A PLEA FOR THE NATIONALIZATION OF BANKS

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INTRODUCTION

The author in his thesis has endeavoured to portray a concise picture of the present system of banking and to show (1) that this system is fraudulent and usurious, (2) that under it, it is utterly impossible for the people of a nation to escape from being in debt to the banks, and (3) that this debt is universal, inevitable, and irrepayable. He also shows that as a result of their lendings the banks have acquired an unbreakable lien on the entire wealth of the nation.

The thesis is founded upon moral grounds, for the operations of banks are legal. Legality of office and of procedure by no means, however, implies morality. The writer, therefore, has attempted to prove that the present system of banking, although legal, is immoral and unethical. He has striven to prove also that the present power, rights, and privileges of banks are not those which should devolve upon private persons but are those which are positively the incumbency of the Crown or State.

The writer for the purpose of this thesis treats of banks generally and does not distinguish between the various types of banks -- for banks are banks and their one great common denominator is their existence to lend money. No specific treatment is allotted to the Bank of Canada for the reason that as it was established in 1934 and as the present Great War Commenced in 1939, it is too early in the day, so to speak, to say what benefit the Bank has been to the country and to what extent it has been successful in performing the first and greatest duty of a national central bank -- the duty of maintaining a stable price-level. In this connection, the writer believes that the stability of prices which we in Canada have enjoyed in the past several years has been due infinitely more to government edict than to any monetary policy of the Bank of Canada,

In concluding his introduction, the author once again wishes to stress that he pleads for nationalization of banks because from a moral view point the present system of bank lending is too important and much too vital to leave in private hands. He touches but fleetingly on what he proposes should be done once the banks were actually nationalized. This could be the subject of another thesis entirely.

CHAPTER I

THE PRESENT FRADULENT AND USURIOUS SYSTEM OF BANKING

We the people of the present twentieth century have in our life time been living in a world of rising and falling prices, sometimes drastically so, with the consequent boom and slump in production. A falling price level inflicts great hardships on producers, who must, of necessity, curtail production and discharge many employees, thus swelling the unemployment market. It also inflicts great hardships on debtors who, if they are able to repay their debts at all, do so with a money which will purchase more in terms of goods than when the debts were first contracted. A rising price level, on the other hand, inflicts hardships on creditors who, when they are repaid their loans, are repaid in a money which will purchase less in terms of goods than when the loans were made. The rising and falling of prices have, as a study of history clearly shows, resulted only in turmoil and near chaos.

If prices rise and fall periodically, it is logical to assume that underlying causes exist. The major cause in the opinion of the writer, who agrees that there are other salient factors, lies in the quantity of money available to purchase the goods offered for sale; that is, the major cause lies in the Quantity Theory of money which propounds that the more money in circulation available for the purchase of a given quantity of goods the higher will be the prices of those goods and conversely the less money in circulation available for the purchase of a given quantity of goods the lower will be the prices of those goods.

The question now arises how and in what manner is the quantity of money increased or decreased? By money is meant not only token money and paper currency but also cheques, drafts, bank credit, and any other negotiable instrument whereby the transfer of the ownership of property and goods may be effected and payment made for services rendered. The answer lies in bank loans.

For hundreds of years, ever since 1694 when the Bank of England was established, money has come into being only as bank issue on loan. By no stretch of the imagination can money be construed to have come into circulation in any other manner. Individual citizens do not make their own money. The Government does not, coinage excepted, make its own money. Money, as aforesaid, comes into circulation only by and through banks.

By far and large the greater amount of money in existence is bank credit. In 1938 the people of Canada had on deposit in the chartered banks some $2,498,000,000; yet the total amount of tangible money; that is, token money and currency in the whole country was only $257,000.000[1]. In January 1932[2], the total amount of Bank of England Notes in existence was under £400,000,000 and of these only £353,000,000 were actually in circulation. On the other hand the deposit accounts of the London Clearing Banks alone amounted to £1,714,000,000. At the same time, in the United States the total of all kinds of currency in circulation was £5,647,000,000 ($27,000,000,000), whereas the total deposits of all the banks amounted to £46,261,000,000(230,000,000,000).

It is obvious therefore from the foregoing that there is far more bank deposits (credit) than there is currency (cash or real money) and that banks lend to some ten times their cash holdings. This means that for every $10 of bank deposits or loans, roughly speaking, $1 consists of cash and the remaining $9 of bank credit which has been created out of nothing. It also means that only one person in ten could draw his money from the bank if all the people who had deposits went to withdraw their money at the same time. In this connection, it is pointed out that by the Bank Act, Section 59, and the Bank of Canada Act, Section 26, the minimum cash reserve required to be maintained by the chartered banks of Canada is only 5% of deposits.

Banks almost invariably deny that they create credit; they say that when they make a loan they are merely lending

1. House of Commons of Canada, Standing Committee on Banking and Commerce 1939, P.11.

2. The Intelligent Man's Guide Through World Chaos, Cole,G.D.H., P.227.

their depositors' idle money. This is not true. Beyond the shadow of doubt banks do create money and this statement is upheld by all the leading economists in the world to-day. In support of this, the following remarks of prominent authorities are offered:-

Mr. R.G. Hawtrey[3], an eminent economist and one of the Chief officials of the British Treasury:

> "Banks create the means of payment by lending. A trader who needs the means of payment borrows from his bank. Two debts are thereby brought into existence, a debt due immediately from the banker to the trader and the debt due at a future date from the trader to the banker".

Mr. R.M. Wilson[4], economist:

> "Money is never issued except as loans of promises to pay and consequently the amount of money in the hands of the public corresponds to the amount of bankers' loans. Bankers possess only one-tenth of the money they promise to pay. Ordinary banking practice the world over consists in lending promises to pay ten times the amount of real money (cash) in the bankers' possession. Every banker stops lending promises when the amount of his promises on loan exceeds by ten times his holding of real money".

Mr. G.D.H. Cole[5], prominent economist:

> "A loan by a bank not only creates a deposit when it is made but reappears in the deposits subsequently made by those to whom the borrower pays the money away. It is simplest to speak of banks as creating credit whenever they make a loan".

Mr. C. Hollis[6], well-known economist:

> "It is not popularly understood that when banks lend promises to pay they lend promises which they know themselves unable to perform -- that their promises greatly exceed their cash holdings".

3. Trade and Credit, Hawtrey, R.G., P.1
4. Monarchy and Money Power, Wilson, R.M., P.4
5. The Intelligent Man's Guide Through World Chaos, G.D.H., pp.227 to 233.
6. Two Nations, Hollis, C., P.75.

House of Commons[7], Standing Committee on Banking and Commerce, 1939:

> "Bank deposits, like bank notes and convertible government paper money, represent a form of credit money -- indeed the most important form of credit money and much the largest portion of money in general. Bank deposits are essentially credits entered on the books of a bank recording the obligation of the bank to pay legal tender currency to the persons in whose favour the entries are made".

The Encyclopaedia Britannica[8], 1944 Edition:

> "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. A loan made by a bank is a clear addition to the amount of money in the Community".

The Ottawa Citizen Newspaper[9]:

> "Banking authorities have been quoted on many occasions by the Citizen to show that banks do not lend the savings of depositors. All bank deposits are originally created by bank loans -- as the Chairman of the British Midland Bank, Right Honourable Reginald McKenna said. "There can be no doubt that all deposits are created by the banks", said Lord Keynes.

It is clear therefore that when the banks say they are lending their depositors' idle money whenever they make a loan to some person or persons in need of it they are deliberately hoodwinking the public. The numerous passages just quoted have been given because the question of whether or not banks create credit is often hotly disputed to-day -- the banks and some orthodox economists denying that they do and the leading professional economists in the world categorically asserting that they do.

7. House of Commons of Canada, Standing Committee on Banking and Commerce, 1939, p.40
8. The Encyclopaedia Britannica, 1944 Edition,Volume III, p.48
9. Ottawa Citizen,Editorial Page, August 18, 1944.

Think of it! - that the money so vitally needed for production and consumption and for the negotiation of the purchase of all the needs of the people must emanate from the banks and that the larger amount of this emanation is created money in the form of credit. The question now arises, is it not a mighty privilege for private persons to be able to create money with the dash of the pen and to not only lend that money to the community at a goodly interest but to require the community's resources both real and potential to be offered as a backing or a basis of credit for the loan? A bank is after all only a group of private persons who have banded themselves to form a joint-stock company as banks are termed in England and corporations as they termed in the United States. The answer is yes; it is a mighty privilege, indeed a privilege which ought under no circumstances in this world to exist or to have ever been permitted to exist initially. Professor Soddy sums the matter up rather relevantly in the following passage:

> "It is bad enough to be put into the grip of the money-lender who, when he lends, lends real money (cash), but it is infinitely worse to be in the grip of the false money-lender who does not lend his own money or the money entrusted to his care by his customers but creates it to lend and destroys the means of repayment just as fast as the debtors succeed in paying it. This is the surrender of the powers of life and death over the nation's economic life into the hands of irresponsible impostors[10]".

10. The Role of Money, Soddy, F., p.77.

It is beyond doubt that the circumstances by which and under which banks lend money constitutes deception and deception is fraud.

The banks in addition to lending money that they never had to lend in the first instance but which they had to create in the form of book-entry credits have the impertinent gall to charge interest rates for their loans. In Canada among the chartered banks, the standard rate of interest is 7%. In other countries of the world the rates vary considerably. This bank interest, however, is nowhere in existence to repay. This is logical when we consider that all money in circulation came into existence as bank issue on loan at interest. Where then is the interest to repay? For example, if a bank lends $100 to Mr. Jones at 7% interest, he must repay $107. The only way Jones can get the $7 to pay his interest is to get it from his fellow citizens; but if most of his fellow citizens have also borrowed from the banks, then clearly the interest of both Jones and his fellow citizens is irrepayable. The irrepayableness of interest will be seen developed at length in Chapter III of this thesis.

Now if banks lend money at interest and without risk (only danger of risk exists when loans have too far surpassed cash holdings and a run is imminent), then re-lends the repaid loan, not paying out more than a small amount of its profits either as wages or dividends, then, however small its original capital, however moderate its rate of interest, it is mathematically ascertainable, in theory at least, that ultimately it will become the possessor of the entire wealth of the nation. It is said in theory at least because in actual everyday occurrence and practice, like Malthus' theory of expanding populations, it does not happen sufficiently to enable the banks to become the possessors of the entire wealth of the nations; it does, however, happen sufficiently to give them a lien on the wealth of the nation. This question of lien will be discussed in detail later.

We can see so clearly to-day the vast wealth in the possession of the banks; it seems to be ever augmenting. One thing is true and that is that the vast wealth of the nations (England, U.S.A., Canada, and others) is becoming more and more concentrated in the hands of fewer and fewer people. We shall see in a later chapter how the banks are instrumental in effecting the aforementioned concentration.

There was one man who years and years ago in 1735, in Ireland, saw through the duplicity of the banks and made no hesitation about putting his views to pen. That man was Bishop Berkeley of Cloyne who wrote a book in three parts entitled "Queries Proposed to the Consideration of the Public." In his queries he wrote that the fundamental service which a monetary system can render to a society is to provide a sufficiency of "counters" to enable such goods as the producers wish to sell and the buyers to buy to change hands. The business of the Government is to see that the general price-level remains stable. One article, through demand for it increasing, may go up in price and another down but the price of articles in general must neither increase nor decrease. Any such general increase or decrease, "such arbitary changing the value of money" is, he says, "a public cheat[11]".

The present monetary system under which we have been living since 1694 has never made any attempt to control the price level. Banks have been as given to the doctrine of "laissey-faire" as any other corporation or business. The banks' business is to lend money and this they will do as long as they do not lend, generally speaking, beyond ten times their cash holdings. The banks are not concerned with the price level; that is they are not concerned about whether their lending causes a rise in prices and about whether their restriction in lending, necessitated by having extended credit too much in excess of their cash holdings, causes a fall in prices with the consequent slump in production and unemployment.

11. Queries 28, Berkeley, Bishop of Cloyne, taken from "Two Nations", C. Hollis, P. 56.

Bishop Berkeley also was fully aware, even in his time, that Banks created money and he wrote "Whether it be not a mighty privilege for a private person to be able to create a hundred pounds with the dash of a pen?"[12] To him such a practice was immoral and anything but God-Ordained. The situation has not materially changed since his time.

It is only within the last two hundred and fifty years that the conception has permeated itself among peoples that the function of the issue and control of money rests with private persons, namely, the banks, Previous to this time, reckoning retro-actively to ancient times, such issue and control rested with the Crown and the Crown alone. The people generally never dreamed that the right of money manufacture and issue should have been performed by any other power than the King or State. The people knew full well that it was the duty of the King to maintain the equilibrium of the price level and no King in those times ever for one moment doubted that it was his incumbency so to do.

Another man, who lived hundreds of years before Berkeley, together with his followers, also taught that to juggle with or attempt to juggle with the price-level was immoral and unethical. That man was St. Thomas Aquinas who was born in 1274 A.D. in the early part of the middle ages.

12. Queries 490., Ibid, P. 60.

He it was who expounded the theory of the "just price" which was that every commodity has some true value with is absolute. To him the idea that an article could cost so much to-day and a great deal more or less a short time later was immoral and contrary to the Will of God. St. Thomas also taught that it was the role of the prince, king, or ruler to regulate money so as to maintain a stable price level. He constantly emphasized that it was the duty of the King to provide an exact and uncahnging coinage (money) and to maintain a system of weights and measures.

It was largely due to the teachings of St. Thomas and his followers that people throughout the middle ages looked upon the lending of money as usurious and considered it to be the incumbency of the King or ruler to issue and control money and to maintain a stable price level. To St. Thomas Aquinas the lending of money at interest was not only usurious but also immoral. How far we have "progressed" or shall we say "retro-gressed" since St. Thomas' day! What would St.Thomas say were he to come down to earth to-day and see the fraud and usury which is practiced by the present day issuers of money -- issuers who seem to be beyond the aegis of the King or State?

We have just seen that until some 250 years ago we lived under a managed currency -- managed by the State which endeavoured always to maintain the stabilization of the price level. In the ensuing chapters we shall see how private interest wrested from the State or King the right and the privilege of the issue and control of money and established the present fradulent and usurious system and the evil effect this has since had upon the economic life of all our people.

CHAPTER II

THE ORIGIN OF THE PRESENT FRADULENT AND USURIOUS SYSTEM OF BANKING.

It has been stated in the last chapter that in Medieval times people lived under a managed currency. Some may wonder how it was that the State managed currency so as to control the price-level. It was managed by reducing, whenever there were more goods for sale in the country than there was money to buy them, the amount of gold or silver in every coin; for there was no paper money in those days, gold and silver coins being the medium of exchange. In this manner the number of coins that could be made from a given quantity of silver or gold was augmented and the increased supply of money thus made was used to buy the increased quantity of goods, thus fore-stalling a fall in prices.

Prices were remarkably, yes, even amazingly stable when one considers the variations in the price-level which have occurred in modern times. Adam Smith in his Wealth of Nations[1] wrote that "from the 25th of Edward III to the beginning of the reign of Elizabeth, during a space of more than two hundred years, six shillings and eight pence, it appears from several different statutes, had continued to be considered as what is called the moderate and reasonable, that is the ordinary or average, price of wheat".

