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Peace With Security

No nation in modern times will make war to get things that it can get otherwise.

* * *

Mr. Neville Chamberlain spoke true words when he said that in modern warfare " there are no winners."

* * *

The question is not who wins a war but what the war is about. Suppose such an absurdity as this: One idiot says: " I am going to knock red-hot lead rivets into this piece of boiler-plate." Another idiot replies: " No you're not: I'm going to stop you." They have a set-to; and one of them " wins." . . . Would it matter which?

* * *

Now, the underlying drive towards war proceeds from just as great an absurdity as this.

* * *

The absurdity is that every nation is seeking to grow prosperous by exporting the materials of prosperity and preventing the importation of them.

* * *

The absurdity is veiled from the eyes of the people concerned because a country that empties itself of real wealth in this way thereby adds to its financial wealth. It loses goods but it gains money. Conversely, if it gains goods it loses money.

* * *

Money is intrinsically worthless, like a theatre-ticket. People value it only for what they can get in exchange for it. They prosper by spending it on real wealth. Being resident in a country they must spend it on real wealth available in the country. So it is of no use for them to receive money as compensation for real wealth sent out of the country. It should be the other way about—the more real wealth kept inside, and brought inside the country the more money they should receive, because there is more to be bought.

* * *

Now, war risks arise out of the competition of countries to dump goods on each other and gain money at the expense of each other. Hence, if any country were to succeed in introducing a method whereby it were able to provide itself with a sufficiency of money without exporting real wealth, and even while importing it, that country would have eliminated all risks of war. For it would be doing what other countries wanted it to do; and those countries would have no reason to fight it.

* * *

It is true that, as we look round the world at the present time, we often see countries striving to import real wealth; but the distant objective of each in doing this is to place itself in a better position than others to *export* real wealth. The imports are wanted for re-exporting in other forms. These countries are content to lose money by importing in order to gain more money by exporting. Their distant objective is financial. And it is obligatory on them (or appears to be) to part with real wealth on balance in order to defray their internal costs of production. For if they fail in this their industrial systems collapse and the people are overtaken by unemployment and destitution. The prospect of such failure engenders fear, and out of that fear spring the risks of war.

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So the question arises: Is it possible for any country to introduce methods whereby it could pay its way financially no matter how much its imports were to exceed its exports? If so, that country can secure peace for itself, and lead the rest of the world to peace likewise.

* * *

The answer is that such methods are known, and that there are areas in which they could be adopted. The United States of America is one; and the British Empire is another. These are selected for citation because they both possess a sufficient quantity and variety of native resources to maintain their populations in comfort. They have no *physical* need to import real wealth; and, if they were to adopt the methods above referred to, they would have no *financial* need to export real wealth. Of course it goes without saying that neither of them (nor any other country) has a *physical* need to export real wealth. The very idea is ridiculous.

* * *

Well, the methods are those known as the Social Credit Proposals. Under the operation of these proposals either country could afford to be the dumping ground for the exports of all the other countries of the world, and to refrain from exporting to them anything more than they wanted to receive. It could say: We'll take from you whatever you want to sell, and you can take from us whatever you wish to buy: and if the result is an excess of your exports to us over our exports to you, good luck to you: if you like it, so shall we.

* * *

Contrast this situation with that presented by an American statesman shortly after the last great war, who, referring to the immense productive plant and equipment existing in his country, said that it would be " a millstone round our necks " unless America could find foreign buyers to employ this plant. But common sense tells us that productive plant is a life-belt. How on earth can efficient machinery for converting a country's resources to the people's use be regarded as a mill-stone? Of course this statesman did not mean to suggest such a thing. What he was bothered about was the cost of this machinery. The mill-stone was financial, not physical. But, yet again, common sense tells us that any theory which requires us to regard an economic life-belt as a financial mill-

stone is invalid; and since the lift-belt analogy is self-evidently sound, the mill-stone analogy must be unsound. And it is. This statesman was implicitly saying that America's plant required to earn more money than the American people could spend; and that unless foreigners came in to fill up the monetary deficiency the plant would have to be scrapped and the people starved.

* * *

He was right in implying the existence of this shortage of money in America, but was wrong in assuming that it was necessary for foreigners to make it good. It can be made good inside America. That is the truth revealed by the Social Credit Analysis of national costing.

