THE

NEW AGE

INCORPORATING "CREDIT POWER."

A WEEKLY REVIEW OF POLITICS, LITERATURE AND ART

No. 2216] NEW SERIES Vol. LVI. No. 18. THURSDAY, FEBRUARY 28, 1935. [Registered at the G.P.O. as a Newspaper.] SEVENPENCE

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Mr. Gaitskell on "A + B."

We present to our readers a Supplement containing Mr. Gaitskell's reply to the late James Adamson's article on the "A + B" theorem.

We are printing extra copies of it separately for the convenience of students and propagandists.*

Adamson wrote his article (a year ago) at the request of the Social Credit Secretariat, who asked us to publish it—which we did.

NOTES OF THE WEEK.

"Consolidating Confidence."

We have remarked more than once that *The Times* outlines the brief for the penny Press and popular publicists on matters of high policy—that is, matters wherein the principles and traditions of the established parties afford no definite cue to these instructors of the public what line to take. The present National Government, being the most docile that Threadneedle Street has yet produced, is the object of the most solicitous nursing that *The Times* is capable of. And for precisely that reason this Government needs more expert nursing than has any previous one. No-one doubts the competence of *The Times* for this job; but there are signs that its dialecticians are beginning to find their task getting beyond their capacity. To students of the credit question this will be seen to have been inevitable; for the more extensively the bankers control the system as a whole the more numerous and frequent are local obstructions to that control. Like Dr. Johnson's fishmonger, they are in the quandary that if they spare a hand to use the knife the eel will not keep still to be skinned, and if they use both hands to keep it still they can't skin it. That is why the fishmonger swore. *The Times*, which may be likened to the fishmonger's wife, performs the dutiful task of reproving everybody who jeers at her husband.

* * *

This brings us to the caption at the head of these Notes—"Consolidating Confidence." It is the title of the first leader in *The Times* of last Saturday. In its context it concerns the quandary just mentioned, that of keeping the eel still while skinning it. Not only should nobody interfere with the attempted performance, but nobody should laugh at the baffled performer. Such is the writer's main thesis. Economic friction and political heat must be interpreted as symptoms, not of confidence lost, but of confidence regained—and needing only to be consolidated. With a little patience the wriggling eel may yet be frozen stiff, whereupon, by its stillness, it will "register" consolidated confidence!

* * *

The people on the dole will be pleased to hear that

> "Favourable trade returns for January and the official figures of the Balance of Trade for 1934 have offset to some extent the serious increase in unemployment shown in the January returns."

More goods have been changing hands inside industry, or going abroad, and the consolidated confidence among the banking community partly compensates for the loss of confidence (we beg pardon—the increase of unconsolidated confidence) among the working community. Instructed students will see the point, for they know quite well that under-nourishment below is the soundest security for overdrafts above. The "sinking feeling" is the foundation of the sinking fund on whose pinnacle floats the flag of Prosperity. Are you hungry? Then be assured that you're prosperous.

* * *

The writer recognises that the assurance comes rather tardily to those who hear the admonition, for he goes on to say:—

> "Reassuring statements, however authoritative, have only a limited efficacy in these days unless they are followed by action."

This had been better put in the form: Reassuring undertakings, however authoritative, have only a short-lived power unless they are fulfilled. He is here referring to the means-test duplicity which our absent-minded legislators sponsored in the House of Commons. This is what he says:—

> "A bad impression was undoubtedly created by the mistakes which were certain to reveal themselves in a vast new system of relief-regulations, and still more by an apparent (though non-existent) connection between disorders in Sheffield and the grant of permission to pay out-relief at the old scales in advance of statutory authority."

The first comment to make on this is that nine out of

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ten people believe that there was the closest real connection between the disorders and the alleviation which followed. One need not necessarily go so far as to say that the disorders directly intimidated the Government, nor even that they scared individual members of Parliament (although one of them got man-handled at Lincoln), but it is certainly true that without those disorders the notion would never have entered the thick heads of our legislators that they had assented to a measure which was worse than they had thought it was. Let us do them the courtesy of supposing that it was merely the realisation of what was being done in their name that stirred them to revolt in the House and force the Treasury Bench to yield. We like the phrase "in advance of statutory authority"—it sounds like saying: "Without waiting for the bankers' permission," or suggesting that the Government decided to do something to which it had the right to do earlier than it had the right to do it—which would amount to denying their inherent right to do it at all. But perhaps the writer means only that the Government acted before it had made up its mind, and that it may yet decide to reverse its decision. We must wait and see.

* * *

The second comment to be made has to do with the more subtle insinuation that the "mistakes" referred to were inherent in the "vastness" of the new system, and not in the policy which it was designed to carry out. It is calculated to consolidate the impression that any scheme which affects the interests of a lot of people must necessarily disclose defects. If to be vast is to be vicious that would indeed be a triumphant answer to the advocates of Social Credit. What? Dividends for all—ALL!? My gracious; what grave mistakes would be made—and on what a prodigious scale! No, before statutory authority is granted for that, at least see that the wisest heads of our great banks and insurance institutions design the scheme, and, above all, select the administrators!