1. Wealth of Nations, Smith Adam, P. 143.

At the end of Elizabeth's reign, however, prices had risen considerably owing to the influx of gold and silver from the American Colonies. Trade too had increased greatly and had continued to increase steadily until the end of Charles II's reign. It was impossible for the Crown or State to prevent the rise in prices, for the simple reason that much of the precious metals were brought into the country as a result of piracy. And then, too, there were the clippers, those notorious rogues, whose business it was to melt down the King's coins and to re-issue them illicitly, containing less silver or gold than before and hence in greater numbers. The result was inflation. Milled edges had not yet been invented, or at least not until Charles II's time, to curb the activities of these numerous counterfeiters, many of whom were in the employ of the goldsmiths of London and of Amsterdam, Holland.

Now if prices rose as a result of the influx of gold and silver, of increased trade, and of the work of the clippers, it is logical to assume that the cost of government also rose. It did; and this was the situation with which the Stuart Kings of England were faced. One may well now say, what of it? But even in Stuart times, the King was dependent on parliament for the money which he required to carry on the affairs of state. Parliament at that time merely voted the money, the King himself spent it. But Parliament for various reasons consistently voted the King less money that he required for the needs of state. Thus he was compelled to borrow from the goldsmiths of London.

Charles I objected to the whole system, resented having to borrow from private sources, abolished parliament, and attempted to raise revenues as best he could. He lost his head.

Charles II, who was restored to the throne after Cromwell's death, did his uttermost to get Parliament to understand that as the cost of living had been rising steadily the Crown's expenses had also increased and now required greater sums. Parliament, however, refused to understand and throughout Charles'reign consistently voted him considerably less money than he required; in fact, of £1,200,000 which it annually voted to him he never in any year received more than £800,000[2]. The reasons for this refusal lay not only in ignorance and in religious differences but also in what one might term the lobbying of the goldsmiths or bankers, who were seeking to wrest from the King his control of the issue of money.

Charles II having no other recourse to borrowing from the goldsmiths did so for a time, when he conceived the plan of issuing paper money or promissory notes, promising to pay on demand gold or silver on a certain date in the future, usually a year from the date of issue. This plan he put into

2. Charles II, Bryant A., P. 139.

effect and by Royal decree declared his notes to be legal tender. The people did not hesitate to accept the notes and they passed freely as legal tender.

Now why did Charles II institute the use of paper money? He did so because, as aforesaid, he lacked sufficient money; that is gold and silver, and because he felt or thought that, when the notes fell due, by no means all the holders of the notes would come to the Royal Exchequer to demand cash for, as he reasoned, why should people go out of their way to exchange convenient paper money, which passes as good legal tender, for gold or silver which is much heavier and bulkier and therefore less convenient for carrying about on one's person -- and that for those few who would come to demand cash he would be able to pay them off from the budget money voted to him annually by parliament. In other words, he did exactly as banks do to-day; that is, he issued notes in excess of his cash holdings knowing that only some of the holders of the notes would demand cash.

Some may say what is the difference whether the King manufactures paper money or whether the banks do it? There is a big difference. When the King issues paper notes, he does not lend it at interest, he spends it; that is, he spends it out for purchases, for projects, and for wages and it becomes part of the money in circulation in the nation. When a bank, on the other hand, issues money it does not spend it, it lends it and all that it lends must be repaid at interest.

King Charles' venture in paper money ran aground for the very reason that the goldsmiths had taken measures to buy up as many of the notes that he had issued as they could and when the time came that the notes fell due they presented them to the King for payment in cash but as the King had not received enough money from parliament to meet their demands he was unable to honour all the notes.

By pressure the goldsmiths forced the King to concede to them the right to issue their own "promise to pay" notes convertible into cash on demand. They were not supposed to issue their notes in excess of their holdings of gold and silver but before very long they were issuing them well in excess of the cash in their coffers and were doing everything in their power to persuade their customers that there was no need to convert them into cash as that cash was always there should the customers require it.

The goldsmiths went too far and forced up the price level and in 1672 a run occurred and they were unable to pay the people the cash demanded. They told the people that they had lent their paper money on the strength of the King's notes which they had been holding for redemption. The whole business was to discredit the crown, for the goldsmiths knew all along that there was no gold behind the King's notes.

James II, the successor of Charles II, did all in his power to cope with the tragic situation in which he found the Crown's finances on his succession but he failed and was forced to flee the country when the Revolution of 1688 occurred. This revolution was undoubtedly financed by the goldsmiths, who were at that time subject to the strong influence of Holland's Bank of Amsterdam. Holland was then the leading trading country of the world.

William of Orange was brought from the continent to replace James and set upon the thrown of England. In 1694, he signed the Charter incorporating the most powerful goldsmiths of London into a corporation called the Bank of England and thus was established the so-called system of Dutch Finance.

Prior to the establishment of the Bank of England, the Crown or government, when it needed money, borrowed from the goldsmiths. After the establishment, however, it was agreed that the government would borrow the money it needed from the Bank of England. In return for lending to the government, the Bank received a number of privileges of which the most important was that it had the right to issue notes up to the extent of its loan; that is, it had the right to issue a £1 note; the holder of that £1 note had the right to demand that the Bank give him cash for his note, but, if he made this demand, the Bank had the right to demand that the government raise that £1 by taxation and repay £1 worth of debt to the Bank so that the Banks might repay its £1 debt to the note holder[3]. It was not long before the Bank issued notes freely to all its customers to the full extent of its loans. It soon found in practice that all the cash it required to back its notes was about 10%. As Paterson, the originator of the Bank put it, "the Bank hath benefit of interests on all money which it creates out of nothing[4]".

A study of history will show, however, that time and time again the Bank of England lent too many notes in proportion to its cash reserves and that as a result a run occurred and it failed. The depositors naturally lost their deposits and were ruined. The government, however, always intervened in favour of the Bank and permitted it to commence the vicious circle all over again.

The most important result of the Revolution of 1688 was the concession to the Bank of England of the extraordinary privilege of inventing money -- a privilege which by an inevitable mathematical necessity has caused the possessors of it to acquire a lien on the entire wealth of the nation[5].

3. Two Nations, Hollis C., P. 30.

4. Ibid, P. 30.

5. Ibid, P. 49.

In 1844, the Bank Charter Act restricted in England the power of the provincial banks to issue money in the form of notes; it made no provision for issuing it in any other way; therefore the banks got around the Act by issuing cheque money instead of note money. Where previously they had printed a note and lent it out as money to their client, now instead they made a book extry gave him a cheque book and authority to write cheques to those with whom he did business up to the amount of the book entry[6]. This is what is meant when we speak to-day of bank created credit. The principle of the system is as Disraeli put it, "to mortgage industry in order to protect property"[7].

And so was established the system of debt finance which has made debt a natural habit and credit the ruling power. This same system which, as aforetold, had its origin and rise in England also spread to the United States and Canada and flourishes in these countries to the immense harm of the people. For proof of this one has only to take co~~g~~gnizance of the tremendous national debt which burdens the people of these countries and for that matter of all the countries in which the "system" operates -- a debt which is mathemicatically impossible ever to repay but which demands payment of interest thereon forever. A more vicious system, the human mind could not devise.

6. Ibid, P. 111.

7. Sybil, Disraeli, B, Book 1, Chap. 3.

CHAPTER III

THE EFFECT OF OUR PRESENT FRAUDULENT AND USURIOUS SYSTEM OF BANKING ON PRODUCTION, PURCHASING POWER, WAGES, CORPORATIONS, AND AGRICULTURE.

We saw in the preceding chapter how it was that the present system of fraudulent and usurious banking arose. Let us now see the effect of this system on production and on our standard of living generally.

Initial Production:- To produce initially money is required; that is, if a man desires to form or establish a factory to produce certain articles which he has in mind to produce, he must have money. Now what exactly is money? Money is (1) a yardstick for the measurement of value and as such can really be said to be a standard of value and (2) it is a medium of exchange and as such can be exchanged for goods and services. In this latter connection, it might well be termed a claim on goods and services. This is particularly true when one takes into account that approximately 90% of the money in a nation is intangible, existing in the form of bank credit deposits, which are nothing more nor less than bookkeeping entries. One's bank deposits are therefore really potential claims on goods and services.

The would-be producer must, as aforesaid, have money. Now he must either possess it himself or borrow it. It is quite unlikely that he himself would possess sufficient money for his enterprise. He might, however, have a small portion of it.

This means that he would be required to borrow some of the money, if not all of it. Where would the money come from? It would have to emanate from a bank because banks are the sole source of money.

Now banks do not lend without security; they must have some backing for their loans. They will lend on the strength of a promissory note but it is highly unlikely that they would do so in our present case of the man who wants to found a small factory. Our man could, if he wanted to, ask for a mortgage on his home and the bank could then accommodate him with a loan, his house being the security for the loan. He could also secure a loan from the banks on the strength of the stocks and bonds and even paid-up insurance policies that he might have.

When the bank, however, issues him his loan does it really lend him cash money? No, it does not. It gives him instead a checking account; that is, it places to his account in the bank so much credit deposit on which he can draw by cheque. The would-be producer could then if he owed a certain sum, say to A, write A a cheque for the amount and A could deposit it to his own account, either in the same bank, if he had an account there, or in another bank. From this transaction, three statements made in Chapter I are verified[1]: (1) that banks create the means of payment

1. Vide P. 4

by lending; (2) that two debts are brought into existence, the debt due immediately from the banker to the producer and the debt due at a future date from the producer to the banker; and (3) that a loan by a bank not only creates a deposit when it is made but re-appears in the deposits subsequently made to those to whom the borrower pays the money away.

Some may now say why does the bank give the borrower, in our present case, the would-be producer, a checking account? Why does it not give him cash? The answer is that it cannot, for its business is to lend from ten to twenty times in excess of its cash holdings; that is, it creates out of nothing credit money considerably in excess of its cash or notes. If it paid out, therefore, cash every time it made a loan, it would very soon have to close its doors, for it would quickly exhaust its supply of this precious commodity.

. The bank's creation of money or credit out of nothing is, when the matter is more profoundly analysed, even worse than at first appears. In this connection, it has just been stated that banks lend credit money to the extent of ten to twenty times their cash holdings. But what is meant by cash? Cash may be said to include paper money, commonly known as currency, and token money; that is silver, nickel, and bronze coins. Token money, however, forms but small part of the cash money in circulation. In 1938, the total amount of this type of money was only $36,626,391[2]. This was about 14 per cent of the total currency in circulation, or about 1½ per cent of all deposits. Now, let us go back to currency, which constitutes by far the greater amount of our cash, and take a look at any piece of it -- say a ten dollar bill. What does this bill say? It says that the bank "will pay to the bearer on demand" ten dollars. "Pay on demand" ten dollars of what? The answer is of gold or silver, usually gold. But how much gold, bullion or coins, is there behind the note issue and deposit liabilities of the banks? In 1935, in Canada, the total gold reserves held in the Bank of Canada, the newly created central bank, was only $106,584,356[3]. This was approximately 1/20 or 5% of the total bank deposits in the country. Since 1939, the year of the outbreak of our present war, however, the amount of gold reserves has practically vanished, having been turned over to the Foreign Exchange Control Board to be used in the purchase abroad of vitally needed war materials. Today, therefore, in 1945, there is practically no gold whatsoever behind the bank deposits in the country -- deposits which have expanded from $2,498,000,000 in 1938 to at least $4,678,776,726

2. Canada Year Book, 1943-44, P.878.

3. Canada Year Book 1943-44, P. 876.

in 1943[4].

It is obvious, therefore, that the banks' "promise to pay on demand" real money -- that is, gold, is not only a myth but also a farce. In support of this Dr. Cronin[5] in his Economics and Society writes:

> "Since the World War money has become less and less an independent, tangible entity such as gold or silver. Even nations which have large supplies of these metals find them to be only of secondary importance in their monetary systems. Modern money is largely the product of the banking system. To-day the great repositories of saved wealth are not the vaults or strongboxes of banks, but simply bookkeeping entries in their ledgers. The most important claims on wealth in the modern world are not handsomely engraved notes safel~~t~~y locked and guarded in special treasuries, but the demand deposits of the ordinary banks. Wealth is exchanged to-day, not usually by the transfer of gold or other currency, but by the transfer of bank deposits by means of checks. Ninety percent of business transactions is settled in this manner. The real money of a modern industrial nation is inextricably connected with its banking system."

Why is this myth permitted by governments to perpetuate itself year after year, ad infinitum? The answer is undoubtedly to convey to the people that behind the banks' paper money is gold or silver -- those precious metals that people have from time immemorial looked upon as the very essence of wealth and in which they have had confidence.

4. Canada Year Book 1943-44, P. 888.

5. Economics and Society, Cronin, J.F., P. 342.

To sum up, we have seen (1) that behind the banks' created deposit liabilities there is from 5% to 10% of paper currency and (2) that behind this paper currency, which promises to pay gold on demand, there is very little, if any, gold. What colossal deception, therefore, is this business of banking which prevails in most of the countries of the world! The creation or invention of money out of nothing by private persons within a nation is not only immoral but corrupt. This is the main tenet of this thesis -- the utter immorality, fraud, and deception which exists in the right and the privilege of private persons in the guise of banks to be able to invent money out of nothing, to lend that money against collateral on to the community at interest which is irrepayable, thus acquiring a lien on the entire property of the community and making debt the inescapable sine qua non. Is this not immoral? Is this not usu~~a~~ry? -- usury, yes, usury, which puts Shakespeare's Shylock among the angels in Heaven.

We have seen how our would-be producer, who had not sufficient money to establish a small factory, was required to offer up his collateral goods and go into debt to the bank in order to secure the money he needed. Until, therefore, his business prospered and he was able to realize profits sufficient to repay in full his debt to the bank, he would be in the power of the bank. Should he at the maturity of his loan be unable to repay it in whole, the bank could, if it wished to do so, foreclose and force the liquidation of his collateral assets in monetary redemption of its loan. This would be his ruin -- the end of his plans. Should the sale of the collateral, which he had pledged to the bank as security for his loan, not net sufficient money to cover the loan in full, the bank could through the courts attach other of his assets not specifically pledged in the original agreement. A study of business failures since the beginning of this century will show thousands upon thousands of failures -- failures where the banks, who had not been repaid their invented loans, foreclosed and seized the property of the unfortunate business men who were swept under in the flow and ebb of the so-called business cycle -- a cycle which we shall see later on is inevitable under the present system of bank lending which takes no notice or heed of the crying necessity of maintaining a stable price level.

Industrial Expansion:- Let us suppose that our would-be producer succeeded in his endeavour to establish a small factory and was able to prosper in his business sufficiently well to repay his loan to the bank and so avoid confiscation and let us suppose that in the course of his career as a producer or business man he decided that he needed a new and expensive machine tool, the possession of which would greatly improve the quality of his goods and the cost of which was, let us say, $50,000. Let us assume also that the producer had $50,000 in monetary reserves. Would he use, therefore, his reserve of $50,000 to purchase the machine tool? If he were the average business man he would not dare do so, for in the wear and tear of business life the chances are that he would require those reserves to be held for emergencies and to serve as ready security as the need arose. Where then would he get the $50,000? Where else but from a bank? The bank would willingly lend him the money; that is, it would extend to his credit $50,000 on which he could issue cheques at will. His business; that is, his factory, his machine tools, his rolling stock, his bonds, his securities -- all would serve as the collateral for the loan. Should he fail to repay, the bank could foreclose and seize sufficient of the aforementioned collateral, the sale of which would repay the balance owing on the original loan. The bank could not, therefore, lose. Banks seldom do when they lend against collateral security such as real estate, rolling stock, and machine tools.

From the foregoing, it is obvious, therefore, that at every turn in the life of a business where money is needed for any purpose whatsoever it must, as a rule, come from a bank in the form of a loan which must be repaid at interest.

