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Hitler's Coup

The following remarks by S. W. Alexander, City Editor of *The Evening Standard,* were published on March 11, 1938—the date of Austria's surrender to Hitler's demands. (Italics ours.)

> As I forecast recently in these columns, one of the chief results of the political crisis in Germany has been the *triumph of the Conservative elements in finance. Dr. Schacht is to stay at the Reichsbank for a further four years.*
>
> Even two months ago his reappointment seemed extremely unlikely, since it was known that the *Nazi leaders favoured giving the office to a man who would readily fall in with their schemes for large public spending.*
>
> The return of Dr. Schacht to a *position of power in the economic affairs of his country* should be welcomed by the holders of German securities.
>
> He has always stated that in order to improve German credit abroad, it is essential that, as far as possible, interest should be paid on external loans, *and has opposed the Radical elements who would like to see these debts repudiated.*
>
> It is probable that Dr. Schacht will reaffirm his policy, but will draw attention to the high rates of interest payable on the Dawes and Young loans.

We must assume that German economy will be controlled in accordance with the principles of financial constitutionalism under the guidance of Dr. Schacht immediately and the Bank for International Settlements ultimately. It is significant that he should be contemplating a deal with Basle over loan-interest at a time when Hitler, according to numerous politicians, has put himself outside the pale of negotiations over any subject at all. If Hitler were a real dictator he would repudiate these loans. They are valid only on the assumption of Germany's war-guilt, which Hitler gained power by repudiating. The picture of an invincible militocracy paying reparations to the order of effete democracies is hardly impressive to neutral observers. But it is quite understandable on the assumption that Schacht, not Hitler, has the last word on this aspect of foreign policy.

As regards the Hitler coup, well, the virtual fusion of Austria and Germany does not menace the preservation of peace. In fact, we are inclined to lengthen our odds of 100 to 1 against war within three years. Military fusion is not enough by itself. There must be capitalist coalescence as well between Germany and Austria. One sign of that would be the abolition of tariffs between the two countries and the fusion of their banking and currency systems.

For the rest, Hitler's coup amounts to nothing much. It has united what the Treaty of Versailles put asunder. The Austrian people are ready to endorse the coup for reasons of sentiment; and, if they reflect upon the matter at all, they are calculating that they will be just as well or badly off under any form of government. After all, what is a Nazi? Merely a person who calls himself one. Without his label he might be a Conservative, a Liberal, a Communist, or a Nihilist. What does the Nazi stand for? He does not stand *for* anything; he stands against persons calling themselves by other names. Take the labels off these other persons, and your Nazi would not be able to tell why he stood against them. He would gape until he was told: and if truly told he would learn that what he is really standing for (without knowing it) is what everybody else is standing for—a meal in his stomach and a coat on his back; and that in standing for those things he is standing against everybody else, because there are not enough meals and coats to go round. No system of government, from autocracy to anarchy, is going to remedy that situation by establishing and extending its hegemony. Hitler might conquer Europe, but he would thereby be no nearer to feeding and clothing Europeans.

Speaking of feeding and clothing, readers of THE NEW AGE will remember that it was an Austrian government which, soon after the War, was deposed by external aggression, though, that time, the aggressor was the League of Nations, and the object was to stop the Government from feeding the people with bread at below cost and financing the discount with new credit. This was the beginning of what might have developed into a Social-Credit experiment covering all the means of life. Colonel Repington, in his Diary, is witness to the numerous signs of increasing business prosperity there at that time. The League, acting under central-bankers' advice, vetoed the scheme and made preparations to enrol a force of "international" police, and to move it into Austria to quell disorders arising from distresses occasioned by the withdrawal of the consumption-credits. This episode ought to be read up and discussed at the present time. It was a worse set back to the people of Austria than anything that Hitler has done over the week-end. The Austrian working man will get his dinner this week as a "Nazite," just the same as he did last week as a "Schuschnigger"—yes, and with a changing-of-the-guard spectacle thrown in.

To turn to another aspect of the coup; it is curious how every event provides Basle with a rake-off. Hitler has scared the French politicians into accepting a "national government." The rake-off for Basle consists in the fact that the obstacle to forming a new government at all was due to fears of retrenchment for budget-balancing purposes. Well, these politicians have now bought this retrenchment. So Hitler's coup has facilitated the imposition of extra taxation in France. According to the Sunday Press, "Francs have improved"—and we are not surprised.

It is true that Hitler has provided politicians in every country with an argument for more armaments involving more extra-budgetary expenditure. But Basle is satisfied because arms are controlled by governments, and unless and until governments cease from acting under bankers' advice, Basle will control the arms. The fact of this control is to be seen in the attitudes of even the most bellicose governments, who boast, not about aggressive intentions, but defensive powers. Each trails its coat with the challenge: "You lay a finger on me and see what I'll do to you!" but not one of them intends to lay a finger upon any of the others. There will be no war until the capitalism of some nation or other is on the point of collapse. Basle may be counted on to prevent this happening by means consistent with fundamental banking principles as long as possible. Credit expansion is the chief means. If those means prove unavailing (as they could if inflation got out of control) then Basle would be faced with the option of changing the fundamental principles or precipitating war. The technical choice would lie between arresting inflation by price-regulation on Social-Credit lines, or arresting it by imposing uncompensated deflation as in 1920.