* * *

Coming back to the earlier question, the writer refers to the Minister of Labour as having recognised that the suspension of the regulations was "open to misinterpretation" and that "misinterpretation may extend beyond political opponents to a nervous public." Who are this "nervous public"? We get a clue in his allusion to the satisfaction felt by this "public" with the Government's assurance that a General Election is not imminent. Evidently, it is not the general public—there is nothing about an election to make them dislike it—it affords them a bit of excitement. He proceeds to remark of this same "public" that "it will *want material upon which it can form its own answers* to the questions whether the Government has been shaken by these recent events and what will be the result of a General Election when it comes." (Our italics.) Now it is only a special and limited public which wants material, can "form its own answers," and to whom it is important that the National Government shall hang together and not be shaken out of its unified allegiance to the master-bankers. Obviously it must be a non-party public, and that being so the above clues are sufficient to identify it with what we call the banking community.

* * *

The writer of the article virtually identifies himself with them, for he goes on to deliver what looks like a thinly-disguised ultimatum to possible waverers in the Cabinet.

"Certainly the Government should take or make an early opportunity of showing that their determination to insist upon proper principles in the distribution of public money is as little shaken as their resolve to be just to the unemployed. That would do much to ensure that the suspension of the regulations was viewed in a proper perspective."

This is clearly to tell the Government to squash all hopes that just because repression beyond human endurance and therefore an affront to human conscience has been lightened, there will be any extension of this mercy to the upper classes of the proletariat who are provided with the wage-price of the food-fuel necessary to maintain the required pressure of labour-energy. The "proper principles" referred to can be resolved into one only, and that is the trial-and-error principle, under which the imposed monetary scarcity is regulated by the risk of unconstitutional revolt. It is an experimenting with human powers of toleration. And since, among the destitute, there is no organisation, nor even the idea of what to organise for, the authorities can safely wink at sporadic outbursts by these poor beings and their near neighbours. It is by that means that they are able to learn which is the last-straw-but-one which the camel can carry as the caravan passes on.

* * *

Notice should be taken of the writer's adroit use of the phrase "public money." The money he is really talking about is private money. It may be accidental on his part that he does not strengthen the point that he is obviously stressing, namely, that money distributed in relief has to come out of private pockets, and that therefore the apparent meanness of the relief is necessary in justice to those who pay for it. Nevertheless, it is quite feasible to suppose that at the present time, when Social-Credit advocacy is impressing on the public the fact that *all* visible money is public money in its origination, and that there can be much more of this public money than is visible if brought out into circulation and used for raising the condition of the population, the master-bankers will purposely harp on the term "public money" to connote private money so as to maintain the general impression that all money begins in private ownership—is born as the property of persons or institutions. It coincides beautifully with the bankers' references to "our depositors' money," "the money entrusted to us," and so on. This may sound far-fetched, but not to those who understand how much more powerful in mass propaganda is argument by suggestion than argument by direct logical methods. The bankers know very well that they are best able to put over their arguments by not appearing to argue at all. Some of their arguments, indeed, could not be put over in any other way.

* * *

Turning to strictly political issues, the object of the writer is to minimise the possible effects of Mr. Lloyd George's speeches on the unity of the Government. He has been jeering at the fishmonger in the person of Mr. Neville Chamberlain, and apropos of his lack of enterprise, caused, so said his critic, by his rigid adherence to the Snowden obsession with retrenchment and the balanced Budget. On the face of it, Mr. Lloyd George is a credit-expansionist, and presumably has some notion that if things are kept booming the Budget will balance itself. The writer is at pains to suggest that the

THE
NEW AGE
No. 4] SUPPLEMENT [February 28, 1935

"A+B"—A Reply.

[Note by author:—The following article had been written before I had read the succession of recent articles—most of them by John Grimm—dealing with the A + B theorem. The most important sections of these articles deal with conditions not considered by Mr. Adamson—existence of Fixed Capital, Saving, Labour-Saving Inventions, etc. I hope with the editor's permission to give, at a later date, my views on the A + B theorem under these more realistic conditions. But, for simplicity, I have thought it best to leave my reply to Mr. Adamson untouched. I would only repeat that I realise that this does not deal with the whole of the A + B argument.

There is, however, one point, which I did just raise, into which Mr. John Grimm goes in detail. This is the question of the 2,000 A payments distributed to Consumers in the Pre-Consumption stages. While there are some points made by Mr. Grimm with which I would not agree, I do not propose to deal with the matter here. My reason for not doing so is that I believe both he and I are in agreement that the destiny of these payments (whether hoarded or invested) does not really affect the points at issue between Mr. Adamson and myself. Should the matter be raised later I shall be glad to return to it.—H. T. N. G.]

The following notes are written as a reply to the late Mr. Adamson's interesting article published on December 28, 1933, entitled "Gaitskell on A + B."

Mr. Adamson's article falls into two parts. In the first he describes my criticism of the A + B theorem and explains the diagram with which I illustrated it: he also refers to one or two difficulties he finds in my argument. In the second part he sets out to show, with the help of another diagram, why the A + B theorem is both true and significant.

I propose to follow Mr. Adamson's example and to discuss, to begin with, my own original criticism and then to turn to his positive contribution.

