INTRODUCTORY SOCIAL CREDIT TRAINING COURSE - LECTURE 5
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Although we have now only nearly completed half of this course, we have said comparatively little about money, banking and credit creation. However, we have now done the necessary ground work and in this lecture will start our examination of the present monetary system. But before we proceed it is essential to stress that the Social Credit approach to the monetary system is as objective as the Social Credit approach to any other man made system. There are still some people who, if told the facts about the mechanics of banking, react by saying "you must be one of those Douglas Credit people who have a theory about the bank creating credit". .
Douglas did not "discover" that the banking system creates credit; in explaining how the present economic system worked, he merely outlined how and under what conditions the banking system made new financial credits available. The actual mechanics of the modern banking system had been mentioned by a few prominent bankers and in textbooks years before Douglas had penned a line on Social Credit.

Before examining the mechanics of the modern banking system, a brief historical survey of money is a first essential and I propose to quote extensively from Major Douglas' notes for an address, "*Money: An Historical Survey*", given at the Social Credit Study course for Conservatives at the Bonar Law College, Ashridge, England, on 26th July, 1936:

"The history of money is one long, unbroken history of fraud, and the acquisition of this power of money-creation by the banks is the final chapter. Without attempting to cover the historical aspect of the matter, one phase of it seems to me to be useful as indicating the basis of modern banking. Originally, just as a railway issues its own tickets, the wealth producers of the world, thousands of years ago, produced their own tickets. In those days the ownership of beasts of various kinds was the chief form of wealth, and of course the cattle had to be fed. Very often the rich man, the man who owned a lot of cattle, had not sufficient corn or fodder to feed the beasts. The merchant of grain and fodder was generally an itinerant, and it was not always convenient for him to take away the cattle; so he took from the cattle owner a leather disc, which represented one head of cattle. Sometimes it had on it a rude engraving of the cow's head, or something of that sort, and sometimes it hadn't.
Indeed most of you know as well as I do that the Latin word for cattle is *pecus*, our modern word pecuniary derived from it is historical proof, if any were necessary, of the derivation of the first money.

Now, in that simple arrangement there is one point of immense importance to be noticed, and that is that the owner of the wealth, that is to say the owner of the cattle, actually, literally, in truth, made - not metaphorically but actually made - money representing his wealth, in the same sense that the railway makes tickets - not in the sense that the modern businessman 'makes' money when he says he makes money. It is so long ago since he made any money that he has forgotten probably that he ever did say it, but when he did say it he was mistaken; he never made one cent in his life. If he had he would have been in gaol for counterfeiting. All he did was to get money that somebody else had, but the original man about whom I am talking for the moment, the owner of the cattle, actually made money. He made his leather discs as the owner of the wealth; they were tokens of wealth which existed, those discs, and the issuer of the token and the owner of the wealth were the same person.

Now - to carry our minds back a considerable distance through history - in the fifteenth and sixteenth centuries, when Europe was rent with various kinds of wars, and the chief owners of wealth were the feudal nobles, a great deal of their wealth was in the form of gold and silver plate.

This was made by people who were called goldsmiths, and, because of the supposed great value of these metals, the goldsmiths had very good safes for those days to take deposits, and it got to be the habit of the feudal nobles not merely to have their gold plate made by the goldsmiths, but to deposit or leave it with the goldsmiths for safekeeping, and the goldsmiths gave a receipt for this gold plate, signed on parchment. It became a great convenience for the owner of one of these receipts, should he want to buy, say a piece of land - instead of drawing out the gold plate or gold coins deposited with the goldsmiths - to hand over the receipt. Instead of actually drawing out the wealth, he handed over the so-called wealth, and these receipts on parchment signed by the goldsmiths were the direct lineal ancestors of your modern bank notes.

At this point something happened which was not present in the original conception of money as issued by the owner of cattle. The right of issuing money was transferred from the creator or the owner of wealth to the custodian of wealth. Not the man who produced wealth, nor the man who owned it, but the man who took care of it issued the receipt which, as I say, was the lineal ancestor of your modern bank note.

