THE
NEW AGE
INCORPORATING "CREDIT POWER."
ORGAN OF THE NEW AGE SOCIAL CREDIT SOCIETY
No. 2361] NEW SERIES Vol. LXII. No. 6. THURSDAY, DECEMBER 9, 1937. ANNUAL SUBSCRIPTION TO THE SOCIETY 30s.

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Alberta.

The Libel Trials.

Canadian newspapers containing summarised reports of the trials of Unwin and Powell are to hand, but they were published too early to contain full texts of the proceedings and particulars of the grounds on which the appeals have been lodged.*

However the observations made by Mr. Justice Ives when sentencing Powell are reproduced, and they clear up certain points on which we have been in doubt. Other points are cleared up by these newspapers' own reports and comments.

The charge on which Unwin and Powell have been convicted is that they not only published a defamatory libel, but did so "well knowing" that the libel was "false." The prosecution, however, had also brought the lesser charge of publishing the libel alone, that is, irrespective of whether the publishers knew it to be false. Hence, if the prosecution had failed to secure a conviction on the dual charge it would have been able to fall back on the single, alternative charge.

There were thus originally four charges, not three: to wit—

1. Defamatory libel with knowledge of falsity;
2. Defamatory libel *per se*;
3. Sedition;
4. Incitement to murder.

For so long as all four stood as a composite indictment there would appear to have been no option but for a prosecution under the criminal code. If charges 3 and 4 had not been included there would appear to have been an option for an action under the civil code. In that event the complainants could (so it would seem) have demanded retraction and apology, with or without damages, under the threat of instituting proceedings otherwise.

As it was, the criminal code was invoked and the trial fixed accordingly. After that had been decided, a "stay of proceedings" was decided on in respect of charges 3 and 4. The resulting situation was that neither the complainants nor the defendants were now able to come to terms with each other. For under the criminal code, the aggrieved party, once having moved the machinery of law, must abide by the form of redress allowed him by the law, which, in this case, did not include "settling out of court." It is for him to prove the guilt, and for the law to visit the penalty.

[*Later.—Unwin's grounds of appeal are summarised in the *Edmonton Journal* of November 13. One is that the conviction is "against the law and the weight of evidence"; another, that "the prosecution did not prove that a breach of the peace was likely to occur"; another, that "the jury did not state on which one of the two charges the accused was convicted."]

At the trial of Unwin the jury must have been aware of the four charges originally brought, even though they were called upon only to deal with charges 1 and 2. Did their awareness of the suspended charges 3 and 4 incline them to give the prosecution the benefit of the doubt on that part of the dual defamation charge which imputed to Unwin knowledge of its falsity?

This is a question which the Appeal Court of Alberta might be asked to consider next January if Unwin carries out his intention to appeal. Jurymen are not logicians; and when they are asked to convict a defendant as a liar as well as a libeller they might easily (and quite unconsciously) arrive at the notion that a person who had laid himself open to charges of sedition and incitement-to-murder was more likely to speak knowingly against the truth than not. So there is ground for the proposition that if charges 3 and 4 had never been formulated Unwin might not have been convicted of bearing *false* witness, but only *adverse* witness, against the complainants. Hence counsel for Unwin could, at least, ask for a reduction of the sentence passed by the lower court.

Going back earlier, some questions arise about the search warrant. Under what Act was it secured, and what is the text of the Section authorising the issue? Further, was the search to be only for copies of the particular leaflet which has figured in the trials, or for any documents at all that the police might discover on the premises of the Social Credit League? Lastly, did the police base their application for the warrant on the ground that the leaflet in question (which, it will be remembered, had been exhibited in the Legislature and its contents known to the police) contained the element of defamation only, sedition only, or incitement only, or any two in combination, or all three? If defamation only, does the law allow citizens who consider themselves defamed to procure search warrants in the circumstances here in question? If sedition or incitement (or both) why were the defendants not tried on these major offences? In any case, did the law allow the complainants or the police the alternative option of moving for an injunction to restrain the Social Credit League from distributing the leaflet? Technically the leaflet had been "published" (the printers had seen it, so had members of the Legislature), but it had not been broadcast, so the mischievous elements in it were only potential at the time when the search warrant was issued, and

remain so to-day, except insofar as the trials have familiarised the public with its contents.

The reason why we put these questions is this: that from an impartial layman's point of view it would have been better (provided there were no legal obstacles) if the authorities, having alleged criminal offences 3 and 4 (against the State) in addition to civil offences 1 and 2 (against private citizens), had elected to proceed with the criminal charges and to stay proceedings on the civil charges, instead of the other way about. And this procedure would have been more in accord with their traditional doctrine that the security of the State comes before the security of the individual citizen. It would certainly have been more to the advantage of the defendants, because their defences on the lesser charge of defamation may well have been weakened by the known fact that worse offences might be charged against them later on. The Appeal Court of Alberta might reasonably take this into consideration when reviewing the penalties now imposed on them.

It appears from the observations of Mr. Justice Ives when sentencing Powell, that he (Powell) had prepared the matter which appeared in the leaflet, but there was conflict of testimony between Powell and Unwin on the question of whether he (Powell) had authorised the action taken by Unwin concerning the printing of the leaflet. His Lordship said that he accepted Unwin's testimony where there was any conflict. He referred to Unwin as a "glorified office boy" who was carrying out instructions from his "superiors." He also referred to Powell as being, not a "technician" but a "propagandist," and, as such, carrying out a policy which he (Powell) had held out as designed by a "master mind," particularly as regards the "pillorying" of the men whose names were published in the leaflet. His Lordship had formed the impression that Unwin had been unwilling to inculpate Powell in his evidence: and he described Powell as an "evasive" and "dodgy" witness.

His Lordship found that the matter in the leaflet was: "Libel within the section as such of the Criminal Code," and that: "it was published by the accused to Unwin, and I find him guilty." He then spoke on the political significance of the event in these terms:—

"It has always been my view, and I think the view of most men of thought, that the most solid foundation in a State for social progress, contentment of the people, is a law-abiding population. The signs have not been lacking recently in this province that there is a growing turmoil among the people and a growing disrespect for the law. The next phase logical to follow with this is one of turbulence. Then you may look for breaches of the peace."

Addressing Powell, he continued:

"The evidence in this case has clearly shown that you are in part responsible for this condition of turmoil. It has been aroused by propaganda such as has been exhibited here in the shape of pamphlets in this court room. It has descended to where it finally becomes defamatory libel."