The argument of mine to which Mr. Adamson refers is as follows. The A + B theorem is ambiguous because, when it is said that A is less than A + B, it is not clear what precisely is represented by the symbols A and B. We may understand under A either *all* A payments or simply the A payment made by the retailer. Similarly we may understand under B either *all* B payments or the B payments made by the retailer alone. Now my contentions were: (1) That if we understand A to mean all A payments and B to mean all B payments, it is clear that the A + B theorem is true. But it is by no means clear that it has any special significance. Mr. Adamson quoted the relevant passage from my article as follows: "The costs which have to be met by the outlay of the consumer are in fact only the costs of the final producer or retailer, and his costs are simply *his* A payments—wages, salaries, dividends, etc., and his B payments—the cost of services and goods brought from 'other organisations,' of which the most important item will, of course, be his stock." "Providing that the retailer recovers these costs, there is no reason why he should not sell his goods and continue to carry on business. The other producers, who do not sell direct to the consumer, must recover their costs, too, but naturally they do not rely upon nor deal with *the consumer*. They sell to 'other organisations,' and receive from them a B payment." "Since these persons do not sell direct to the consumer, it is obviously an error to suppose that the consumer must pay their costs as well. What he must pay and what therefore the total A payments distributed throughout the system must equal are just a *single* A + B payment of the final producer or retailer." Thus, in my diagram it is true that total A (= 1,000) is less than total A + total B (= 3,000), but in fact it is only necessary that total A should equal the A + B of the retailer (= 1,000).

(2) That if we understand A to mean *all* A payments when it stands alone, and A + B to mean the A + B payments of the retailer, then it is not necessarily true to say that A is less than A + B, because we really understand different sums under A according to the side of the equation on which it stands. In the first case A = 1,000, in the second it equals 200. On my diagram the retailer's B payment is equal to the difference (i.e., 800).

(3) That if A and B are understood to mean the A and B payment of the retailer, then again the theorem is true but irrelevant. Since in fact there is available to buy the product of the retailer not simply his own A payments, but the A payments of all producers spent on consumption goods in that period of time.

Mr. Adamson's comments on this argument are as follows: If the consumer only defrays the costs of the retailer, who defrays the costs of the wholesalers and producers?

He then proceeds himself to give the answer to this. He writes: "The wholesaler's B payment consists of the producers' costs, also A + B payments. The retailer's B payment therefore consists of the producers' and wholesaler's costs and, since the consumer defrays both the retailer's A and B costs, I cannot see that it matters whether he deals with producers and wholesaler direct or not; he defrays their costs just the same through his dealings with the retailer." I agree with the first part of this sentence. I cannot agree with the second. I think it is a very vital matter whether the consumer deals directly with retailers alone, or deals *directly* with retailers and wholesalers and producers.

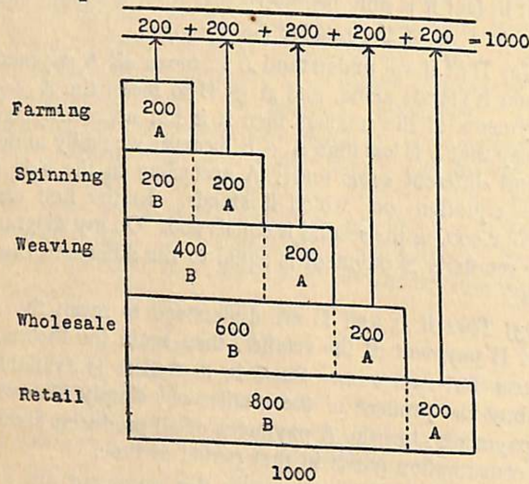
To make this point clear it is necessary to introduce the element of time. If a unit of money can only pass from hand to hand once during each period of time, then the following exchanges will take place during one period.

1. Retailers receive from consumers 1,000 (not defined as A or B).
2. Retailers pay out 800 to wholesalers (B) and 200 to consumers (A).
3. Wholesalers pay out 600 to weavers (B) and 200 to consumers (A).
4. Weavers pay out 400 to spinners (B) and 200 to consumers (A).
5. Spinners pay out 200 to farmers (B) and 200 to consumers (A).
6. Farmers pay out 200 to consumers (A).

Now I think it will be admitted that if all these payments are made there is no deficiency. Producers, wholesalers, and retailers all receive back their costs and each of them buys more. Given the conditions that a unit of money can only pass once from hand to hand in this period, it is clearly necessary that there should *be* in the system at the outset a stock of money equiva-

lent to (1) 1,000 in the hands of consumers + (2) 1,000 in the hands of retailers + (3) 800 in the hands of wholesalers + (4) 600 in the hands of weavers + (5) 400 in the hands of spinners + (6) 200 in the hands of farmers = 4,000. This is also the total of money turnover in the given period of time. This, I understand, to be the rate of flow of prices.

Now it is clear that if consumers had to deal directly not only with retailers but at the same time with wholesalers and producers, the goods of the latter could not be bought.



