THE
NEW AGE

INCORPORATING "CREDIT POWER."

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CONTENTS.

	PAGE		PAGE
"THE INTERNATIONAL SITUATION"	105	ALBERTA AND THE CONSTITUTION	107
THE ACCOUNTING OF CAPITAL	106	ALBERTA DIARY	108

"The International Situation."

Under this title Major Douglas recommends that as an alternative to the conscription of life and property advocated by Lord Lothian in a recent letter to a London newspaper, there should be conscription of financial capital. The Bank of England, the Joint Stock Banks, and Discount Houses and Insurance Companies should be informed that on the outbreak of war or the conscription of life or property, whichever is the earlier, the whole of their shares will be taken over at the original issue price, payment being made in Government stock. These shares to be placed in a Trust representing the Ratepayers' Associations of Great Britain, and the whole of the receipts from them, and the stock held by them, to be distributed to the ratepayers. All war loans issued to be underwritten by this Trust. (See *Social Credit,* March 18.)

First, as regards the feasibility of this plan, it depends upon the degree of potential practical support it can mobilise in high political circles. Being a virtual ultimatum it would have to be notified by some person or body who commanded the means to overcome resistance to the plan. There is no *visible* evidence that such person or body is prepared to stand forward and deliver the challenge; but there may be assurances privily given to Major Douglas, which may entitle him to regard the plan as practicable. There is certainly room for hoping that this may be the case, because the trend of events is undoubtedly forcing our ruling classes to reconsider the feasibility of their own plans. They are in a dilemma. It consists in the fact that even if they did re-establish peace in the military field, and did it so surely that there could be a worldwide cessation of rearmament, they would thereby intensify war in the economic field. International friction is not ultimately about the ownership of territory, but the command of export trade. While, in theory, this trade might be rationed on a mutually acceptable basis of distribution, there would still remain the problem of maintaining home trade solvent with the aid of such export revenue as each country would be entitled to. (Strictly speaking, a worldwide rationing of export trade would yield little or no export revenue to be received by any country—exports and imports would almost balance, the slight margin left representing exports to small "backward" areas for development purposes.) In a word our rulers are between the devil and the deep sea—between risks of war abroad and revolt at home. And they will remain in that position so long as they allow bankers to impose their financial rules on economic enterprise.

They know this; and it is for this reason that the plan for conscripting financial capital may be, or may quickly become, practical politics. In any case the nature and scope of the plan connote implicit recognition on Major Douglas's part that its implementation is a job for the Classes, not for the Masses. Particularly so since, however long it might be before another great war broke out, it will not be long before the "conscription of life and property" is attempted. Hence the plan for conscripting financial capital, being an alternative, must be made ready for enforcement and administration very quickly. So the Classes must take the lead. The Masses can help, or a small vocal proportion of them, without undue delay, when once the lead is given.

In this context the gesture of the Mexican Government, reported in the Sunday Press this last week-end, has cogent significance. That Government, in the name of the people, has declared what amounts to the conscription of oil properties—an act which runs parallel to that which Major Douglas recommends, and which goes to show that acts of this sort can awaken public support. So much, then, on the aspect of feasibility.

Technically there are no difficulties about this conscription of financial capital. That is to say, the plan will undoubtedly work if effective interferences with the working of it are assumed to be prevented. It is true that the conscripted capital is interlocked as to ownership with foreign investments, but foreigners could not interfere except by force, and it is assumed that Britain's military preparedness would rule that out.

For the rest, this plan, both in structure and objective, can be made attractive to a substantial proportion of thoughtful citizens. As to structure, one of its merits is that it is to be implemented on behalf of ratepayers' associations—the most numerous and democratic units of representation that exist apart from the ultimate unit—the unattached and unorganised individual citizen. Again, in so far as Social Creditors have been stirring up ratepayers to demand results from their local councils, they have paved the way for an agitation for the aforesaid conscription and localised sharing out of financial capital and the benefits accruing therefrom. Further, the plan affords a splendid platform for exposition—not necessarily or primarily of Social Credit technique, but of the tricks of the financiers' trade, particularly those concerning the way in which the 1914-1918 War Debt was created.