* * *

It will no doubt seem a fantastic idea to suppose America or the British Empire to allow other countries to dump on them all the goods they want to sell and refrain from taking back more than they wish to buy. But that is because, under the present system of finance, an excess of imports over exports is made to diminish the supply of money at the disposal of the people in the importing country. We say: " is made to diminish " advisedly; for the diminution is not a natural necessity, but is contrived by the heads of that country's monetary system—the bankers. Under the Social Credit system the arrival of imports would be accompanied by the provision of more money, not the withdrawal of money, inside the importing country.

* * *

This can be justified as follows. Imports are an addition to the real wealth inside a country. When (as is here postulated) the countries sending in the goods do not take any back, these goods are a free gift of real wealth. True, the goods have to be paid for, but unless they are paid for by sending back other goods they are only paid for by what are virtually national I O U's—mere acknowledgments of debt. That is to say, the debt is not paid: and it can not be paid unless in goods. This is what Mr. McKenna meant when he said that " money does not cross frontiers."

* * *

Take an example to illustrate what happens under the present system. A German export goes to America. The German exporter does not get any American dollars: he gets an American I.O.U. for dollars. He takes this I.O.U. to a German bank and sells it for so many marks. The marks he receives are new German money and are an addition to the amount previously in general circulation. In the meantime the German banker looks for someone who wants to buy goods from America. If he does he sells him the American I.O.U. for so many marks, and the marks paid to him go out of general circulation. The buyer of the I.O.U. can now use it to buy American goods. Note that throughout these transactions the number of dollars in America is not decreased or increased. But suppose that the German banker cannot find a would-be importer of American goods (which is the case under the hypothesis we have laid down), he would have to buy American goods himself. Under a true gold standard he would import gold from the American central bank—but otherwise he would probably use it to acquire American securities based on real wealth in America *and remaining there*. The final result would be that America had got new real wealth (the German goods) without parting with any dollars.

* * *

Nevertheless, something would happen under the present system to diminish the number of dollars in circulation. For when the American importer sold the goods, the buyers would leave unbought an equivalent value of American-made goods. The makers thereof would fail to recover costs and would be called on to repay their overdrafts, would go out of business, and would leave their employees without a livelihood. Here lies the obstacle, under the present system, to a country's allowing itself to be a dumping-ground for foreign goods. In theory, the whole of that country's plant and equipment might have to be closed down and the whole population deprived of work and incomes. Coincidentally the banks would call in all the dollars in circulation.

* * *

But this terrifying prospect would not materialise under Social Credit principles of finance. In the first place it would not be necessary for home-made goods to be left unbought because of the people's buying of imported goods. So long as the people were physically be able to consume or acquire *both* supplies they could be provided with enough purchasing-power to do so. Seeing that no dollars were parted with for the imports, these imports would bear no cost defrayable in dollars, and could, in fact, be distributed free of charge, thus leaving the population with as much money to spend on home-made goods as if there had been no imports.

* * *

If anyone hesitates to accept this proposition, let him reflect on another which is commonly assented to but is patently incomprehensible. It is (applying the above case) that if the imports of real wealth were paid for by exporting the same value of real wealth in exchange the people would prosper better than if they exported nothing at all in exchange! Realistically, prosperity is a rate of consumption, and depends on a rate of production. Further, imports not paid for in exports have the same effect as a quickening of the rate of production, and therefore of consumption. The familiar proposition that " we live by our export trade " is as absurd as to say that a man thrives on that part of his dinner that he gives away.

* * *

For this reason Social Credit finance reverses orthodox finance. It accredits imports whereas orthodox finance discredits them. Conversely it discredits exports instead of accrediting them. It does not, however, use the factor of compulsion either way: it simply monetises imports and demonetises exports. Orthodox finances does the reverse, with the consequence that the faster a country parts with real wealth the more readily it gets financial wealth. This tendency, driven to its extreme limit, would create a situation in which the population of a country would be standing with full pockets outside empty shops.

* * *

Now to sum up.

* * *

Social Credit finance will enable a country to absorb and consume balances of imports to any quantity and value.

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By doing that it will eliminate risks of war between itself and any other country or group of countries. More important still, it will eliminate the same risks as between those other countries; because if they can export all they wish to the Social-Credit country, they will not need to dump exports on each other. Thus the Social-Credit country would function as the safety-valve for all the economic antagonisms and suspicions in the world which stand in the way of peace.