There is this comfort for Social Creditors, namely that international financial policy is so centralised to-day that if Basle decided on the right corrective, Social Credit could be brought in everywhere at once at the shortest notice. We sometimes get into the mood to wonder whether the apparently implacable resistance on the part of financial institutions to Social Credit is not due to the fact that they know what to do when it becomes necessary, and know that they will have time to do it before an irrevocable catastrophe supervenes. If so, it is of course a discreditable attitude, but it does leave us some hope that the great change we all desire is nearer than the events surrounding us seem to indicate.

OIL FROM COAL.

Inventors, Investors and Obsolescence.

Obsolescence an uninsurable risk involving uncompensated loss to private investors under present system.

A correspondent sends us the following letter:—

Sir,—I have been handed by a friend a story in connection with an oil-from-coal process, invented by Mr. N. H. Freeman, a consulting chemist. From data published in *Oil News* there is disclosed the old story of adamant officials refusing their sanction, while they foster the work of a similar undertaking by all means in their power. A Mr. D. L. Crimp, in a letter of protest to Lord Apsley, says: "—— the Fuel Research Board refuses to make an official test of our process, on the grounds that the size of the plant is not of the commercial size which squares with their rules and regulations——." (*Oil News*, 24.6.37.)

Mr. Freeman claims for his process that it would "supply oil and spirit below 2d. a gallon, electrical energy below ¼d. per K.W.hr., and the residual carbon much below the present price of the available B.T.U. of the coal." "The process," he says, "is simple to operate, requiring no highly-skilled technicians; and, being automatic in action, is extremely low in its requirement of manual labour." The initial cost of starting a plant is £30,000.

It is not difficult, from a Social Credit point of view, to see why Mr. Freeman's process has been turned down. To be a "good thing" in the eyes of Finance a new process must:—

(a) Be capable of bearing a large initial debt, so that centralised financial control shall be paramount;

(b) Be capable of ensuring a rapid intake of money relative to the outflow of energy to the people;

(c) Be capable of providing a lot of "work."

With regard to (a), Mr. Freeman's process does not require a large initial financial outlay, as did another oil-from-coal system, on which millions were spent before a drop of oil was produced. When (b) is considered we find that Mr. Freeman intends to distribute a large amount of energy to the people relative to the money intake. On the last point (c) Mr. Freeman actually boasts that the process is nearly automatic—it provides next to no employment relatively to output.

Since the above was written the *Daily Telegraph* (16.2.38) gives a column on the subject. Low-temperature carbonisation is dismissed on the ground that the practical difficulties are too great. The Billingham I.C.I. plant is virtually in full operation, but "a number of difficulties have arisen in the treatment of coal, and the yield of petrol has not reached expectations." Mr. Freeman's process is not mentioned at all. The only alternative is the building of more tankers to import the necessary oil.

I refer to the Freeman process not to suggest that it has superior merits to other low-temperature processes. In fact, it may be that the Turner process (wet-distillation), which was editorially commented on in THE NEW AGE a few years ago, might show an improvement on Mr. Freeman's figures—or some of them. That is a matter for expert chemists and engineers to investigate.

The points I raise here are: (a) Whether the low-temperature principle itself is or is not physically more efficient, i.e., in terms of output released against energy expended; (b) whether, if it is more efficient in this sense it is less efficient in terms of the financial consequences of applying it; and, (c) if it is less efficient financially, how the self-contradictory conclusion can be sustained that a process can at one and the same time be a physical advantage and a financial disadvantage to the community which adopts it.

H. E. B.

Our correspondent adds some comments which, to save space, we incorporate with others of our own. We have heard stories of political and commercial wire-pulling designed to frustrate practical try-outs of their respective inventions; and we have no doubt that Mr. Freeman could tell more. To the intelligent layman this must afford presumptive evidence that people who are running older processes fear the trying-out of the new ones. Why, otherwise, should they not leave these inventors free to risk their time, money and reputations in attempts to prove their claims?

* * *

Well, the intelligent layman who accepts the presumption as true can see the reason for himself. It is that, under conditions of free competition, the newer and better process knocks out the old. It renders the old process obsolete as an earning asset, and thereby extinguishes the financial capital invested in it; that is to say, it makes the shares held in the old process unmarketable—inconvertible into money.

* * *

That is quite true; and the dilemma is unavoidable under the present financial system. Theoretically it could be avoided supposing that the financial system provided facilities whereby investors could insure their property against obsolescence. For then they could get their money back, and could re-invest it (in part or wholly) in the new property which superseded their own. Granted that this were feasible within the system (which it is not) at least the incentive of stockholders to obstruct improvements in processes would disappear. The criterion of physical efficiency would outweigh all other criteria of expediency.

* * *

The intelligent layman will readily agree that this ought to happen, and that if the principles of high-finance can be so changed as to allow it to happen, that change ought to be made. Very well; Social-Credit finance will make that change. It will make possible the scrapping of capital assets as and when they are rendered obsolete without the infliction of losses on investors in them, or on any other section of the community. Even supposing such an extreme case as that of a £30,000 plant, operated by a wage-service of £300 a week, knocking out of action a £30,000,000 plant with a wage-service of £30,000 a week, there would result a net gain to the community without any loss to any section. Wealth is *things*, not *money*, and any change of process which increases the output of things increases wealth. It is true that money is required to purchase wealth, but so long as the money in the hands of the community will purchase the wealth available it does not matter how much money is collectively held by them. The real question that each citizen has to ask himself (whether an investor or not) is this: "How much wealth can I buy with the money I receive?"—*not*: "How many more, or fewer, pieces of

THE
NEW AGE
DEBATING SUPPLEMENT.

THURSDAY, MARCH 17, 1938.