Apropos of this we remember that we published an article some years ago on this subject, composed so as to be understood by audiences of unemployed workers. It was subsequently reprinted in the journal *Prosperity,* which circulated among the unemployed. It might usefully be revived once more at this juncture; for, among other matters, it explained very simply and forcibly how every one of those down-and-outs could have lent money to the Government during 1914-1918 without having any to lend, and could have made a profit on the transaction. It also explained that if the bankers had permitted every citizen to do this to an equal proportion of the total debt, we should have finished up with no debt at all. Readers will agree that this sort of education and propaganda would be invaluable in working up mass support for the conscription of financial capital—capital which has been, and is being, used, not to distribute general benefits but to force large majorities of citizens into debt to small minorities. The article to which we refer made out a complete case for the selective conscription of this class of capital. This is a most important point because the distinction between financial and industrial capital will

enable advocates of the proposed conscription to forestall attempts on the part of the bankers to play hide-and-seek with the terms "conscription" and "expropriation." These advocates can insist that if the term "conscription" is permissible when Lord Lothian and others apply it to life and personal property, it is equally permissible when applied to financial capital. Alternatively if Lord Lothian wishes to apply the term "expropriation" to Major Douglas's proposals, then he must allow it to be applied to his own proposals. What's sauce for the goose is sauce for the gander.

Secondly, whichever term is used, there remains a sharp distinction between the appropriation (to use an impartial term) of financial capital and of industrial capital. One reason has already been given. Another is that industrial capital is operated under limits imposed by financial capital and that whatever abuses can be urged against industrial capitalism can be shown to arise from the imposed limits and not from any inherent defect in industrial capitalism itself. In short, if financial capital is conscripted and used as proposed there will be no need for directly conscripting industrial capital. We say: "directly" because indirectly the conscription of financial capital is the conscription of industrial capital. Democratic control of the first involves the same control of both—with the vast advantage that industry is free to feed the community instead of being constrained to fleece it. (Our article elsewhere: "The Accounting of Capital" has an underlying bearing on this argument which seasoned readers will quickly recognise.)

The Accounting of Capital.

The Dissolving-Assets Device

I.—THE BASIC CREDIT-SEQUENCE.

Which were created first—birds' eggs or birds? This old conundrum is paralleled implicitly in the debate on capital-in-prices that has been running in THE NEW AGE. New credits or new investments—which come first? And some confusion has arisen because the answer to the conundrum has occasionally been left an open question.

There is no reason for doubt. The basic time sequence of all credit-transactions is fixed beyond argument. It is as follows:

1. Money must come into producers' hands before incomes are possible for individuals.
2. Incomes must be received by individuals before there can be any investments.
3. Investments must be made before there can be any capital costs.

The same sequence applies to the physical aspect of these transactions. Thus:—

1. Money must come into producers' hands before production takes place.
2. Production must take place before there can be anything to be invested in.
3. Something must be invested in before there can be capital—i.e. industrial property.

Since money begins the sequence it must be new money—money "created" or "manufactured" by the institution entrusted with the function, namely the banking combine. There is no other source—for obviously money cannot be provided by people who are unable to handle any of it until it has been provided! So everything must begin with the provision of manufactured money.

First: The Loan.
Second: Incomes for services rendered.
Third: Investments out of incomes (after spending at the shops).