While we do not dispute the relevancy of these observations to the conviction on charges 1 and 2 (false defamation) we submit that their relevancy would have been closer, and their cogency stronger, if they had followed a conviction on charges 3 and 4 (sedition and incitement)—charges which were not before the Court. Thus there appears to have been an element of overlapping between two frames of reference or circumstance.

The cause of this overlapping seems to have resided in the fact that the whole of the matter in the offending leaflet was admitted as an evidential exhibit, whereas a part of that matter was not relevant (or extremely remotely so) to the charge before the Court, namely, the injunction: "exterminate them." We submit that this injunction should not have been brought to the cognisance of the jury (in Unwin's trial) unless the accused had been charged with incitement as well as defamation. Since the prosecution were asking for a conviction only on the charge of defamation, the evidence on which they should have relied was that part of the leaflet which contained the epithet: "bankers' toadies" together with the "creepy crawly" comparisons associated with it in the text. To secure the conviction of one person for defaming another it is obviously not necessary to prove that the accused intended physical harm to befall him. In this case it was necessary only to show that the leaflet held the complainants up to "ridicule and contempt" in such manner as to commit an illegal act.

So either the matter in the leaflet should have been "edited" to fit the charges 1 and 2, or, if not, the jury in Unwin's trial should have been specially enjoined to dismiss from their minds the injunction about extermination. The first, and better, alternative would seem to have been feasible, because, at the moment when the decision to prosecute the accused was taken, the contents of the leaflet were known only to members of the Legislature, or, if known outside, only through repetition by those who participated in or listened in to the complaints raised in the Legislature when the leaflet was first placed there. That is to say, the leaflet had not been published in the ordinary sense of the word, as is borne out by His Lordship's finding that Powell "published" the libel to Unwin, while Unwin, as is known, "published" it to the printers. (Publication to members of the Legislature in the Legislature was within the rules of privilege.) Thus knowledge of the leaflet, and the possible mischievous consequences thereof, were severely localised; and that circumstance afforded the prosecution an opportunity to "edit" it as a legal exhibit.

The Gazette (Montreal) in the course of a leading article on the two trials in its issue of November 17 makes the following comment:

"When the first trial, that of Unwin, began before Mr. Justice Ives and a jury at the beginning of last week, there occurred a significant incident. The Crown prosecutor informed the court that upon instructions from the Attorney-General's department he would refrain from preferring an indictment or from taking part in the prosecution. A private prosecution was then given permission to proceed, and the trial went on."

The significance to which the writer calls attention is to be inferred from his further statement that—

"it has been the general belief that Aberhart and his colleagues acted upon this gentleman's [Powell's] advice in securing enactment of the legislation which was disallowed by the Ottawa Government and the repeat legislation which is now going before the courts on the question of constitutional validity."

Presumably his suggestion is that Aberhart did not want to be party to the prosecution of his adviser. Well, that is nothing to make a song about. In fact the relations between Powell and the Alberta Cabinet (including the Attorney-General) would have lent some colour of impropriety to Aberhart's having anything to do with the conduct of the prosecution. And this brings in again the question of who was responsible for the invoking of the criminal code in respect of a civil offence. At every turn we come up against the involved permutations and combinations of the four charges originally preferred. If the writer wishes to suggest that Aberhart (the Attorney-General) used his influence to get the charges 3 and 4 dropped, leaving charges 1 and 2 standing, let him say so. But if the Attorney-General was not party to the dropping of them, his declining to act on the remaining charges could be taken as an indication that in his judgment these charges were a matter for civil action between two private parties.

The writer opens his article with the remark that the convictions of Unwin and Powell "cannot but have some effect upon the fortunes of the Aberhart Government . . . the effect upon public opinion is bound to be adverse to the Government *and its policy*." (Our

THE
NEW AGE
DEBATING SUPPLEMENT
No. 3. THURSDAY, DECEMBER 9, 1937. Gratis. Extra copies 2d. each

CAPITAL IN PRICES.

Mr. Franklin has seen, and replies to, all the letters in this Supplement. Pressure on space compels us to hold over some correspondence. We have held over "Nemo's" letter because Mr. Coleman supports his arguments. "Nemo's" letter will appear next month.

Will correspondents respect the admonition once addressed by a certain gentleman to another, as follows: "Sir; I should see the point that you are making more clearly if you would refrain from pushing your beard in my face."

From B. C. Best.

In your supplement of November 4 Mrs. Bing states that there is no "economic difference between capital goods and consumable goods." There is, however, a vital economic difference. It is true that the *production* of the "fabric of any capital asset," and the *production* of a consumable asset—such as soap—are both financed by a loan. The difference comes later in the *purchase* of these different commodities when completed. For whereas the purchase price of the finished capital asset is financed by (a) a loan, or (b) savings (i.e., investment), and has to be recovered, thereby *creating* a debt against the community, the purchase price of the consumable asset is met by current income, and *discharges* a debt owing to industry. (In other words, I *invest my savings* in capital goods, but I *spend my income* on consumable goods.)

Mr. Franklin, in his letter, rightly states that the deposits created by bank loans become "debts owed by a bank." In actual fact, the banks could no more meet their liabilities to the community if called on suddenly to do so, than industry could meet its liabilities to the banks. Each exists in a state of virtual bankruptcy in relation to the other. The difference arises when the banks—as in 1914—finding themselves unable to meet these liabilities, applied to, and obtained, accommodation from the Government enabling them to do so. Industry, however, is in no such fortunate position, and can be made bankrupt at the Bank's will and discretion if the latter chooses to call in its loans (i.e., deflate), in which case the banks become the possessors of industry's wealth, or real assets.

True, banks have been known to go bankrupt, and many were wiped out in the American depression. But this merely shows that small commercial or industrial banks are, or were, as much at the mercy of central banking policy as industry is itself. Social Credit, however, would enable industry in its turn—through the National Credit Office, and, by means of the discount and the dividend in an orderly and scientific way—to pay its debts to the banks, and would therefore place industry in as strong a position in relation to the banks as the banks are at present in relation to industry.

From L. C. J.