CAPITAL IN PRICES.

In this Supplement Mr. Franklin replies to letters seriatim in footnotes. As we hold further letters nearly sufficient for the next Supplement, will correspondents write very briefly, if at all. We have refrained throughout from editing or commenting on letters, but now wish to suggest that there is a distinction between "depreciation" and "obsolescence" which needs to be made clearer.

Foreword.

The correspondence in the Debating Supplement is the last batch but one relating to the question: Is Capital charged in Prices? The cost of publishing it has been financed independently of the funds contributed for the maintenance of THE NEW AGE. The remaining (and last) batch will be published when similar independent finance is forthcoming. If further debating takes place afterwards, it will be on the subject of banking technique, organisation and politics. This subject is less complicated, and more interesting, especially to the general public.

* * *

It is necessary to remark of the present debate that if Financial Capital is not recovered in charges made in the consumption market it means also that the products of production represented by this Financial Capital are not offered for sale in that market. Both sides will agree that if consumers do not refund investors' money they do not get any of the investors' property. They have to "maintain" it—i.e., put back what they take—i.e., make good wear-and-tear.

Assume next that critics of Social Credit are right in their contention that consumers are left with sufficient money, after investments have been made, to meet the cost of the remaining products delivered into the consumption market. Then three questions need to be answered:

1. Are these consumable products sufficient in quantity to satisfy the needs of consumers?

2. If not, is this because too great a proportion of total product is withheld from the consumption market as investors' property?

3. If so, what is the obstacle to altering the proportions so that more goods reach the consumption market and more money (equivalent to their cost) is left in the hands of consumers?

The answers to questions 1 and 2 are of self-evident practical importance even to people entirely ignorant of monetary theories.

To illustrate by an example, suppose 1,000 tons of products are made at a cost of £1,000, and the community's consumption-needs amount to 500 tons; but 800 tons become investors' property, leaving only 200 tons for consumption; consumers would not be particularly interested to hear that investors were letting them off paying for the 800 tons, and only requiring them to pay £200, the cost of the 200 tons! To them the assurance that the cost (and price) of the 200 tons was no greater than the money in their pockets would stand for nothing. They would say: "We want 500 tons"—and they would not be content unless it were proved that the retention of 800 tons as investors' property was an unavoidable necessity. "Does it need," they would ask, "this mountain in labour to bring forth a mouse?—a million ovens to bake half a loaf?"

These questions have great force because every member of the community is an investor, whether a voluntary or involuntary one. And on the assumption laid down that money invested is not recovered from the community (so that the property invested in is not delivered to the community), it is of first-class importance to ascertain whether this property accumulates faster than use is being made of it within the production-system. If so, question 3 arises.

From J. A. Franklin.

I would like to thank Mr. L. B. Forrest for his precise answers to the questions I raised, but he falls down completely at the second stage. I asked, "At what point does an investor expect to have both his undepreciated asset and the money he gave for it?" He answers, "At the point where obsolescence of the undepreciated asset occurs." His words contain a complete contradiction. If the asset is obsolescent it has depreciated right down to its scrap value. The investor would no longer have an asset—as the balance sheets of the concern would show. I still await an answer to my question.

In reply to J. W.—The wealthier a community becomes the greater is the amount of borrowing—debt is merely the other side of credit. It is only the wealthy who can lend. It pays borrowers to obtain loans. "Where are the creditors?" They are the individuals in the community who have lent the money.

From B. C. Best.

The fundamental and vital issue of Social Credit is the "flaw" in the costing system, and the remedy thereof; it is not banking practice as Mr. Franklin contends. The beliefs held by Social Creditors about banking are the same as those held by other money reformers, are based on ascertained facts of the banking system itself, and are not peculiar to Social Credit.

But since Mr. Franklin has drawn this red herring across the real gravamen of the charge it is hard to resist pointing out a weakness in his argument in his letter to you of February 3, which shows, or attempts to show, how the banks lend their customers' deposits.

He argues that if the deposit came first, and the loan after, it would be "a simple matter to see that the bank is really lending the depositor's money." I have seldom met with a more specious argument. Let us see what must then, in fact, take place. C—a borrower—would go to B—a bank—and request a loan of, for instance, £100. B would ask for what purpose C required it. C would say to buy goods for stock for his business from A to the value of £100. B would then deposit £100 into A's account (creating the necessary credit to do so), and would then transfer it to C's account as a loan. C would then pay A with a cheque drawn on his borrowed account, thus transferring the £100 back to A's account where it would appear again as a deposit, *which deposit the bank would not "relend."* Well, if Mr. Franklin calls that lending the depositor's money he can have it. But, of course, such a roundabout proceeding does *not* take place, and even if it did, would not alter the fact that (1) the bank had created the deposit, and (2) that C would owe that amount to the bank, together with the accruing interest. It is therefore untrue to say that "such money" is not owed to the bank, even although the bank is under an obligation to pay A his deposit in cash *if* called on to do so. As, however, the cash ratio to deposits observed by the banks is on the right side of safety the bank's position is virtually secured. But as industry has no say in the ratio of either cash or credit (inclusively speaking, money) available to meet the prices it must necessarily charge for its production, its position is one of constant insecurity; and it follows that if C cannot sell his goods, acquired in the way described above, the bank will have a lien on them. Perhaps, though, Mr. Franklin would say that A had a lien on C's goods because, according to him, A has *really* lent C the £100 (via the bank), and C has promptly paid back A with the money borrowed in this way from A. But you can't pay back a debt with money borrowed from the person you owe it to, so A really has a right to C's goods, or the money value of them, since C has bought the goods from A with the money borrowed from A! Anyway, I am sure Mr. Franklin's powers of argument would be able to prove this.