II. BANKERS' INVESTMENTS.

It will be noted by students that the order of this sequence is not observed when banks create credit and use it for their own investment. For, by doing this they provide new money (*vide* Rt. Hon. Reginald McKenna) which is not used for subsequent production but is provided after the production has taken place, i.e., to acquire some of the products. But let us assume that bankers' investments are ruled out; and for two reasons (a) simplification and (b) the fact that if the orthodox theory of loan-finance is correct there is no need for bankers to provide new money for investment. Thus, according to the orthodox theory if a production-loan of £100 is assumed to be issued there will be products costing £100 and incomes amounting to £100, and whatever proportion of the £100 is spent on consumption the remainder will be sufficient to acquire the remainder of the products as an investment. Hence, according to this theory, if the bankers create new money for investment there will be more money than necessary in circulation. Further, the bankers themselves say that investing is not proper to the function of banking, this function being to lend money enforceably repayable on demand (and they cannot force people to buy securities).

So, in this analysis, it is assumed that the bankers do not invest any new money additional to their production-loans, thus leaving the community to do this out of incomes derived from these loans.

III. WRITING OFF CAPITAL VALUES.

Now it is vital that the direction of the rotation of the production-loan cycle here described be borne in mind by everyone who attempts to test the consequences of practical accounting customs that are to be met with in modern business life.

To illustrate let us refer to the example quoted here last week where a certain firm wrote down the value of its fixtures from £60,000 to £1. Neglect the £1, and say that £60,000 was written off. Now, before it was written off it appeared as an asset. Therefore a liability of £60,000 had appeared (or been included) on the other side of the balance sheet. It had been a liability to investors. In principle the balance sheet would have been made out thus

Liabilities	*Assets*
Paid-up Capital £60,000.	Fixtures........ £60,000.

and would represent the fact that at some previous time certain citizens invested this sum, which the managers of the business used to buy the fixtures.

But previously to that these citizens must have received £60,000 as incomes. Again, previously to that the banks must have lent £60,000 for production. For simplicity, assume that the loan had been issued to the firm who made the fixtures in question, and that the citizens received the whole sum as employees of that firm. Call it firm A.

Firm A, then, had sold the fixtures to firm B, who had raised the £60,000 from the employees of firm A. Firm A was paid out.

Next, another fact has to be noted. The managers of firm B explain in their Report that they have been able to write off these fixtures by appropriating the premium on a new share-issue. The meaning of this is that they had collected for the shares £60,000 more than their nominal value. At the time when this took place the balance-sheet items reflecting the transaction would be:

Liabilities	*Assets*
Reserve Fund £60,000	Cash at Bankers £60,000

and these items would appear additionally to the two previously set out, namely,

Liabilities	*Assets*
Paid-up Capital £60,000.	Fixtures........ £60,000.

The writing off of the value of the fixtures is now balanced by the writing-off of the Reserve Fund. So the balance sheet eventually appears thus:

Liabilities	*Assets*
Paid-up Capital £60,000. (No reserves).	Cash at Bankers £60,000. (No fixtures).

Next we must consider where this premium of £60,000 came from when the new shares were issued. For simplicity assume that the same investors as held the original shares bought the new ones. Before they did so they must have received income, and it can be supposed that they got it from firm A in respect of a further set of fixtures. They paid this money to firm B, who, as seen, now hold it as Cash at Bankers. But on this occasion firm B are not buying fixtures with this £60,000. The original fixtures, though their value has been written off, have been maintained in a state of efficiency and need not be replaced. Hence firm A is left holding fixtures costing £60,000, but has no prospect of recovering the cost. (One can suppose it to go bankrupt.)

Putting these facts together, it will be seen that the investors in firm A have lost £60,000, which has been received as income by employees in firm A. who have paid this income to firm B.

It will also be seen that investors in firm B have paid up altogether £120,000, of which the second £60,000 stands in the firm's balance sheet as a Cash asset, against which there stands no liability to investors. There was such a liability before the writing-off of the fixtures, i.e., the Reserve Fund; but this Fund has been written off along with the fixtures.