I must confess that I do not understand the bearing on my illustration of Mr. Franklin's statements (1) that profits are not an addition to costs, (2) that depreciation costs are distributed. These statements appear to me to be both vague and inconclusive in their application to my figures, which, having regard to the use to which they are put, quite properly take into account profits as an addition to costs in prices and allow for distributions arising from depreciation charges to the extent to which such charges are obtained in prices. On the subject of depreciation charges, I gather that Mr. Franklin is contending that these charges are financed by an industry in the same way as other costs through the medium of working capital. Whilst there are important considerations which arise on working capital, it is only necessary for me on the above contention to state that it does not correctly represent the position either in theory or in practice. It is generally accepted, I think, that the working capital needed to finance production consists of such sums as will cover the actual out-payments which it will be necessary to make from the time when production first begins until the goods produced become revenue earning through sale. Depreciation charges are of a special nature in so far as they are made with the object of providing a fund to meet an expenditure which it is estimated will require to be made at some future time on the replacement of an asset at the end of its useful life. Profits, although different in nature, have one characteristic in common with depreciation charges, since they represent in the case of any article put upon the market a claim in price to more than has been paid out upon such article previous to marketing. This distinction between depreciation charges and profits on the one hand and the remaining constituents of price on the other is vital to a proper analysis of the position. The plain fact of the matter is that depreciation charges and profits, so far from being adequately financed, are left to the mercy of competition on a market, which is normally incapable of meeting all the claims of this nature made upon it. I am, of course, conscious that my illustration presents a degree of simplification which does not actually exist in the present system, but I claim that this illustration brings out clearly a fundamental difficulty which operates continuously within the system, and that any circumstances or combination of circumstances which can be urged in mitigation of the difficulty will be found to be inadequate in finally overcoming it. The alleviating influence of credit expanding conditions is, of course, important in so far as the resultant expenditure tends initially to generate additional incomes at a faster rate than it creates additional claims against such incomes, but as soon as this phase is passed, the alleviation fades away and the "trade cycle," which is in fact a monetary cycle, reasserts itself. Will Mr. Franklin kindly look at my illustration again, and, in the light of the foregoing remarks, give us the benefit of his further criticism?

I am sorry that Mr. Franklin puts an interpretation upon the concluding paragraph of my letter which was never intended, nor, I venture to think, conveyed. I did not urge the difficulties to which I referred in support of my theory, but in contradiction of his claim to a self-liquidating economy, and I still think my criticism holds good.

From A. W. Coleman.

I must apologise to Mr. Franklin for stupidly misunderstanding him in respect of interest paid to a bank. He and I had both been explaining to Mrs. Bing that the payment of interest to an individual bondholder caused no shortage of consumer-income. When Mr. Franklin said that the result was the same in the case of a bank, I jumped to the conclusion that he meant the result was the same when a bank was the bondholder.

Interest paid to a bank on its direct *loans* is, of course, the payment of bank prices for book-keeping, clearing, and other services rendered; it reimburses the bank for costs incurred; but the payment of interest to a bank as a *bondholder*, i.e., the payment of interest on bank *investments*, is a very different matter, and results, as I showed, in an increase of the costs/income ratio. This applies not only to banks, but to insurance companies and other trading concerns in receipt of large annual interest payments on their share and bondholdings—more than they disburse as dividends or use to subsidise their prices.

Mrs. Bing says that investment does not produce a shortage of purchasing power, because if effective demand is reduced prices will fall. But the Social Credit contention is that investment causes a shortage of incomes relatively to *costs*—not necessarily to prices, which may fall below costs for a while.

Concerning her statement that there is no economic difference between capital goods and consumable goods, may I point out one very important one.

When consumable goods are purchased they are taken right out of the industrial system and that is the end of the matter. The costs are defrayed, and the money used for

this purpose may properly be cancelled (or immobilised). But when capital goods are purchased, they are *not* taken out of the industrial system. Although their costs have been defrayed, they remain *within* the system, and charges against consumers will continue to be made in respect of them, unbalanced by any payments *to* consumers unless the industrial system is expanding and getting into debt at an ever-increasing rate.

I feel sure most of your readers will share my disappointment over Mr. Franklin's reply to the "parables" put forward by "Nemo."

In brief, "Nemo" points out that when capital assets are financed by loan, and investors defray the costs by share-subscriptions, out of their consumer-incomes, which are used to repay the loan, the volume of consumer-income at the end of these operations is no more than it was at the beginning. (And the final result is the same if the construction of the capital assets is financed by working capital.)

He then asks from what source consumers can meet the depreciation charges which will appear in the prices of the products of the new capital assets.

In Mr. Franklin's reply it is difficult to find any appreciation of the factor of time. He points out that industry will have to distribute incomes to get the work of replacing the capital assets done—a fact which no one questions. He does not explain how a distribution of income (say) twenty years hence will enable consumers to meet depreciation charges to-day. It is no reply to say that they can be met from replacement payments issued by other concerns; that only shifts the difficulty to another part of the industrial system. One cannot make good a shortage by transporting it. It is beside the point to say that "depreciation costs are distributed," if the distribution occurs twenty years after the costs appear in prices.

Mr. Franklin appeared to be on the point of tackling this problem at the end of your October issue, when he announced the entry of an eighth man at an eighth window. Instead of following up this most promising trail, he now, under the pretext of "beginning at the beginning," introduces columns of highly contentious matter on the ownership of bank credit, which has nothing whatever to do with "Nemo's" problem.

The only matter concerning bank credit which *is* relevant to "Nemo's" case happens to be the one point on which both Mr. Franklin and his opponents are agreed, viz., that credit issues are creations of money, and credit-cancellations are destructions of money—using the term money as defined by Mr. McKenna.

The rest constitutes a red herring drawn across the trail. It is a good fish, and should provide an entertaining repast in due course, but I submit we are entitled to request Mr. Franklin to remove it to cold-storage and deal directly with the "self-liquidation" question.

It should not be a lengthy business. He merely has to explain how *current* depreciation charges can be offset by *current* payments to consumers without (1) causing a lag of incomes behind costs, or (2) necessitating indefinite expansion of the system. In his explanation he must continually bear in mind that money invested is used in two ways, (a) for purchasing capital assets, and (b) for providing working capital; and he has to show, after a careful examination of Mr. R. N. Temperley's letter on "Price-Income Shortage" in your issue of November 4, how self-liquidation is possible in the case of (b).

From Gladys F. Bing.

May I be allowed to point out that Mr. Franklin has wished me off the field of argument while running away from me? I am Mr. Franklin's opponent because I agree with Douglas, Marx, and Bellamy that there is a gap between incomes and prices. I agree with Mr. Franklin that Douglasites have, so far, been hunting the snark where it isn't. But that is not to allow Mr. Franklin's assertion that there is no snark.