Quibbling apart, however, what is generally meant by the idea that banks lend their customers' deposits is that people bring the money in their possession to the banks for safe keeping, and that banks then lend that same money to customers who come to borrow from them. And, indeed, this is the only *real* sense in which a bank could be said to lend its depositor's money, although we know this does not take place.

I should apologise for this somewhat crude and detailed exposition, but Mr. Franklin's quibbles force one to adopt this method. A more general and erudite one might simply add to the confusion already created by Mr. Franklin on the subject.

REPLY.

(1) I agree that the flaw in the costing system is a vital issue in Social Credit, but I also agree with Major Douglas that it hangs upon his view of the nature of banking.

(2) Those Social Creditors who follow Major Douglas certainly hold views on banking "peculiar to Social Credit." Nobody else believes that bank-loans should not be repaid, that the purchasing power created is the property of the banks, that all wealth is held by the population of the world as a debt to the banking system, that it costs the banks nothing to pay their staff nor to buy their premises. In Supplement 2 I gave a long list of quotations from Major Douglas and responsible Social Creditors setting out that collection of absurdities. Fundamentally they are all due to failure to understand, as Mr. McKenna rightly said, the significance of the simple fact that a bank loan creates a deposit.

(3) Mrs. Best's own views of what is implied by the process of credit creation that I set out on February 3 are equally peculiar, and I do not propose to follow her through them. In any case, she arrives at conclusions with which I have already agreed, that (1) banks create deposits and that (2) a borrower owes money he borrows to the bank and has to pay interest on the loan. These facts in no way alter the truth that the bank has no ownership of the money, but that it belongs to their depositors who are really lending the money to the banks and so, through them, to the borrowers—as anyone, from McLeod, in 1856, to McKenna, in 1938, will tell her.

(4) I think that Mrs. Best certainly should present "a more general and erudite exposition." She might avoid adding to the confusion already created by Major Douglas.

From B. C. Best.

I would like, through your paper, to thank L. B. Forrest for the support he has given me in his direct answers to Mr. Franklin's questions. I agree with all he says. What I attempted to show was that the nature or character of the "second cost" is concerned with the recovery of money in the price of consumable goods, which *has already been spent* on capital goods in the past; and not, necessarily a *multiple* recovery of these costs, though, of course, such recovery will be made when possible. In any case, however, it must be remembered, always at the expense in industry at some other point, unless capital is being constantly expanded.

I apologise to Mrs. Bing for misunderstanding her. I was under the impression she denied the inclusion of the "cost of the factory" in prices. Mr. Franklin quotes her as saying so which misled me. And, in fact, on January 13 she did say: "In actual fact there is no attempt to recover the purchase price of a soap factory in the price of the bars of soap." So perhaps I may be excused for my mistake. However, I see she says now the cost is "irrelevant," since it is "distributed as incomes to buy soap." I have answered this point fairly extensively in my replies to Mr. Franklin, and can only answer it again at the cost of tedious repetition, which would be useless unless or until Mr. Franklin or Mrs. Bing face up to the real point of my argument, which, up to date, they have carefully, or carelessly, avoided doing.

May I, before closing my contribution to this particular aspect of the debate, attempt, once more, to make my position clear?

Major Douglas' original and particular contribution to the question of monetary reform was the discovery of the "flaw" in the cost-accounting system; in other words the discovery of the occurrence in it of unredeemable debt; and, in addition, his perception of the necessity to distribute free consumer credits to effect the redemption of this debt. Questions of banking, profit, interest, are irrelevant to this issue of inevitable and unredeemable debt, and the consequent need of free incomes to meet it. Yet against this "fallacy of forgiveness," as I saw it neatly put the other day,* all other monetary reformers set their face like a flint. Any method that appears to recognise this need of free incomes, as, for instance, Gesell's, is found on examination to be merely a more subtle method of taxation.

In connection with this I would like to conclude with a note of warning. The phrase "consumer credit" is beginning to seep here and there into the public consciousness, and will be used, indeed is being used, to confuse the public mind. (Whether of malice aforethought or not is, for the moment, beside the mark.) For example, an article appeared on February 14 in the *Daily Telegraph and Morning Post Financial and Industrial Review*, by J. Gibson Jarvie, headed: "Consumer Credit to Facilitate Production." "To Facilitate *Production*" gives it away, of course, to those who know; and the article makes it plain that it is the same old game played quickly, namely, the expansion of debt to redeem debt. But the words—Consumer Credit—have come out of the mouth of the enemy, and will be used to deceive the people into believing they are being given the real thing. When the method fails, as it must, because falsified under the present system, the failure will be used to discredit the truth of Social Credit itself.

REPLY.

Here are a few final comments on the question as to whether the original cost of capital assets has to be defrayed by consumers. In response to Uncle Tom Cobley's request for a summing up of the position I wrote a detailed statement of the attitude taken up by both sides, together with an indication of the subdivisions of opinion which occur among Social Creditors themselves. My contribution was split into two parts which appeared in the issues of February 10th and 17th. On the later date there also appeared a further letter from Mrs. Best commenting on some of the first portion. Up to now I have had no opportunity of dealing with her letter but would like to do so now, as it will serve admirably for a final summing up of the points at issue.

Nothing she said affected the accuracy of my presentation of the views of what I called "true-blue Douglasites" and of the "individualists," the former concerned with primary cost and the latter with problems of upkeep.

