialism in the hands of democrats) had become the voice of another message; at least, as important, and more immediately important, than the Guild idea; namely, Social Credit. Mr. Markham's History will need revision earlier than it would have done through his omitting references to Social Credit. A. N.

**Indian Princes under British Protection.** By P. L. Chudgar. (Williams and Norgate. 6s.) This book appeared of less value and significance when it was published nearly a year ago than it is now, in view of the prominence of India in Imperial Affairs. Very few quite well-informed people in England realise to what extent much of it is practically self-governed, under British protection but not under British rule. When the Imperial Englishman boasts that his presence in his dependencies and protectorates makes for progress of any kind, it is as well to remind him that there are protectorates where his nominal suzerainty makes for Conservatism, and almost ensures the continuance, free from hard knocks by anybody, of conditions which England is supposed to have abolished everywhere it has power. Readers interested in the Indian controversies may arm themselves with information on a very little understood aspect of the case by following Mr. Chudgar. W. K.

**Leo Tolstoy and His Works.** By Aylmer Maude. (Routledge. 6d.) A welcome piece of easy reading, handily arranged, and printed with some respect for the decencies. Does anybody read Tolstoy now, by the way, or is he too sane for this great Age of Bank? L. S.

"Though it was the last created (1913) and hence the 'lowest' in rank, the Labour portfolio is easily the fourth most ticklish for a President to assign. His Treasury choice, most ticklish, must have the approval of large American Bankers' Association and Big Business, and on Next most ticklish is picking an Attorney-General, and these Presidents invariably consult the American Bar Association. Secretary of State is of less definite, more external importance, causing a President to calculate how his Administration will be regarded by other nations. Then, having suited Capital, Bench and Bar, and the World at Large, and even before choosing his Postmaster-General (political patronage man), the President must think of Labour. Always a wise President tries to please Labour's main organised body, the American Federation of Labour (some 3,000,000 votes)." —*Time* (Chicago), December 8, 1930.

The *Sunday Pictorial* of December 21 contains a three-column article, by G. Ward Price, entitled "Pay Us In Sixpences." It is a popular explanation of the effect of the fall in silver, from 5s. per ounce to its present price of 1s. 2d., on our Far-Eastern trade; and ends with a plea for the restoration of silver to its old place as a standard of value. "It is folly," he says, "for man to become the slave of his own machinery. . . . The problem of production has been solved by modern machinery. Our difficulty now is with the problems of distribution and exchange." "The League of Nations Financial Committee has issued a warning that the supply of new gold for monetary purposes is becoming inadequate. . . . Gold was always troublesome stuff. . . . It is more troublesome than ever to-day, when, from its invisible lair in the vaults of banks and treasuries, it sways the financial destinies of nations. We do not understand what it is doing, and we doubt if most of the financial pundits do either. . . . What we all have is a deep-rooted, though possibly unarguable conviction that a shortage of gold ought not to make a halfporth of difference to life, liberty, and the pursuit of happiness." —*Evening News*, September 24.

**Bank Of Portugal Case.**

[Extracts from Mr. Justice Wright's judgment.]

Where one had a situation so abnormal as that exhibited by the present case the printer of bank notes was put on inquiry. He must be satisfied, and nothing short of the most stringent inquiry would satisfy the criterion which had to be attained in such a case. The responsibility which rested on the printer of bank notes was enormous. He could not say that he was merely a commercial printer. The effect of an unauthorised issue of bank notes might be enormous on the whole life of a nation and the whole stability of an important banking institution. That being so, if there were elements of abnormality in any transaction, on general principles, the printer of bank notes had no right to trust a single person. In the present case it seemed to him (his Lordship) that there were many lines of inquiry that Messrs. Waterlow and Sons, if they had thought fit, might have taken. They might have made inquiries at the Portuguese Embassy in London. They might have used the local agents which they had at the time in Portugal. He would have thought that nothing short of some direct personal communication would have been satisfactory in a matter of that sort, where there were delicate and intricate negotiations going on between the parties. In such a case precise information was necessary.

With regard to damages, it had been contended, on behalf of Messrs. Waterlow and Sons, that the loss which the bank had suffered was due entirely to its own voluntary and independent act in withdrawing all the notes of the Vasco da Gama issue. It was also said that the bank had suffered no loss because it had simply exchanged pieces of paper which were not convertible into gold for other pieces of paper which were also not convertible into gold, and that the bank could not recover the damages which it claimed because it could have avoided any damage if it had taken reasonable steps to minimize the damage by distinguishing the good notes from the bad and refusing to pay the bad notes.

According to the evidence it was the ordinary practice of the bank, so far as it had been called for, that, where a serious falsification of notes was brought to light, the bank withdrew the whole issue of notes because the circulation of false notes destroyed the credit of the issue. Therefore, it must be taken that the necessary consequence of such a circulation of spurious notes as took place in the present case would be a withdrawal of the whole issue.

The Vasco da Gama issue was doubtless withdrawn at very short notice, but the justification for acting with such promptitude—which was, in his opinion, put forward with foundation—was that it was already known that there was a great falsification of notes going on, and the only way to avoid a financial crisis and the entire upheaval of the currency was to withdraw the whole issue, and that there was no opportunity of further delay because the consequences of delay were too serious to contemplate. A vital fact was that, not only did the bank not know the extent of the falsification of notes, but also that the false notes were not distinguishable from the good notes. Bearing all those circumstances in mind, he thought that the bank took the only course it could in withdrawing the Vasco da Gama issue when it did. It had been contended that the bank was not liable to pay on the false notes and that it should not have done so, but when once it started paying the notes, it had, at least for a time, no means and no opportunity of distinguishing the good from the bad.