That was one of the most epoch-making things, though probably unnoticed until the present time, that has taken place in the history of the world in the last two or three thousand years; because it was the goldsmith's signature upon this parchment receipt which made it pass from hand to hand - not the name of the owner of the wealth - so that this power of creating money which is so important passed to a third party who was neither the owner nor the creator of wealth, but merely its custodian.

There is no doubt that at this point some dishonest goldsmith found that a large number of his clients left their values in his care almost indefinitely. They were safer with him than elsewhere, perhaps even in the castle of the owner, so that there was always a tremendous amount of wealth in the actual custody of the goldsmiths which apparently was never drawn out. Our dishonest goldsmith had the bright idea of issuing several receipts for one piece of wealth, on the assumption that those receipts would not all be presented at the same time. It was particularly easy when merely gold coins had been deposited, for if by any chance the owner of wealth did ask for his gold crowns, he would get them, because they need not be the same gold crowns that had been deposited. So it was found quite safe in a general way to issue more receipts for wealth than the wealth which had been deposited.

That, without doubt, was the first inflation, and of course it gave the goldsmith the value of all the receipts in excess of those which represented wealth actually deposited. That process, beginning undoubtedly in fraud, grew so common that it became the convention amongst bankers, who were the descendants of the goldsmith, to do this thing; and they have always for the past several hundred years been in the habit of issuing more receipts for wealth than the actual wealth which was deposited with them. At the present time it is a very well known convention, not denied by bankers themselves, that for every dollar of legal tender which they have, they issue nine dollars of credit money which they actually create themselves; just as the goldsmiths, not by exactly the same process, created those false receipts representing deposited wealth which was not there. Now, no scheme of that kind, so obviously fraudulent, in its beginnings at any rate, could have proceeded so long as it did, and for that matter does at the present day, if it had not served a very useful purpose. In fact, the additional receipts were passed as money, facilitated trade, kept goods moving and were in every way an advantage, even to the general population. They were of the greatest advantage, of course, to the banker, but they were also of great advantage to the public, as they provided it with money.

Still a third thing has happened to the money system. Until a very short time ago, practically up to the beginning of the European War, the convention was that either a bank note or a cheque on a deposit - which was simply an order to a goldsmith to pay so much to somebody else, which is exactly what was done in the old days - both of those things, the bank note or the cheque, were supposedly cashable at any time in tangible wealth at the bank - in golden sovereigns in fact.

The idea was that the bank was a custodian of a certain amount of tangible wealth, and that could be drawn out by means either of a bank note which was payable on demand, or by cheque, and the actual tangible wealth could be taken away. That was the convention.

There is an idea put forward by people, who ought to know better, at the present time, that banking is that sort of thing now. It is nothing like that, as I propose to show you. There used to be, of course, a lot of bank failures, even in Great Britain, and those banks failed because people suddenly decided, all at once, to draw out the things for which they had orders on the bank in the form of bank notes or cheques, and when they all tried to draw out at once, they found that what they wanted was not there.

It never was there; it never has been there, for at least a hundred years.

The bank has never consisted, in the last hundred years on the process of merely lending that which it took in. There is no possible doubt at all about this. I sometimes wonder why it is that certain protagonists - certain defenders - of the present banking system go on arguing about this matter. There is no possible doubt about it. And since the war the convention that you could get golden sovereigns in return for your cheque or bank note has not even had a plausible foundation. All you can get for a bank note is another bank note. There is no longer any obligation to hand over anything more tangible than some printed-paper.

In brief, the creation of money, once performed by the producer of wealth, then by the custodian of wealth, who fraudulently issued more paper than the wealth he guarded, has passed to a set of people who neither produce, nor own, nor guard the wealth, but are merely book-keepers.

The great thing to notice about this situation is that the creation of wealth - the real creation of goods and services which go to make a standard of living, the thing which makes the difference between starvation and comfort, and makes all those things that we call civilisation - the actual making of these things is carried on by one organisation, but the making of money, by which alone these things can be transferred from the producers of wealth to those who wish to consume it, is carried on by an entirely separate organisation, having no real connection with the production of wealth at all, not even as its custodian.