Interest on Loands Nowhere in Existence to Repay:- It is difficult enough for the borrowing business man to repay the principal of the loan, for in order to do so he must not only sell his produce at a profit, but almost invariably he must face heavy competition from producers or business men who are selling like articles. The manner of going in the market of free competition is rough indeed.

As aforesaid, it is most difficult to repay the principal of a loan but it is even more difficult to pay the interest, for the interest is nowhere in existence to pay. Individuallly, the interest on any given loan is repayable; that is, it is possible for a given business man, who has borrowed from a bank, to repay his loan with interest but it is only possible for him to do so by getting it from some other person to that person's loss. This is quite understandable when we take into account that all money which has come into existence in the past 250 years has emanated from banks as loans repayable with interest. Where, therefore, is the money to pay the interest to come from? Where is it? The answer is, it is nowhere. This fact can be so clearly seen if we assume that at some given time in the world there was no money whatsoever and that suddenly it began to appear on loan and to be used as a medium of exchange. Perhaps the fact can be more strongly illustrated if we assume that at the beginning of the year 1900 in Canada there was no money anywhere in existence and that by the end of the year 1900 certain societies had incorporated themselves into banks and had lent money to the extent of $500,000,000 at 7%,interest. Since only $500,000,000 òriginally had ever been issued, how then would it be possible to repay $535,000,000? Where, yes, where would the interest consisting of $35,000,000 come from? Truly, debt under our present financial system is universal, inevitable, and irrepayable?

There are some who may now say that the velocity of circulation of money makes it quite possible for the interest to be repaid. In the opinion of the writer, however, the velocity of money; although important, is not great enough to materially modify the original statement that by and large when the repayment of interest is considered collectively the interest is nowhere in existence to repay.

Purchasing Power:- Let us now return to the field of production and to our producer who is, let us say, producing pianos and let us determine whether the purchasing power to buy the piano exists when the piano is finally put on the market for sale. In this connection there are two main schools of thought; the first which believes that at the time a manufactured article is offered for sale there exists in circulation enough money to purchase that article, and the second which holds the converse view. Let us examine this matter by taking one of the pianos referred to a moment ago. The producer, in order to produce the piano, has had to incur certain costs and he therefore must sell that piano for a price at least equal to the costs incurred. Both schools are agreed that every element of cost in the piano is at the same time an element of income for somebody; that is; the producer (1) did pay out some of his costs in wages to his employees and (2) did pay out others of them for the purchase of his raw material and machinery and (3) that these payments or expenditures, however many their phases were all paid to somebody.

At first sight, therefore, it appears that the money to buy the piano is somewhere in existence in the community. The first school believes that it is. The second school, however, and the one to which the writer adheres, believes, that it is not. The question now arises why not? Has it not just been proved that it is? The answer is no, for the very reason that by far the greater amount of money required to produce initially must be borrowed from a bank. This means that our producer borrowed from the bank in order to finance or pay for each stage of the production of his piano. This pertains to practically all production throughout the nation, for there are very few producers who are wealthy enough monetarily in their own right to finance step by step all phases pertinent to their production.

Most producers and traders would quickly suffer severe set-backs if their over-drafts were not honoured by the banks.

We have therefore seen that every stage of the production of the piano was only made possible because the banks lent their created deposit money to the producer in order to finance the production. The producer's costs consist therefore not only in his expenditures for wages and raw materials but also in the repayment of his bank loans. At the very time therefore that the piano is thrown on the market for sale, the producer has repaid his loan to the bank (by the sale of other pianos previously manufactured) thus cancelling the loan from existence and removing from circulation an amount of money (credit) equal to the cost of the piano. The whole operation can be said to be as though the money to finance production were given with the left hand and then removed and destroyed by the right hand at the very time the produced article was offered for sale. The piano can only be sold when the bank has, by the time the piano reaches the market, made new loans for the financing of new productive and consumptive purposes.

There are many who may now say that this is not so and that what happens is that the bank — borrowed money which is paid out by the producer to finance his production is used more than once. For example, our producer of pianos has had to purchase piano wire and has therefore paid the cost of the wire to the manufacturer of that wire; the manufacturer of the wire in his turn has had to pay out money to the forger of the pig-iron or ingot steel from which the wire was drawn. Thus it is seen that money does pass from hand to hand; that is, that there is a velocity of circulation.

The writer does not discredit wholely the value of the theory of the velocity of circulation. It is quite true that when the velocity of circulation increases rapidly we can do more business with a given amount of money than we were previously able to do; and conversely when the velocity of circulation decreases we cannot do as much business with a given amount of money as we previously could. The velocity of circulation is not rapid enough and is never rapid enough to alleviate materially the shortage or deficiency of purchasing power. It helps but it does not help enough.

We have again seen the great and sinister power exercised by banks. We have seen that the shortage of purchasing power to buy manufactured articles at the time these articles are put on the market for sale is due to the banking system -- the system whereby all money that comes into existence does so as a loan at interest and must be repaid and when repaid is (actual currency excepted) destroyed or cancelled from existence. Under this system the producer, the trader, and the consumer cannot win because it is mathematically impossible for them to do so. Mr. C. Hollis[6] in his "Two Nations" has, the writer believes, summed the whole thing up rather relevantly in this following passage:

> "When we play at vingt-et-un, we are each, as we sit down at the table, given a certain number of counters. If at the end of the evening we have more than our original number, we say that we have won; if less, that we have lost. But we do not go into debt unless by misfortune we have lost all our counters. We are not such fools as to think that we are in debt to the bank for the original counters that were given us to play the game with. We can see that, if that were so, the game would be an idiot's game, for then the bank could not possibly lose nor anybody else possibly win. Yet that is precisely the system by which the business of the world is conducted under the credit-system".

Since all money for productive purposes comes from banks, it is logical to assume therefore that the banks will have some say as to what is produced, how it is produced, and as to the wages paid. There can be no doubt that under our present financial system the banks do have a great deal to say in what is being produced; that is, banks before granting their loans for productive purposes ensure to the best of their ability that there will be a market for the sale of the goods produced. By doing so they are ensured as much as possible that the money to repay their loans will be forthcoming. Some may now say but why should the banks

6. Two Nations, Hollis, C., P. 160.

interest themselves in this matter? Have they not already lent their money against the collateral security of the producer? The answer is yes. But when a business fails the banks become the possessors of collateral and banks do not as a rule desire to be burdened with large amounts or real estate, rolling stock, and machine tools, etc., for they are not producers, they are bankers, and when they lend money they wished to be repaid money.

Wages:- The banks are also keenly interested in the wages paid by producers. Since the money used by the producer to finance his business was borrowed from the bank, the bank does not like to see wages increased, for the more the producer or business man pays in wages the less he will have to repay his debt to the bank and the interest on that debt. In this respect, the banker can very quickly bring into line the producer or business man, who desires to raise the wages of his employees, by refusing to lend further monies to the producer and also by refusing to honour the producer's over-drafts. The producer, therefore, unless he be most powerful; for example, a great monopoly corporation, cannot do otherwise than to maintain wages at a minimum. This great system of irrepayable bank debt is one of the chief reasons for low wages and perennial unemployment.

Another reason for the maintenance of wages at a fairly low level lies in the fact that if wages are increased, the demand for increased cash on the part of the workers lessens the cash reserves of the banks. In this respect, it must be borne in mind, that cash is the vital commodity which a bank requires -- for it is its cash which enables it to lend its vast credit. As has already been seen, it lends credit from ten to twenty times its cash holdings. To pay out therefore more of its cash, as a result of increased wages definitely lessens its supply of cash and hence curtails the extent of its lendings. In support of this, the following passage from Mr. R.G. Hawtrey's[7] "Trade and Credit" is offered:

> "If the lending operations of the banks were accelerated and the comsumers' outlay increased, we have seen that there would be an increase in the people's cash balances. The balances of the well-to-do may be held in the form of bank credit, but those of the wage earning classes must be in actual money whether coin or paper. When the earnings of the working classes are increased, they being to absorb cash and the cash reserves of the banks are thereby weakened. Sooner or later therefore the restrictions on the supply of money would compel the banks to limit their lending."

The banks do not like to have their supply of cash weakened, for to banks lending is the source of profit and they will always try to lend as much as they can. There is still another reason for the maintenance of wages at low level and that reason lies in international trade and exchange operations.

7. Trade and Credit, Hawtrey, R.G., P. 94.

This cause we shall see developed in the next chapter.

Bank Can Lend to Whomever It Chooses:- Since banks are the sole source of money, as has been so frequently illustrated, they are therefore in a position to determine to whom they shall lend their created credit. This fact cannot be denied. For example, Mr. Jones wishes to establish a business and takes his plan to a bank in order to borrow the money to put it into operation. Mr. Smith also wishes to found a business and likewise takes his plan to a banker with a view to borrowing the money to put the plan into effect. Now Jones and Smith may have excellent plans and both may be intelligent and clever men. The banker, however, being omnipotent in this business of lending can lend to whomever he chooses. He might lend to Smith and refuse to lend to Jones. Again, Smith might not be very clever but have considerable social connections and thus obtain a loan; whilst Jones, who might be a more clever man but ladking these connections, will be rejected. A study of the history of businesses generally will reveal very clearly the extent to which banks decide to whom they will lend their invented loans.

Corporations:- The right and privilege of banks to create money and to decide to whom they will lend that money has, in the opinion of the writer, had a tremendous influence in the shaping of present day monopoly corporations. Now let us define a corporation:

> "A corporation consists of a group of persons organized for a definite business under a charter secured from the State, considered as a legal personage with a right to sue and be sued; enjoying perpetuity, possessing liability limited to the amount of capitalization indicated in the aforesaid charter, and doing business through a board of directors elected by the stock members of the aforesaid corporation"[8].

The stock holders of the corporation elect the directors but in recent years there has occurred an increasing tendency for control (directors) of the great corporations to become utterly divorced from ownership (stockholders). With the increase in the power of control over corporations by a few men at their top has transpired an immense amount of power-warfare between corporations which has resulted in the merger and combine of many corporations, each merger or combine rendering the new corporation more powerful than ever before. In some instances the corporation becomes more powerful than the state itself. "In the first place, writes Dr. Cronin, "the giant company is often the equal or superior of the sovereign state"[9]. These corporations in their power over-ride small organizations and businesses, corner

8. Economics and Society, Cronin, J.F. P. 41.

9. Ibid, P. 48.

markets, and sources of raw materials, and fix prices.

But what some may ask, has the corporation to do with the banks? The answer is a great deal. Banks are themselves financial corporations and there can be no doubt that the rise from obscurity of some of the greatest and most powerful corporations to-day owe their early successes to bank investment and bank loans; in short, bank credit financing. It is true that there are some corporations today which are so powerful and wealthy that they are not dependent upon banks in order to finance any of their undertakings. This state, however, is not true of corporations generally. Many corporations to-day are still dependent upon outside finance; namely banks, whether these banks be ordinary commercial banks, financial houses, investment banks, or acceptance banks. Banks are banks and the writer for the purpose of this thesis does not attempt to make any distinction -- for all banks have one great thing in common, a common denominator, so too speak -- and that common denominator is their existence to lend money, to finance.

Banks have, as aforesaid, assisted greatly in the formation of corporations and to-day they do play a part in the game of power finance, by which certain corporations gain sway over others. At one time in Canada there were forty banks; to-day there are only ten, and of these the three largest do

70 per cent of the business, the four largest 80 per cent[10]. In the United States one per cent of the banks control eighty-nine percent of the banking resources[11].

Many directors of banks are directors of one or more corporations. Conversely, it might be said that many directors of corporations are also directors of banks. There is a great deal of interlocking between directors of banks and corporations. In support of this, the following quotation from Social Planning for Canada by the Research Committee of the League for Social Reconstruction[12] is given:

> " --- - - - - - - - -, the big trust companies, insurance companies, loan companies and investment trusts are closely linked with the banks, and, less closely with each other. The President of the Bank of Montreal is President of the Royal Trust Company and sixteen of the Royal Trust's twenty-five directors are directors of the Bank of Montreal, of which Royal Trust is the largest single shareholder, controlling over 11,000 shares. Four of the fifteen directors of the Sun Life are directors of the Bank of Montreal, in which Sun Life is the fourth largest shareholder (3,100 shares). Similarly the Charirman of the Royal Bank is president of the Montreal Trust Company, eleven of whose twenty-four directors are directors of the Royal Bank. Montreal Trust in turn holds 13,358 shares of Royal Bank Stock.
>
> The Canadian Bank of Commerce holds 4 per cent of the stock of National Trust Company (1,200 shares). National Trust returns the compliment by holding 1,404 shares of Canadian Bank of Commerce. Ten of the thirty-four directors of the National Trust are also directors of the Canadian Bank of Commerce".

10. Social Planning for Canada, P. 87.

11. Economics and Society, Cronin, J.F., P. 60.

12. Op. Cit. P. 88.

In further support of the interlocking between the banks and other financial institutions, please see Table I on the next page.

Agriculture:- We have seen the somewhat sinister relationship between bank lending and production, wages, government borrowing, and Corporations, let us now have a look at this relationship as it touches agriculture and the farmer. Let us go back to early times in North America to the days when our civilization was largely concentrated on the Eastern Seabord and our people eeked out an existence in the coastal areas. Let us envisage the early treks of pioneers westward, ever westward, and the advance in time of thousands of settlers from the east in the wake of the pioneers, each seeking a spot, a place in the sun, so too speak, where he might settle down and develop the land and proceed to make his livelihood. Did the farmer or the settler when he first settled down to develop his land have money? Was he financially independent? The answer is no. The majority of settlers had just enough money to place a small down payment to the government for their land and did not have even enough money left to purchase the rudimentary tools which they would require to clear the land and till the soil. What did they do then? As

TABLE I

Institution	Bank of Montreal	Royal Bank	Bank of Commerce	Bank of Nova Scotia	Bank of Toronto	Dominion Bank	Banque Canadienne Nationale	Imperial Bank	Barclay's Bank
	Number of directors from each bank								
Royal Trust	16	-	-	-	-	1	-	-	1
Montreal Trust	-	11	-	-	-	1	-	-	-
National Trust	-	3	10	3	-	-	-	-	-
Toronto General Trust	-	-	2	2	2	3	-	2	-
Eastern Trust	-	1	-	3	-	-	-	-	-
Crown Trust	1	-	-	-	1	1	-	-	-
Northern Trust	-	2	1	1	-	-	-	-	-
Canada Permanent Trust	-	-	1	-	3	1	-	-	-
Trust General	-	-	1	-	-	-	5	-	-
Montreal C.& D.Savings Bank	1	1	-	-	-	-	-	-	-
Caisse d'Econ. N.D. de Quebec.	-	-	-	-	-	-	3	-	1
Dominion Securities	-	-	1	-	-	-	-	-	-
Sun Life	4	3	-	1	-	-	-	-	1
Metropolitan Life	-	-	-	-	-	-	-	-	1
Canada Life	1	-	3	2	-	1	-	1	-
Mutual Life	2	1	-	-	-	-	-	1	-
Great West Life	-	2	3	-	-	-	-	-	-
Standard Life	2	-	-	-	-	-	-	-	-
Imperial Life	-	1	3	1	-	1	-	-	-
Confederation Life	-	-	2	-	3	1	-	-	1
Manufacturers' Life	-	-	-	-	2	1	-	-	-
Continental Life	-	-	-	-	-	-	1	1	-
North American Life	-	-	-	1	-	-	-	1	1
Huron & Erie Mortgage	1	-	-	-	-	-	-	-	-
Canada Permanent Mortgage	-	-	1	-	3	1	-	-	-
Northern Mortgage	-	3	1	-	-	-	-	-	-
Royal Exchange Assurance	2	-	1	-	-	-	-	-	-
Liverpool, London & Globe	2	-	-	-	-	-	-	-	2
Gurantee Co. of North America	2	-	1	-	-	-	-	-	-
Western Assurance	-	1	5	-	-	-	-	-	-
British America Assurance	-	1	5	-	-	-	-	-	-
Eastern Canada Savings	-	1	-	1	-	-	-	-	-
Central Canada Savings	-	-	2	1	-	-	-	-	-
Toronto Mortgage	-	-	3	-	-	-	-	-	-
Toronto Savings	-	-	4	2	-	-	-	-	-
Nova Scotia Savings	-	-	-	2	-	-	-	-	-
Halifax Fire	-	-	1	2	-	-	-	-	-
Canadian General Investments	-	-	4	-	-	-	-	-	-
Economic Investment Trust	1	-	-	-	-	-	-	-	-
Canadian Investment Trust	2	-	-	-	-	-	-	-	2
Hydro Electric Bond & Share	-	2	-	-	-	-	-	-	-
Montreal, London & General Investors	2								
Securities Holding	-	-	-	1	-	-	-	2	-

TABLE I

Institution	Number of directors from each bank								
	Bank of Montreal	Royal Bank	Bank of Commerce	Bank of Nova Scotia	Bank of Toronto	Dominion Bank	Banque Canadienne Nationale	Imperial Bank	Barclay's Bank
Canadian International Investment Trust	1	-	-	1	-	-	-	-	-
Aldred Investment	-	2	-	-	1	-	-	-	-
Dominion & Anglo Investment	-	-	1	-	1	-	-	-	-
Debenture & Securities	-	-	1	-	1	-	-	-	-
General Accident Insurance	-	-	-	-	-	-	-	3	-
TOTAL	40	34	56	24	17	12	9	11	9

The above Table is taken from "Social Planning for Canada" by the Research Committee of the League for Social Reconstruction PP. 89 and 90.

a rule, they borrowed money from the local banks which had sprung up like mushrooms as civilization advanced.