It will clear the issue if Mr. Franklin will proceed from the point at which he abandoned any reply to my demolition of his dream of borrowing £100 from X. He now says that when he borrows £100 he allocates £5 to X, and distributes only £95 to himself and book industries. So he pays himself his own profit out of money he borrows at 5 per cent.! Or doesn't he? Because, if he doesn't, then he must charge his profit into the prices of his books. In which case he has distributed only £95, but must recover £95 plus profit.

As a woman with a good deal of business experience I advise Mr. Franklin that if he ever comes down to earth and engages in real industry he had better try the latter method!

The flaw in Mr. Franklin's case is that he imagines there is some difference between profit and interest. In economics there is no difference. A man saving £100 to open a shop lends that money to himself exactly as X lends £100 to Mr. Franklin. The saver has the financial onus of charging his customers rent for his investment of £100 in his own business, and he must collect that rent or perish financially. The same applies to all investment, large and small.

Douglasites should long ago have taught Mr. Franklin and his like that rent for any investment must always be a sum not contained within the investment. This omission in Social Credit propaganda bears its lamentable fruit in Mr. Franklin's intense preoccupation with one particular trade: banking. The banker is a red-herring Social Credit should long ago have put in his proper place—at the head of *all* moneylenders, great and small. (This follows Mr. Hiskett's advice and sees the "industry as a whole"!) It does not matter whether the bankers *create* money or not. Somebody must. It has always puzzled me why Douglasites should blame the banker for *creating* money to let out on hire more than they blame the average sadist who commits the crime of thrift in order to accumulate surplus money. The essential point is that charging a *rent* for loans of money creates the shortage, no matter who issues the loan or whether it is saved or created.

Mr. Temperley misses this point in his admirable letter. He fails to observe that the act of saving merely withdraws effective demand, and so reduces prices until such effect is mitigated by the expenditure of the savings on labour for Capital enterprise. Saving without investing merely precipitates the slump in prices which Chamberlain's War Loan is designed to postpone.

D. G.'s "intelligence exercise" in "If All Prices Were Taxes" contravenes Douglas's most sacred and precious tenet: that all taxes are robbery. In the community cited, if the bank debited the Government with £100 issued to the producer, no such anomaly as a sales-tax could enter. The repayment of the total loan itself by the producer to the Government would leave the banker with no interest and the producer with no profit. If the Government collect the bank's interest by tax, then the ninety-nine other inhabitants would feel an income-shortage. If the producer collected a profit, ninety-eight would feel the shortage.

To remain consistent with the inviolable truth that taxation is the premier and paramount weapon of money-power against humanity, the way to abolish the shortage of purchasing-power that is inherent in the practice of Capitalism is to Socialise Credit; let the Government issue all loans, charge no interest, and so release all mankind from the misery of bureaucracy, overdrafts, and murderous competition.

Douglas has said it. "New enterprise shall be financed with new money and not from savings." Interpolate "interest-free" before "new money," and Social Credit will inaugurate a self-liquidating system without any shortage of purchasing-power and with no need to control profits; where the bugbear of dividends becomes a financial expression of Christian economics: human equality in Democracy.

From J. A. Franklin.

Mrs. Best in the last Supplement expresses preference for the term "recovery of capital" to define maintenance. Not much objection could be taken to the phrase but for the false interpretation Social Creditors are likely to put upon it. "Recovery" would be the more apt word only if consumers had to provide new parts or machines for the capitalist without cost to him. But, of course, the capitalist has to buy his replacements from the community; no way of obtaining them is open to him but that of paying incomes to people.

Mrs. Best avoids consideration of my illustration of payments between industry and consumers to cover depreciation by asserting it to be useless because it "assumes" that the public who pay do receive the money. Well, the only assumptions I make—and they seem to me reasonable—are that workers engaged in upkeep of capital equipment are paid wages; that those who make new machines are also paid; that depreciation is made good by paying for work to be done at a rate at least great enough for maintenance or, to quote Mrs. Best, "that machines are being produced at a rate sufficient to do so."

In the passage from page 24 of the *New and the Old Economics* which I quoted in the first Supplement and which Mrs. Best dismissed as "irrelevant," Douglas recognises this, but proceeds to claim a shortage on the grounds that original capital costs are brought forward in the price of consumption goods—the original cost as well as the working, maintenance, and replacement costs. That is the fallacy behind his words "the (invested) money creates a second price value, but does not produce any fresh money." Of

course it does not and need not, even must not, produce any fresh money. What has been produced is new real wealth—an asset and not a debt against anyone, to meet which they have to find money. The investor has received value just as if he had bought bread and the money, having done its task, is rightly retired. He can put a price upon his new holding and, should he wish, sell *to another investor*. But he has not produced a second price *against consumers*, for the simple reason that consumers are not going to buy his investment. The Social Credit misunderstanding is expressed well by Mr. Paul Hampden in *The Fig Tree* of September, 1936. He says that "the money value of the entire investment must now be recovered in prices for future consumers' goods," and speaks of "the repayment of principal, plus returns on the investment, plus depreciation." A mere bowing acquaintance with business and affairs should prevent this error. An investor requires interest or profit—yes; he requires payment to equate his expenditure on depreciation—yes; but he does not also require consumers kindly to pay him so preposterously "the money value of the entire investment." The serious nature of this flaw in Social Credit doctrine can be appreciated when it is realised that National Dividends are based on capital values on the mistaken assumption that the values are debts consumers have to meet. (See clause I of the Scheme for Scotland.)

Major Douglas has previously underlined his misunderstanding by writing (*The New and the Old Economics*, page 12):

"I trust Professor Copland will not consider me unduly elementary if I explain that a cost is created *either* by the application of paid labour to production, *or* by the allocation of book costs in respect of previously incurred expense, or by both together. Payments to labour distribute purchasing power to consumers, who supply the labour as workers, *and* create costs which go into prices of the goods they produce. The allocation of book costs does not distribute purchasing power, but is the presentation of a claim on purchasing power *already distributed*, and is met, if it is met, by the inclusion of the sum claimed, in price."

This is certainly elementary—it is the elementary mistake that runs through all Douglas's work, from A plus B to Z. Costs are not created by book entries; costs are created only by payments to people for their work or for the use of their capital. Prices will be raised to include profit, but that is not an addition to costs and is met by a redistribution of total income. In the last analysis, it is taken out in goods, as our Editor has frequently explained. In answer to a correspondent in THE NEW AGE of February 12, 1931, he put it admirably as follows:

"A bank is no more involved in increasing loans because it is making a profit than it is because other successful enterprises are doing so. The reason is that fundamentally there is no such thing as a money-profit; profit in actuality is goods; and the ultimate realisation of profit is the distribution of goods. Industry's profit consists not in getting more money for its total production than it spends, but in getting back all it spends against delivery of only a portion of the production—and as small a proportion as possible. The balance is valued in monetary units, but it is not itself money. This is true within a closed credit area—i.e., it is universally true."

