Bank Credits

THE present insolvency of nations, as expressed in their failure to purchase in some instances and the failure to develop industries in others, can be fully understood only if the methods adopted in financing the war are clear in our minds. Most people realize that the war was not paid for—and will not be yet awhile—but this does not mean that they understand what enabled the nations to carry on as they did.

It is not intended—it would be impossible—to cover the whole of the methods adopted, or even to outline the question of finance as a whole, in these articles. In its wide ramifications, its divisions and subdivisions, finance is as difficult to understand as are the most complicated technical processes in industry. All that can be done here is to give in broad outline the main features of the process by which bank credits and purchasing power were created during the war.

Fortunately, the Government itself assists us in giving the explanation so that no one need suppose that we are drawing on our own imagination. The facts are contained in Government publications, and the following may be taken as a summary:—Assuming that the Government, in any given week, after having used the whole of its current revenue and loans, is in need of an additional £10,000,000. Remember, the war cost £8,000,000 per day, so that a deficit of ten millions in any one week is nothing to be surprised at! But where is the money to come from? The Government has taxed and loaned; what other source is there? There is the Bank; the Bank of England, which can be asked for credit money.

Does the Bank then **create** money? If so, why does it not go on with the process and make us a nation of millionaires? Up to a point it does make money, of a kind. Let us explain. You, fellow-workman, provided you are not unemployed and that you have been careful with your wages, can lend a "Bradbury" to one man, but you cannot lend the same "Bradbury" (at the same time) to two men. That, indeed, would be a miracle. But it is just this kind of miracle which forms part of the everyday activity of a bank. It can lend the same sum of money to five, possibly ten, men.

How? Why? Well, it knows from long experience and practice that these men will not all come together for the money. The sums loaned would be drawn upon over a long period, and what is still more important the money may not leave the Bank at all. If the Bank lends money to one customer who owes an equal amount to another customer of the Bank and with this credit squares the account nothing need leave the Bank. All the Bank does in these transactions is to agree to cash, if necessary, all cheques drawn upon it by those who have money at the banks or by those to whom the bankers have given permission to draw. In practice very few are cashed. What is drawn out in the name of one individual is immediately received back in the name of another. The money that runs out just as rapidly runs in again.

So the Government approaches the Bank authorities and states its requirements— a ten-million credit loan. The Bank agrees. The Government asks the Bank to pay on its behalf £10,000,000. Outside, an army of Government contractors are awaiting payment for goods and services rendered. Cheques drawn upon the Bank of England for the amounts due are sent to each and they, in turn, send them to their own individual bankers who credit them with the amounts of the cheques. It now depends upon these banks whether anything other than paper will leave the Bank of England. The central institution is mainly a bank for bankers, and just as individuals imagine their own deposits to be safe in the vaults of their respective banks, and that they will certainly be paid out upon application, so do individual banks regard their deposits in the Bank of England. Everybody and every bank assume their deposits to be there and trust that they will be paid upon demand; and yet all of them know how utterly impossible it would be if all came together for their money.

A bank is an institution whose normal state is that of insolvency. Bank profits are made by lending other people's money, as often as possible. A loan once made appears in the bank books to the credit of the individual to whom it is granted, as if he had actually deposited it there. It forms part of their liabilities, so that banks always owe more than they possess.

Unfortunately, there is a limit to the extent to which this can be carried on. Some customers will insist upon calling for actual money. Some cash must be retained in order to meet these demands. The bank, therefore, must always keep within a given proportion of liabilities to cash reserves, and experience has long since taught it what that proportion can safely be.

Let us now revert to the cheques drawn by the Government upon the Bank of England, posted to contractors, who, in turn, deposit them with their bankers.

The individual contractor (or firm) receiving a cheque for £10,000 "pays" this into Barclays, shall we say, the bank with which he deals. Barclays credit him with having done so, and sends the cheque on to the Bank of England, who now place the £10,000 to the credit of Barclays Bank.

Now the effects thus far, are: First, the Government credit is exhausted because it has been distributed by cheques amongst its various creditors. Secondly, these Government creditors upon receipt of their cheques pass them into their own bank and thereby increase their deposits, and, judged from the point of view of accounts, are richer to that extent. Thirdly, the various banks amongst whom the cheques were deposited in turn send them back to the Bank of England and increase **their** deposits. They, too, are credited with these amounts, as if they were gold. Here comes the important point.

The outer banks regard their deposits with the central institution as being what they pretend to be, namely, gold. They act upon this assumption. Their business as bankers, as already explained, is to lend other people's money, and to lend it as often as possible. But, so far, this money, and we assume all of it to have passed into the hands of these bankers, has not been lent at all. It simply lies to their credit at the Bank of England to be paid out if called upon by themselves, and they in turn are subject to the calls of the contractors who paid them in.

