That does not mean, as a great many people do assume, that a bank with $10 or $100 of legal tender cash on hand, can, under all circumstances, issue and use $100 worth of bank deposits; but under favourable conditions when there is a speculative activity on, such as the stock boom of 1929, the banks can and do use as money as much as 15 credit dollars to every dollar of cash they have on hand. And in the Dominion of Canada, where the bulk of your till money is issued, on the bank privilege of printing its own money, a very small percentage of legal tender cash is held, and that is held almost exclusively in Canada for the purpose of settling inter-back balances. The creation of the vast volume, at least, 90 per cent of the medium of exchange that is now used to consummate monetary transactions, including the spending money of the government, and the buying power of the consumer, is created by the operation of a bookkeeping system. That brings us to whether or not it is necessary to hold gold reserves against the issue of national currency or against the issue of monetized public credit in a National Banking system.

In section 148 the Macmillan report says:—

> It is not necessary that the volume of note issue (the creation and issue of national bank credit, which I have added, because it is the same thing) should continue to be regulated as it is now, by reference to the amount of gold held in reserve.
>
> Gold should be held primarily to settle international balances and not to support domestic note issues. There need be no obstacle for the creation of a large increased volume of purchasing power, without any increase in the supply of gold.

Section 45 of the report says:

> In the modern world gold plays in the main only an indirect role in the determination of price level, because the circulating media consist overwhelmingly of paper money and bank deposits transferred by cheque.

What happens when governments spend money directly without going through the process of borrowing on interest bearing bonds. Section 24 and 210 of the report says:

> When governments pursue an inflationary policy (i.e., meet expenditure not out of revenue or loans, but by the issue of paper money, or as I propose) by the creation of credit in a national banking system forces are set in motion increasing profits and wages and additional spending arises. An expansion of credit and currency has a complicated effect upon the price level.

Now, as a matter of fact, one of the oldest orthodox theories on economy, which has largely governed our whole monetary system up to the present time, is the quantity theory, which says, shortly, that all things being equal, prices rise and fall with the expansion or contraction of the volume of currency in issue or the volume of buying power in issue. This is not true, and in the nature of things, it cannot be sound. If you examine W. T. Layton's Standard Text Book on Prices, you will find in the chart at the back of the book that while the volume of gold has steadily risen, the line of the chart since 1800, shows the volume of prices has steadily fallen. It is quite true that during the period of excessive expansion of expenditure such as in a war period, prices do rise; but they do not rise because of the increased volume of purchasing power. They are just deliberately manipulated upward or maintained at higher levels by governments for the purpose of increasing the activity of production. For instance, by governmental action the price of wheat was raised up and up until it got to $2.80 a bushel during the war period. But that was a fixed and pegged price. When we wanted to build ships or to do any of the things that were necessary to bring war supplies into being, we definitely raised the price;

[Mr. G. G. McGeer]