Mr. Adamson later appears to admit that if my diagram were a true representation of the facts the price factor would be unity and there would be no need for Social Credit proposals. He then says that I think that it nearly always is unity. I wish to deny that most emphatically. *I argued in my article only that the grounds for expecting a chronic and permanent deficiency were exceedingly slight. I am perfectly clear that during periods of depression there is a deficiency. But I also believe that during periods of boom there is a surplus.*

Mr. Adamson then proceeds to give his own explanation of why the A + B theorem is both correct and significant. He sets out to prove, by using my diagram dynamically, "that the rate of flow of prices, and incidentally the prices which the retailer would be compelled to charge for the products in order to cover all costs, would be 3,000 instead of 1,000."

There are certain minor questions in connection with this diagram which I will raise later. Let me turn first to the main argument. Mr. Adamson takes the three periods of time T_1, T_2, T_3, and has no difficulty in showing that in each of these total A payments = 1,000, total B payments = 2,000, and total A + B payments = 3,000. Now in the explanation of my own diagram given above I made the same calculation, but I reached the figure 4,000 instead of 3,000. The explanation of the difference is perfectly simple. I included in the payments the payment of 1,000 by consumers to retailers. Mr. Adamson leaves this out. Surely it is clear that it should be included if we are trying to estimate correctly the total money turnover or rate of flow of prices. But the difference is a minor one, and apart from that I agree entirely with Mr. Adamson's computation.

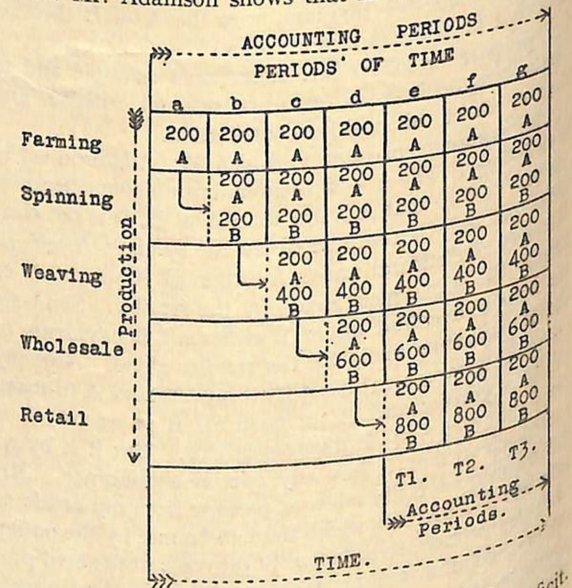
As will be clear, I think, from my own explanation, I do not agree that there is so far any necessary ground for deficiency.

Mr. Adamson then proceeds to "look at it in another way." He says: "Let us assume that at the end of period T_1 analysis of all costs are made, such as might be done at the end of a year. The farmer, spinner, weaver, wholesaler, and retailer will account their separate expenditure on all goods which they have completed, and upon those which are in process of completion; they will place their incomes for the period against these expenditures, thereby disclosing their monetary deficits or surpluses."

At this point the differences between the two diagrams begin to appear. My diagram corresponds exactly with either period T_1, T_2, or T_3 of Mr. Adamson's, i.e., periods e, f, g (except for the fact, noted above, that I also include 1,000 paid by consumers to retailers). But my diagram does not include nor give any picture of periods *a, b, c, or d*. It will be observed that these are periods during which it cannot be said—to use Mr. Adamson's terminology—that "society is in a perfectly steady state of self-repeating movement." For in the first ("a") the farmer alone makes a payment of 200 A; in the second ("b") the spinner has started too—200 A + 200 B; in the third ("c") the weaver has begun and we must add 200 A + 400 B; in the fourth ("d") the wholesaler comes in and we must add 200 A + 600 B; finally in the fifth ("e") (which is also T_1) the retailer has come in and we must add 200 A + 800 B. Thus in "a" total payments, or the rate of flow of prices = 200; in "b" = 600; in "c" = 1,200; in "d" = 2,000; in "e" = 3,000.

It seems, therefore, that while I was assuming production already in full swing, Mr. Adamson is describing how production is started.

Now Mr. Adamson shows that in his diagram, if we



examine the position at T_1, it is as follows:—

	Expenditure.	Income.	Deficit.
Farmer	1,000 ...	800 ...	200
Spinner	1,600 ...	1,200 ...	400
Weaver	1,800 ...	1,200 ...	600
Wholesaler ...	1,600 ...	800 ...	800
Retailer	1,000 ...	1,000? ...	?

The retailer's expenditure is 1,000 and—so says Mr. Adamson—he *can* collect 1,000 from consumers so that his income and expenditure balances. Here, I think, a slip in the diagram appears. In period "a" the farmer pays but is not paid; in period "b" the spinner pays but is not paid; in period "c" the weaver pays but is

not paid; in period "d" the wholesaler pays but is not paid—yet in period "e" the retailer both pays and is paid. Surely it would be more reasonable to assume that he was not paid until the period "f," so that in "e" he was out of pocket to the extent of 1,000.

However, that is a minor point and does not affect Mr. Adamson's essential argument—which is as follows. The result of the analysis of income and expenditure at T_1 is to show "deficits" of 200 to the farmer, 400 to the spinner, 600 to the weaver, and 800 to the wholesaler (I should add also 1,000 to the retailer). These deficits, Mr. Adamson points out, are "represented" by stock of equivalent value at each stage. "Under the existing laws of cost accountancy," continues Mr. Adamson, "the necessity for industry to free itself from debt, and the insistence of the banking system on the repayment of its loans, this monetary deficit will have to be carried forward into the accounts of the succeeding period T_2."