There are some who may now say that the settlers did not purchase their land; they were given the land as grants. This is to some extent true but, in fact, lands were both granted and sold by the government. Some lands in the Western States of the United States were neither sold nor granted by the government to settlers, for they had already been purchased by wealthy Englishmen, Dutchmen, and Germans. The following information from Mr. C. Beard's "Rise of American Civilization"[13]. is given:

> "Thus under the Republican rule of the last quarter of the century the land of the West was passing steadily into the hands of absentee landlords. In 1884, it was found that approximately 20,000,000 acres had passed into alien hands. Lord Dunmore had 100,000 acres, Lord Dunraven 60,000, the Duke of Sutherland nearly 500,000, a syndicate headed by the Marquis of Tweedal 1,550,000. Two English Syndicates owned over 7,000,000 acres in Texas and a German Syndicate more than 1,000,000. More than half the land in the Pacific and Mountain States was in the hand of absentee landlords".

The lands just mentioned as being in the hands of the various absentee landlords were sold by them to the people at a tremendous profit to themselves.

It is desired to confirm, however, that the settlers or farmers commenced their agricultural careers in debt;

13. Op. Cit. P. 151, taken from "Two Nations", Hollis, C., P. 214.

that is, they owed money either for their land or their farm tools or both and they had borrowed that money from the banks. Now, if the farmers be in debt to the banks, the banks can dictate to them what they are to grow and what they are not to grow. In this respect, they treat the farmer exactly as they treat the producer.

In Western Canada and in the Western United States there are millions of acres of land sown to wheat. Why? Are those acres sown to wheat because the farmers wanted to grow wheat any more than they wanted to grow any other product? Is it due to the caprice of farmers that millions of acres of land were devoted to wheat? The answer is no. The vast tracts of land were sown to wheat because the bankers, in whose debt the farmers were, wanted them sown to wheat. In this regard, Canada and the United States had at that time been importers of capital from Great Britain -- capital required for the development of their countries which had to be paid for somehow. The answer lay in wheat. Hence the great exportations of wheat to England in order to repay British capital investments. But some may say, if this be so, where do the banks come in? The answer lies in the fact that English capital via the Bank of England poured into New York and from New York via the Bank of New York it was re-distributed. Every year London sent over in new loans more than she received in ~~the~~ interest on the old.[14] It is logical to assume that the re-distribution of capital was effected by the various local American banks who were of course subject to the influence of the Bank of New York. It is quite true to say that almost until the close of the last century much of the money used to develop the United States came from England via the Bank of England.

The same is true of cotton. In the South Eastern United States millions of acres of land were sown to cotton. Why? Because the banks, in whose debt the planters were, willed it so. At the outbreak of the Civil War, the Southern debtors owed at least £200,000,000[15] to the money-lenders in New York City alone. Mr. Hollis in his "Two Nations"[16] writes:

> "These southern debts to New York is the explanation of much. The debts were bank debts. They were short-term debts. They had to be repaid, and yet they never really could be repaid. They could only be nominally repaid by further borrowings. And the price of the borrowing was the lender's terms. It is common enough for the books to describe to us how the area of cotton cultivation spread. But cotton no more spreads of itself than gold flows into a country unasked. The area of cotton spread because the banks lent money to those who would grow cotton and forced into bankruptcy thosewho refused".

It is obvious therefore that the reasons for which vast tracts of land was sown to cotton applies also to wheat.

14. Two Nations, Hollis, C., P. 203.

15. Rise of American Civilization, Beard, C., P.64.

16. Two Nations, Hollis, C., P. 209.

We have see how our farmers are burdened with debt. Few of them have ever really got out of debt. Many who did between the last war and 1929 lost heavily in the great depression which commenced in 1930 and were once again forced to borrow from banks and so come into their power. Thousands upon thousands of farmers have had their lands seized by banks who foreclosed on mortgage. There are some farmers, most of them in the east, who were independent but even they have immense difficulty at times in keeping out of debt. Once, however, for one instant they fail, they have no alternative but to go into debt to the banks. Please see Tables II and III on the next page which give (1) the mortgage indebtedness of farmers in Eastern and Western Canada and (2) the changes in the tenure of farms for all Canada respectively to the year 1931. In Canada in 1931 there were 586,299 nominally "fully owned" farms and of these 208,460 reported mortgage debts aggregating $566,016,900 equal to approximately 41 per cent of the value of these farms[17].

The following passage from Social Planning for Canada[18] sums up the whole relationship between farmers and debt rather pertinently:

17. Social Planning for Canada, P. 142.

18. Op. Cit. P. 140.

TABLE II

MORTGAGE INDEBTEDNESS IN EASTERN AND WESTERN CANADA.

(as at 1931)

(Fully owned farms only)

Province	P.C. of Farms Reporting Mortgage Debts	Mortgage Debt as P.C. of Total Farm Value	Province	P.C. of Farms Reporting Mortgage Debts	Mortgage Debt as P.C. of Total Farm Value
Prince Edward Island	33.5	33.7	Manitoba	39.7	49.5
Nova Scotia	10.3	40.4	Saskatchewan	46.0	38.1
New Brunswick	17.6	38.3	Alberta	39.6	38.7
Quebec	31.7	38.3	British Columbia	25.9	34.8
Ontario	40.8	44.8			
			Canada	35.6	40.9

TABLE III

CHANGES IN THE TENURE OF FARMS, 1921-1931.

NUMBER AND ACREAGE OF FARMS; TOTAL FOR CANADA.

Type of Tenure	1921	1931	P. C. Change
Owned Farms			%
No. of farms	615,180	586,299	-4.7
Total Acreage (000's)	110,950	107,255	-3.4
Part Owned, Part Tenant			
No. of farms	39,932	67,942	+70.1
Total Acreage (000's)	17,083	36,032	+110.9
Tenant or Rented Farms			
No. of farms	55,948	74,382	+33.0
Total Acreage (000's)	13,041	20,039	+53.7

The above Tables are taken from "Social Planning for Canada" by the Research Committee of the League for Social Reconstruction PP. 140 and 143.

> "The fact is that throughout the length and breadth of canada, with very few exceptions farming is in a sorry plight. And the situation is not improving. The disappearance of working capital which is typical of every region places farmers under the stern necessity of adding to their debts, if production, the basis of their livelihood is to continue. The process of tightening the belt, appealing for public relief, and temporizing with creditors, may create an illusion of stability, but it cannot be more than a temporary makeshift. Things will not improve by that method. As time goes on the debt burden mounts, and there takes place a steady depreciation of farm buildings, machinery, and equipment which cannot fail to impair their productive efficiency for the future".

It is true that the present war is helping to put many debt-ridden farmers on their feet but there are many thousands of them yet who have not yet attained this happy state.

We have seen therefore how producers, corporations, and farmers are all heavily in debt to banks and that their debts are inescapable and irrepayable. How can it be otherwise when all money that comes into existence must come from the banks as issue on loan at interest? No matter where we turn or how we turn we are faced with this appalling and stupendous fact.

CHAPTER IV

THE RELATIONSHIP BETWEEN OUR PRESENT FRAUDULENT AND USURIOUS SYSTEM OF BANKING AND GOVERNMENTS.

We have just seen the inevitability and irrepayableness of bank debt in its relationship to production, wages, corporations and agriculture. Let us turn now to view the relationship between bank lending and governments.

As to the universalility, inevitability, and irrepayableness of debt, the writer believes that the following passage from Dr. Cronen's "Economics and Society"[1] illustrates rather pertinently debt as it existed in the United States in 1939:

> "At present the total debt claims in the nation, 140 billion dollars in long - term obligations and 115 billion dollars in short term loans, equal the current value of the national wealth. Since the claims of certain stockholders are treated almost as tenderly as those of bankholders, it is possible that the virtual debt of the nation exceeds its wealth! As a result about fifteen percent of the national income is devoted to debt service alone. The lower income groups must pay one billion dollars annual interest on mortgages, loan broker obligations, installment buying and so forth. Certain cities and states are hopelessly bankrupt. Westchester County, N.Y., at one time owed more than the debt of the State of Rhode Island. In 1933 New Jersey would need two generations to pay its debt, even were no new debts contracted. At one time three quarters of the tax revenue of certain municipalities were devoted to debt service".

1. Op. Cit., P. 371.

5 The passage just quoted concerns the United States only. What about debt as it exists in England, the British Dominions, France, and, for that matter, all the other countries in the world? It is significant if we weigh the fact that during the last century, the debt claims of the capitalist world increased nearly 20,000 per cent[2]. It is significant too to realize that the debts, when considered monetarily, are the loans which have been issued by banks for productive, consumptive, and speculative purposes of all kinds.

Year after year in our life time we have been watching governments, municipal, provincial, and federal, spending money in ever augmenting quantities. The expenditures are indeed warranted, for as nations grow, as their industries increase in productive power, as their arrable land is made to produce as much as possible, as, in fact, their entire economic might or greatness increases, so too does their standard of living increase and so too, as though by some inevitable and inescapable power, do immense, various, and complex economic and social problems arise -- problems which necessitate the attention of governments and tax, insolvably it seems, their efforts toward solution and which, in any event, always and inevitably require huge expenditures of money.

2. Ibid, P. 370.

Expenditures on social relief to keep the families of unemployed men from starving; expenditures on national health and hygiene; expenditures on highways, railways, canals, government buildings, ships, marine equipment; expenditures in the form of salaries and wages of hosts of government employees whose labour, skill and administrative brains are required to deal with these problems; and expenditures for war when nations are in the process of waging it.

The question now arises, where do governments obtain the money for these colossal expenditures? Do they make it themselves? No, they do not. They borrow it from the banks. Have the banks got the money to lend to the governments in the first instance? No, they have not, as has been illustrated previously. They create it out of nothing and lend it to the borrowing government at interest; that is, they place to the credit of the government a bank-created deposit in the amount of the loan, on which the government can issue cheques. In return for the loan the government, if it be a federal or national government, permits the manufacture of new paper currency or notes up to 10% of the amount borrowed. This is usually done by authorizing the central bank to manufacture new paper currency up to 10% of the loan from the issuing bank and to hand over this currency to the issuing bank. The necessity for this is to enable the bank to maintain the usual ratio of cash to deposits, otherwise the demand for cash might very well exceed the safe margin and a run occur and the bank be forced to suspend payments. When a bank lends to a national government the entire amount of the loan is created or invented out of nothing; when it lends to ordinary private persons only 90% of the loan is, as a rule, invented.

What a pretty picture we have here! What a travesty on justice and on morality -- that the soverign governments of sovereign states must borrow annually hundreds of millions of dollars, yea, billions of dollars to-day from private persons in the guise of banks, who do not possess the money to lend but who create it out of nothing and lend it on at interest! The result is that the people of the nations are taxed heavily to pay the interest on these created loans. The taxes to pay the interest on these loans often runs into hundreds of millions of dollars annually. Particularly is this so in the case of the Great Powers -- England, United States, France, Germany etc. Indeed, it is enormously heavy even in the case of Canada, a nation of 11,000,000 people. The interest[3] per capita payable by Canadians against their national debt was at the time of Confederation $1.28; it was $15.96 per Capita in 1943 -- an increase of almost 1300%. In this connection, please see Table IV on the next page which gives a summary of the public debt of Canada and