* * *

The issue of peace or war depends finally on the attitude of the heads of the world's banking systems towards Social Credit. All Governments act under their advice in matters relating to economic policy. To narrow the picture, it is within the power of the Federal Reserve Board of America and the Bank of England, representing the two great English-speaking democracies, to give effect to Social Credit principles of finance in their respective areas, and thereby to rid the world of the war menace. They have it in their power to present the world with an object-lesson of the futility of war by showing that the voluntary concession of things hitherto sought through war can be turned to the profit of the nations which concede them. The old pacifists

who held the idea that non-resistance to aggression would change the heart of the aggressor were not such fools as they were held out to be. Their insight was true; but they were lacking in the knowledge which would have rationalised their ideology. To-day that knowledge is available to all seekers. In its light we are able to see that the economic objectives of aggressors—would-be appropriators of other nations' markets—can be used as feeders of the peoples who buy in those markets, and to the deprivation of the peoples to whom the aggressors set the task of making the goods for those markets.

* * *

Britain or America, under Social-Credit finance, could use the familiar slogan: " You want markets: we have them." They could continue: " Don't challenge us to fight you for them: help yourselves—and see how you like it! " And when the invitation was accepted it would not be long before the " victors " would realise that the fruits of victory were accruing to the " vanquished." Thus the objective of war, and therefore war itself, would be held up to universal derision.

Social Credit in Parliament

DEBATE AT OTTAWA.

It may be taken that Finance Minister Dunning's attack on Social Credit in reply to Mr. Blackmore's motion (see " Alberta Diary " elsewhere) has the general approval of the Canadian Bankers' Association. On that assumption his speech is of the utmost importance. Accordingly we contemplate reprinting the report of the debate as a leaflet, so that readers will be able to form their own judgments as to how the arguments in the attack can best be met, and their influence on the public mind counteracted. The attack is twofold:—

(1) The dividend is inflationary.

(2) Attempts to stop inflation by price-control will lead to autocracy.

Thus Social Creditors are forced to justify the technical soundness of their proposals.

One point strikes us at the moment. If prices " sky-rocket " (as Mr. Dunning says) *solely* because consumers get more money to spend which has *not gone through the industrial costing system*, then the premium on prices will be pure profit and will appear as such in company accounts. If that occurs, what is the matter with Excess Profits Duty? Surely that is not a Fascist impost. And it would yield a Budget surplus with which the Government could pay off debt to the Totalitarian Money Monopoly.

Alberta Diary

Social-Credit Debate at Ottawa

On March 8 a No-Confidence motion was debated at Ottawa. The mover was Mr. John Blackmore, leader of the Social Credit parliamentary group. The motion condemned the Government for neglecting to improve the economic conditions in the Dominion. Mr. Blackmore spoke in advocacy of Social-Credit principles of finance.

Finance Minister Dunning replied for the Government in a speech lasting ninety minutes. He impugned the technical soundness of the Social Credit analysis. Its diagnosis was incorrect, and the proposals for a discount or dividend highly inflationary. The control of prices would involve measures conducive to the emergence of the Totalitarian State.

A full report of the debate appears in *The Citizen*, Ottawa, of March 9.

Text of Supreme Court's Judgments.

The *Ottawa Evening Citizen* of March 4 publishes a report of the above judgments running to nearly seven columns of text.

It is stated in the same paper that Mr. Mackenzie King had intended all along to remit the Court's findings to the Privy Council whichever way they went.

Banks and Currency-Restrictions.

Mr. Charles Peterson, editor of the *Farm and Ranch Review*, writes in the issue of March, 1938, to explode the notion that the head bankers dominate the Government. The argument on which he places chief reliance is this: If these bankers control the Government how is it that the Government have imposed limits on their issues of currency? But the answer is easy. The head bankers want to have those limits imposed. One reason (though by no means their chief reason, but a reason which will appeal to Mr. Peterson) is that currency is Government credit which yields no interest to the banks.

The following extract from Mr. Hartley Withers's book: *The Business of Finance* makes this clear. In the second edition, October, 1918, on page 34, he referred to the issue of treasury notes in 1914, and proceeded to remark:

" Why the issue was made by the Government and not by the Bank of England we shall probably know when the war is over. At present all that can be said is that for the Government to act as an issuer of paper promises to pay is quite a new departure for England, and it is one which needs very careful watching, as it is already producing a crop of suggestions that anything that the Government needs it can easily get by printing notes in payment for it.

" It is understood that these treasury notes are not actually issued at present by the Government in payment for goods that it buys or for services rendered to it. They are, in fact, **handed over to the banks, which pay for them by a draft on their balance at the Bank of England**, at which the chief English banks all keep an account. Nevertheless the **final result is exactly the same as if the Government were to pay the notes out in payment for purchases**, and, as we shall see later, the creation of currency in this manner has serious drawbacks attached to it."