True, as the managers boast in their report, the "firm" is in a strong financial position. But this strength of the "firm" represents the weakness of the investors in the "firm." The "firm" is sitting pretty on £60,000 of share-premium profits extracted from its investors; but the "firm" has not acquired any new physical assets with it: yet there is no visible title in its balance sheet for investors to get this "idle" money back. The only consolation that they have is that if the firm ever winds up business it will be able to pay the investors back the amount of their *original* investment with its Cash at Bankers plus, of course, any other money that its other assets might fetch under the pressure of liquidation. In the meantime, i.e., while the "firm" flourishes, the investors' £120,000 remains out of their hands. That is, they have bought their real capital—those fixtures—twice over.

That is not the end of the story. Firm B's fixtures, though written off to the deprivation of its investors, will yet be charged as regards depreciation to the firm's customers on the basis of their full value of £60,000. Say 10 per cent., or £6,000 a year. In so far as investors in this firm are also customers of the firm, they will be paying money to maintain fixtures that they have already paid for twice. The position will be clearer if we suppose that firm A had somehow managed to survive in spite of holding its unsaleable fixtures, and that firm B now commences to buy them from A at the rate of £6,000 worth per annum. This, in principle, would be making good depreciation—replacing B's worn-out fixtures with A's new ones at that rate. (Students will note that this transaction would not be possible in practice—for firm A's bankers would not wait ten years to get their loan back).

Now, notwithstanding these consequences, it may still be held that, all things considered, the investors in firm B are in a secure, if not affluent, position.

But if we consider these transactions and accounting devices as typical of what goes on in industry as a whole they tend to confirm the Social Credit case that consumer-income is being unnecessarily side-tracked and virtually confiscated. For the whole community are involuntary investors in addition to being voluntary consumers (and, in part, voluntary investors). Taking them all together as recipients of incomes, their incomes are dipped into *both to defray* the original cost and to *make good the wear and tear* of the same industrial property.

This analysis is beset with minor secondary implications, and it is impossible to elucidate these within the limits of an article. But our analysis has this merit, that it does start out from an authentic published report of an example of company-accounting.

IV. ALL ABOUT BALANCE SHEETS.

In this connection readers are recommended to get the little booklet *Balance Sheets: How to Read and Understand Them.* (By Philip Tovey, F.C.I.S., Pitman.) The price of the first edition was 2s. 6d. A study of this little book, and the series of authentic balance sheets which illustrate the text, will afford more light on the capital-and-investment subject than a host of theoretical dissertations. It tells you what *does* happen, not what *ought* to happen. Do you know what "False Reserves" are?—or "Fictitious Assets"? Do you know that until 1908 there was "no statutory obligation on a limited company to produce a balance sheet at all, unless such were provided for by the company's articles of association"? Do you know that whereas the law requires companies to supply "such particulars as will disclose the general nature of . . . liabilities and assets and how the value of fixed assets has been arrived at," yet these particulars "need not be supplied on the balance sheet placed before the shareholder, who . . . may be forced to the trouble and expense of procuring a copy of the accounts filed at Somerset House"? (Page 4, 1921 edition.)

Let us conclude with this quotation:

> "But in no case should the size of the reserve as given in the balance sheet be taken as corresponding to an actual amount of cash in possession of the Company, or as available for instant use."

Oh, how true! Reserves are the ghosts of buried profits—the celestial crown of terrestrial abstinence—or, in the vernacular: Pie in the sky till the sweet by-and-by.

Alberta and the Constitution.

The Supreme Court's wholesale rejection of the Alberta Government's measures has at least one merit, that it shows the people of Alberta where they stand. Whether or not the issues are to be carried higher, the practical implications of the judgments ought to be worked out and presented to the electorate. We have not studied the judgments in full, but, from reading the abridged account of them in the Ottawa *Evening Citizen* of March 4 (we have no later news at the time of writing), we should say that Mr. Aberhart would have no difficulty in logically demonstrating that the existence of a "Social Credit" Government was unconstitutional, and, *a priori*, that all votes cast for such a Government were unconstitutional.