With the foregoing background clearly in our minds, let us now look a little more closely at the mechanics of the banking system. As far back as 1882, Professor H.D. McLeod, lecturer in political economy in the University of Cambridge, and the most outstanding authority on banking in Great Britain at that time, gave his famous lectures on *Credit and Banking* to the Institute of Bankers in Scotland. The following extracts from Lecture 1 outline the facts of credit creation with great clarity:

"I think that it will be found that in ordinary and quiet times a banker's balance in cash will seldom differ by more than one thirty-sixth part from day to day; so that if he retains in cash sufficient to meet one-tenth of his liabilities, that is ample and abundant in all ordinary times. If then, in such cases the banker retains £1,000 in cash to meet any demands, he has £9,000 to trade with; and it is just in the method in which bankers trade that so much misconception exists.

The way a Banker trades is this: He sees that £1,000 in cash is sufficient to support £10,000 of liabilities in Credit; consequently he argues that £10,000 in cash will bear liabilities to several times that amount in Credit.....

<u>"Thus we see the essential and distinctive feature of a Bank and a Banker is to create and issue Credit payable upon demand; and this Credit is intended to be put into circulation and serve all the purposes of Money. A bank therefore, is not an office for borrowing and lending money, BUT IT IS A MANUFACTORY OF CREDIT".</u> (*emphasis added*)

"After the first World War the British Government established a Royal Commission under the chairmanship of Lord MacMillan to examine the British monetary system. The MacMillan Commission reported: "It is not unnatural to think of the deposits of a bank as being created by the public, through the deposit of cash representing either savings or amounts which are not for the time being required to meet expenditure.
But the bulk of the deposits arise out of the action of the banks themselves, for by granting loans, allowing money to be drawn on an overdraft or purchasing securities a bank creates a credit in its books, which is the equivalent of a deposit..."

"The bank can carry on the process of lending, or purchasing investments, until such time as the credits created, or investments purchased, <u>represent nine times the amount of the original deposits in cash"</u>. (*emphasis added*)

One of the important points brought out in both the foregoing quotations, is that the amount of new money created in the form of financial credit is governed by the amount of cash held by the banking system. Not only do the trading banks treat coins and notes as cash; they also treat Central Bank credit, that is, financial credit created by the Central Bank, as cash. Therefore, the amount of new financial credit which the trading banks can create and loan, is governed by the amount of coins, notes and Central Bank credit, made available by the Central Bank. What is termed the "liquidity" of the trading banks - i.e. the amount of cash reserves they possess - is controlled by the policy of the Central Bank, which determines how much cash is to be created.

The trading banks did not, as some ill-informed money reformers claim, initiate the Great Depression in Australia, by calling up overdrafts and curtailing the rate of credit creation; the policy of credit restriction was imposed upon the trading banks by the Central or Commonwealth Bank, reducing the amount of cash and Central Bank credit. The trading banks worsened their position in the eyes of many people by obscuring the realities of the situation by their stupid denial that they create financial credit with pens, ink and paper.

The following are a few more selected authentative proofs concerning the creation of credit which the student will find useful:

Mr. Graham Towers, Governor of the Central Bank of Canada, giving evidence before the Canadian Government's Committee on Banking and Commerce in 1939, explained in some detail just how the modern banking system operates.
The following are extracts from the *Minutes of Proceedings and Evidence respecting the Bank of Canada* issued by the Government Printing Bureau, Ottawa:

"**Question:** But there is no question about it that banks create the medium of exchange?"

"**Towers:** That is right. That is what they are for - That is the banking business, just in the same way that a steel plant makes steel."

“The manufacturing process consists of making a pen-and-ink or typewritten entry on a card in a book. That is all."

"Each and every time a bank makes a loan (or purchases securities), new bank credit is created - new deposits - brand new money."

"Broadly speaking, all new money comes out of a Bank in the form of loans".

"**Question:** Ninety-five percent of all our volume of business is being done with what we call exchange of bank deposits - that is simply book-keeping entries in banks against which people write cheques.

Mr. Towers: I think that is a fair statement.”

The July 1958 issue of "*Branch Banking*", the British banker's official journal, stated editorially:
"There is no more unprofitable subject under the sun than to argue any banking or credit points, since there are enough substantial quotations in existence to prove even to the uninitiated that banks do create credit...”