3. Canada Year Book, 1943-44, P. 832.

P.53

TABLE IV
SUMMARY OF THE PUBLIC DEBT OF CANADA AND INTEREST PAYMENTS THEREON, JUNE 30, 1899, TO MAR. 31, 1943

Year	Gross Debt	Total Assets	Net Debt	Net Debt per Capital	Increase or Decrease of Debt During year	Interest Paid on Debt	Interest Received from Active Assets	Interest paid per Capital
1900	346,206,980	80,713,173	265,493,807	50.08	-779,640	10,699,645	1,683,051	2.02
1901	354,732,433	86,252,429	268,480,004	49.99	2,986,197	10,807,955	1,784,834	2.01
1902	366,358,477	94,529,387	271,829,090	49.48	3,349,086	10,975,935	1,892,224	2.00
1903	361,344,098	99,737,109	261,606,989	46.29	-10,222,101	11,068,139	2,020,953	1.96
1904	364,962,512	104,094,793	260,867,719	44.77	-739,270	11,128,637	2,236,256	1.91
1905	377,678,580	111,454,413	266,224,167	44.36	5,356,448	10,630,115	2,105,031	1.77
1906	392,269,680	125,226,703	267,042,977	43.09	818,810	10,814,697	2,140,312	1.75
1907	379,966,826	116,294,966	263,671,860	41.13	-3,371,117	6,712,771	1,235,746	1.05
1908	408,207,158	130,246,298	277,960,860	41.96	14,289,000	10,973,597	1,925,569	1.66
1909	478,535,427	154,605,148	323,930,279	47.64	45,969,419	11,604,584	2,256,643	1.71
1910	470,663,046	134,394,500	336,268,546	48.12	12,338,267	13,098,161	2,807,465	1.87
1911	474,941,487	134,899,435	340,042,052	47.18	3,773,506	12,535,851	1,668,773	1.74
1912	508,338,592	168,419,131	339,219,461	46.00	-122,591	12,259,397	1,281,317	1.66
1913	483,232,555	168,930,930	314,301,625	41.18	-25,617,836	12,605,882	1,430,511	1.65
1914	544,391,369	208,394,519	335,996,850	42.64	21,695,225	12,893,505	1,964,541	1.64
1915	700,473,814	251,097,731	449,376,083	56.31	113,379,233	15,736,743	2,980,247	1.97
1916	936,987,802	321,831,631	615,156,171	76.88	165,780,088	21,421,585	3,358,210	2.68
1917	1,382,003,268	502,816,970	879,186,298	109.08	264,030,127	35,802,567	3,094,012	4.44
1918	1,863,335,899	671,451,836	1,191,884,063	146.28	312,697,765	47,845,585	4,466,724	5.87
1919	2,676,635,725	1,102,104,692	1,574,531,033	189.45	382,646,970	77,431,432	7,421,002	9.32
1920	3,041,529,587	792,660,963	2,248,868,624	262.84	674,337,591	107,527,089	17,086,981	12.57
1921	2,902,482,117	561,603,133	2,340,878,984	266.37	92,010,360	139,551,520	24,815,246	15.88
1922	2,902,347,137	480,211,335	2,422,135,802	271,57	81,256,817	135,247,849	21,961,513	15.16
1923	2,888,827,237	435,050,368	2,453,776,869	272.34	31,641,067	137,892,735	16,465,303	15.30
1924	2,819,610,470	401,827,195	2,417,783,275	264.44	-35,993,594	136,237,872	11,916,479	14.90
1925	2,818,066,523	400,628,837	2,417,437,686	260.11	-345,589	134,789,604	11,332,328	14.50
1926	2,768,779,184	379,048,085	2,389,731,099	252.85	-27,706,587	130,691,493	8,535,086	13.83
1927	2,726,298,717	378,464,347	2,347,834,370	243.65	-41,896,729	129,675,367	8,559,401	13.46
1928	2,677,137,243	380,287,010	2,296,850,233	233.54	-50,984,137	128,902,945	10,937,822	13.11
1929	2,647,033,973	421,529,268	2,225,504,705	221.91	-71,345,528	124,989,950	12,227,562	12.46
1930	2,544,586,411	366,822,452	2,177,763,959	213.34	-47,740,746	121,566,213	13,518,205	11.91
1931	2,610,265,698	348,653,762	2,261,611,937	217,97	83,847,978	121,289,844	10,421,224	11.69
1932	2,831,743,563	455,897,390	2,375,846,172	226.06	114,234,236	121,151,106	9,330,125	11.53
1933	2,996,366,665	399,885,839	2,596,480,826	244.19	220,634,654	134,999,069	11,220,989	12.70

TABLE IV

1934	3,141,042,097	411,063,957	2,729,978,141	254.16	133,497,314	139,725,417	11,148,231	13.01
1935	3,205,956,369	359,845,411	2,846,110,958	262.44	116,132,817	138,533,202	10,963,478	12.77
1936	3,431,944,027	425,843,510	3,006,100,517	274.53	159,989,559	134,549,169	10,614,125	12.29
1937	3,542,521,139	458,568,937	3,083,952,202	279.22	77,851,685	137,410,345	11,231,035	12.44
1938	3,540,237,614	438,570,044	3,101,667,570	278.13	17,715,368	132,117,422	13,120,523	11.85
1939	3,710,610,593	558,051,279	3,152,559,314	279.80	50,891,744	127,995,617	13,163,015	11.36
1940	4,028,728,606	757,468,959	3,271,259,647	287.43	118,700,333	129,315,442	13,393,432	11.36
1941	5,018,928,037	1,370,236,588	3,648,691,449	317.08	377,431,802	139,178,670	14,910,554	12.10
1942	6,648,823,424	2,603,602,263	4,045,221,161	347.11	396,529,712	155,017,901	21,748,701	13.30
1943	9,228,252,012	3,045,402,911	6,182,849,101	523.44	2,137,627,940	188,556,249	41,242,237	15.96

(Table taken from
Canada Book Year
1943-44, P.832.)

of the interest payments thereon from June 30, 1899, to March 31, 1943. Is it not significant that the gross national debt has increased from $346,206,980 in 1900 to $9,228,252,012 in 1943 and that the annual interest payable thereon has increased from $10,699,645 to $188,556,249 respectively to the years mentioned. We have been speaking of gross national debt. The true interest — bearing debt of Canada in 1943 was $8,271,363,610 and the annual interest charge thereon was $219,625,846 (vide Table V which gives the interest-bearing debt, annual interest charges thereon, and average rates of interest from March 31, 1913 to March 31, 1943).

The price of these loans or debts is in the end the passage of central policy away from either King or parliament into the hands of the banks. Can anyone deny this -- particularly where the Bank of England and England are concerned? The Bank of England, although a central bank or bank of issue, is a private bank and is not subject to government control. For many years now the Bank of England has been known and frequently referred to by economists and ordinary people alike as the government's government. Can anyone deny this? Truly, anyone who has studied English history cannot deny that the policy of the government of England has always been that of the Bank of England. Can anyone who has p 55

(Table taken from Canada Year Book 1943-44, P.836.)

TABLE V

THE INTEREST-BEARING DEBT, ANNUAL INTEREST CHARGES THEREON AND AVERAGE RATES OF INTEREST, AS AT MAR. 31, 1913-43

Year	Bonds, Debentures, and Treasury Bills	Annual Interest Charges on Bonds, Debentures & Treasury Bills	Average Interest Rate on Bonds, Debentures and Treasury Bills	Savings Bank Deposits, Trust & Other Funds	Annual Interest on Savings Bank Deposits & Other Funds	Total Interest-Bearing Debt	Annual Interest Charge	Average Rate of Interest
			p.c.					p.c.
1913	260,869,037	8,973,746	3.439	91,735,123	2,904,287	352,604,160	11,878,033	3.368
1914	311,833,272	11,162,047	3.579	93,031,928	2,957,544	404,865,200	14,119,591	3,487
1915	358,659,932	13,075,447	3.645	91,910,510	2,935,881	450,570,442	16,011,328	3.554
1916	508,000,366	20,499,696	4.035	92,240,955	2,960,002	600,241,321	23,459,698	3.908
1917	893,208,877	39,098,579	4.376	96,885,192	3,114,315	990,094,069	42,212,894	4.263
1918	1,472,098,608	71,121,368	4.831	95,796,899	3,096,532	1,567,895,507	74,217,900	4.733
1919	2,035,218,097	102,218,489	5.022	100,636,102	3,441,803	2,135,854,199	105,660,292	4.947
1920	2,596,816,821	134,559,302	5.181	107,038,317	4,275,480	2,703,855,138	138,834,782	5.134
1921	2,520,997,021	130,416,007	5.173	107,345,348	4,429,302	2,628,342,369	134,845,309	5.130
1922	2,564,587,671	133,482,113	5.204	105,379,439	4,399,661	2,669,967,110	137,881,774	5.164
1923	2,547,105,821	131,476,511	5.161	106,763,391	4,531,156	2,653,869,212	136,007,667	5.125
1924	2,504,033,820	128,571,337	5.134	110,113,766	4,626,715	2,614,147,586	133,198,052	5.092
1925	2,503,763,169	125,928,071	5.029	113,943,282	4,758,780	2,617,706,451	130,686,851	4.992
1926	2,484,410,336	125,108,738	5.035	119,205,393	4,977,889	2,603,615,729	130,086,627	4.996
1927	2,439,340,736	123,399,911	5.058	126,310,527	5,274,429	2,565,651,263	128,674,340	5.015
1928	2,377,581,086	119,479,400	5.025	136,485,482	5,721,330	2,514,066,568	125,200,730	4.980
1929	2,325,413,986	116,843,934	5.024	145,780,369	6,156,036	2.471,194,355	122,999,970	4.977
1930	2,250,837,286	112,942,215	5.017	154,997,435	6,572,018	2,405,834,721	119,514,233	4.967
1931	2,320,832,286	115,491,955	4.976	163,994,443	6,969,151	2,484,826,729	122,461,106,	4.928
1932	2,579,238,724	128,188,969	4.970	136,356,977	5,522,579	2,715,595,701	133,711,548	4.923
1933	2,715,977,874	132,866,543	4.892	144,176,675	5,858,850	2,860,154,549	138,725,393	4.850
1934	2,858,624,524	132,354,806	4.630	154,137,868	6,093,937	3,012,762,392	138,448,743	4.595
1935	3,061,955,821	127,074,870	4.150	171,554,957	6,683,560	3,233,510,778	133,758,430	4.136
1936	3,265,314,332	128,598,908	3.938	196,197,897	7,679,285	3,461,512,229	136,278,193	3.937
1937	3,337,358,832	125,093,381	3.748	224,157,683	8,798,557	3,561,516,515	133,891,938	3.759
1938	3,314,558,032	117,062,907	3.532	248,176,039	9,771,812	3,562,734,071	126,834,719	3.560
1939	3,385,722,462	119,198,476	3.521	272,692,286	9,879,428	3,658,414,748	129,077,904	3.528
1940	3,695,705,919	125,575,106	3.398	288,066,211	10,726,716	3,983,772,130	136,301,822	3.421
1941	4,372,007,319	133,970,676	3.064	317,332,308	12,488,959	4,689,339,627	146,459,635	3,123
1942	5,865,280.821	170.218.719	2.902	343.238.738	13.522.857	6.208,519,559	183,741,576	2.960

taken cognizance of the social and economic events in this Canada of ours in recent years deny for one moment that the policy of the Parliament of Canada has not been that of the Banks and of other great monopoly and corporate enterprises; in short, of "vested interests" and of all that these stand for?

It was stated a moment ago that when governments borrowed from the banks, the banks merely placed to the credit of the borrowing governments credit deposits to the amount borrowed, on which the governments could draw. There are some now who may take exception to this and say that governments do not obtain money in this manner and that what they do do is to issue bonds, debentures, and treasury bills in order to obtain the amounts they require, This is largely true. But what happens, however, is that <u>most</u> of these instruments, which are incidentally interest-bearing instruments are sold to the banks and constitute the basis for the loans. These treasury bills, debentures, and bonds are but pieces of paper but they represent the resources and the taxes of the nation. They are, figurately speaking, the "collateral" against which the banks issue their created loans. The original statement is not therefore materially modified. Treasury bills are issued only by the Federal and Provincial governments; debentures and bonds, although also issued by the Federal and Provincial governments, are the usual "paper collateral" by which the municipalities obtain the loans they require.

There are some who may object to the statement that most bonds are sold to the banks and point out that during this present World War II, the government of Canada has, apart from the sale of treasury bills and debentures to the banks, sold bonds to the general public and not direct to the banks. This is generally true but it must be taken into consideration that thousands upon thousands of private citizens who bought bonds, have converted them into cash or had their bank accounts credited in the amounts held; in other words, they sold them to the banks -- which means that instead of thousands of citizens individually owning bonds and thus being creditors of the government the banks have with the purchase of the bonds become the government's creditors.

Ultimately when the War is over and people attempt to cash their bonds, they will go to the chartered banks to cash them. Where else would they go? They would hardly attempt to cash them in the corner grocery store. In the long run therefore the banks will ultimately become the possessors of most of the bonds issued by the government to finance this War. This means that eventually the banks will be the creditors of the government in this respect and thus in reality the creditors of the people. The effect ultimately will be the same as though the government had sold its bonds to the banks in the first place.

In support of what has just been said about the manner in which governments finance themselves and with particular stress on the manner in which they do so in war time the following pertinent passage from the Encyclopedia Britannica[4], as it concers the financing of the last World War by Great Britain is offered:

> "The war history of banking is inseparable from general financial history. The demands of the Government for money overshadowed everything. For patriotic reasons, the Banks had to take up large holdings of war loans and also finance by over-draft their customers purchases of stock.
>
> Whether the Government borrowed by issuing Treasury bills or by "ways and means" advances from the Bank of England, the ultimate effect was much the same. The money so raised was disbursed by the Government to its creditors of one kind and another, and was paid by them into their accounts at the different banks. Hence, deposits grew with the floating debt, while in so far as money was raised direct from the Bank of England, the immediate result was an increase in the joint-stocks banks' balances at that Institution, which form the basis of the banks' credit. Hence loans to the public and also deposits could be multiplied several times by each such advance by the Bank to the Government. Notwithstanding the intensive production of all kinds of commodities during the war, this multiplication of credit had the inevitable effect upon prices and wages and when the peak was reached some eighteen months after the close of hostilities, wholesale price index numbers stood at about three times their 1913 level".

In Canada, there are thousands of municipalities and most of these municipalities are heavily in debt. These debts were incurred in the course of carrying on the local

4. Encyclopedia Britannica, 1944 Edition, Vol. 3, P. 71.

administration of government -- administration covering such services as police, health, education, water-works, sewage, garbage, and many others. In this connection, there are very few municipalities, if any, which derive sufficient money from taxation to pay their expenses. They therefore are obliged to borrow their requirements of money from the banks. For this purpose they raise debentures, and sometimes bonds, which they sell to the banks and against which the banks extend credit or rather lend their credit money at interest. The municipalities are, therefore, always paying annual interest against ever augmenting debt to the banks. Please see Table VI which gives the debts of municipal and school corporations for the fiscal year ended 1941.

There is never any question of governments -- whether they be national, provincial, or municipal -- ever repaying the principal of their loans, for only the interest on the loans was ever intended to be repaid. Thus under such a system interest is paid annually forever on loans incurred by governments. This statement cannot be too strongly stressed and it is thus reiterated: the principal of loans incurred by governments is never repaid, only the interest thereon being paid annually forever. We are, therefore, in Canada, still paying the interest on loans -- federal, provincial, and municipal -- since Confederation. We are ~~still~~ paying interest to the banks for loans incurred to

(Table taken from Canada Year Book 1943-44, P. 855.)

TABLE VI

DEPT OF MUNICIPAL AND SCHOOL CORPORATIONS FOR THEIR FISCAL YEARS ENDED IN 1941 AND 1942

Year and Item	Prince Edward Island	Nova Scotia	New Brunswick	Quebec	Ontario
1941	$	$	$	$	$
Direct Debt-					
Debenture debt	3,194,650	34,038,301	26,141,814	502,706,984	345,206,815
Less sinking funds	603,465	12,886,511	9,008,754	91,605,721	52,786,190
Net Debenture Debt	2,591,185	21,151,790	17,133,060	411,101,263	292,420,625
Temporary loans	107,292	1,375,658	1,859,583	48,764,352	12,882,096
Accounts payable and other liabilities	47,987	1,969,544	2,125,855	41,183,881	14,891,929
Totals, Direct Liabilities (less sinking funds)	2,746,464	24,496,992	21,118,498	501,049,496	320,194,650
- Indirect Debt-					
Guranteed bonds, debentures etc.		206,000	487,000	3,683,418	22,977,663
Less sinking funds		50,000	55,753	3,277	130,079
Totals, Indirect Liabilities (less sinking funds)		156,000	431,247	3,680,141	22,847,584
Grand Totals	2,746,464	24,652,992	21,549,745	504,729,637	343,042,234

Year and Item	Manitoba	Saskat-chewan	Alberta	British Columbia	Total
Direct Debt-					
Debenture debt	73,857,360	50,077,951	52,752,906	108,514,232	1,196,491,013
Less sinking funds	33,744,567	23,213,602	8,577,768	29,031,925	261,458,503
Net Debenture Debt	40,112,793	26,864,349	44,175,138	79,482,307	935,032,510
Temporary loans	11,027,494	21,007,652	5,163,584	3,863,534	106,051,245
Accounts payable and other liabilities	10,194,136	39,566,895	7,761,037	7,303,023	125,044,287
Totals, Direct Liabilities (less sinking funds)	61,334,423	87,438,896	57,099,759	90,648,864	1,166,128,042
Indirect Debt-					
Guaranteed bonds, debentures, etc.	16,122,613			14,739,592	58,216,286
Less sinking funds	5,037,115			2,166,658	7,442,882
Totals, Indirect Liabilities (less sinking funds)	11,085,498			12,572,934	50,773,404

finance the last war and even the Boer War. To the unwary seeker of proof of this statement this might not be easily traceable due to the numerous conversions which original loans undergo from time to time.