Mr. Adamson then proceeds to work out the effect on prices and therefore on sales of carrying forward these deficits. Prices, he says, must be increased above the capacity of consumers to pay. The deficit cannot be met and must again, in the next period, be carried forward. There will be another re-valuation of prices upwards, and "this process is repeated until it becomes impossible and, in fact, it will be found necessary to curtail production owing to the accumulated unsaleable stocks held by the producers, wholesalers, and retailers."

This whole argument I believe to be absolutely crucial. On it, as it seems to me, the straightforward A + B theorem stands or falls. Very careful examination is therefore required. It will be convenient to examine first the *principle*: do "deficits" arise in this way, and, if so, are they carried forward into prices? Later we may turn to the quantitative reaction of the deficits on prices.

Now I maintain that it is not correct from an accountancy point of view to regard the differences in income and expenditure to which Mr. Adamson has drawn attention as either "losses" or "deficits." In the first place it must be realised that if we had taken not periods a, b, c, d, and e, but periods e, f, and g, alone, no differences between income and expenditure would have arisen. In these three periods the farmer pays out 600 and receives 600; the spinner pays out 1,200 and receives 1,200; the weaver pays out 1,800 and receives 1,800; the wholesaler pays out 2,400 and receives 2,400; the retailer pays out 3,000 and receives 3,000. It is clear, therefore, that if we could, so to speak, start at "e" there would be no deficiency.

Why is it then that if we start at "a," as in Mr. Adamson's account, there is a deficiency? The answer is, of course, that in this case each stage is, for one period of time, paying out something and getting nothing back. The farmer first, and then the spinner, and then the weaver, and so on. But does this really mean that a loss has been incurred? Surely not. What is the balance sheet position at "e," or T_1? It is as represented in the table below.

	Liabilities.	Assets.
Farmer	200 (Debt)	200 (Stock)
Spinner	400 ,,	400 ,,
Weaver	600 ,,	600 ,,
Wholesaler	800 ,,	800 ,,
Retailer	1,000 ,,	1,000 ,,

Now I do not see how it can be maintained that these balance sheets show losses or even deficits. It is true that the debt to the banks has not been reduced, but that surely does not mean that losses have been made. A true loss only appears when Receipts − Expenditure + Additions to Stock is negative. Additions to stock cannot just be ignored in the drawing up of a balance sheet. The use of the word deficit seems to me quite wrong in this connection.

This does not, of course, dispose entirely of the argument that prices will rise. For it may be said that, although there is no trading loss, producers will have to put up prices in order to repay their loans to the banks. Is this the case?

Let me admit at once that so long as (a) money does not pass from hand to hand more rapidly and (b) the size of A payments which producers have to make remains unchanged, it is not possible for industry as a whole to repay money to the banks without a curtailment of production resulting. It follows also that when the banks do everywhere *insist* on a net repayment of loans, and the two other factors mentioned remain unchanged, there must be curtailment of production and depression. That seems to me exactly what does take place during the slump—a point which I stressed in my original article.

But of course this is not the same thing as claiming that producers automatically put up their prices in order to repay bank loans. As Mr. Adamson's statement implies, loans may be repaid *either* because the banks insist on such repayment, *or* because industry is both willing and in a position to repay these loans.

Now it is my contention that the banks do not insist continually on the repayment of loans from industry *as a whole*. If they were to do so they would be deliberately cutting down steadily the total of their advances. They do: (a) sometimes insist on the repayment of loans from individual businesses where they regard the security as poor, but simultaneously increase their loans to other businesses; (b) sometimes—at the peak of the boom and in the early stages of depression—insist on repayment of loans all round, so that there is a net decrease in their advances; (c) sometimes—in the early stages of a boom—increase their loans all round.

Now what actually takes place when the banks *do* insist on repayment? It has been suggested that firms will put up their prices. But a rise in prices will be of no value to the firms unless the goods can be sold at the higher prices. And, of course, as Mr. Adamson points out, the goods cannot be sold at the higher prices. The result is that prices do not rise. On the contrary, firms will probably throw increased stocks on the market in order to try and realise their capital. Moreover, they will have to use their receipts not for buying fresh stocks and employing fresh labour but for the repayment of money to their banks. The more fortunate may simply contract, the less fortunate—and especially those with heavy overhead costs—will be driven into bankruptcy. This will react on the firms from whom they buy, who will find their market disappearing and be driven to contraction and bankruptcy, too. This process is general when the banks recall loans throughout industry as a whole. When, however, the banks are recalling loans from one firm and increasing their loans to another, it is clear that there will be a compensation. One firm contracts and starts a process of contraction, another firm expands and starts a process of expansion.