The argument that the bank had merely exchanged paper for paper was a fundamental point of the defence, and it called for the most careful consideration. Mr. Birkett had said that the only damages recoverable was the cost of printing the new notes which had been handed out and exchanged for the Vasco da Gama notes. That argument was based on the fact that under Portuguese law the notes were not convertible into gold, and that when that regime of inconvertibility would end was a matter too remote to take into account. No evidence had been given of when Portugal would return to a convertible note issue, but, putting that aside, he did not feel able to accept Mr. Birkett's contention. In Portugal the notes were the currency of the country. They would purchase commodities, including gold. They could buy foreign exchange, including sterling or dollars, or any currency which was convertible. They could do that because they had behind them the liability of the Bank of Portugal.

It had also been suggested that the bank ought to have called for the deposit of the Vasco da Gama notes for examination before they were honoured under the Portuguese law relating to deposit. On that point he agreed with the

view that had been expressed by the Portuguese legal witnesses that the question of depositing the notes instead of honouring them at once was neither practicable nor possible and that the bank had no legal power to do so.

**Question of Minimising Damage.**

The next question was whether the bank might not have minimised the damage by applying a simple test for distinguishing the bad notes from the good. In the early days after the withdrawal of the issue the rush at the bank was so great that the bank could not possibly have put into operation the delicate, though simple, methods of discrimination which had been referred to. The highest that it could be put by Mr. Birkett was that, if the bank, having presumably acquired some general ideas through the investigations which its expert had made, had thought fit to put certain questions to Sir William Waterlow and his expert after the existence of the forged contract had been discovered, the bank might at least have obtained possession of a key by which it could have distinguished the second issue of the Marang notes. With the help of that, and with the help of particulars of the unissued notes, the bank would have had some check which would have enabled it to reject notes which it was not bound to pay. If, having that check, the bank had chosen to honour notes which it was not liable for, it would not have been able to charge Messrs. Waterlow in respect of those notes, because by that time the crisis had passed and the credit of the bank had clearly been established. In those circumstances something ought to have been done on the lines indicated to minimise the danger.

No doubt, the period affected could only be the tail end of the period given for the exchange of the notes, but some abatement from the bank's claim must be made in respect of it. With regard to certain other notes which were admitted to be Marang notes there had been abundant opportunity to investigate and examine these notes and the bank was under no legal liability to honour them. What had been paid in respect of them was not the result of Messrs. Waterlow's breach of contract.

For the bank's failure to take reasonable steps to minimise the damages he would make an allowance in Messrs. Waterlow's favour of £80,000. The total amount of the claim was £1,100,281. Deducting from that the £80,000, and also the £488,430, which, it had been agreed, was to be treated as the sum recovered by the bank in the liquidation of the Banco de Angola e Metropole, a figure of £531,851 was left for which there ought to be judgment for the Bank of Portugal, with costs.

The entering of judgment was postponed until the first day of next sittings to give counsel the opportunity of making certain submissions with regard to the exact figure for which judgment should be given.

**ANSWERS TO CORRESPONDENTS.**

J. W. L.—(1) "Wages earned on making exports . . . lost when imports are received."—This statement is based on the assumption that international trade is fundamentally an exchange of goods, value for value. In this case imports deprive the community of opportunities to earn wages, etc., to the same extent that exports provide them. (2) "British-made cotton-spinning machinery in India . . . now entering markets hitherto British."—Yes, it is the products that physically enter these markets, as you suggest. But we compressed the argument in the way we did to bring out the point that exported machinery is a market-capturing weapon which is used against the market exporting it. We are obliged, for reasons of time and space, to reply to queries in outline and rely on our correspondents to shade them in.

P. C.—Our article on the constitution of the Court of Directors of the Bank of England did not say that Americans and Germans were directors but that American and German interests were respectively represented by the two groups of directors which we enumerated.

H. R. SCOTT.—(1) Our statement that the banker may create and re-lend a credit previously received and destroyed is not an "admission"; and we are surprised that you have been under the impression that we were ignorant of the fact that banks are continuously issuing new loans as they receive back old ones—or that we wished to ignore it. The point that the outflow and inflow of credit at the bank may be constant does not affect our position, which is that whereas the new loans add to existing costs by their full amount the recall of old loans does not subtract from existing costs by their full amount or necessarily by any amount in excess of the cost of the creation of credit by the banks," but that there is no technical limit to the amount they are able to create. Hence your challenge: Why do banks discourage borrowing? misses fire.

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The Douglas Social Credit Proposals would remedy this defect by increasing the purchasing power in the hands of the community to an amount sufficient to provide effective demand for the whole product of industry. This, of course, cannot be done by the orthodox method of creating new money, prevalent during the war, which necessarily gives rise to the "vicious spiral" of increased currency, higher prices, higher wages, higher costs, still higher prices, and so on. The essentials of the scheme are the simultaneous creation of new money and the regulation of the price of consumers' goods at their real cost of production (as distinct from their apparent financial cost under the present system). The technique for effecting this is fully described in Major Douglas's books.

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