These banks can now lend or invest this money on their own again. This we shall assume to be done four times. That is, they grant or create credit, incur liabilities of four times the amount originally created by the Bank of England, which means that during the whole process fifty millions of credit has been created. This is the process repeated over and over again, credits mounting ever higher and higher. Let us consider the effects.

When the Government found itself compelled to go to the Bank for loans it gave nothing in return for the money. The Government is not a producer whose goods can ultimately cancel this debt. For the Government this is possible only by putting its hands in the pockets of the community. The credit received had no material basis. It was simply the right to go into the market and make purchases, and use the name of the Bank to pay for them. In effect, it was an addition to the purchasing power of the community without increasing the goods produced.

With this manufactured purchasing power the Government enters the market. Its appearance in the market as a buyer is marked by other effects. Prices begin to rise. Other causes would already have commenced the process, but we are here dealing with the effect of Government purchases with manufactured money.

The rise in prices brings us back again to the Bank of England. Not only is it the central banking institution but it is the institution from which demands for additional currency are met. If a rise in prices necessitates an addition to the currency, the Bank will be called upon to find real money for this purpose. Where is it to get this gold from? And if it finds it the whole process now appears to be a costly one, as far as the Bank is concerned. Fortunately, however, the contingency did not arise. Gold payments had already been suspended, and this difficulty, which would have made the whole scheme impossible, removed. Additional demands for currency were met by the printing press. Untold millions of bank notes and "Bradburys" could be turned out at will. A paper currency was in circulation and could be increased with little difficulty.

The currrency of this country became expanded, or inflated as it is commonly termed, and with this came a further rise in prices; for paper, unlike gold, is of no use apart from its function as a medium of circulation. There followed, of course, a rise in the cost of living. The purchasing power of money wages fell, and the working class, at least the organized section, were compelled to take steps to increase the amount of this wage. This increase in wages could never keep pace with the advance in prices because the process above outlined was going on all the time.

W. H. MAINWARING.

—"The Plebs."

:o:

NANAIMO RIDING

(Socialist Candidate—W. A. Pritchard)

THE area covered by this constituency is not easy to measure, and the difficulties met with in this campaign by the Socialist candidate may be stated in terms indicating bad roads and long distances. The riding runs from Nanaimo to Victoria, B. C., and some of the in-between places and scattered Islands are hard to reach.

Nanaimo, Ladysmith, South Wellington and Victoria have had meetings addressed by Comrades O'Cononr and Welis, and Comrade Harrington's speech, made in Victoria, appears in another column. Com. Earp spoke in Victoria last Sunday.

Answering an insistent demand from this office that he write something of the progress of the campaign whether he has time or not, W. A. P. replies:

"Take this: Meetings night after night, almost all of which run up to 10.30 p.m. and even 11 p.m., of exposition, discussions, etc., with an astonished multitude listening in rapt attention. This last week end: Got into Naniamo 1 a.m. (Sunday); went to Granby 11 a.m.—dinner Chase River 1 p.m.,—meeting (good 'un) Extension at 1.30—another meeting (also good 'un) at Chase River 3.30 p.m. Committee meeting 6.30—propaganda 7.30 at Nanaimo, ending at 10.45, followed by committee meeting, ending bed midnight. Voice, though holding out good has descended a piano-and-a-half below normalcy. Did not expect appreciative reception met with at Duncans. Alleged to be home of the brave—and conservatism. Was told meeting would be boycotted. Small town, but meeting of over 300 and talked till 10.30 and had to tell them to go home. That characterizes all points tuched. The people want an explanation of the circumstances they find themselves in, and I'm doing my best by introducing them to our concepts and method of observation.

Wind-pipes made of caoutchouc would be very useful for speakers these days. An ordinary throat isn't tough enough to meet all demands."

In the south end meetings have been held in Esquimalt, Saanich, Sydney, Saanichton, Keatings, Cedar Hill, Royal Oak, Colwood, Marigold, Jordan River and Oak Bay, besides the theatre meetings in Victoria. Efforts, so far, to get any opposition speaker or candidate to meet Comrade Pritchard have failed.

Comrade J. Stevenson spoke to an interested audience at the cement works at Bamberton on 17th November. A meeting is being arranged for the 20th at Salt Spring Island, and if possible one will be held at Sooke. On December 4th Comrade Pritchard will speak at Esquimalt. Possibly other meetings will be arranged and addressed by members of Local (Victoria) No. 2. Here follows a report from Victoria 'Times":

(Continued on page 8)