Now here goes for what I hope is a reasonably final statement of the situation as regards saving, investment, depreciation, maintenance, and replacement.

In the first place money is collected, not from the public as a whole, but from certain members of the public, for investment. (Even if the plant is first paid for by a bank overdraft and the overdraft wiped out by money subscribed by investors the position is still really that certain investors have paid consumers for making the plant). The consuming public now has the money which was taken out of the consumers system when it was saved and the effect of the transaction is that instead of themselves obtaining consumable goods the investors hold capital goods. It is not true to say that consumers have paid for the plant. Because it is privately owned it is paid for not by the general body of consumers but by a much smaller body of investors, and as those investors allow the plant to be used up in the process of production of goods they naturally expect consumers—who have been paid for making the plant—to pay for the use of the plant in their service. They do this through the depreciation charges which appear in the cost of the goods they buy.

To suggest, as Social Creditors do, as a sort of side-line, that the community is paying a second time for the same plant is quite wrong. If you look at it from the point of view that the investors have provided the plant, then the consuming public have not paid, until they pay, in the form of depreciation, for the plant which they are actually consuming. If, however, you prefer to look at the matter from the point of view that the investors are part of the consuming public, and because investors have paid for the plant in the first instance, consumers, *as a whole*, have paid for the plant, then the answer is that equally consumers as a whole—including investors—are obtaining a second lot of plant in return for the second outlay. In other words, the community as a whole has worn out the first lot of plant, and *is paying for a second lot to replace it.*

Nor can blame be put on the maintenance of capital assets, because this maintenance is merely the replacement of what is used. It is a separate system in itself, and so long as the purchasing power taken from consumers in depreciation charges is equated in the same period by an equal amount paid to consumers for making replacements, there is no deficiency. It is true, of course, that owing to boom and slump this does not always occur, and you get instead a surplus at one point and a deficiency at another point. So long as the community is merely replacing its plant at the rate of its depreciation the amounts taken from the consumer in depreciation will be coming back to consumers in the form of payments for making the replacements, and the consumers' net income will not be affected.

Major Douglas, in his theorem, treats capital assets as something which the consumer requires to buy *directly*, just as he buys consumer goods. But this is clearly not the case. He no more needs to buy capital goods, as such, than he needs to buy raw material, or semi-manufactures, as such, and when the depreciation charges on plant and machinery appear in prices, they are just as much a cost of production as any other item of cost. In other words, the community acquires the plant in order to maintain it and, as it is depreciated, the replacement costs appear in the prices of the goods produced, as a cost of production.

One illustration in an effort to make both sides clear. Take a token figure of £100 saved and used to build a factory. It then goes out of existence and the community are where they were before, but with a new plant which cost investors £100. Yes; which COST £100. This is where Social Creditors triumphantly point out that a new industrial cost of £100 has been created, but the actual £100 representing it has gone for ever (except to be issued as a fresh cost). They say that the plant is valued at £100, and depreciation charges totalling £100 must be met by the community at a rate of, let us say for convenience, £1 a week. This sum, they will say, is entered into the price of the goods over and above wages, salaries and dividends distributed to workers in the plant. But, they will continue, the only purchasing power *is* wages, salaries, and dividends. Price is their sum total (A) plus £1 a week (B). A cannot purchase A plus B. The remedy is to restore to consumers the wrongly retired £100 and to cancel it at the rate of £1 a week, and thus the reality of physical depreciation will be faithfully reflected financially, and only in that way can consumers meet the total costs and prices. The answer is as above and as follows:—

1. Consumers have not now to buy the plant.
2. Therefore the possession of the £100 at this moment at least is unnecessary and inflationary.
3. They will, however, normally maintain it. Let us say the job devolves upon one individual continuously who is paid £1 a week.
4. Then in the price of the goods from the plant is included £1 a week "depreciation" charges. These are not charges for the original plant, but are represented by payments for making another set of plant.

Even if the £1 a week is collected and, instead of at once being used to pay the man to do the maintenance work, is actually hoarded and then paid out at the end of one hundred weeks to renew the now completely worn-out plant at one go, *then there is no deficiency*. Some disequilibrium would be caused, a fact realised by every economist; it constitutes part of the problem of relating savings to investment.

But whether in bits or in one whole the community is merely receiving and paying for a SECOND lot of plant. The money they receive and pay for it is technically known as depreciation costs and charges. There is no cost over and above wages, salaries, and dividends distributed. Price is A, not A plus a phantom "book-charge," B.

The foregoing broad statement should, I feel, be the comprehensive reply to letters in this issue. I hoped I had made clear why economists can only reject such claims as "the finished capital asset . . . is a debt against the community" (Mrs. Best); "profits are an addition to costs" (L.C.J.); "depreciation charges represent . . . a claim in price to more than has been paid out" (L.C.J.); "rent for investment must always be a sum not contained in the invest-

ment" (Mrs. Bing); "charges against consumers will continue to be made in respect of capital goods unbalanced by any payments to consumers" (A. W. Coleman).

Mrs. Bing: If she would not dismiss my example of borrowing from X, but meditate upon it, light might come to her. She cannot see what our Editor and most Social Creditors, with the notable exception of Major Douglas, do know—that the acquisition of profits is an exchange of extra goods effected by means of money-tokens, but not requiring an increase of them. Strange though it may seem to Mrs. Bing, I can pay £5 to X, £95 to others, recover only my £100 costs, and yet make a net profit, not at the expense of the others, but to their profit as well as mine. How the flaw in my case can be that I imagine a difference between profit and interest I fail to see, for I said in my first letter that the charges and their payment are identical in essence.

L. C. J. surely views profits as does Mrs. Bing, and that was one of the defects in his illustration. Because they have not been distributed by industry, he contends that industry's claim to profits cannot be met. Well, the answer is printed above; in addition, he should realise that because industry does not pay out money in respect of profit, this item cannot possibly be one of the components of cost. I am sure L. C. J. gets muddled by the fact that profit is a component of price, and he identifies cost with price, and thus confuses the two. In his other contention he joins up with Nemo and Mr. Coleman. The idea here is that depreciation charges are claimed on the price of an article, although they have not been paid out "previous to marketing"; Mr. Coleman speaks of "the factor of time."