Mrs. Best set out her position, however, and amplifies it in the above letter. Previously she had, quite naturally, presented it only in sections so that I think one could hardly be blamed for not obtaining a complete picture of her case. It turns out after all that she keeps a sort of half-way house. She does not envisage a manufacturer charging twice for his factory, once for the original and once for replacement. She sees the only cost is the replacement. I have already given quotations both from Douglas and from recognised Social Credit exponents demonstrating that Douglas himself does believe that a manufacturer charges twice, i.e., he charges not merely for replacement but also for the original factory. It is upon that belief that he bases his demand for the monetization of capital assets for distribution to consumers. Unfortunately, Mrs. Best waves such quotations aside as "irrelevant" and has consistently ignored them in order to persuade herself that she is a sound interpreter of real Social Credit and that I am not familiar with Major Douglas's views.

I therefore quote a passage in "Credit Power and Democracy" wherein its author has presented his idea of the relationship of costs to prices quite clearly. It tells us that if "all capital-production costs" were "allocated against ultimate products, prices of ultimate products would absorb at least the total earnings of the whole population"; if on the other hand "only maintenance, depreciation and obsolescence of intermediate products" were "charged against ultimate products" "*prices would be less than costs in the ratio that capital would bear to consumption*" (author's italics). I particularly draw the attention of Mrs. Best and "the individualists" to the fact that even when "*maintenance, depreciation and obsolescence*" have been *charged for* Major Douglas holds that prices would equal costs; it is only when the value of capital is entered into prices that discrepancy appears.

Mr. E. F. Nash in his "Machines and Purchasing Power" has made the appropriate comment on this passage. He speaks of "the peculiar sense in which Major Douglas appears in this part of his argument to understand 'costs of production'" and then, following the italics at the end of the paragraph, he says:—

"On the contrary, prices of consumable goods would then be *equal* to their costs of production. The cost of *additional* capital, after replacements have been made, is not no part of the cost of production. Cost signifies the charges which must be met in order to induce producers to continue production, not to expand it. It must cover the cost of maintaining capital, but not that of adding to it. Major Douglas's argument appears to be based on a complete misapprehension."

But Mrs. Best's own special inconsistency is to deny that original capital cost has to be recovered from consumers but to insist that nevertheless there has to be recovery of money "which has already been spent on capital goods in the past." But what is this but a reassertion that capital costs have to be recovered from consumers after all? The truth is, of course, that the only capital charges are those for maintenance; they are financed wholly within themselves by money passing from consumer to industry and industry to consumer in two balancing streams.

Mrs. Best it now appears is really concerned, like some other contributors, mainly with the fact that, in regard to any individual factory, replacement is not taking place at the same time at which charges are being made for that ultimate purpose. She says "it is only if some other factory and plant are being made contemporaneously, so to speak" is the money available. That is quite true, but as I have pointed out again and again, that is precisely what is happening. Never have I ignored, as Mrs. Best asserts, the obvious fact that depreciation costs *of individual units* are collected before being paid out. Replacement of other factories or plants means the distribution at that time in that connection of much greater sums than the same concern is simultaneously collecting as depreciation charges. While one part of industry is collecting more than it is distributing the other part is distributing more than it is collecting. All that matters ultimately is the rate at which these things are occurring. Before our eyes we can see that the rates are at least approximately equal and therefore no deficiency at any point of time appears. Notice specially that this is true just of the maintenance of existing capital assets; the system in that respect, as in all others, is self-liquidating and there is no need to put in hand the construction of *new or additional plant* to fill up alleged gaps.

To my statement "it is only when the factory is used in production that a cost appears," she replies that she "never imagined that the factory-owner ever attempted to reclaim replacement costs before he started manufacturing." No, nor did I; but the essential point is that Major Douglas argues that the mere erection of a factory in itself is an addition to costs to be defrayed by consumers. It is upon that conception that his saving and investment thesis hangs.

Because Mrs. Best has never grasped Major Douglas's position, she has missed the real essence of the discussion in these supplements, as is shown by her statement that the contradictions which she finds "can only be explained on the idiotic assumption that Mr. Franklin distinguishes between consumers paying, in the price of the soap, for the original cost of the factory or the cost of replacing it later." It is remarkable that she has never realised that that is precisely the distinction which has to be made, since Major Douglas's mistake lies in that simple failure to distinguish between these two costs. He does think that consumers pay in the price of the soap both for the original cost of the factory and the cost of replacement.

It is again remarkable that Mrs. Best does not appreciate the point that no extra purchasing power reaches consumers in connection with capital assets financed out of savings, because again it is that fact which is the key to Major Douglas's misunderstanding. She asks, "What on earth does Mr. Franklin mean when he says that no purchasing power reaches them (i.e., consumers) with the provision of new capital?" Quite simply, the point is that if I save £100 and invest it in a machine, then I merely pass on my £100 to other consumers, and total income is not increased at all. Major Douglas thinks that consumers' income should be increased by an extra £100 because he views the cost of the machine as a cost they will have to defray. As we have seen above, that is simply not true, and so no chasm is created between costs and income, as he supposes.

In the above letter Mrs. Best supports Mr. Forrest's strange ideas about book-keeping. It is all very well to base revolutionary proposals upon an alleged flaw in the cost-accountancy system, but at least there should be some grasp of the rudiments of the subject. An obsolescent machine is certainly not "an undepreciated asset"; it is not even an asset at all. The cost-accountancy of any firm would show this; you see, accountants like their figures to represent reality. One is reminded of F. J. Docker, himself a qualified accountant, who says in his book on Social Credit: "The fallacies of the A plus B theorem cannot adequately be grasped without some knowledge of the principles of book-keeping"; and adds, "We do wish that Douglas were acquainted with even the elementary principle of double-entry book-keeping."