It will be seen that the Government, if it printed sufficient notes, could discharge all its outstanding debts to the banks, and finance itself thereafter without further borrowing. It could wipe out Ways-and-Means Advances, thereby depriving the " City " of the profits accruing therefrom. This is one of the " drawbacks " to which Mr. Withers presumably alludes; and Mr. Peterson must recognise that it establishes a commercial motive on the part of the banks for seeking to have restrictions placed on the manufacture of currency notes.

But, as already stated, the commercial motive is not the most important. There is a political motive. It is to be seen revealed in the famous warning by the *Financial Times* to Mr. Lloyd George, that the heads of the banking system could " destroy the whole fabric of Government finance " by refusing Ways-and-Means Advances. In the face of this Mr. Peterson must reconsider his view that the banks do not dominate the policies of governments. Their power of domination is unquestionable. We allow that there is no evidence visible to the ordinary citizen that this power is being exercised; but in the nature of the case there would be no such visible evidence unless some government put the bankers' power to the test by embarking on, and persisting in, a policy to which the bankers were seriously hostile. Even so, the bankers are able to exercise their powers by methods not easy to be detected by the ordinary citizen.

Further, Mr. Peterson seems to be confusing the motives of bankers with the consequences of their policy when he charges Social Creditors with unjustly impugning them. He must draw, as we do, a sharp distinction between malevolence and maleficence—between wrong *willing* and wrong *acting*. Our case against the working of the bankers' system is in no wise impaired even if we agree with Mr. Peterson that the bankers are, without exception, inspired by benevolence. Inefficient benevolence can produce as evil a set of consequences as efficient maleficence. The road to hell is said to be paved with good intentions.

"Come Up And See Me Some Time."

This world-famed formula of hospitality, which originated in the speaking part of a female character in a certain film-play, seems to have captured the imagination of the Canadian chartered banks.

In a full double-column announcement published in the "Farm and Ranch Review" for March, 1938, the "Chartered Banks of Canada" extend the same invitation—

"Whether you deal with a bank or whether you don't, some time soon—say the very next time you are passing the bank's door—why not drop in and get acquainted?

—which is what the lady said. Furthermore, it is extended in the same spirit as animated the lady. You need not do business, nor even talk business. No—

"You're sure of a welcome, because the bank manager wants to know you"

—which, of course, was the lady's motive. What you're invited to do is quite innocent and inexpensive.

"So find out for yourself what kind of fellow he is. And before you leave, take a look at his staff."

—which, again, was what the lady suggested.

Again, you are given the following assurance—

"This is your introduction to a series of chats, in the course of which you will be surprised at how little of mystery and how much of service there is in the business of banking in Canada."

—an assurance which no doubt was satisfactorily verifiable on a visit to the lady; for upon reflection you will agree that the ratio of mystery to service in the business of vamping in Canada (if such business takes place in that dominion) is very near to the ratio in the business of banking there.

But you will want to know why you should take a look at the bank manager's staff. Well, the advertisement tells you—

"The head offices are manned and managed by just that sort of man. Every general manager in Canada started in the banking business as a junior in some small branch, and rose from the ranks."

In other words, you are urged to notice that little bankers do not alter as they grow up. If they chasten you it is because they love you. Behind their frowning Caution is smiling Benevolence. So join in the chorus, please: "Comrades, comrades, ever since we were boys."

The lady in the film story wanted her callers to know her better so that they should realise that when she exacted little gifts from them it was not because she valued the gifts above their friendship, but because their giving reassured her of the reality of their friendship. The great moral of this is that all of us—whatever we are and do now—were once upon a time little innocents in little cradles, owing nothing, being owed nothing, producing nothing, and, in fact, doing only one thing—consuming something. Well, by all means, let us pal up with the bankers if we and they can bring back the old cradle times once more. There is a basis for unity along this line; for not one of us has ever ceased to be a consumer. More than that, each of us, for himself, puts consumption as the primary and overriding necessity of life. So there is every reason why the banker and his customer should tell each other all about it—all about what bankers do and why they do it, and all about the consequences, and why they are unpleasant. Of course, it must be a two-way fraternisation. For bank managers, though nice fellows, are not more liable to misjudgment by their customers than are those customers by bank managers. These managers do not appreciate, for instance, what a jolly fellow, and, indeed, what a socially useful fellow, is the spendthrift. So three cheers for the new Fraternisation.