But it is not generally the case that replacement costs are not paid out "previous to marketing." In modern many-processed industry exactly the opposite occurs. An article goes through a number of manufacturing concerns covering an average production period of months. During that time the manufacturers have weekly, even daily, to pay for repairs and replacements, since the efficiency of a machine cannot be allowed to deteriorate. Months later the ultimate consumer, when buying the article, delivers up his payment for the depreciation. This factor alone would compensate for cases where the consumer pays before the entrepreneur pays him. Mr. Coleman is right in saying that the time factor is important, but, as Major Douglas points out, time implies rate. That is exactly what does matter, and it allows us to check up theory by fact. Does industry maintain its assets or not? The answer is that normally it does, therefore it must be paying out at the rate it is charging. The only possible reply to this is to assert that, even so, it charges more than maintenance and replacement actually cost. The answer is that, were this so, the amount recovered over costs is profit, a redistribution of income. There is no question of making up a shortage, as Mr. Coleman contends. Of course, at any moment payments in one place may be used to meet pre-charges in another. That causes no more trouble than the fact that workers on Rolls-Royces rarely spend their money on luxury cars. My critics' views are static; it is essential to take the dynamic view.

Mrs. Best still believes "the purchase price of the finished capital asset has to be recovered." Industry would be an investors' paradise; one hundred per cent. profit right away! We shall be dealing with banking later, therefore I merely comment that banks certainly can meet their liabilities to their depositors if they are sound as ours were in 1914. That they could not pay out everybody in sovereigns no more matters than the fact that they could not pay everybody in half-crowns, or that Messrs Selfridge do not hold all their assets in cash.

It is really all this misunderstanding of banking which is at the root of Social Credit arguments. Mr. Coleman still goes wrong about the nature of interest on bank investments. Until the nature of bank credit is properly understood, it is impossible to deal adequately with such mistaken notions as that industry is not self-liquidating, that the community is in debt to the banks, that money is a ticket, that the "premature" repayment of bank loans is a deduction from consumers' income, and many other ideas peculiar to Major Douglas. Then up can come the eighth man, Mr. Coleman, and nobody will be more pleased to see him than myself.

We came to a stop last month when we had seen that the picture of banking presented by Major Douglas is one of a privately-owned monopoly; in his own phrase, "licensed forgers," able to acquire other people's wealth by "creating" money, requiring everyone to come to it for the very right to exist, and thus able to exercise an anti-democratic government of its own by depriving people of their rights and liberties.

It is surprising that Major Douglas should have been successful in putting across this fantasy, "fundamental" to Social Credit, remember its author says, but it is not surprising that, once persuaded of its truth, Social Creditors should want to do something drastic about it. If the omnipotent tyranny existed it would be the duty of the whole nation to exterminate it. As it is, tragedies, like the recent one in Alberta, must result from gross attacks upon individuals or institutions quite innocent of the practices with which they are charged.

Let us return to an examination of the statements printed last month. In quotations 1 and 4 Douglas states that, because a bank lends money, it must be lending something that belongs to it. "You do not lend something which belongs to the person to whom it is lent." No; of course the money does not belong, without a corresponding liability to repay, to the borrower. Where would be the sense or justice in that? Douglas is ready enough to announce that money is not the reality, but is merely a representative token of real goods and services, but he forgets it as soon as he has said it. He consistently confuses money with real income.

When a borrower receives a loan in money, it is merely a convenient way of allowing him to obtain his choice of goods and services—as a loan. Obviously, he cannot expect to be given them, inevitably at other people's expense. He is allowed the loan if it appears that he can ultimately repay, which simply means that presently he himself provides goods and services by his own efforts in return for those he has obtained from other people, is paid for them, and pays off his debt. The thing is exactly the same at this point as Smith borrowing a lawn-mower from next door and later returning it. Money borrowed from a bank or anywhere else naturally no more rightly "belongs" to the borrower than the lawn-mower belongs to Smith.

But, Douglas would reply, if you could get him so far, which you cannot, the lawn-mower does belong to the lender and it cost him money. In the same way, therefore, the money lent must belong to the bank, yet it cost them nothing to acquire. This is where he forgets McKenna's famous dictum. Because the truth is that the moment money comes into existence it is a liability against the bank, first of all to the borrower who has a corresponding liability to the bank, and then to the man whom the borrower uses it to pay, for he becomes a depositor without any corresponding liability on his part whatever. The money is his absolutely; he can acquire whatever he likes with it and the bank has to see that he gets it. Note that at no time is the bank able to touch a penny for their own spending; it never belongs to them. In fact, the bank does not make the loan costlessly; it costs them the full amount of the loan because it puts them in debt to that amount. Against it they hold the promise, usually backed by security, of the borrower to repay, but if he defaults, then the bank has to pay the depositor as a deduction from its profits or out of its reserves or subscribed capital or go bankrupt. As Professor Leacock says in his recent book: "When John Smith, anxious to buy raw material for his business and to pay wages, 'borrows 5,000 dollars' it is Smith, not the banker, who gets the goods and the services. Smith, not the banker, who sells the finished commodity to Jones; and when Jones pays Smith with a cheque it is the banker, not Jones who has to make good the cheque. When the transaction is all over what does the banker get—interest, that's all." The simple and all-sufficient reason why banks cannot give away the money they create is precisely that it is not theirs to give. You do not give away something which belongs to someone else.

In quotation No. 3 Major Douglas is saying something which would be unpardonable were it not so obviously an honest mistake. He couples two statements as though they were one, and asserts that his *combined* proposition is denied by nobody. The truth is that the assertion that money is created by the banks is, as he says, agreed by banks themselves, but the assertion that the ownership of that money is claimed by the banks is accepted by nobody but Major Douglas himself and his immediate followers, who, needless to say, do not include bankers.

In No. 2 he is unquestionably right in holding that "the banks should be paid for their services, but the public should get the benefit"; but that is an accurate statement of the actual position. The banking system controls the issue and recall of the community's money under Charter from the people. They may do their job badly; their profits may be exorbitant; it may be desirable that the business should be taken over by the State. But to Major Douglas these important considerations are a closed book. To their discussion he can contribute nothing but an immense indifference. To start off with a vital misunderstanding as complete and closed as a circle is to build Utopias, not to escape from them.

italics.) Towards the end of his article he reveals what his reaction is to this policy. He says:

"But if there had been a growing disregard for law in the province the responsibility goes back to the Aberhart Government, which has deliberately defied the Constitution of the country, has disregarded its own financial obligations, has extended its interferences in the field of private indebtedness . . . and has attempted to deny to citizens the fundamental right of legal redress."