The interest on these loans is paid largely from the taxes imposed upon the people. In 1939 the total interest paid on interest-bearing debt in Canada was $129,077,904[5] and the total amount of revenue in Canada derived from taxation amounted to $436,254,544[6]. This means that about 1/3 of all our revenue from taxation went to pay the interest on bank invented loans. It has been estimated by some that when this present war is over we of Canada will be required to pay more on interest on the loans floated to finance government expenditure during the war than was derived from all forms of taxation just prior to the war.

The question now arises why is the principal of the loans incurred by governments not repaid? The answer is (1) because of the tremendous, yea, nigh impossible difficulty that governments would have in repaying it, for they do not make money and they do do not engage in business in order to make it, and thus are dependent almost solely upon taxation whose yield of taxes little more than pay the

5. Vide Table V.

6. Canada Year Book, 1943-44, P. 814.

interest and (2) because of the choas which would occur to the price level in the country as a result of the sudden placement upon the market of so much money. The matter of the repayment of the principal of government loans and its consequent effect on the price-level and production will be treated in detail in the next chapter.

CHAPTER V

THE RELATIONSHIP BETWEEN OUR PRESENT DECEPTIVE SYSTEM OF BANKING AND INTERNATIONAL TRADE AND THE GOLD STANDARD

We have seen the somewhat sinister relationship which exists between bank lending and production, corporations, agriculture, and governments. Let us now scan this relationship as it touches the international money exchanges and international trade and its resultant effect on the home-markets and general standard of living.

To understand thoroughly the workings of present day international trade, an understanding of the mercantile system or mercantilism is essential; for there can be no doubt that international trade as it existed and flourished until the outbreak of the present Great War was very much akin to mercantilism, there being numerous analagous features. Mercantilism was the name given to the economic policy which transpired in Europe and England towards the close of the middle ages and which has flourished in various modified forms until the present day. The precepts or doctrines of the mercantile system advanced the belief that wealth is synonymous with money and that these two are one and the same. No state could be wealthy unless it possessed great quantities of money; that is, of gold and silver, whether in the form of bullion, plate, or coinage.

From the belief in the mercantile creed, nations so conducted their relations and dealings with other nations as to attract to themselves the largest possible share of precious metals. In order, therefore, to gain these precious metals they adopted the policy of exporting as much of their grain and home-manufactured products as possible, whilst at the same time importing as little as possible from other countries. This policy came in later days to be know as the "favourable balance of trade"; favourable, yes, to the mercantilist because the difference between the exports and imports were payable in gold and silver. In this way money moved from the country that imported more than it exported to the country that exported more than it imported.

Nations were obliged in order to have a favourable balance of trade to:

(1) prohibit the importation from other countries of various non-essential goods;

(2) place high tariffs or duties on goods entering their own country;

(3) encourage and even to subsidize home manufactures;

(4) discourage as much as possible the export of gold and silver.

In the opinion of the writer the mercantile system is a vicious and usurious system which ought never to have been foisted on mankind. It presupposes, as aforesaid, that a nation must export goods and commodities in exchange for gold and silver. Is this not a false philosophy to export real wealth (goods) in exchange for mere barren metal? It is, for it tends to empty a country of goods, thereby creating an artificial scarcity of commodities. It is, however, to the interests of those who sell the goods in exchange for gold and silver, for these people are immune to the rise in prices (which must of necessity occur when more money is in circulation than there are commodities for sale), for they immediately invest their profits in lands and buildings, the prices of which rise with the general rise.

The system is unworkable, yes, even chaotic, in this respect, that as exports exceed imports and as gold comes into a country with the resultant rise in prices there is also a demand on the part of the working classes for higher wages in order that they may be able to purchase the necessities of life, which they were able to buy previously at lower prices. But under the mercantile system wages cannot be raised for, if they are raised, then the cost of production must of necessity rise and the prices at which the goods can be sold abroad must also be raised. If this happens, then the importing country will look elsewhere to buy where wages are lower and prices are consequently cheaper. Yes, it is the one great truth of mercantilism that even though prices rise with the influx of gold and silver due to excess of exports over imports, wages must not be raised. To do so, as just stated, would cause a falling off of exports with the resultant cessation of manufacturing and unemployment.

In the light of what has just been said of mercantilism, can anyone, who has taken cognizance of international trade and exchange as it obtained prior to the outbreak of the present war, fail to see the tremendous analogy between this trade and mercantilism? There can be no doubt that present day international trade is but a modified form of mercantilism.

In the beginning during the rise of the industrial revolution in England, England was the great exporter of manufactured articles. It exported its capital goods to backward and undeveloped countries throughout the world. These countries did not at first have the money to buy the goods but this made no difference because the Bank of England and othere English banks financed the purchases; that is, the Bank of England would lend to the borrowing foreign country so much money which was to be used for the purchase of capital goods in England, which the borrowing country, the importer, required. Actually all that happened was that a credit in the amount of the loan was placed to the order of the borrowing country in the Bank of England on which the importer could issue his bills of exchange or acceptances.

The Bank of England also financed the development of railways, certain manufactories, mines and so on in foreign countries by the sale of stocks and bonds which demanded dividends and by the investment of their own bank created loans. For a time the borrowing countries did appear to be managing to repay the interest on these British loans. It was only in appearance, however, for what was actually happening was that year after year the Brisish through their banks were investing abroad. The dividends which they were receiving this year, however, were merely the investments made by last years investors. In support of this, the following passage from Mr. C. Hollis'[1] "Two Nations" is offered:-

> "Therefore it was evident that last year's foreign investor, who thought that he was this year receiving his dividend from his foreign investment, was not really doing so at all. He was really living on the savings of this year's foreign investor, who in turn was to live on the savings of next year's foreign investor, and so on and so on, until the system's final and inevitable collapse."

This is logical when we take into consideration that the borrowing countries, which were largely undeveloped or in the process of development, simply did not have have any money. They did not manufacture their own money. They borrowed it. They needed every cent for their own development, expansion,

1. Op. Cit., P. 95.

and livelihood. How then could they possibly repay hundreds of millions of dollars which they had borrowed? They could not. All that they could do was to endeavour to repay the interest.

Gradually, it became obvious to the exporters of capital -- England, France, Germany, and latterly, the United States -- that the importers of capital could only repay their loans or rather the interest on their loans if the exporters would accept repayment in goods. Foreign debtors can but repay their debts in goods which they produce and which the creditors are willing to receive. The great exporting countries are, however, tremendously self-sufficient and they are as a rule reluctant to accept payment in goods. These great countries with the vast capacity for the production of capital goods of all kinds are desirious of exporting as much as possible in excess of their imports.

The nations of the world to-day are still as aforesaid, under the hypnotism of mercantilism. They still believe in the "favourable balance of trade"; that is, that each year their exports must exceed their imports, the excess of exports over imports being the "favourable balance". In the system of international exchange the "favourable balance" is payable in terms of money, either in gold or in terms of the currency of the country holding the favourable balance.

The system is entirely wrong because if each year we give more away than we receive we are losers. And that is exactly what is happening, for each year our exports are exceeding our imports, which means that annually we are giving away more in terms of real wealth (goods) than we receive. It is true that the difference is payable in money but the money does not go into the pockets of the people; it goes to the bankers and the owners of industry.

The nations in the pursuit of the favourable balance of trade are constantly seeking foreign buyers or markets for their goods. These buyers naturally seek to buy where prices are low; hence the great exporting nations are constantly faced with the fact that they must maintain wages low or at least not permit them to rise too much, for if this happens the cost of their goods must also rise, which will, in its turn, force the foreign importers to look elsewhere to buy. A rise in price will put the exporter out of the world market. This policy was held rigidly throughout the nineteenth century and was quite marked during the recent depression years. The following quotation from Hollis'[2] "Two Nations" is most pertinent:

> "Let us bear in mind, while studying the history of the nineteenth century, this first point -- its poverty was unnecessary. Whether it was better for the country (England) to produce as much as possible of her food or to purchase a surplus or manufacture goods and exchange them against the food of other countries was a secondary detail. The important

2. Op. Cit., P. 88.

> truth was that there was no difficulty at all in procuring a sufficiency of food for all. And, if you ask, how then cany anyone have been in favour of preserving the unnecessary poverty, the answer is, that no one could have been in favour of it, had it not been for a system of education, carefully training them in ignorance with its question-begging phrases such as "favourable balance of trade", "sound money", "artificial prosperity", "gold flowing" hither and thither and the like."

Bishop Berkeley hit the nail squarely on the head when in his Query 450[3] he wrote "Whether it be not evident that we may maintain a much greater outward and inward commerce, and be five times richer than we are, nay, and our bills abroad be of greater credit, though we had not one ounce of gold or silver in the whole island?" -- and perhaps even more so in his Query 173[4] wherein he asks "Whether the quantities of beef, butter, wool, and leather exported from this island can be reckoned the superfluties of a country, where there are so many natives naked and famished?"

The question now arises what has all this international trading and lending to do with the banks. The answer is a great deal. Just as all money for internal industrial expansion, agriculture, and government expenditures etcaetera emanates from banks; in fact, just as all money at anytime comes from banks, so the money required for international

3. Query 450, Berkeley's Works, Clarendon Press, Oxford, Vol. 3.

4. Ibid, Vol. 3.

trade and lending comes from themselves. These operations are largely bank financed. Here acceptance banks and merchant or investment banks play a prominent role.

Let us take the case of an importer who is importing twenty shiploads of bananas, the cost of which is $50,000. First we must bear in mind what was pointed out in Chapter III that businesses of all kind are bank financed. From this therefore the money that our importer of bananas uses to finance his business and honour his overdrafts he obtains from his local commercial bank. This is a different matter altogether from the payments he receives for goods exported abroad or from the monies which he sends abroad in repayment of his imports. These transactions are initially made possible by acceptance banks and exchange banking houses. What happens is that the exporter of the bananas prepares a bill of exchange and forwards it to the importer with proof that the goods are being shipped. The importer signs the bill and turns it over to the agents (who are frequently employees of the banking or acceptance houses) who then hand over the goods when they arrive. Thus the importer receives his goods without actually turning over cash. The exporter can then discount the bill of exchange by selling it to a banking house and receive his money less a service charge. The banking house then collects the note when it is due from the importer's own commercial bank.

In the meantime it holds a lien upon the goods.

Another method of payment is the banker's acceptance. This is done by the importer sending to the exporter a letter of credit from his own local commercial bank, guaranteeing to to honour the bill of exchange drawn upon him. In this case, the exporter can discount the bill of exchange at his bank as soon as he forwards the goods. The exporter's bank then forwards the bill to the importer's bank, which pays immediately. There are, of course, service charges. The point to remember is that the payment of individual business sales and transactions between the citizens of countries foreign to each other are done by acceptance banks. Merchant or investment banks also finance large scale foreign investments and purchases.

In the game of international trade, if the imports of one country from another equal its exports to that country, then the sume of the bills of exchange will balance and no money need be exchanged. Suppose, however, that England exports to Austria $500,000,000 worth of goods, say in 1930, and receives in imports from Austria only $200,000,000, then it is clear that there is a balance of $300,000,000 favourable to England, which must be paid in terms of money by Austria. Now under the gold exchange standard to which all nations adhered until 1931, the year in which the recent great crisis was making itself felt, the currency of all nations was convertible into gold. This means that as the imports of one nation exceeded its exports, gold in the amount of the difference flowed from it to the country holding the favourable balance. In other words trade balances were settled by the shipment of gold.

Under the gold standard money had to be allowed to find its own level. This meant that a country with a favourable balance to its credit would receive a payment of that balance in gold from the importer and the gold thus received had to be allowed to have its monetary effect -- that is, the gold had to be put into circulation through the banks. In giving the gold its monetary effect, say in Canada, $4.00 of paper currency was permitted to be made and circulated through the banks to the public; and if account be taken of the fact that for every dollar in paper currency that a bank has, it is empowered to extend ten to twenty dollars in bank credit, then for every dollar in gold which entered the country it was possible for $40 to $80 to be made available for loans by the banks for productive and consumptive purposes. Prices as a result rose and production increased. So too did employment.

Conversely also, a country with an unfavourable balance had to ship gold in repayment of the unfavourable balance to the exporter and this meant also that as gold left the country currency in the amount of $4.00 (in Canada) for every dollar in gold had to be withdrawn by the banks from circulation, which meant too that from $40.00 to $80.00 in credit per dollar of gold was thereby denied the public for productive and consumptive purposes. As a result prices fell, production declined, and unemployment occurred. This is what is meant by money finding its own level. The irony of it all is that the gold standard is, according to its proponents, supposed to maintain a stable price-level within its adherent nations.

Since the shelving of the gold standard during the worst of the depression years, the payment of trade balances have been effected in "foreign exchange markets" wherein the nation holding the unfavourable balance sells its own currency to those exchange banks who are willing to exchange in turn the currency of the nation holding the favourable balance. For example, if Japan has an unfavourable balance of trade with the United States, she must sell her yen in the foreign exchange market to any bank that is willing at the time to offer American dollars in exchange. In the foreign exchange markets the value of a nation's currency varies considerably; for in this exchange, national currencies are bought and sold by the banks as one would buy and sell stock on the stock exchange. These fluctuations frequently have a fluctuating effect on prices and production in the countries involved.

Under the present system of international trade wherein the false philosophy of the "favourable balance of trade" prevails, all nations are seeking to export to each other as much as possible. In order to ensure that as little as possible will be imported they erect tariff barriers which demand duties, the payment of which renders the total cost to the would-be importer impossibly high. Thus home manufactures are protected at all costs. In this game of international trade, the so-called Great Powers hold the upper-hand, for they possess vast wealth, their industries produce great quantities of capital goods which under the "system" demand that somehow they be exported even if loans have to be made for this purpose to the importer. "The net effect is", as Dr. Cronin[5] points out, "the stifling of international trade, and the development of friction among nations and of internal pressure within nations, which may eventually result in war". As yet no great effort seems to have been made to find a way to share all the wealth of capital goods with the people who make those goods; namely, the citizens of the great exporting countries. This business of forever attempting to sell at all costs goods which cannot be purchased at home because of faulty distribution of income -- which cannot be

5. Economics and Society, Cronin, J.F., P. 325.

otherwise under the "system" -- is sheer madness and can only lead to greater and greater chaos.

We often hear people say if only nations would pay their debts to each other how well that would be. But such people are utterly ignorant of international finance. They do not know that it is utterly and completely impossible to repay international debts. It is nigh impossible to repay the interest thereon, let alone repay the principal. England during the recent depression was obliged to suspend payment of the interest on her debts to the United States. This interest incidentally was $100,000,000 per annum in gold. Is it any wonder that she had to suspend payment? One hundred million dollars in gold in Canada could easily support from four to eight billions in credit.