Mr. Adamson also suggests that loans will be repaid because industry is desirous of freeing itself from debt. I should say that loans will only be repaid when in-

dustry is both willing *and able* to repay loans. Loans will be repaid by a particular firm when its profits are sufficiently large to justify its doing so. Unless its profits are sufficiently large, it will not repay loans. An attempt to do so will, as I have already shown, force contraction, losses, and bankruptcy upon it. The only exception to this is the industrial unit which is deliberately using its receipts to repay capital instead of to replace stock; it is, in fact, then choosing to go out of business to that extent. It is only in this latter case that we could speak of the repayment of loans entering into prices, and we can only do so because we do not at the same time include the replacement of stock. Firms do not, surely, charge, as the inevitable cost of an article to the consumer, both the outgoings—stock, wages, rent, etc.—required to produce the article *and* then on top of that the repayment of capital. Any firm which was fortunate enough to be able to do that in a single year would show a profit of 100 per cent. in its balance sheet. For it would end with assets exactly equal to the value of stock (i.e., equal to the capital sum originally borrowed) and no liabilities at all to set against it.

I have discussed this matter at some length because I believe it is the root of the disagreement between Mr. Adamson and myself. My conclusions are as follows:

1. That the "deficits" to which Mr. Adamson points are not trading losses, but simply the equivalent of the original sums of money borrowed (from the banks) which appear on the Liabilities side of the balance sheet. Opposite, and equal to, them stand on the Assets side the values of stock.

2. That the repayment of bank loans may be due either to (a) the insistence of the banks, (b) the desire and ability of industry to rid itself of debt.

3. That if the banks insist on repayment in a particular case this will lead not to a rise in prices, but probably a fall on account of forced sales of stocks, but this will be followed by contraction and bankruptcy spreading throughout the system. That if the banks simultaneously increase their loans elsewhere a compensating expansionist influence will be set loose.

4. That mere desire on the part of a firm to repay an advance from the bank is insufficient to enable it to do so. That loans will only be spontaneously repaid (a) when a firm is making satisfactory profits, or (b) when a firm is deliberately choosing to repay loans rather than replace stock. Repayment of loans cannot be regarded as a normal cost *in addition to* total outlay on stock, wages, etc.

5. That repayment on the part of all firms is quite impossible in the absence of an increase in the total of bank credit, which naturally adds to indebtedness still further. That depression will follow repayment by one firm making good profits unless it is offset by a new loan by the banks in some other direction.

There remain, I think, only three small points. Mr. Adamson describes the quantitative rise in prices as follows: "By hypothesis, the prices of the goods must, 'in a perfectly steady state of self-repeating movement,' be increased in the case of the farmer by one-fifth to 240, the spinner to 500, the weaver to 800, the wholesaler to 1,200 (since the farmer performs five operations to the spinner's four, the weaver's three, and the wholesaler's two, in one accounting period of five units of time, a, b, c, d, and e). The retailer's B payments will thus be 1.200, and, with an A payment of 200 as before, his cost (A + B) will be 1,400. But since consumers will only have 1,000, as before, the retailer's monetary deficit will be 400." As will be seen, I deny that any rise in prices takes place. But I would point out that the actual extent of the price rise, if Mr. Adamson's general argument were correct, would depend on the time by which the loans must be repaid. Mr. Adamson simply assumes that they must be repaid in another accounting period, "a" to "e." Obviously, if the period were longer the actual rise in price required would be much smaller. But there is another difficulty. Having once reached the point T_1 where all sections are producing, it is surely incorrect to return to "a," where only the farmer is producing. Such a procedure would involve a very strange discontinuity in production, with farmers producing steadily but spinners, weavers, and wholesalers coming in at different intervals. Surely the correct next period to take is T_2 and/or T_3. If T_2 were to be taken, as Mr. Adamson himself appears to assume in another part of his article, then the price rise required would be much greater. In fact, as I have already pointed out, in this case 100 per cent. increases in receipts would be required at each stage.

The second point also relates to Mr. Adamson's diagram. It will be seen that in the periods a, b, c, d, e, taken together the *total* A payments made are *3,000*. Yet when the goods are sold in period "e" Mr. Adamson tells us that the A payments available are only 1,000. The reason, I take it, being that only 1,000 A payments are actually being made in "e" or T_1. It would be interesting to know what happens to the other 2,000 A payments. Are they spent? If so, where? Or are they paid over to the banks by consumers? Might they conceivably be lent to producers?

My third and last point is this. Mr. Adamson writes: "If Mr. Gaitskell imagines, as he seems to, that the prices to be recovered from the consumer consist only of the industrial cost of completed goods, to which may be added, if the nature of the demand permits, a nominal profit, how does he account for the urgent necessity which exists at present for hire-purchase, deferred payment, and such other credit devices as are instituted in order to attract purchasers for the voluminous products of industry?" Hire-purchase systems seem to me quite easily explained. In modern production there are many consumption goods of a durable and relatively expensive character. To buy these consumers can (1) save slowly out of their own money, (2) borrow the money and repay it gradually. The latter is precisely what happens in the case of hire-purchase. The firms which sell are, in fact, the organisers of the credit. They can provide it in most cases more cheaply than if consumers were to borrow directly themselves. An obvious early instance of a hire-purchase institution is a Building Society. In this case, however, the credit machinery is specialised and distinct from the producers. If it be asked why firms should bother to attract consumers (for credit is certainly attractive to many buyers), the answer is that in the state of semi-competition which prevails to-day, when so many firms work under decreasing costs, firms are always trying to acquire new customers and expand production—often at the expense of one another. Hire-purchase may cost a firm nothing at all. But even if the firm bears some of the credit expense itself, it probably gains more from an increase in sales.