We are afraid that he is allowing his discretion to be outpaced by his zeal. For the logical meaning of his outburst is that disregard for the law is being manifested among the *opponents* of the Government, not its supporters, and that it registers a reaction against the Government's *legislation*. If he intends his diatribes to amplify the moral of the exordium delivered by Mr. Justice Ives he has done it very awkwardly; for his Lordship clearly related disregard for the law with Powell's methods of propaganda, and was careful to avoid reference to the formal acts of the Government in this connection. The writer in the Montreal *Gazette* comes dangerously near laying down the doctrine that majorities must not have their own way if minorities object. For instance he could have cited as evidence of the disregard for law that he charges the Government with provoking the following passage from the *Farm and Ranch Review* for November, where its editor, Mr. C. W. Peterson speaks as follows:

"I have edited the *Review* since the day I founded it, some thirty odd years ago. I have done my duty honestly, fairly and fearlessly, as I saw things, and as intelligently as I knew how. The 'press-gag' law has not received royal assent up to date. *If and when it does, I hereby serve notice on the legislative lunatic asylum in Edmonton, that, law or no law, they will turn the 'Review' into a filthy political propagana sheet only over my dead body.* And that is that."

(The italics in this citation are Mr. Peterson's.) Well, if this is typical of the disregard for law, what does the Montreal *Gazette* suggest should be done about it? Ought the Government to withdraw the Press Act? If so ought they not to withdraw all other Acts on the appearance of similar hostility and threats of resistance? In short ought they to repudiate their mandate?

A little reflection will show that appeals to the state of public feeling, whether juridicial or journalistic, are two-edged weapons. Students of real politics know that organised finance has the motive, the means, and the opportunities to bring about a state of unsettlement in the public mind of which the "next phase logical to follow" (*pace* Mr. Justice Ives) is "turbulence," after which "you may look for breaches of the peace." We saw it happen in Australia when the Lang Administration was in process of unconstitutional eviction. Consider the run on the New South Wales Savings Bank. Those anonymous financiers who precipitated it sowed seeds of unsettlement which would have sprouted into turbulence and violence had they not, for their own purposes, called in the Commonwealth Savings Bank to guarantee depositors against loss. Potentially Premier Lang and his colleagues stood in danger of extermination as authors of widespread ruin. That they did not suffer in that way was because the financiers were preparing other means of getting rid of them. The incipient panic caused by the run helped to make the public tolerant of the intervention of Sir Philip Game when it occurred soon afterwards. In this context it is interesting to recall that Sir Philip Game and Mr. Montagu Norman were contemporaries in the forces during the South African War, both being despatch riders and both getting "distinguished service" orders. No harm, of course: good luck to them: but still, it is an interesting circumstance, and especially appropriate since the job in hand was to capture the gold mines from the Boers, in order, so the Churches said, to remove from them the temptation of having treasures on earth, and make them meet to exchange their Old Testament letter-of-the-law for the spirit of the Gospels. (All of which duly took place, and is now symbolised in the person of that world-renowned Christian philosopher, General Smuts).

The Ottawa *Citizen* of November 7 publishes a leading article entitled: "An Opportunity to Temper Justice," and in it pleads for reduction of sentences. The writer says:

"Messrs. Powell and Unwin were badly misguided. They were carried away with political zeal for the cause of monetary reform. Like many another zealous reformer, they went too far. They made unwarranted attacks against individuals. They reflected on the character of citizens in a reckless manner without thereby helping the cause of reform. They have been found guilty of committing a grave offence against the law of libel. But they have hitherto been men of unblemished reputation. They cannot be regarded as criminal characters . . ."

Later in the same article the writer says:

"The central government at Ottawa has lately demonstrated a remarkable readiness to intervene in the province of Alberta, to override the legislature by exercising the power of disallowance. It should be no less possible to intervene to temper justice with mercy in the Edmonton cases . . ."

We reproduce these quotations not only to show what the attitude of the Ottawa *Citizen* is, but to stimulate journalists and their printers who allow themselves to be frightened of publishing comments on cases under appeal. Our quotations from the Montreal *Gazette* fulfil the same purpose. As we have said previously, cases under appeal are cases sent upstairs for strictly judicial review by trained experts. They are dealt with over the heads of suggestible laymen such as jurors are picked from. In this particular case, the merits cover political as well as legal facts and considerations; and on some of these merits intelligent students of the deeper issues are as qualified to assist the jurists who hear the appeals as the latter, in their turn, are qualified to assist them and the public.

In a recent autobiographical article in a Sunday newspaper, Mr. Clynes tells how, on the occasion of his receiving a petition for the reprieve of a convicted murderer, he had a long talk with the judge who tried the case. Thus the lay and the legal minds came together to review the circumstances of the case, some of which had undoubtedly to do with elements of provocation, and so on, mitigating the heinousness of the crime. Now it will be seen that the Montreal *Gazette* and the Ottawa *Citizen* are virtually contributing to an inquiry of this character. The first apparently considers the sentence is not excessive, the second apparently considers that it is excessive. They have both considered it their right and duty to reveal their respective attitudes. But there is another thing. They have both spoken as if the guilt of the accused has been finally and irrevocably established, and have virtually said that, in their view, the verdicts went with the weight of evidence. That will be all right if the appeals now going forward are merely for a reduction of sentence. But if they are for a reversal of the verdicts, we should say that both these newspapers are going a bit too far, unless, of course, as we maintain, there is no danger of any public comment defeating the ends of justice. We point this out to show that if anything we have been saying is out of order, we are fellow-sinners with our important Canadian contemporaries. Moreover, we can plead privilege where they cannot; for THE NEW AGE does not reach irresponsible and unstable readers.

Notice.

All communications concerning THE NEW AGE should be addressed directly to the Editor:

Mr. Arthur Brenton,
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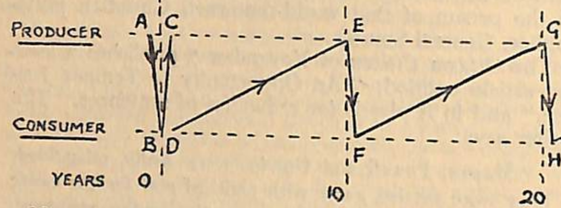
Self-Liquidation Once More.