As regards Mrs. Best's last two paragraphs—consumer credit is, of course, as old as the hills. The disservice Major Douglas has done is to present it as the outcome of a demonstrably mistaken analysis, and in an unworkable form. For an intelligent and practical version of the idea see "Consumers' Credit and Unemployment," by J. E. Meade.

From Norman Conquest.

You have allowed your correspondent J. A. Franklin a very good show, of which he has taken full advantage, by his plausibility and undoubted knowledge and ability, to disturb the serenity of Social Creditors who may not be particularly good technicians.

Up to date Mr. Franklin has been allowed rather to set the pace and to postulate the problems for debate. It is high time that he was called upon to deal with problems set for him.

Mr. Franklin appears to present quite a good case for the continuance of the existing complex of systems, and appears to expose deficiencies in the Social Credit philosophy and technique. This is because Mr. Franklin, like most other Non-Social Creditors who have not seen "the light," has the orthodox "money"-complex, the orthodox work complex, the orthodox wage complex, and the orthodox society complex. Mr. Franklin's arguments are all based upon these complexes. One wonders what his real objective is in taking part in debate in your columns. The writer, at any rate, is doubtful about his good intentions and would be interested to learn what exactly are Mr. Franklin's connections, whose battle he is fighting, and how much it is worth to him to continue.

Will Mr. Franklin accept a challenge and answer briefly and without equivocation or frills, the following simple questions:

1. Is it not a fact that in this civilisation the individual is dominated by the money system, that life depends upon the possession or non-possession of a supply of money tokens?

2. Is the money system a natural phenomenon or the work of human kind?

3. Was it devised, conceived, and introduced by man to serve man?

4. Does it now serve man, or rather a few men, who by their control of it, dominate the rest?

5. Should the money system be man's servant or man's master?

6. Which is of prior importance, goods and services, which constitute real wealth, or its financial reflection, which is at best a system of figures?

7. Should not the community which produces the real wealth, also produce and control the means of distribution of such real wealth?

8. If the Douglas analysis is wrong, as Mr. J. A. F. would appear to claim, will J. A. F. explain clearly and simply why and how it happens that mankind, growing wealthier every minute of every day by reason of new sources of raw materials, by reason of control of new and greater sources of power, and by reason of ever accumulating capacity to apply such power and develop such raw material, becomes increasingly less able to enjoy the abundance he could create and plunges helplessly, hopelessly, deeper into debt?

9. Will he explain how it happens that as the community becomes richer the individuals become relatively poorer?

10. Will he explain how the community of this day and generation can become indebted to the future, when it is, of course, physically impossible to borrow either money or goods from the future?

11. If, as J. A. F. appears to argue, there is sufficient purchasing power available within the community, and if goods are only made to be sold and money only made to be spent, will he tell us just why and how it is that whilst there is an apparent glut of goods and capacity to produce more on the one hand, there are needy and impoverished people who can't get the goods and have to see them destroyed and wasted?

12. Is it J. A. F.'s view that man's primary purpose is to work within the requirements of the man-made industrial productive and distributive systems?

13. If so, what is J. A. F.'s definition of work, who sorts out the jobs, and who or what fixes the relative values of the various contributions?

14. If man's purpose is to work for a wage or salary, how does J. A. F. account for the fact that many individuals make a handsome living without making any sort of contribution to the good of the social whole?

15. Does J. A. F. believe that it is in the nature of things

* Though, to be exact, in criticism of Christianity, not Social Credit.

that human kind should have become divided within itself into classes and strata of society, into "haves" and "have nots"?

16. How, then, have classes been formed, except by the assumption and usurpation of power by the privileged over the unprivileged?

17. Has J. A. F. ever known, heard, or read of any vested interest or privileged class yielding its power and privileges without exerting every possible resistance?

18. What has J. A. F. to lose by any change in the systems which have brought into being this state of chaos which is called twentieth-century civilisation?

19. Is he—or his kind—going to be any "worse off" by reason of the fact that I and my kind are a little "better off"?

There are hosts of other questions which might be propounded for J. A. F.'s attention, but this should be sufficient for the time being.

If he will get down to the "brass tacks" and descend from the clouds of technicalities, he may conceivably see the light and even change some of his complexes.

REPLY

Is it really a "complex" for a layman to go to economists for his economics? If I wished to study medicine I should not go to an engineer for instruction. Nevertheless, if he had a patent medicine of his own in which some people believed, I would be quite willing to listen to him. I have spent twenty years listening to Social Credit. I now reject the A plus B theorem for the same reason that I reject Mr. Wakinshaw's X plus Y theorem—that it seems to me the economists' demonstration that these propositions are based on insufficient acquaintance with their subject matter is unanswerable.

I am sorry that Norman Conquest is "doubtful about my good intentions." I do not really resent his suggestion, but I would like to make a straight-to-the-point reply. I am sincerely distressed to see so many honest souls, obviously eager to help to right things that are wrong, led by Major Douglas into a blind alley where they must remain futilely crying for the moon. My intention is to do my little bit towards helping them out. No; I have no more connection with Montagu Norman than with Norman Conquest.

