that a customer has paid into the bank £1,000 in cash and that it is judged from experience that only the equivalent of 10 per cent. of the bank deposit need be held actually in cash to meet the demands of customers; then the £1,000 cash received will obviously support deposits amounting to £10,000. Suppose that the bank then grants a loan of £900; it will open a credit of £900 for its customer, and when the customer draws a cheque for £900 upon the credit so opened that cheque will, on our hypothesis, be paid into the account of another of the bank's customers. The bank now holds both the original deposit of £1,000 and the £900 paid in by the second customer. Deposits have thus increased to £1,900 and the bank holds against its liability to pay out this sum, (*a*) the original £1,000 of cash deposited and (*b*) the obligation of a customer to repay the loan of £900. The same result follows if the bank, instead of lending £900 to a customer purchases an investment of that amount. The cheque which it draws upon itself in payment for the investment is paid into the seller's bank account and creates a deposit of that amount in his name. The bank, in this latter case, holds against its total liability for £1,900 (*a*) the original £1,000 in cash and (*b*) the investment which it has purchased. The bank can carry on the process of lending, or purchasing investments, until such time as the credits created, or investments purchased, represent nine times the amount of the original deposit of £1,000 in cash."

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BANKS CREATE MONEY!

THE EVIDENCE

The Encyclopaedia Britannica (14th Edition 1929) in Vol. 3 under "Banking and Credit" states:—

"Banks create credit. It is a mistake to suppose that Bank Credit is created to any important extent by the payment of money into the Banks." (page 48 "Credit Policy").

In Volume 15 under "Money" the Encyclopaedia Britannica also states:—

"Banks lend by creating credit; they create the means of payments out of nothing." (Page 698 "War Finance and Inflation").

The Right Hon. Reginald McKenna, P.C., the Chairman of the Midland Bank Ltd., addressing the shareholders of the Midland Bank Ltd., said:—

On January 29th, 1920—

"When a Bank makes a loan to a customer, or allows him an overdraft, in the ordinary course the loan will be drawn upon, or the overdraft will be made by a cheque drawn by the customer upon the Bank and paid into someone's credit at the same or another Bank. The drawer of the cheque will not have reduced any deposit already in existence, because we are supposing a case in which he has been given a loan or allowed an overdraft. The receiver of the cheque, however, when he pays it into his own account, will be credited with its value and, therefore, a new deposit will be created."

On January 25th, 1924—

"I am afraid the ordinary citizen will not like to be told that the Banks can, and do, create and destroy money. The amount of money in existence varies only with the action of the Banks in increasing or decreasing deposits and bank purchases. Every loan, overdraft, or Bank purchase creates a deposit, and every repayment or Bank sale destroys a deposit."

In January, 1927—

"Every new loan or purchase by a Bank creates an equivalent deposit . . . . The total of Bank cash is determined solely by the action of the Bank of England."

On January 22nd, 1930—

"The Bank of England is the supreme authority in determining the quantity of money available for the use of the public."

Mr. R. G. Hawtrey, the Assistant Secretary to the Treasury, in a B.B.C. broadcast on March 22nd, 1933, said :—

"Further I agree with him (Douglas) that Banks create money and that trade depression arises from faults in the Banking system in the discharge of that vital function."

"Branch Banking," July, 1938, states :—

"There are enough substantial quotations in existence to prove to the uninitiated that Banks do create credit without restraint and that they . . . . create the means of repayment within themselves."

The Government of the Dominion of Canada maintains a Standing Committee on Banking and Commerce, the Minutes of which are published. The Minutes of Proceedings and Evidence respecting the Bank of Canada, Committee on Banking and Commerce, 1939, contain the following replies to questions. These replies were given by **Mr. Graham F. Towers,** the Governor of the Bank of Canada :—

Mr. Towers : "A Government can find money in three ways : by taxation, or they might find it by borrowing the savings of the people, or they might find it by action which is allied with an expansive monetary policy, that is borrowing which creates additional money in the process." (Page 29).

Q. : "When a 1,000,000 dollars worth of bonds is presented (by the Government) to the bank a million dollars of new money or the equivalent is created ?"

Mr. Towers : "Yes."

Q. : "It is a fact that a million dollars of new money is created ?"

Mr. Towers : "That is right." (Page 238).

Mr. Towers : "The banks cannot, of course, loan the money of their depositors. What the banks have done is to make loans and investments which result in a certain sum total of deposits." (Page 455).

Q. : "You have agreed that banks do create money ?"

Mr. Towers : "They, by their activities in making loans and investments create liabilities for themselves. They create liabilities in the form of deposits." (Page 456).

Q. : ". . . . so far as war is concerned, to defend the integrity of the nation there will be no difficulty in raising the means of financing whatever these requirements may be ?"

Mr. Towers : "The limit of the possibilities depends on men and materials."

Q. : "Would you admit that anything physically possible and desirable can be made financially possible ?"

Mr. Towers : "Certainly." (Page 771).

Writing in the "News Chronicle" on November 10th, 1939, **Mr. Oscar R. Hobson,** the City Editor, states :—

"What has happened is this. The Government has raised some £50,000,000 from the joint stock banks on Treasury bills . . . . and the money so raised has been paid out and now figures as additional purchasing power in the hands of the public, the clearing bank's deposits being up by over £49,000,000.

This, to put it bluntly, is sheer inflation. The £50,000,000 which the Government has borrowed from the banks has come from nowhere. It is as gratuitous an expansion of the total purchasing power in the hands of the public as if £50,000,000 of fresh banknotes had been created and circulated."

The best official exposition of the manner in which the costless creation of money is carried out is given in the **Report of the Macmillan Committee,** a committee which was appointed by Parliament under the Chairmanship of the Rt. Hon. H. P. Macmillan, K.C. (now Lord Macmillan) in 1929, to inquire into banking, finance and credit. This Report states on page 34, para. 74 :—

"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. A simple illustration, in which it will be convenient to assume that all banking is concentrated in one bank, will make this clear. Let us suppose