England at the close of the last war owed the United States some five billion dollars. Suppose she decided that she must repay what she owed. There are three ways in which she could pay -- in gold, in her own currency, and in goods. Let us suppose that England repays, according to "sound" international finance, her indebtedness in gold. What would happen to prices in the United States if five billion dollars worth of gold (N.B. there is but $11,000,000,000 in monetary gold in the whole world) were brought to the United States and that gold allowed by the banks to have its monetary effect. Prices would skyrocket. People would pay $3.00 for a loaf of bread. It must be rememb~~e~~red that for each of the five billion dollars in gold, the banks could make ten dollars in currency and that for each dollar in currency they could lend ten dollars in credit. Prices would soar and soar, for there would be far more money in circulation than there would be goods to buy and the American dollar would as a result go the way the German mark went in 1923.

Let us suppose that England decides to pay in her own currency. Now English pound notes have no value in the United States any more than a dollar bill has any value in England. The Americans would have to take their five billion in pound notes to England to spend them. Hence we would have the pretty picture of thousands of Americans galavanting across the Ocean to spend their pounds in England. This is entirely aside from what would happen to English prices when the Americans got there to spend their notes.

And lastly, let us suppose that England decides to pay in goods. Thus five billion dollars worth of merchandise would be loaded into British ships, transported to the United States, and dumped for sale on the American market. What would happen to prices everywhere in the United States. They would fall and fall because then there would be far more goods for sale than there would be money to buy them. American producers would have to close their doors and thousands of American workers would be rendered workless. Truly international debts are irrepayable. Throughout all this it must be borne in mind always that international trade and international lending and investment is bank financed and largely bank controlled. The gold standard is itself controlled and operated by banks.

CHAPTER VI

THE RELATIONSHIP BETWEEN OUR DECEPTIVE SYSTEM OF BANKING AND THE TRADE CYCLE AND OUR RECENT GREAT DEPRESSION

We have seen the somewhat all-engulfing relationship between bank lending and production, purchasing power, wages, corporations, governments, and international trade. Let us now look at this relationship as it touches the trade cycle and the so-called business depression.

By trade cycle is meant the cyclical or periodic fluctuations characterised by the upward and downward sweeps in the volume of business activity. A boom in business is the upward sweep and the slump or depression is the downward sweep. A depression is therefore the slump of a trade cycle. During a depression, production is very slow, wages are lower than they should be, the amount of money in circulatioh is infinitely less than during the preceding boom, and tens of thousands of men are unemployed; the whole economic aspect may be said to be dismal.

The question now arises what are the causes of booms and slumps in business? The answer is that there are several causes, among which is the monetary cause. In the opinion of the writer, however, the monetary cause is by far the major cause and overshadows the others.

If business booms and slumps alternately, it is a result of the rise and fall in prices. If prices, on the other hand, rise and fall, it is logical to assume that underlying causes exist. Here again the major cause lies in the quantity of money in circulation available to purchase the goods offered for sale; that is, the major cause, as stated in Chapter I, lies in the quantity theory of money which propounds that the more money in circulation available for the purchase of a given quantity of goods the higher will be the prices of the goods and conversely the less money in circulation available for the purchase of a given quantity of goods the lower will be the prices of these goods.

Again a question arises and that is how and in what manner is the quantity of money increased or decreased? By money is meant paper currency, token money, cheques and bank credit. The answer, as pointed out so often in this thesis, lies in bank loans. As banks lend, more money goes into circulation, business activity picks up, production increases, employment augments, and prices rise. But, it must be remembered, banks can only lend from ten to twenty times their cash holdings. If they lend more than that they will run the risk of finding themselves without sufficient cash money to meet the needs of the people, with the consequent danger of a "run" occurring.

When the banks have lent the maximum of credit which their cash holdings will allow, they are obliged to stop lending and to call in many of their outstanding loans, thus causing a drastic curtailment of production with the consequent fall in prices and unemployment. A falling price-level, apart from inflicting great hardships on producers, who must, of necessity, curtail production and discharge many of their employees thereby swelling the unemployment market, also inflicts great hardships on debtors who, if they are able to repay their debts at all, must do so with a money which will purchase more in terms of goods than when the debts were first contracted.

When currency is contracted by the banks and loans are called in with a view to checking their own self-made inflation, traders, in order to repay their loans, are forced to throw their stocks of goods and securities on unwilling markets -- markets already repleted with goods for sale as a result of the original increased production, which was to meet the normal supply and demand. This means that very soon there is a surplus of unsaleable goods glutting the markets. Soon, too, the traders must, in order to repay their debts to the banks, sell their goods at considerably reduced profits or at a loss, if necessary.

We saw this so clearly in the recent depression -- traders, merchants, and business men of all kinds selling their goods at prices which the market would bear in order to repay their loans in order, in turn, to prevent the banks from foreclosing on their businesses. Those who were able to repay their loans did so in a money worth more in terms of real wealth (goods) than when the loans were first contracted. Those who failed to repay their loans to the banks saw their businesses seized from under them.

There are some now who may deny that the causes of booms and slumps in business are due to the rise and fall of prices as caused by bank credit lending. For these agnostics, the writer, in support of his monetary attributions, offers the following passages from the works of prominent economists:

Mr. Paul Douglas[1], Professor of Economics, University of Chicago:

> "It should have become apparent by now that our modern system of banking helps to make business unstable in at least three ways: (1) It creates a cumulative multiplication of credit at the time when it is not needed, and a cumulative contraction of credit when credit is most needed. (2) In practice it helps to finance investment through the creation of bank credit, and the sharp fluctuations in the demand for capital goods which this causes accentuate both the upswing and the downward collapse of business. (3) It is always menaced by the fact that the bank credit which it creates is many times the amount of cash into which it is supposedly convertible, so that the banking system cannot redeem the claims against it if any considerable percentage of its depositors ask for cash at the same time".

Mr. G. D.H. Cole[2], Professor of Economics, University of Oxford and Member of Britain's Economic Advisory Council:

1. Controlling Depressions, Douglas, P., P. 165.

2. Intelligent Man's Guide Through World Chaos, Cole, G.D.H., P.210 and P. 333.

"Prices may rise or fall either because the conditions of production or because the monetary conditions change. Changes in the conditions of production operate only on the prices of particular goods. Changes in monetary conditions, on the other hand, affect the prices of all goods, although not to an equal extent in all cases".

"It is pointed out that the change from boom to depression is almost always heralded by a sharp contraction of bank credit and the raising of the rate of discount by the Central Banks; and it is held that this stringency of money is the actual cause of the crises and ensuing depression".

Mr. R.G. Hawtrey[3], Economic Advisor to the British Government:

"In the long run the quantity of money and the price-level must be in due relation to one another.

"Production generates incomes but only so far as the banks allow the requisite creation of credit".

"The banks, by restricting credit, can start the vicious circle of deflation, or, by relaxing credit, can start the vicious circle of inflation" Either process, once started, tends to continue its own momentum. In the one case, there ensues a cumulative shrinkage of demand, curtailment of output and decline of prices; in the other a cumulative expansion of demand, increase of output, and rise of prices."

Dr. J.F. Cronin[4], Professor of Economics, St. Mary's Seminary, Baltimore:

"But many of them (professional economists are frankly worried about the expansion and contraction of bank credit. They perceive that boom conditions are unstable because they are financed on credit".

3. Trade Depression and the Way Out, Hawtrey,R.G., P. 7 and 8.

4. Economics and Society, Cronin, J.F., P. 124.

Mr. C. Hollis[5], Professor of Economics, University of London.

> "The system by which a large proportion of the nation's business is done by one sort of money which can at demand be converted into another sort of money -- by notes which used to be convertible into gold, by cheques which can be converted into notes as to-day. Under such a system a violent alternation of booms and slumps was inevitable".
>
> "In order to create a boom the banks have lent to their full capacity. The banks can now only supply an increased demand for cash by refusing to renew some of their loans, and thus they inevitably reduce the price-level and destroy the very prosperity which created the increased demand".

It has been stated that crises; that is, booms and slumps in business activity have been caused chiefly by the rise and fall in prices, which, in their turn, are dependent chiefly upon the expansion and contraction of money -- which expansion and contraction is controlled by the banks. A study of history will clearly reveal this. To cite an example, a study of the History of England will reveal that time and time again since the establishment of the Bank of England in 1694 there have been marked rises and falls of prices with the resultant booms and depressions or slumps in business. Since 1825 alone, in England, there have been 13 crises. These occurred in 1825, 1836, 1847, 1857, 1866, 1873, 1882, 1890, 1900, 1907, 1913, 1920[6], and 1929.

5. Two Nations, Hollis, C., PP. 57 and 58

6. Encyclopedia Britannica, 1944 Edition, Vol.22, P. 353.

It cannot be too strongly stressed that the rise of prices causes hardships on creditors and people who live on fixed incomes and wage earners whose wages seldom increase as rapidly and as fully as the rise in prices; and conversely that a fall in prices is advantageous to creditors but very hard on producers who must discharge many workers thereby causing unemployment. With respect to the rise and fall of prices and of price-levels in general, the following series of Tables is offered: Table VII exhibits the general movements of wholesale prices in England, so far as it can be measured for nearly 150 years from 1780 to 1920; Table VIII reveals the average price of British wheat per imperial quarter (480 lbs.) from 1780 to 1920; Table IX gives the retail price of bread in London per 4-lb. loaf from 1800 to 1920; Table X portrays the average index price of various commodities from 1913 to 1927, which Table is based on the prices tabulated annually in the Journal of the Royal Statistical Society, by the Editor of the Statist; and Table XI shows the movements of various price indexes in the United States from 1913 to 1938.

The last great crisis or depression, perhaps the greatest depression in history, occurred in 1929. It struck mercilessly and left financial ruin and unemployment in nearly all civilized countries. The following passage from Dr.L.T.Morgan's[7] "Permanent War" portrays most pertinently the debacle caused by the

7. Op. Cit., P. 3. Actual Statistics taken from American Economic History, Faulkner, H.U., P.758.

TABLE VII

GENERAL VIEW OF THE MOVEMENT OF WHOLESALE PRICES IN THE UNITED KINGDOM, 1782 TO 1927
(LEVEL OF PRICES IN 1913 TAKEN AS 100)

	First Year of Decade														
Year of decade	1780	1790	1800	1810	1820	1830	1840	1850	1860	1870	1880	1890	1900	1010	1920
0		124	201	235	152	116	124	92	115	113	103	85	88	92	312
1		127	219	210	134	117	122	95	115	118	100	85	82	94	197
2	143	133	170	112	126	112	107	93	118	128	99	80	81	100	159
3	143	142	183	213	127	107	102	106	120	130	96	80	82	100	159
4	133	140	174	219	126	112	99	119	123	130	89	74	83	101	166
5	129	167	194	189	147	114	106	118	119	113	85	73	85	123	159
6	122	179	190	156	129	123	106	118	120	112	81	72	91	160	148
7	124	157	189	172	129	120	112	121	118	111	80	73	94	209	141
8	124	169	213	193	116	120	97	109	116	102	82	75	86	230	
9	122	186	230	167	113	132	92	109	115	98	85	80	87	255	

TABLE VIII

AVERAGE PRICE OF BRITISH WHEAT PER IMPERIAL QUARTER(480 lb.). 1793 TO 1926.

Year in decade															
0	36.7	54.7	113.8	106.4	67.8	64.2	66.3	40.2	53.3	46.8	44.3	31.9	26.9	31.8	80.
1	46.0	48.6	119.5	95.2	56.1	66.3	64.3	38.5	55.3	56.7	45.3	37.0	26.7	31.7	71.
2	49.2	43.0	69.8	126.5	44.6	58.7	57.2	40.8	55.4	57.0	45.1	30.2	28.1	34.8	47.
3	54.2	49.2	58 .8	109.7	53.3	52.9	50.1	53.2	44.7	58.7	41.6	26.3	26.7	31.8	42.1
4	50.3	52.2	62.2	74.3	63.9	46.2	51.2	72.4	40.2	55.7	35.7	22.8	28.3	35.0	49.
5	43.1	75.2	89.7	65.6	68.5	39.3	50.8	74.7	41.8	45.2	32.8	23.1	29.7	52.9	52.1
6	40.0	98.6	79.1	78.5	57.7	48.5	54.7	69.2	49.9	46.2	31.0	26.2	28.2	58.2	53.
7	42.4	53.7	75.3	96.9	58.5	55.8	69.7	56.3	64.4	56.7	32.5	30.2	30.6	75.7	
8	48.3	51.8	81.3	86.2	60.4	64.6	50.5	44.2	63.7	46.4	31.8	34.0	32.0	72.9	
9	52.7	69.0	97.3	74.5	66.2	70.7	44.2	43.7	48.2	43.8	29.7	25.7	36.9	72.9	

TABLE IX

RETAIL PRICE OF BREAD IN LONDON PER 4-lb. LOAF, 1800 TO 1925.

	First Year of Decade												
Year in decade	1800	1810	1820	1830	1840	1850	1860	1870	1880	1890	1900	1910	1920
0	15.3	14.7	10.2	10.5	10.0	6.8	8.8	8.0	7.0	6.0	5.2	5.9	11.6
1	15.5	14.0	9.3	10.4	9.0	6.8	9.0	9.0	7.0	6.2	5.0	5.5	12.4
2	9.5	17.0	8.3	9.6	9.5	6.8	8.5	9.8	7.4	6.2	5.3	5.8	9.2
3	88.7	15.7	9.0	8.7	7.5	8.3	7.5	8.0	7.0	5.8	5.6	5.8	8.5
4	9.7	11.4	10.4	8.0	8.5	10.5	7.0	7.3	6.8	5.5	5.5	5.8	8.7
5	13.1	10.3	10.8	700	7.5	10.8	7.5	6.8	6.2	5.1	5.5	8.0	9.9
6	11.7	11.7	9.2	8.0	8.5	10.8	8.8	7.2	6.3	5.1	5.5	9.0	
7	10.8	14.3	8.9	8.5	11.5	9.0	10.3	8.1	5.6	5.5	5.4	10.6	
8	11.6	11.8	10.2	10.0	7.5	7.5	9.3	7.5	5.6	5.5	5.8	8.9	
9	13.7	10.3	11.0	10.0	7.0	7.8	7.8	7.1	6.0	5.1	6.1	9.1	

(Tables taken from Encyclopedia Britannica, 1944 Edition, Vol.18, P. 472.)

TABLE X

"STATIST" INDEX NUMBERS. AVERAGE FOR EACH YEAR
AVERAGE FOR 1913 TAKEN AS 100 IN EACH CASE

	1919	1920	1921	1922	1923	1924	1925	1926	1927
Vegetable food:									
Wheat									
English Gazette	229	253	229	148	132	155	163	167	155
American	205	253	202	143	130	148	171	161	160
Flour, town made white	153	216	211	150	130	144	164	161	149
Barley, Gazette	278	330	200	147	124	172	154	132	154
Oats, Gazette	274	301	181	152	140	142	142	132	133
Maize,U.S. mixed	334	384	163	132	152	168	163	126	130
Potatoes, English	254	311	254	167	128	238	197	163	174
Rice, Rangoon	313	501	226	172	172	206	195	198	194
Average	255	319	208	151	138	172	169	155	156
Animal food:									
Beef: Carcass,London									
Prime	200	231	215	164	147	152	148	137	130
Middling	220	255	224	167	152	155	150	137	127
Mutton: Carcass,									
London Prime	184	233	211	202	173	180	172	144	139
Middling	203	258	224	217	192	185	176	144	142
Pork: Carcass,London	233	306	221	184	162	127	154	179	155
Bacon,Waterford	248	311	232	189	148	138	167	169	133
Butter,Friesland	212	253	210	170	156	177	174	145	150
Average	214	264	220	185	161	159	163	151	139
Tropical food:									
Sugar									
West Indian	402	610	205	158	268	246	171	175	173
Beet,German	...	...	...	148	246	213	125	123	132
Java,floating cargo	400	687	202	141	224	198	113	116	125
Coffee									
East India	180	183	149	149	145	188	190	191	177
Rio	215	210	119	140	104	161	186	168	135
Tea									
Congo, Common	270	...	87	172	220	182	157	156	135
Indian,good medium	182	114	85	162	207	215	181	205	174
Average Import	171	165	137	164	194	209	202	208	205
Average	300	432	162	152	203	197	157	157	151
ALL FOOD: Average	250	322	203	164	161	172	164	154	149

TABLE X. (Continued).