May I, in conclusion, make one remark which I feel is not inappropriate. Discussion between "orthodox" and "unorthodox" monetary theorists has been, in the past, so frequently poisoned by unnecessary abuse and derision on both sides. I cannot feel that this is either inevitable or helpful to the cause of truth. Surely we can all examine these admittedly complicated problems in a dispassionate and scientific way. Mr. Adamson set a notable example in this respect in his remarks on my article. I have done my best to follow this. I hope that any future discussions may be carried on in the same objective fashion.

H. T. N. Gaitskell.

Government are doing in a systematic and sure way those things which Mr. Lloyd George would hurry forward unsystematically and less surely. There is no fundamental difference between him and the Government. Thus there is "essential agreement between the tone" of Mr. Lloyd George's speech at Manchester and that of Mr. Baldwin at Chelsea. Agreement in tone means agreement on basic financial axioms, and it appears that the writer is hinting at this for the benefit of those interests who understand what that implies and derive confidence from it. He is suggesting that the only thing wrong about Mr. Lloyd George is that he overlooks the necessity of consolidating confidence as the pre-requisite to the expansion of credit, enterprise and employment. Mr. Chamberlain is the consolidator, and to jeer at his work tends to delay the very progress which Mr. Lloyd George wants to hurry on with. But the writer is by no means so explicit as to convey much enlightenment to British capitalism as distinct from the banking and insurance magnates. Nor can he be unless he explains to them the mechanical financial reasons why Mr. Lloyd George's programme is no better than the Government's. He cannot very well produce the arguments (which our readers know) which would show that all attempts to produce a trade revival by using credit according to accepted anxioms must result in the usual trade cycle, and that the more quickly you travel the more quickly you get back to where you were. So he discreetly leaves this teaching wrapped up in his identification of the two "tones." It is for us who understand to enlighten the business community as best we can on the futility of Mr. Lloyd George's intervention; for we know by admissions elicited from him at his meetings that he regards basic technical principles for using credit as factors which have no deeper significance than many others that are matters of administration, and which, so to speak, can be "looked into" along with them as we proceed with the New Deal.

* * *

In the meantime there are growing evidences of a disposition towards levity in unexpected places. A striking instance appeared in *Punch* recently where the widely-read "Evoe" contributed a skit on the diamond glut in which he offered the suggestion that a burglary syndicate might be formed which, instead of marketing the diamonds with receivers, should take them out to sea in boats and throw them overboard! This would promote a nice steady flow of selling at the expense of insurance companies. This is a "chestnut" to readers of The New Age, and latterly, of course, it has been hammered home by prosecutions for fire-raising. One counsel not long ago took particular pains to impress on the jury what an easy way this was to find customers—you haven't got to advertise—you need not send out travellers—and so forth and so on. In fact he piled it on so much that he might have been arguing the submission that the fact of a fire is proof of a plot. But however appropriate this kind of talk may be in a court of law, we fancy that its ventilation in a journal of the standing of *Punch* will have been considered regrettable in the City. It tends to put perpetrators of these frauds in good conceit with themselves on the one hand, and on the other lays embarrassing emphasis on the existence of the huge "funds" of the insurance combines. Naturally, readers of *Punch* would generally regard it as harmless joking, and would certainly see the snags in the game, nevertheless the idea has aspects which link up with the question of credit-technique, and a person with it fixed in his mind (because it made him laugh) is in a limited sense prepared to look at it differently if he should come into contact with people who are explaining where money comes from—and goes to!

* * *

This reflection serves, in a way, to show that the banker who described credit-reformers as exercising a seditious influence was fundamentally right. Particularly so as concerns those who expound the Social-Credit technique efficiently. For to those who get to understand it, it has the effect firstly of turning their various animosities against each other on the old traditional lines of cleavage and bending them convergently on the State as the tool of the banks. Secondly it has the effect of making them realise a *wantonness* in the new enemy which could not be reasonably imputed against the old ones. The interests of so many small wage-earners are bound up with savings and investments that, if the Social-Credit discovery had not been made, there would have been no generally acceptable answer to the proposition that "we are all capitalists now," and the mass of the people would have been conscious of impotence because there was no enemy to fight, or because if there were he held a large number of themselves as hostages. Thirdly it has the effect not only of identifying a common enemy, but of establishing the fewness of his numbers. It is the realisation of the wanton denial of the claims of the many needy by the few whose needs are not affected that stirs the impatience and engenders the impulse to revolt. It is precisely because Social-Credit offers a practical, orderly, and immediate means of escape from poverty and anxiety that those who come to believe in it will be in the mood to remove obstacles by the shortest method. Social-Credit teaching is bound to produce a militant attitude of mind in every plane of society which it enters, from top to bottom; and though probably none can precipitate the final event of dethroning the bankers, everyone will watch for any feasible opportunity of exploiting intervening events with that end of view. And that, by the way, is why the observance of discipline is necessary by new converts.

"The New Age."

Notice.

We wish to remind our readers that the continuance of "The New Age" depends on their generosity as donors to our funds as well as on their loyalty as subscribers.