Rates of Flow

A. The issue of bank loans creates money. The repayment of bank loans destroys money.

B. All production (both capital and consumable) is financed out of savings or bank loans.

C. Savings in this connection may be regarded as bank loans repaid immediately.

D. Thus all production is financed out of bank loans repaid out of consumers' incomes after a period varying from zero to, say, six months.

E. The issue of bank loans through production creates costs to an equivalent amount. The repayment of bank loans *through consumption* cancels costs to an equivalent amount.

F. The rate of creation of industrial costs equals the rate of production. The rate of cancellation of industrial costs equals the rate of consumption.

G. The rate of issue of bank loans equals the rate of production. To be self-liquidating, the rate of repayment of bank loans must equal the rate of consumption.

H. Since under the present system the rate of repayment of bank loans equals the rate of issue, the last sentence could only hold in an industrial system which was not expanding, *and never had expanded.*

I. Thus in a normal industrial community the present system results in a steady piling up of uncancelled costs.

J. Since this process cannot be continued indefinitely, it is modified by the repayment of bank loans out of investments by the banks themselves, that is, out of new money owned by the banks.

K. The problem is to make the rate of repayment of bank loans, that is, the rate of cancellation of money, equal the rate of consumption. This may be most simply done by retaining the present system of cancellation, but compensating it by the re-issue of money as required.

L. This can only be done when the ownership of money is vested in the community.

M. The expression "the ownership of money" means the control of the issue of money, and thus of production. Paragraphs D. and J. show that this is now in the hands of the banks.

N. Therefore the central point of attack for the Social Credit Movement is the Bankers' Combine.

PAUL LAURENCE.

Legal Diary.

There are three items in our "Diary," published on November 25, which appear in the wrong year, 1933, instead of 1932. They are as follows (with dates now corrected).

July 14, 1932. (Blackmail article as described.)
July 14, 1932. (Flogging sentence.)
August 11, 1932. (Flogging for "violence to property.")

Students should note these, as most of their significance depends on the order of their occurrence.

There are three events not yet tabulated: the Peter Wright Libel Action (re Gladstone) in 1925, the Hatry trial in 1930, and the Louise Owen Action (re the Northcliffe will). Dates will be looked up later and announced.

Major Douglas on "A + B."

"The explanation of this apparent anomaly is complex, but is in the main due to the fact that the buyer of goods is at one and the same time paying for the goods and repaying to the banking system via intermediate producers the money which the industrial system borrowed from it but which the banking system created by means of a book-keeping transaction.

"The repayment of bank loans in the industrial system may be considered as included in the balance of the payments made from one business organisation to another, that is to say, in Group B . . ."

. . . .

"The objective in this case being a fall in prices to bring them collectively within the buying range of the general public any rise in prices would merely result in the use of a smaller amount of credit."

(Major Douglas in paper (No. 685) entitled "The Application of Engineering Methods to Finance," read at the World Engineering Congress, Tokyo, 1929.)

SOCIAL CREDIT RALLY,
CENTRAL HALL, WESTMINSTER,
THURSDAY, MARCH 31, 1938, at 8 p.m.
Speakers: Marquis of Tavistock and Mr. Maurice Colbourne.

DEBATING SECTION

From Mr. A. Barr.

I have hitherto refrained from adding to the letters to your Debating Section, but Mr. Franklin's "tree-planting" effort of February 3 has encouraged me to assist with the axe. In the first place, he contends that the banks as creditors are the losers when loans are not repaid because, in effect, "the debtor has simply had that amount of goods and services free at the expense of the lender." We must remember that "lender" is the bank, and obviously this is absurd for the bank produces no goods. The community produces and the community foots the bill in that, were there no bad debts undoubtedly interest rates would be lower or dividends higher. Later, Mr. Franklin suggests that "anything owed by somebody must be owed to somebody," and from this he infers that in actual fact the community as a whole has a balance sheet on which both sides are equal, we are free from debt—as a whole. The trouble, therefore, seems to be that, as there is obviously a shortage of money owed to somebody, there are too few people who owe money, therefore, in order that we may be allowed to consume our own products we must owe somebody more money. It seems too fantastic an argument to be seriously put forward.

Let us forget all these trees and let them wither for the want of attention. The fact remains that, whoever owns the money that is available to purchase the goods we all want to consume, there is too little money to ensure security and freedom. The community, as a whole, can produce an abundance. The community, as a whole, could consume that abundance, and yet the community, as a whole, is denied everything but a far from satisfactory standard of living. The problem is, not who owns the money, but who should decide its quantity, its availability and its purchasing power, and that is not the job of private institutions but of the community through its elected representatives. At the present time there is no relation between the amount of money available and the total prices of consumable goods, and Mr. Franklin would do well to follow through the table outlined by N. R. Temperley on January 20, or "The Missing Player" which is a demonstration of the same point by means of counters and money (issued by the London Social Credit Club).