In that case it would appear to be the duty of the Governor-General of Canada or the Lieut.-Governor of Alberta to regard the election of 1935 as quashed, and accordingly to dismiss the Alberta Ministry from office. One must assume that between them they possess the same powers as those under which Sir Philip Game dismissed Mr. Lang's Ministry in New South Wales a few years ago.

Logically Mr. Aberhart has a case for resigning and appealing again to the electorate. Whether that course would be expedient is another question which he must decide for himself. He might not be returned again, in which case the bankers would have won a trick. But from the point of view of the people who voted for dividends his return on the same programme would not lead to any practicable result: it would merely register their reaffirmation of a demand which the Supreme Court has now held impossible to be constitutionally granted except by the Dominion Government, which presupposes that all the provinces (or a majority) come into line for the same thing.

One thing is clear, and it is that if future legislation by a province must be limited to measures which do not adversely affect any interests (real or pretended) outside that province the whole system of provincial elections might as well be scrapped as a fruitless expenditure of time and money. And this is the implication of some of the judges' reasoning. One judge came to the conclusion that the taxing of banks on the Aberhart scale, if applied by all the provinces, would virtually ruin the head banks concerned. (If the head banks hang together they cannot be ruined: but the judge did not realise this.) Another judge said that to preserve unity in the Dominion the Government might have to exercise its powers of disallowance over *all* provincial legislation—a view which seems to regard provincial legislatures as potentially mischievous or superfluous.

As to the status of Alberta, or any other province,

under the present interpretation of the Constitution, we are reminded of the barrister who, asked what was the basic legal definition of a private citizen, replied: "An actionable entity." It would appear that under the rulings of the Supreme Court the definition of a self-governing province would be: "A taxable entity." For what is the Albertan citizen left to vote for except something which helps him to shift his liability to surrender money on to the back of some other Albertan citizen? He lives under a Put-and-Take Constitution where his Province puts, the Dominion takes, and the Banker conscripts the takings.

Alberta Diary.

February.

According to the *Daily Telegraph and Morning Post* of February 23 and 24 the Alberta Government will shortly introduce a scheme for the taxation of securities (e.g., mortgages, bonds, sales-agreements, etc.). The rate mentioned is 2 per cent. and is estimated to produce £500,000.

The re-establishment of the sales tax is said to have been vetoed by the Ministerialist party (i.e., the "Caucus").

There is likely to be another debt-reduction scheme which will "clamp a permanent moratorium on mortgages now held on statutory 'homestead' exemptions." This scheme is said to involve contracts in the province amounting to £24,000,000.

The "blue pledge" will, it is expected, be repudiated by the Ministerialist party. This pledge, the correspondent of the above paper explains, is the undertaking which Mr. G. F. Powell secured from "all but five members" of the Ministerialists not to disturb the unity of the Government forces by premature criticisms. According to this correspondent, "blind allegiance" will give way to "candid discussion in the House."

Lastly, he reports the probability of increased taxation, naming income tax, surtax, and death duties, as likely to be reviewed for this purpose.

* * *

Comment on these expected developments can wait until they have taken place. All that need be said at present is that whereas certain fiscal changes are compatible with progress towards a Social Credit system others are not. Such changes as have the effect of reducing the outflow of dollars from Alberta to creditors elsewhere constitute a potential reduction of internal taxation from which all Albertan citizens can (theoretically) derive benefit in various degrees. They tend to preserve political unity among all classes of taxpayers. But other changes, having the effect of raising collective taxation internally and of redistributing the incidences of the several taxes involved, obviously tend to cancel out the inner enrichment and unity incipiently established by the former changes.

It will be remembered that when Mr. de Valera stopped paying Land Annuities to Britain he did not stop collecting them from the citizens of the Free State—rather to their disappointment. Mr. Aberhart is probably being forced to follow Mr. de Valera's example.