	1919	1920	1921	1922	1923	1924	1925	1926	1927
Minerals:									
Iron									
Scottish pig	215	326	257	151	165	148	127	133	123
Cleveland pig	235	357	236	157	187	151	125	150	125
Common bars	249	366	247	145	153	161	153	148	145
Copper									
Standard	135	143	102	93	97	93	91	85	82
English tough cake	135	153	98	90	95	92	89	86	83
Tin, Straits	128	150	85	81	102	125	133	148	151
Lead,English pig	154	209	127	141	148	187	196	168	134
Coal									
Best Yorkshire house	211	149	150	160	151	128	138	141	107
Newcastle steam	293	330	187	159	181	143	106	105	96
Average export	331	572	250	173	180	168	144	134	127
Average	218	276	172	135	144	144	140	138	124
Textiles:									
Cotton									
Middling American	280	330	134	173	218	232	180	134	136
Bhownuggar G.F.	251	240	102	141	176	194	194	136	145
Flax									
Petrograd	...	...	331	279	245	353	271	191	282
Russian av.import	423	837	287	206	205	253	293	177	179
Hemp									
Manila fair roping	185	207	127	105	105	139	145	135	137
Petrograd clean	388	383	...	...	150	213	234	196	175
Jute,good medium	189	169	104	116	98	120	187	166	129
Wool									
Merino,Port Philip	372	444	177	217	243	297	228	203	211
Merino,Adelaide	338	337	122	180	214	268	183	172	184
Lincoln half hogs	183	178	69	79	97	153	139	121	124
Silk Tsetlee	236	351	241	261	220	213	164	145	140
Average	271	319	170	167	174	209	193	155	157
Miscellaneous:									
Hides									
River Plate, dry	182	167	78	74	76	81	92	83	99
River Plate,salted	206	192	93	93	86	91	93	84	110
Average import	198	233	111	93	95	100	115	108	114
Leather									
Dressing hides	187	223	129	125	120	117	118	109	118
Average import	211	370	240	187	163	176	171	185	192
Tallow, town	255	218	105	101	106	123	123	111	99
Oil									
Palm	197	198	105	98	103	114	115	101	97
Olive	...	...	...	...	134	161	149	161	207
Linseed	375	356	129	158	173	172	175	129	128

TABLE X. (Continued).

	1919	1920	1921	1922	1923	1924	1925	1926	1927
Seeds, linseed	306	345	159	166	171	178	177	139	191
Petroleum, refined	204	298	260	186	153	154	154	153	153
Soda, crystals	249	317	295	259	217	214	211	211	211
Nitrate of soda	216	215	165	125	117	118	116	115	109
Indigo, Bengal	332	527	416	358	273	220	209	205	200
Timber									
Hewn: average	344	300	172	116	120	125	120	122	114
Sawn: import	369	416	249	187	208	193	195	170	171
Average	268	307	195	167	151	152	150	144	147
Average, materials	256	302	181	159	156	168	161	146	144
Average, food & Materials	253	311	190	161	158	169	162	149	146
Statist number	242	295	183	154	152	164	161	150	144

(Table taken from
Encyclopaedia Britannica,
1944 Edition, Vol. 18,
P. 474 and 475).

TABLE XI

MOVEMENTS OF VARIOUS PRICE INDEXES IN THE UNITED STATES, 1913-38; 1913=100

Year	Wholesale prices	Farm prices	Retail food prices	Cost of living	General price level.
1913	100	100	100	100	100
1914	98	100	102	101	100
1915	100	97	101	102	103
1916	122	117	114	110	117
1917	168	173	146	130	139
1918	188	200	168	152	157
1919	199	211	190	176	173
1920	221	209	211	202	193
1921	140	124	161	180	163
1922	138	131	151	169	158
1923	144	141	155	172	165
1924	140	142	154	173	166
1925	148	154	166	177	170
1926	143	144	172	179	171
1927	137	138	166	175	171
1928	138	148	164	173	176
1929	136	145	166	173	179
1930	124	125	158	169	168
1931	105	86	130	154	150
1932	93	64	108	139	132
1933	94	69	105	132	129
1934	107	89	117	137	137
1935	115	107	128	141	145
1936	116	113	130	142	154
1937	124	120	135	147	161
1938	113	94	125	145	154

(Table taken from Encyclopaedia Britannica P. 477, Vol.18, Ed. 1944.)

last depression in the United States:

> "From September 1929 to January 1933, 30 industrial stocks fell from an annual average of $364.9 to $62.7 per share; a group of 20 public utilities dropped from $141.9 to $28.0 per share; 20 railroad stocks skidded from an average of $180.0 to $28.1 per share. Wall Street had taken the most terrible beating in its entire history, and billions of dollars in wealth had gone down the drain. Wholesale prices (1926=100) slid from a 1929 average of 95.3 to a 1933 average of 65.9; employment from 97.5 to 64.6; payrolls from 100.5 to 44. The estimates of unemployment in early 1933 varied from 13,000,000 to over 17,000,000 while late in 1934 estimates of the number on relief ranged over 17,000,000. Exports dropped from 5.2 billion dollars in 1929 to 1.6 billions in 1932 while imports slipped from 4.4 to 1.3 billions. Early in 1933 general business activity was less than 60% normal, while steel production fell to only 15% of capacity. Farm prices (1910-14 average equals 100) dwindled from 138 in 1929 to 63 in 1933 while the gross imcome of farmers fell 57%. In 1932 over 1,400 American bank failed. A moratorium on baking was proclaimed on March 5th -- the richest nation in the world was without a single operating bank".

What a horrible picture of a crisis or depression; yet that is exactly what happened in the United States in 1929. The writer has striven to prove that booms are caused chiefly by the banks lending their created or invented credit money to the full extent of their cash resources and then when business activity as a result has boomed the banks, of necessity, then curtail their lending and call in their outstanding loans with the resultant fall in prices and business activity. In 1929, however, thousands of the banks in the United States over-did themselves and lent their credit-money so far beyond their cash resources that they were unable to lend further to a productive and business system which by that time was in very high gear and was demanding ever more loans. When this happen~~d~~ed, confidence disappeared and a run occurred on these banks and they failed to the ruin of themselves and their depositors.

Another but quite relevant reason for the depression was the fact that the United States had by 1929 become a great export nation by the simple expedient of their financiers having for decades lent the foreigners the money to buy American goods. The time had come, however, when it was realized by the American financiers that the only way the foreigners could ever repay their debts was in goods; hence a conflict arose between the financiers, who were trying to pull down the tariffs in order to let foreign goods in in order that they, in turn, could be repaid the interest on their loans or investments, and the employers and workers on the other side who wanted no foreign goods brought into the United States to undersell their own. Mr. C. Hollis[8] sums the whole thing up rather relevantly in the following:

> "It was this conflict between employers and their workmen on the one side and the financiers on the other which led America to her catastrophe. The issue was not clearly defined, for the financiers were astute enough

8. The Two Nations, Hollis, C., P. 238.

> to see that victory was only possible if they spread as widely through the country as they would the habit of speculation. Therefore the banks lent wildly and assisted in forcing up securities to impossible heights by themselves investing their invented money on a prodigious scale. On 30th June, 1921, according to the Report of the President's Research Committee on Recent Social Trends in the United States, the investment of banks who were members of the Federal Reserve Board stood at $6,002 million. By 30 June 1928, they had risen to $10,758 million".

From the foregoing, it is obvious that the recent great depression was largely caused by the banks. How much longer is the economic fate of nations and of the people in those nations going to be dependent upon the capricious lending operations of private banks! Truly this business of the whole world being dependent upon private banks for every penny that they require for productive and consumptive purposes is a travesty on justice and morality.

CHAPTER VII

SUMMARY AND CONCLUSION

From the foregoing chapters of this thesis wherein the writer has striven to prove that from a moral point of view banks should be nationalized, we have seen how:

(1) during ancient and medieval times the issue and control of money were vested in the king and that it was his duty to keep a system of weights and measures and to maintain a stable price-level;

(2) the issue and control referred to in (1) above had the blessings of both the people and the church, neither of whom ever dreamed that such issue or control should rest in any other person or persons than the king or state;

(3) the king's right to issue and control money was wrested from him by private money lenders and bankers who established the Bank of England in 1694;

(4) the Bank of England and later all banks in England were given the right to manufacture paper money up to the full extent of their loans;

(5) the right of ordinary banks (central banks excepted) to manufacture paper money was later curtailed and how these banks got round the curtailment by giving their depositors or borrowers a checking account on which they could draw cheques;

(6) as a result of (5) above banks soon came to lend credit from ten to twenty times their holdings of cash or, in other words, how the present system of bank-invented

credit money came into being;

(7) as a result of banks being the sole source of money and of being able to create credit or money out of nothing by lending credit to may times in excess of their holdings of cash to the community, with the resources both real and potential of the community as a backing for their loans, they were able to acquire a lien on the entire wealth of the nation bringing inevitably and inescapably into their power or sphere everybody -- producers, merchants, farmers, wage earners, corporations, and governments;

(8) the interest on their loans is irrepayable;

(9) international trading and investment and the gold standard is controlled by banks;

(10) governments -- federal, provincial, and municipal -- keep on borrowing from the banks, paying only the interest on their loans forever;

(11) the principal of government loans or borrowings from banks is never intended to be repaid because of the resultant financial chaos;

(12) the expansion and contraction of bank credit creates a rise and fall in prices with the resultant boom and slump in business.

(13) the recent great depression was chiefly caused by bank lending;

(14) under the present system of banking, debt -- private, national, and international -- is universal,

inevitable, and irrapayable.

What a pretty picture we have above! What travesty on justice and morality! What blight on ethics is this system of banking which gives to the banks such power -- power almost of life and death over a nation's citizens! There can be no doubt that the power, rights, and privileges which banks presently enjoy are not those which should devolve upon private persons -- and banks are but private persons in the eyes of the law. The present power, rights, and privileges of banks are directly opposed to the teachings of the ancient church -- the teachings of St. Thomas Aquinas and his followers. When analysed in the light of this thesis the writer does not believe that the aforesiad power, rights, and privileges of banks fall within the sphere of christianity; they are definitely, therefore, , unchristian.

Let us turn now and see what some of the great men in the world have had to say about banks;

Mr. W. L. McKenzie-King, Prime Minister of Canada[1], when discussing the establishment of the Bank of Canada:

> "As I said the other evening, once a nation parts with its control of currency and credit, it matters not what makes the nations laws; usury once in control will wreck any nation. Until the control of currency and credit is restored to government and recognized as its most conspicious

1. Standing Committee on Banking and Commerce, House of Commons, 1939, P. 626.

> and sacred responsibility, all talk of the sovereignty of parliament and of democracy is idle and futile".

Mr. F.D. Roosevelt[2], President of the United States, in his inaugural address on March 4, 1933, and in reference to the great depression in which the United States was then engulfed:

> "The world's troubles were primarily because the rulers of the exchanges of mankind's goods have failed through their stubborness and their own incompetence, have admitted this failure and have abdicted. Practices of the unscrupulous money changers stand indicted in the count of public opinion, rejected by the hearts and minds of men. The money changers have fled from their high seats in the temple of civilization. We may now restore the temple to the ancient truths ..... In this dedication of a nation, we humbly ask the blessing of God".

His Holiness Pope Pius XI[3]:

> "In our days not alone is wealth accummulated, but immense power and despotic economic domination is concentrated in the hand of the few, and those few are frequently not the owners but only the trustees and directors of invested funds, who administer them at their own good pleasure.
>
> "This power becomes particularly irresistible when exercised by those who, because they hold and control money, are able to govern credit and determine its allotment, for that reason supplying, so to speak, the lifeblood of the entire economic body, and grasping as it were, in their hands the very soul of production, so that no one dare breathe against their will.

2. Taken from Two Nations, Hollis, C., P. 244.

3. Quadragesimo Anno. Taken from Social Economy, Fallon, S.J., P. 545.

This concentration of power has led to threefold struggle for domination. First, there is struggle for dictatorship in the economic sphere itself; then, the fierce battle to acquire control of the state, so that its resources and authority may be abused in the economic struggles. Finally, the clash between states themselves".

Our way is therefore clear. We must take heed of the utterances of his Holiness and of our leaders. We must take heed of the teachings of St. Thomas Aquinas, who taught that it was the incumbency of the king to issue and control money and to maintain a stable price-level. We must take heed of Bishop Berkely who objected so strongly in his day to the creation of money out of nothing, with the dash of the pen so to speak, by the banks; and who also taught that it was the incumbency of the state to maintain a stable price-level.

Yes, indeed, our way is clear. We must nationalize our banks. We must return to the Crown the privilege and right, which have been so long in desuetude, of issuing and controlling money in all its forms in all its operations. There can be no doubt that the function of the issue and control of money rests with the Crown or state and not with private banks. Even Our Lord Jesus Christ knew that this function of money issue and control belonged to the ruler, for have we not the passage in the bible[4] which states that

4. Holy Bible, St. Mathew, Chapter 22.

when he was asked by his enemies about the payment of tribute to Caesar and handed a coin with Caesar's image thereon, he said "render unto Caesar the things that are Caesar's". Now in our Saviour's day there was no paper money -- money existing only in the form of gold and silver and other metals. From this, therefore, the writer believes that Christ never doubted that the right to make, issue, and control money was not only vested in the ruler but that it was his incumbency so to do.

Once nationalized, the banks would, of course, belong to the Crown or State. This would mean then that all money which came into being in any shape or form would emanate from the Crown, the rightful source of money. Instead of the people of a nation being in debt to private banks; that is, to private groups of people within their own borders, they would be in debt to the Crown or State, which is the symbol of their own collectivity.

The Crown would be able to lend money at considerably less interest than do private banks to-day or, in certain cases, at no interest at all. The Crown could finance its immense expenditures of money for every form of national need by simply creating its own credit or money instead of borrowing it from private banks, who have not got it to lend but who simply create it out of nothing and lend it on to the community at interest against the resources of the community. Thus the nation would be saved millions of dollars annually in interest charges, which would otherwise have accrued to the banks. Taxes too would thereby be greatly reduced.

With nationalization the right of private persons to create money out of nothing and so acquire a lien on the wealth of the whole nation would disappear.

With nationalization the Crown would be able to control in a very large measure the price-level and so maintain stable prices. A stable price-level[5] (1) enables creditors to be repaid in money which is worth as much in terms of goods as when the original loan was made; (2) removes the horror which traders have of greatly oscillating prices; (3) removes the abnormal profits which came when costs lag behind an upward movement of prices with a resultant overstimulation of investment and with a frequent failure of the monetary purchasing power in the pockets of the consummer to keep pace with the output of mass production goods; and (4) it protects business from the reduction of inventory values which accompany falling prices and which we have seen frequently forces business to contract operations and so start the depression.

In concluding, the author wishes to stress that he does not believe that to nationalize banks will solve all our economic ills. He does believe, however, that it is the major step in the right direction toward such a solution.

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