I am fighting a battle for all those who wish really to get at the facts of our monetary and economic systems. How much is it worth to me to continue? Well, sometimes I think a hundred pounds a week would not cover it; instead of getting nothing, except often very tired.

I have much pleasure in answering the questions, but I doubt if I can persuade the questioner that my replies are made "without equivocation."

(1) Yes.

(2) The work of human kind.

(3) Yes.

(4) It does serve mankind as a whole, but undoubtedly great wealth does impart undesirable power to individuals.

(5) Servant.

(6) Real wealth; Major Douglas consistently confuses wealth and real income with money.

(7) Yes.

(8) As Norman Conquest says, mankind is "growing wealthier every minute." Consequently it is neither obtaining nor consuming less, but more. "Mankind" is not getting into debt; certain individuals borrow from other individuals because it pays them to do so in the vast majority of cases. If I have £1,000 which I am not capable of putting to productive use, I can lend the money to someone who can employ it profitably. In that way £1,000 of debt is created. What harm is there in that? In any case debt does not reduce the communal wealth by so much as a twelve-sided threepenny-bit.

(9) They do not.

(10) Surely no explanation is needed of how it is possible to borrow now in exchange for promise to repay in the future?

(11) A "brief" reply is impossible here. I refer the questioner to the ample literature on the subject; in particular, the two fine volumes of the Brookings Institute, entitled "America's Capacity to Produce" and "America's Capacity to Consume."

(12), (13), (14) The primary purpose is to produce goods and services; work is simply a means to that end. I am entirely opposed to any individual making a handsome living without contributing to the good of the social whole. The National Dividend is, of course, an attempt, bound to fail, to enable everybody to do so.

(15), (16) Undoubtedly classes have been formed by the assumption of power by the privileged over the unprivileged. Probably this is undesirable. It may or may not be inevitable. Here again a brief answer is impossible.

(17) No.

(18) I have, like everybody else, everything to lose by the adoption of the Social Credit plan (in so far as there is one) which would inevitably increase poverty, destroy plenty, and create social chaos.

(19) No; I want to see everyone better off; surely we are not of different "kinds."

From Nemo.

I find it difficult to believe that Mr. Franklin is serious when he contends that consumers, when they are paying (via depreciation costs) for the replacement of an asset, are not compelled to pay out incomes earned against other production in order to provide the "depreciation fund."

The fact that the owners of the asset return such incomes to consumers engaged on replacement of work in no way invalidates the argument, which is, indeed, outside the range of dispute, being a plain statement of fact.

To our shoemakers once more. If Brown buys shoes he is asked to pay as a depreciation cost (say) sixpence for the use of the machine which made them; and that sixpence he can earn only by making something else. If Smith is employed by the shoemakers in replacing the machine, he receives Brown's sixpence for doing it; and he can then buy Brown's production or its equivalent.

The point is, what have the "Browns" bought? Not the first machine. The shoemakers bought that with "£1,000 of work." Not the second machine, because that will be owned by the shoemakers who will again charge for its use, whether it is ultimately replaced or not.

Not their own production, for this was used as payment to the replacement workers.

Our critic informed us (Supplement 2) that "if consumers use my machine they have to pay for a second one to replace it." I agree. They "have to pay" for a second machine which does not become their property. Therefore, they are paying for the *use* of the first machine.

But the shoemakers also paid for the first machine. They paid to acquire ownership without use. Their customers pay to obtain use without ownership.

REPLY.

Hang it all! Surely it is not necessary for me to deny that I ever suggested that the only purchasers of shoes were shoemakers. What I said was that total incomes paid out on maintenance and replacement work do equal depreciation charges made. Income has not to be obtained from elsewhere to fill a gap.

The "Browns" have, of course, bought shoes, and their sixpences for depreciation represent their contribution to the replacement of the machine used up in making the shoes. If they could do the work directly themselves, they would not be charged depreciation in the form of money nor be paid for their labour. With money in use and not themselves doing the work, they pay Smith to do it for them, and Smith's income on that score equals what the "Browns" pay.

Nemo's last paragraph is nearly, but not quite, correct. The shoemakers paid to acquire ownership, *and* use in production; their customers pay solely for use in consumption. They really indirectly hire the machine; the principle is no different from the hiring of a "drive-yourself" car. The car-owner defrays the first cost; the hirer pays to use the car, the charge including sufficient to keep it in repair and to replace it when worn out in his service. What is wrong about that, and how is any deficiency caused between costs and income?

Practical Accounting

A. W. Gamage, Ltd.

This year's net profit is £110,761, as against £105,500 last year. After providing for N.D.C. £5,000, plus increased income tax, the profit available for dividends is somewhat smaller, but still it covers the 15 per cent. on the Ordinary shares with about £6,000 to add to carry-forward at £81,565. The *News Chronicle* of March 5 reports this information, and continues as follows:

"The issue of new shares a year ago produced a premium of £175,000, which the directors now propose to use in strengthening the financial position. *The goodwill of £20,000 is to be reduced to a nominal £1, and fittings and fixtures will also be reduced from £61,389 to a nominal £1*, while new issue expenses of £6,785 are to be written off. This will leave £86,828 as a capital reserve.

"The liquid position is stronger, current assets of £796,157 including cash of £241,036." (Our italics.)

Query for students: Do these (quite legitimate) adjustments support or otherwise the theory that fixed capital is recovered in prices?

money have I got now compared with how many I got before? "

* * *

A fall in prices is a rise in wages (or in dividends). Under Social-Credit finance every improvement in process will cause a fall in prices, and every class of the community will participate in the resulting rise in wages, or, to be accurate, the rise in the *purchasing power* of each piece of money that he may receive.