March.

During this month, so far, the empowerment legislation of the Alberta Government has been declared unconstitutional by the Supreme Court.

It is said that Messrs. Unwin and Powell will be released from prison shortly. That is not surprising; for this gesture of magnanimity will accrue to the political credit of the Dominion Government and ultimately the Canadian Bankers' Association. Probably nobody in Canada (not even the victims of the libel) wants these men to serve the full sentence. The bankers are quite satisfied that the odium of the conviction remains for what it may be worth—and it is certainly worth the more to them inasmuch as the penalty is mitigated. As a matter of fact the sentence of hard labour is not being served by the two prisoners; both are engaged in clerical work, Mr. Powell in the Bursar's Office and Mr. Unwin in the Chief Guard's Office. They are virtually private secretaries to prison officials. We said in a letter to a correspondent a day or so after the sentence was first known in London that the convicted men would not do any hard labour.

Social Credit of March 18 publishes some correspondence which passed between Major Douglas and Mr. Mackenzie King between December 10, 1937, and March 10, 1938, respecting the sentence and recommendation to deportation of Mr. Powell. The correspondence deals with the question, raised by Major Douglas: Will the law give Social-Credit advocacy a fair deal in future? Mr. Mackenzie King says: Yes, if the advocates do not break the law. Incidentally Major Douglas challenges the propriety of Mr. Justice Ives's strictures on Mr. Powell's methods of advocacy; but Mr. Mackenzie King, in his turn, pleads the impropriety of his (Mr. King's) discussing the propriety of Mr. Justice Ives's remarks.

March 21.—The Ottawa *Evening Citizen* of March 4 is to hand. It contains the announcement of the Supreme Court's judgments delivered on that day, together with a short history of the issues, and an account of some of the reasons supporting the judgments.

The most significant feature of the judges' findings is that they not only declare the three empowerment Acts invalid, but express the view that the Social Credit Act (which was not formally submitted for judgment) is *ultra vires*. Since the empowerment Acts pre-suppose the validity of the Social Credit Act the Court has been obliged to take this Act into account as a factor in assessing the validity of the empowerment Acts.

"THE NEW AGE" DEBATING SECTION.

Some correspondence on the Capital-in-prices controversy remains to be published. It will appear next week if circumstances permit. After it has appeared the controversy will be suspended on this topic. If it continues it will cover such aspects of banking as have been recently explained in Canada by upholders of the present system.

Meeting at Romford.

Social Credit Party (Romford Branch) "The Cost of Re-armament," Romford United Services' Club, High-street, Romford, Friday, March 25th, 7.30 p.m. Speakers, T. G. Ward (c/o London), Elizabeth Gibbs (prospective Social Credit candidate). Chairman, M. A. Phillips, B.Sc., A.I.C.

Forthcoming Meetings.

LONDON SOCIAL CREDIT CLUB.

Blewcoat Room, Caxton-street, S.W.

March 25, 8 p.m. "The Richer we Get the Poorer we Become," by Mr. R. Thomas.

March 31, 8 p.m. Social Credit Rally, Central Hall, Westminster. Marquis of Tavistock, Mr. Maurice Colbourne: "How Social Credit will help you."

April 8, 8 p.m. Answers to written questions of March 31.

PUBLIC MEETING

CENTRAL HALL, WESTMINSTER

THURSDAY, MARCH 31, 1938

at 8 p.m.

Chairman: **THE MARQUIS OF TAVISTOCK**

Speakers: **Mr. MAURICE COLBOURNE**

and others.

ADMISSION FREE (Collection for expenses).

Tickets for reserved seats, 2s. 6d., 1s., and 6d., from:

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"The New English Weekly" Office, 38, Cursitor St., E.C.4.

Dr. Joyce C. B. Mitchell, 5, Bromley Common, Kent. (Ravensbourne 2871).

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