Giving evidence before the New Zealand Monetary Royal Commission in 1955, Mr. H.W. Whyte, Chairman of the Associated Banks of New Zealand frankly stated that financial credit is created when banks make loans. He added:

"They have been doing it for a long time, but they didn't quite realize it, and they did not admit it. Very few did - today I doubt very much whether you would get many prominent bankers to attempt to deny that banks create credit. I have told you that they do; Mr. Ashwin (Secretary to the Treasury) has told you that they do; Mr. Fussell (Governor of the Reserve Bank) has told you that they do - But twenty, thirty, forty, fifty years ago you would not have found many people who would have said that. They didn't quite appreciate they did that".

Douglas has pointed out the difference between real credit and financial credit. The real credit of a community is its productive capacity.

Douglas defines real credit "as the rate at which goods and services can be delivered as, when and where required". This real credit can only be drawn upon by issuing financial credit. The more highly centralized the control of the policies governing financial credit, the greater the degree of centralized control over the community's real credit and the purposes for which this real credit can be used. The Socialists and Communists realise this and for this reason are bitterly opposed to any policy which would start to give the individual greater control over real credit via a decentralized financial credit policy.

The Great Depression years and the suggestion that "a Shortage of money" was the result of some natural law, followed by the Government instructing the Central Bank to create hundreds of millions of pounds of new financial credits to ensure that the nation's real credit was drawn upon to the maximum during the war years, conditioned many people to accept as essential increasing centralized control of the credit system by the central Government.

Statements read in Parliament by Federal Treasurers during the post-war years (prepared by the permanent "experts") make it clear that today there is no longer any real argument concerning the creation of financial credit; the issue today is, who is to control the system, how and for what purpose. The drive is towards more and more centralized political control - which in reality means greater power for the key men in the expanding bureaucracy - and eventually World Control through the type of International Financial organisations created during and after the war.

As all financial credit is at present only issued as an interest bearing debt, both to individuals and to Governments and Governmental bodies, and as total debts (private and public) continue to grow, it is self-evident that increasing centralization of the banking systems of the world means ultimate central control of the real assets of the whole world.

This has tremendous political implications which we will deal with later. But it can be said that unless one has some knowledge of how the present financial system operates in relation to the economic system, one can make no realistic assessment of present day politics.

SOCIAL CREDIT TRAINING COURSE

QUESTIONS ON LECTURE 5

1. During the Great Depression, thousands of banks throughout America had to close their doors. What could have been the cause of this?

2. Do you think that the real credit of Australia was being drawn upon during the thirties? Briefly give reasons to support your answer.

3. What would you reply to a person who said, "Well, if the banks can create new financial credit at practically no real cost to themselves, why don't they do it on an unlimited scale?

4. How could a Monopoly of Financial Credit be used to further Socialism?

ANSWERS TO QUESTIONS ON LECTURE 5

1. During the great depression thousands of American Banks had to close because depositors with the bank tried to draw out all of their credits with the bank in the form of cash and the banks just did not have enough cash to honour their depositor's credit with them. Credit which incidentally the bank itself had created.

2. No. Because of a contraction of credit arising out of central bank policy in restricting the cash available as a basis of credit creation by the trading banks which issue this credit as loans to industry and the public. In the great depression itself this process reached its highest peak. Thus during the "thirties", real credit; which is the ability or dynamic capacity of a community or nation to produce goods and services as when and where required, was nearly immobilized because the financial credit by which alone it could be drawn upon was severely reduced.

3. Banks cannot create unlimited credit because of the cash limits imposed upon them by the central bank. Remembering that in general that credit greater than ten times the cash deposits of the bank endanger the bank's ability to carry the ordinary every day demands of its customers for cash. There are other reasons inherent in the working of the present false financial price system, but these are outside the scope of the present lecture, and which will be dealt with later.

4. Because "real credit‘ can only be drawn upon by issuing financial credit, and because financial credit is monopolized effectually by central bank control mentioned above, governments and ultimately expanded bureaucracies can make private enterprise entirely subservient to government "socialist" enterprise. Driving out the former at will. Furthermore, as credit is created and issued to private industry as an interest bearing debt, this fact allows further control of private enterprise and even governments until international control is supreme.