Will those who responded to our Notice of last October calling up half the amounts they had promised now send us the balances?

We also ask those who used to send donations in previous years to resume contributing once more. We recognise the multiplication of calls on them by reason of the extension of the activities of the Movement, but ask their consideration of two points: firstly, that the service of "The New Age" is distinct in itself; and, secondly, that the nature of its service is such that it cannot hope for appreciable new sales-revenue from the uninitiated. It is not written for the general public; if it were it would be redundant in view of the existence of other Social-Credit journals with broader appeals.

We also urge the fact that we perform many services outside the mere running of a journal, and can quote appreciative testimony from well-known leaders of the Movement engaged in other activities.

We shall issue an account covering the last six months to donors shortly, and it will disclose to the thoughtful a low cost relatively to influence exerted.

ANSWERS TO CORRESPONDENTS.

A. W. C.—We are pleased to have your letter of appreciation concerning G. F. L.'s article, "Deficiency of Purchasing Power," which appeared last week. It invalidates, as you say, a very large proportion of the arguments usually brought against the Social-Credit analysis. And, for the same reason, it renders useless many counter-arguments belonging to the same restricted frame of reference. A great deal of the controversy that is taking place on the technical subtleties of the purchasing-power problem would be paralleled by supposing physicists were to dispute about the formulae relating energy-phenomenae while disregarding the fact of energy-transformations. We feel, as you appear to, that Social-Credit technicians are, in a deep sense, really allowing their opponents to beg the main question when they consent to argue in terms of diagrams. These at best can only assist inquirers to apprehend some of the merits of the case. No diagram can compel complete conviction, and there is no way in which anyone who has a complete conviction can project it in its totality on to paper in a form intelligible to an inquirer. In the end everyone has to work out his own conviction—not, let us hope, in the fear and trembling spoken of in holy writ, but certainly by the process of patient, systematic thought on all the relevant facts. Full conviction depends for the one part on the *scope* of the mind, and for the other on the *attitude* of the mind. The first is a matter of mental capacity and the second is one of psychological propensity. The "compleat wrangler" in this field of research is born, not made. Comparatively few are born, and of these few most are unmade by the early moulding and misdirection of their minds under our bank-ridden educational system. In this context we are constrained to say that nobody yet realises what an enormous difference it made to the progress of the Social-Credit Movement that Orage, in 1919, had been for years teaching his followers to challenge axioms and to detect irrelevant facts. The scope and attitude of his mind were the cause that so many of his readers were ready to follow his lead when the last axiom to be challenged was held out for inspection and test.

W. B. (South Africa).—Thanks for cuttings from *The Highway* of November last. We note Mr. E. F. M. Durbin's statement in it that we "ran away" from an "intellectual battlefield." At this distance of time we cannot remember whether his reply to the reviewer of his book in this journal was followed by another which we did not print. It may have been so; but whether we or our reviewer broke off the correspondence, the suggestion that this was necessarily due to cowardice will carry no weight with those who are familiar with journalism. We can only say that out of all the criticisms which have come before us in our twelve years' experience we have primarily selected for publication just those which we considered might be the most difficult to answer. If Mr. Durbin considers that his second reply contained criticism of this nature, let us hope that Mr. Gaitskell's article in this week's issue revives it. In any case there are plenty of journals now which welcome articles on Social Credit—both for and against—so if anything damaging can be said on the subject our readers will come across it and advise us.

THE LABOUR PARTY AND SOCIAL CREDIT.

The Social Credit Secretariat has so far declined to meet the Hiskett Committee, appointed by the Labour Party to restate the Party's views on the Douglas Credit Scheme.

The reason given for the refusal is that each of the three members of the Committee—Messrs. Hiskett, Durbin, and Gaitskell—"has expressed in print his disbelief in the technical soundness of the Douglas proposals, and is therefore committed to an adverse report."—(*Reynolds's*, February 10.)

Social Credit Demonstration.

At Central Hall, Westminster, Thursday, March 21, 1935. Speaker: A. L. Gibson, Esq., F.C.A. Chairman: The Marquis of Tavistock. Time, 8.15 p.m.

Meeting organised by the London Social Credit Club. Tickets: 2s. 6d., 1s., and 6d., obtainable from THE NEW AGE, "The New English Weekly," "Social Credit," and from the Box-office, Central Hall.

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Forthcoming Meetings.

Birmingham Douglas Social Credit Group.
March 13.—Open Night, devoted to general discussion on Social Credit.

Cardiff Social Credit Association.
Friday, March 1, at the Angel Hotel. Mr. Arthur Brenton on "Bankers and Conspiracy." Time 7.30.

Belfast Social Credit Group.
Thursday, March 14. Lecture in Ulster Hall, by Major C. H. Douglas. Further particulars later.

Manchester D.S.C. Association.
February 28. Joseph O'Neill, B.Com., on "Social Credit: Its Meaning and Purpose." Milton Hall, Deansgate, Manchester, at 7.15 p.m.

Published by the Proprietor (ARTHUR BRENTON), 70 High Holborn, London, W.C., England (Telephone: Chancery 8470), and printed for him by THE ARGUS PRESS, LIMITED, Temple-avenue and Tudor-street, London, E.C.4, England (Telephone: Central 3701).