REPLY.

No; I did not say banks are losers when a loan is not repaid *because* the borrower then has had goods free. Obviously, the borrower has goods free, but the bank is a loser simply because it owes the amount to depositors. Suppose £100 lent to White who pays it to Black who deposits it with the bank. The bank's liabilities are increased by £100, against which they hold White's promise to pay them £100. If he does not do so they still owe £100 to Black, and are compelled to pay out of their own pocket. They are in just the same position as any other money-lender who was not repaid. If the bad debt was not made, *the bank's* dividends would be higher; no-one else loses anything. I agree that the rest of Mr. Barr's paragraph is "too fantastic an argument to be seriously put forward." Where did he conjure it from?

It is quite reasonable to contend that the management of money should not be "the job of private institutions but of the community through its elected representatives," but it is really quite nonsensical to state that "there is no relation between the amount of money available and the total prices of consumable goods." The relation may or may not be ideal but it is there. Of course, the total amount of money in existence is always vastly in excess of prices of currently offered consumable goods.

From R. J. Northin

Your correspondent, J. A. Franklin, in the issue of January 13 attempts to discredit Major Douglas on credit. In my opinion he makes many fallacious statements, two of which are glaring. He states that a bank loan of £100 is the same as Jones guaranteeing £100 to Smith. Does not the banker create credit, i.e., money? Jones does not! The banker simply writes on a piece of paper "Pay Bearer £100." Jones, on the other hand, may have worked hard for a long period helping to create life necessities in order to get the £100 with which to pay if the borrower defaults. The banker loses only a piece of almost costless paper which he can easily renew, whilst Jones loses the reward of a long period of enterprise that he cannot renew without new enterprise. Again, the banker, when he loans £100, demands the return of £105 or more, thereby demanding more out of the system than is put in, an interest demand that far exceeds the cost of banking.

He also infers that experience has taught us that the bankers will carry out their promises. Did they in 1914?

Does not the promise of the banks boil down to this—they promise to exchange pieces of paper that they alone are allowed to issue.

If the present financial system is perfect, as J. A. Franklin would have us believe, why the continual financial crises? Also the monetary enquiries that have taken place in almost every country—and hushed up?

REPLY.

Mr. Northin is still labouring under the delusion that if a bank fails to recover a loan it loses nothing. I have already dealt with this in supplement No. 3 and elsewhere (see reply to Mr. Barr). If the borrower defaults the banker loses £100 of his own-earned money just as Jones would. Will Mr. Northin please meditate upon the fact that a bank loan creates a deposit—i.e., a bank-debt?

It is quite true that a banker can create money, but it never belongs to him, and he can acquire nothing with it; Jones, on the other hand, has full ownership rights over his £100 and can spend it on what he likes. To suggest that a created £100 is to the banker the same as his £100 is to Jones, is to argue that chalk is cheese.

I have been trying to explain to Mrs. Bing that the banker's claim to interest is not "demanding more out of the system than is put in"; *it is demanding simply a share of what is put in.* Of course, interest charges exceed the bare cost of banking; they supply the banker's profits as well. Perhaps those profits are excessive; Major Douglas does not care whether they are or not.

Some banks have not carried out their promises—and have gone bankrupt. Our banks failed nobody in 1914! No depositor lost a penny of his deposits.

Yes; the banks "promise to exchange pieces of paper, that they are alone allowed to issue." What of it?

I do not think the financial system "perfect"—nor does anybody else; but the imperfections Major Douglas purports to find are based on obvious misapprehensions on his part, and are therefore of no practical value—"about as helpful as a misprint in a multiplication table," as Mr. Hawtrey has said.

From Gladys F. Bing.

Before you close the debate may I give the "direct answer" demanded of me by Mr. Franklin?

He says that if he pays X £5 interest and Bill Smith £5 wages he has distributed £10 incomes and his costs are £10, and thereupon he exclaims in triumph that "the interest payment causes no gap whatever between costs and purchasing-power."

But, sir! We are not debating a gap between *costs* and purchasing-power. Nobody disputes that costs *are* purchasing-power. We are debating the existence of the gap between PRICES and purchasing-power.

Mr. Franklin is like the students of the London School of Bankonomics. He suffers under the delusion that costs equal prices, and manna falls from heaven to feed investors and shopkeepers.