Take notice that this higher purchasing-power accrues to citizens only inasmuch as they take their money to the consumption-markets and spend it there. And since probably the working classes spend altogether as large a sum of money there as do the rich classes, and since the rich classes are buying all they want already, the material benefits of the lower prices will accrue in the main to the classes who need them and are at present going short of them. Thus there will be a concrete approach towards what is vaguely spoken of as "social justice." Nine-tenths of the people in any country, if left untroubled by agitators for "justice," will subscribe to the proposition: "If I have enough I don't care who has too much." Or, to express it in Biblical language: "Give me this day my daily bread and I'll forgive everyone his trespasses." This surely should appeal to all thinking men who realise what an enormous amount of time and energy our ruling classes expend on allaying unrest, an unrest which is reflected internationally by wars and rumours of wars. The whole world is in arms to protect national invested capital from being rendered obsolete under a world-wide financial system which makes the impoverishment of the stockholder the automatic consequence of the obsolescence of his capital.

* * *

Obsolescence connotes gain, not loss. It is the sign of the substitution of higher for lower efficiency in wealth-production. Social Credit will translate the higher efficiency of production into a corresponding higher efficiency of money—in other words into a corresponding increase in the purchasing-power of everybody's income. As for investors, the security for their income *as investors*, will rest, not on the comparative efficiency of the particular portion of physical capital which they nominally own, but on the general efficiency of all the capital in existence.

* * *

In the meantime new inventions are a menace, because they threaten to inflict obsolescence under a system where there is no compensation for owners of obsolete property. It is not inventors, or their inventions, that are the menace, but the bankers, who through their manipulation of loan-credit, make compensation impossible in any form either to investors or to consumers.

Behind this technical defect in managing the system there lies, as our correspondent remarks, the bankers' policy of promoting heavily-capitalised centralisation for the purpose of exercising political control. In the matter of oil, for example, their prime concern is not to provide oil more generously, but to control the provision more rigorously. This is proved by the fact that they will finance the acquisition of oil-areas without requiring the buyers to work them. The intelligent layman will ask: Why buy them to keep them unworked? One answer is that in the process they virtually buy Governments. Another is that they prevent others from working the property, "overloading the market," and driving down prices. A third is that they themselves can *temporarily* drive down prices by working the property (or by just announcing that they contemplate doing so) in order to provide statistical evidence which will make new oil-production propositions appear to be uneconomic or otherwise inexpedient. By this means (artificially engineered price-quotations) they obtain a leverage for persuading the disheartened inventors to sell them their processes. We recall that Mr. Turner was offered a price for his rights in his process for a certain country. "But," said he to the financier, "are you going to work the process if I sell the rights? " And the negotiator did not proceed any further! No; it is the old tale: existing Capital must be protected from supersession, or, if it must be superseded, at a very, very slow rate, sufficient at least to allow the bankers, insurance institutions and other heavyweight investors to unload their holdings and leave the lightweights to carry the consequences of obsolescence.

* * *

To come to another order of argument altogether as concerns the oil problem, and assuming that the new process would inflict losses on investors, where does the military security of this country come into the question? If war is a real risk (as the Government would have us believe) is it not safer to make our own oil than to import it? When the whales rise to feed, there is an ascent beneath the ocean of all weights of fish, each seeking to avoid being eaten from below and to succeed in eating above, until the poor little whitebait peep out of the water, only to be pounced upon by the gulls. And what with submarines below and aircraft above, our oil-tankers and their convoys will have their work cut out to dodge the fate of the whitebait. The internal, and decentralised, production of oil has many merits which together outweigh considerations of investment-finance—especially to those of us who know that these considerations are founded on false assumptions as to the ability of the financial system, under scientific management, to protect the interests of investors.

Press Pointers

(Our italics.)

The city is inclined to become optimistic.

Commodity prices are showing a tendency to become more stable, and there is an inclination to take seriously Mr. Roosevelt's statement that commodity prices are too low.

Last year he said they were too high, and they fell. Now that he has said they are too low there are a good many people who believe that commodity prices will rise.

These fluctuations in commodity prices to order are, however, not an unmixed blessing.

The world would be far better off if it knew that currencies were reliable, and that commodities would be allowed to fluctuate in accordance with the supply and demand for them.

The uncertainty regarding *Government intervention in the commodity situation disorganises the investment of money*. For nobody can take the risk of using money for development if they fear that *arbitrary decisions of Government will change the basis of their business.*

(S. W. Alexander, City article, *Evening Standard* February 18, 1938.)

* * *

The French franc was weaker yesterday, falling from 152 11-16 to 153 11-16. *The renewed selling of this currency* was connected with reports of political unsettlement in France and with rumours of reconstruction of the Cabinet.

The movement coincided unfortunately with the French Finance Minister's statement on the financial situation. The features of this statement are: (1) A further remission in taxation, and (2) the creation of an autonomous fund for the financing of national defence. The latter will probably constitute *another extra-budgetary fund* and thus add to the already formidable complexities of the French Budget situation.

The proposal for the remission of taxation aims at encouraging an increase in production. Unfortunately with the Budget already unbalanced *and with the Government paying through the nose for its loan requirements*, this appears to be no time for engaging in tax remissions, however justified and constructive they may appear.

(City article, *News Chronicle*, February 23, 1938.)

* * *

"I should like to see Social Credit, for example, tried in some part of the world."

(Havelock Ellis in interview published in *The Star* of February 21, 1938.)

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