More than two years ago the above diagram was used to illustrate the shortage of consumer-income relatively to costs, brought about by the investment of savings in new capital equipment.

It may be remembered that the full lines represent payments made in respect of capital assets by, and to, a firm spending £10,000 of shareholders' subscribed capital on an extension of plant estimated to last ten years. The vertical distance between the horizontal dotted lines represents £10,000, and the dotted ordinates are placed at ten-yearly intervals along the horizontal time-base.

AB represents a distribution of a £10,000 bank loan by producers to consumers during the construction of the plant. BC represents the payment of this sum to produers by consumers in their capacity of investors, thereby enabling the producers to repay their £10,000 bank loan, and the bank to cancel the money. DE represents the payment of £10,000, by consumers, in depreciation charges during the first life of the plant. EF represents the distribution of this sum to consumers during the first renewal of the plant. And so on for subsequent life-periods.

Critics of Social Credit contend that depreciation charges are balanced by payments for renewals; i.e., that DE is balanced by EF, and FG by GH, and so on.

But that is quite the wrong way to regard it. The critics often say that costs are all represented by payments which figure or have figured as incomes in the present or past, so that the system must be self-liquidating so long as there is no hoarding and no deflation. In other words, they tell us that producers *first* accredit consumers, in return for labour and other services, and *subsequently* charge them with these accreditings, or costs, in their prices. In that case, EF represents an accrediting of consumers to enable them to meet *later* charges, FG; and GH is a further accrediting to enable them to meet HJ. Working backwards, AB is an accrediting of consumers to enable them to meet DE, and this they could do were it not for the fact that they part with this sum by making the payment BC.

It is this payment which breaks the alternating rhythm and causes the trouble.

All business concerns or their extensions can be divided into two groups; those in their first life period, and those in their second or later periods. Group I., therefore, comprises all businesses which have not yet reached point E, while Group II. comprises the remainder, i.e., all those which have passed point E, no matter how far.

Now it will be obvious that the income-shortage brought about by the investment of savings occurs during the first life-period. From the point E onwards, a business may be regarded as self-liquidating. So Group II. may be regarded as neutrals; their payments balance. But every member of Group I. is unbalanced, and no balance can possibly be obtained by superimposing any number of Group I. diagrams one upon another. Therefore, if Group II. is balanced, and Group I. unbalanced, Groups I. and II. together, i.e., industry as a whole, must be unbalanced, though to a less extent than Group I. by itself.

Now critics admit that the sums for depreciation charged in respect of Group I. businesses would cause an income shortage if they were hoarded. As, however, they are not hoarded, but invested, the money is returned to consumers, as wages, etc., for the production of new capital assets.

But this is to admit that the system cannot be self-liquidating unless it is expanding at the rate of (taking the token figures in the diagram) £1,000 worth of new capital goods per annum for every business in Group I.

That, in itself, knocks the bottom out of self-liquidation, but, even so, it cannot be attained.

When money, abstracted from consumers in the form of depreciation charges in prices, is invested, it pays the price of new capital goods. Of what is that price composed? Neglecting profits, part of it represents payments made to consumers, and the other part represents depreciation charges. If these new capital goods are produced entirely by Group II. concerns, these depreciation charges will be balanced by payments in the other direction, while if they are produced entirely by Group I. concerns, they will be totally unbalanced. Over industry as a whole they will be partially unbalanced, and the unbalanced amount must be promptly invested. It will then pay the price of further new capital goods, which price will contain its quota of depreciation charges, which, again, will be partly unbalanced, necessitating yet further investment, and so on. The process has no end.

Every attempt to restore the balance introduces a fresh unbalancing factor.

So it will be seen that, even with indefinite expansion, the payments to consumers can never catch up with the abstractions from them. A system can only be said to be genuinely self-liquidating when these to-and-fro payments automatically equate, no matter whether the system as a whole is stationary, expanding, or contracting.

The existing system is rather like a spinning top which can only maintain equilibrium by constantly increasing its angular velocity. There is only one end to that. The top must eventually burst as a result of the centrifugal stresses set up in its internal structure.

A. W. COLEMAN.

LETTERS TO THE EDITOR.

PRICE-INCOME SHORTAGE.

Sir,—When Mr. Temperley says that he "can see no line between making 'capital' goods and making 'consumable' goods," I am bound to admit that the difference is one of degree. But that degree of difference is so large that it becomes very important.

Our critics seem always to take it for granted that invested money is spent on capital goods, and, so far, they have not deigned to consider that portion of invested money which is directly used to progress consumable goods, i.e., used as working capital. It is high time they did so.

If, as a result of the investment of one pound this week, consumers are presented with bills of one halfpenny per week some months hence, the result does not appear nearly so devastating as if they are presented with a bill for the whole pound four weeks hence—no matter that they have no money to meet either.

The proportion of invested money which is used to progress consumable goods may be small relatively to the proportion used to purchase capital goods, but the deficiency of income resulting from the former is so enormously greater, per pound invested, that it does constitute a spectacular difference between these two uses of invested money.

The difference so "amazed" Mr. Hiskett that he concluded Mr. Temperley had made a mistake. Mr. Temperley, however, made no mistake.

A. W. COLEMAN.

Green Shirt Reunion.

On December 11, at 3.30, there will be a "Put-and-Take" Party at the Green Shirt headquarters, 44, Little Britain, E.C.1. To it are invited all those who have served the Social Credit Party in any way and at any time. There will be musical and other entertainment and Christmas shopping stalls. The idea behind the descriptive title "Put-and-Take" is that each visitor shall "Bring a Gift and Buy a Gift." Admission is free. The closing stage of the proceedings will be given over to dancing to Peter's Accordion Dance Band. For this there will be a charge of 1s.

John Hargrave will give an address of welcome at 4.15. The primary object of the function is not finance, but the gathering together of old and new supporters of the Party and the ends for which it is working.

Forthcoming Meetings.

LONDON SOCIAL CREDIT CLUB.

Blewcoat Room, Caxton-street, S.W.

December 10, 8 p.m. Private Meeting: "Lessons from the Abdication," by Mr. Ewart Purves.

Published by the Proprietor (ARTHUR BRENTON), 12-14, Red Lion Court, Fleet Street, E.C.4., England, and printed for him by THE ARGUS PRESS, LIMITED, Temple-avenue and Tudor-street, London, E.C.4, England (Telephone Central 3701).