In real life distributed incomes are costs and PRICES are something in excess of costs. They are in excess by precisely the sum which exceeds the Just Cost (the cost of production which is consumption). That sum is the rent-charge made by X when he lends money. It is sheer moonshine when Mr. Franklin imagines X would lend £100 in order to recover £100 by instalments of £5 a year. He lends £100 in order to recover an income of £5 a year over and above the £100 secured in Mr. Franklin's shop—and Mr. Franklin has to collect that "over and above" sum in *prices*—or go bankrupt.

Mr. Franklin's weakness is shown again when he is compelled to invent an income of £500 a year for Jones, who bought his house on the overdraft. I specifically stated that Jones started from zero as, in real life, most people do. Jones borrowed £100 and he never saw it—much less did he see the first £5 interest due to X. Jones had to collect that £5 in prices—because there was nowhere else to get it. In real life people are not born with incomes of £500 a year especially designed to pay interest on loans they are rich enough not to need!

Mr. Franklin sees that X does not have to recover the £100 that is the *cost* of the shop. True, he doesn't. He has to recover much more. In twenty years he has recovered that £100, but, nevertheless, Mr. Franklin will still owe it to him, and will still be collecting a fiver a year in prices to hand over to X. And all this after having distributed only that initial £100 in costs (incomes).

REPLY.

As this particular debate is ending I will make one last

desperate effort to clear up the tragic muddle of Mrs. Bing's letter. Although I have stated again and again that, because of profit, prices exceed costs she actually says that I "suffer under the delusion that costs equal prices." How can progress in an argument be made on these lines? She asserts that the London School of Economics students labour under the same delusion. Does she really believe that? Does she not know that not merely every recognised economist from Adam Smith to Keynes, but also every first form student is aware that profit is collected in price and so raises prices above sheer cost of production. But naturally none of them suffer from Mrs. Bing's own delusion that that fact causes a gap between purchasing power and prices.

It is essential to remember that Mrs. Bing's own original bookstall illustration purposely covered only the matter of interest payments and therefore I have attempted to confine discussion to that factor alone for a start. But can I keep Mrs. Bing to the point? I cannot; she is determined to introduce the allied, but somewhat different, matter of profits. The two things require separate consideration because interest is a true cost of production whereas profit is not.

Once again I will stick to the point, even if Mrs. Bing will not. It will be remembered that she envisaged a bookstall financed by a loan of £100 at five per cent. She proceeded to assert that, leaving profits out altogether, the bookseller had to recover £5 (the interest charge) *over and above his costs;* costs were £100 she said, yet £105 had to be "recovered in prices" to avoid bankruptcy; "prices were inflated (by the £5 interest) beyond the £100."

The reply I made was one of simple business-world fact. Since the interest payment is part of costs and costs equal prices (still excepting profits, as Mrs. Bing did in her own example) the position simply is that £100 costs (including £5 interest) have been incurred, £100 distributed (including £5 interest payment) and that therefore merely £100 and not £105 has to be collected fully to meet costs *including the interest payment.* The interest causes no gap whatever between costs and distributed purchasing power nor between PRICES and distributed purchasing power.

Mrs. Bing sees this in the example of the £5 plus £5 equalling £10; apparently she cannot see it in the precisely similar case of £95 plus £5 equalling £100.

Of course it is "sheer moonshine" to imagine what Mrs. Bing does in her fifth paragraph and to impute the fantasy to me without any justification. It is perfectly true that X requires £5 a year for his services as lender and the ultimate return of his £100 as well. It is also true that the fiver has to be collected in prices. Once again—all that happens is that (supposing annual expenditure and collection) every year £100 costs are incurred, £5 of them being the payment to X, price (still excluding profit) is £100 against which £100 has been distributed, £95 to workers and £5 to X. I cannot go on with this so I recommend Mrs. Bing to any elementary text-book. A good recent one is Meade's "Economic Analysis and Policy." On his second page he says:—

"The cost of producing consumption goods can be reduced to:

(1) the wages of labour employed in their production;

(2) the interest to be paid on the capital borrowed by the manufacturers;

(3) the rent or royalties which the manufacturer must pay to the owners of the land or other property used in the production of consumption goods."

Of course, he goes on to mention the other costs, but I have quoted the first two above as being the precise reproduction of what I have been pointing out. I have continued the quotation to include the third group because Mrs. Bing falls into the same mistake about rent as she does about interest.

In regard to the non-industrial example of house-purchase it now appears that it is essential to Mrs. Bing's case to assume that nobody has any income. On those lines she could "prove" that no-one could pay for anything and that we must all starve. In the real world in which we live, to which I respectfully draw Mrs. Bing's attention, people do have incomes and, quite indisputably, they do pay for services rendered out of these incomes and interest is one such payment. Put it this way—if I borrow Robinson's piano for a year and pay him £5 for the loan of it then that is a mere transfer of £5 income from me to him. Alternatively, if I borrow £100 at five per cent. for a year from Robinson with which I buy a piano, the position is precisely the same; I pay him £5 out of my income for the service of the loan. In terms of real goods I have simply borrowed a piano for a year, as in the first case. No disparity between purchasing power and prices is caused anywhere and it is incredible that Mrs. Bing cannot see it.

From A. W. Coleman.

You say that the continuance of the debate in its present form is not a pleasing prospect. True; but Mr. Franklin seems once more to be on the verge of coming to grips with the problem.

Several weeks ago he was almost there when he introduced seven men at seven windows and promised to admit an eighth man. Since then he has made a wide detour, but on page 91 of your issue of the 17th inst. he is approaching it again. At least, the time factor has been admitted to a place in a dynamic problem, and that is much.

Mr. Franklin sees, in his penultimate paragraph, that consumers are unable to meet legitimate costs to the extent of £10,000 every year for ten years running. But, he says, they must not receive any money to enable them to meet this shortage, because if they did they would have no right to the £100,000 which Z would distribute when his first factory was worn out.

Emphatically no.

May I refer Mr. Franklin to the diagram at the head of p. 24 of your issue of December 9 last? It is a very simple diagram, and it shows all the payments made in respect of the original construction and subsequent major replacements of any capital asset. It is equally useful to critics, true-blues, and individualists; they all admit that these payments, *at least,* are necessary for bare solvency.

From this diagram it will be apparent that the distribution AB enables consumers to make the payment BC; the distribution EF enables them to make the payment FG; the distribution GH enables them to make the payment HJ; and so on to infinity. This leaves the payment DE unbalanced; there is no source from which consumers can make it without drafting on money distributed in respect of *new* capital production.

If the asset costs £X and lasts for Y years, then the rate of expansion of capital assets (whether desirable or not) must be $£\frac{X}{Y}$ per annum for every new concern started. A crazy system, indeed; especially when it is realised that the march of science continually increases X and decreases Y.

Finally, Mr. Franklin must show how invested money can be used as working capital without inflating the costs/incomes ratio.

REPLY.

I cannot give a proper answer to Mr. Coleman without a reprint of his diagram. Naturally, in my view, that diagram does not fully represent the situation. As this particular discussion about the provision of new capital assets and their maintenance is being discontinued for the time being, it would not be fair for me to make a detailed statement to which Mr. Coleman would not have an opportunity to reply. I will, however, say this, that my objection to the diagram is that it does not express a dynamic state of affairs, but a static. Of course that is a difficulty in which Mr. Coleman inevitably finds himself; it is so in any attempt by any of us to make fixed lines represent movement. His diagram could only approach reality if he had set out an enormous number of criss-cross lines so as to make practically a solid block.

Mr. Coleman's suggestion that in my issue of February 17 I have "admitted" the time factor also emphasises one of the difficulties in which disputants find themselves. I have always sincerely felt that it was the time element that I had been particularly stressing and my critics omitting. In fact, I have said so on more than one occasion. I should make the same criticism of the A plus B theorem; it expresses a self-evident truth as a sort of standstill agreement, but it is a completely false picture when the "rate of flow" is taken into consideration, as of course it must be.

Mr. Coleman misunderstands me if he thinks that I was saying that "consumers are unable to meet legitimate costs to the extent of £10,000 every year for ten years running." In the case of the example with which we were dealing I said that if that really were so and payments were made to cover that deficit there would be an unholy mess at the end of ten years when that money would be going into consumers' pockets to meet costs which had already been defrayed. But of course it is when one takes a dynamic view that one sees there is no such hold up year by year; you merely have a constant stream of payments to and fro occurring at normally identical rates. However, all this I have laboured sufficiently already. In terms of Mr. Coleman's diagram it is just this dynamic picture which shows that the payment DE is not left "unbalanced," and there is no need whatever for a draft on money distributed in respect of *new* capital production. The total money required is provided solely by the depreciation payments for both the short-term and long-term operations. The Social Credit picture of reserves is quite false; there are no undistributed resources. There is no way of building up reserves (except by hoarding) other than by distributing them. This is due to the well-known fact that "gentlemen prefer bonds."

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