4-6-A

BY CARROLL QUIGLEY

"DEPOSIT LENDING" OF "CREATED DEPOSITS" HOW IT WORKS.

Britain's victories over Louis XIV in the period 1667-1715 and over the French Revolutionary governments and Napoleon in 1792-1815 had many causes, such as its insular position, its ability to retain control of the sea, its ability to present itself to the world as the defender of the freedoms and rights of small nations and of diverse social and religious groups. Among these numerous causes, there were a financial one and an economic one. Financially, England had discovered the secret of credit. Economically, England had embarked on the Industrial Revolution.

Credit had been known to the Italians and Netherlanders long before it became one of the instruments of English world supremacy. Nevertheless, the founding of the Bank of England by William Paterson and his friends in 1694 is one of the great dates in world history. For generations men had sought to avoid the one drawback of gold, its heaviness, by using pieces of paper to represent specific pieces of gold. Today we call such pieces of paper gold certificates. Such a certificate entitles its bearer to exchange it for its piece of gold on demand, but in view of the convenience of paper, only a small fraction of certificate holders ever did make such demands. It early became clear that gold need be held on hand only to the amount needed to cover the fraction of certificates likely to be presented for payment; accordingly, the rest of the gold could be used for business purposes, or, what amounts to the same thing, a volume of certificates could be issued greater than the volume of gold reserved for payment of demands against them. Such an excess volume of paper claims against reserves we now call bank notes.

In effect, this creation of paper claims greater than the reserves available means that bankers were creating money out of nothing. The same thing could be done in another way, not by note-issuing banks but by deposit banks. Deposit bankers discovered that orders and checks drawn against deposits by depositors and given to third persons were often not cashed by the latter but were deposited to their own accounts. Thus there were no actual movements of funds, and payments were made simply by bookkeeping transactions on the accounts. Accordingly, it was necessary for the banker to keep on hand in actual money (gold, certificates, and notes) no more than the fraction of deposits likely to be drawn upon *and cashed;* the rest could be used for loans, and if these loans were made by creating a deposit for the borrower, who in turn would draw checks upon it rather than withdraw it in money, such "created deposits" or loans could also be covered adequately by retaining reserves to only a fraction of their value. Such created deposits also were a creation of money out of nothing, although bankers usually refused to express their actions, either note issuing or deposit lending, in these terms. William Paterson, however, on obtaining the charter of the Bank

"The purpose of this booklet is to describe the mechanical process of "MONEY CREATION" in a "fractional reserve" banking system". From; "Modern Money Mechanics", 1982 edition, published by the Federal Reserve Bank of Chicago. It tells that the current created "money"(?) represents only DEBT and HAS NO VALUE! This valueless currency becomes an interest bearing debt when it is BORROWED by the Federal Government from the Central Federal Reserve Bank and other Corporate loans from Commercial Banks.(q.v.; the Patman letter)

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of England in 1694, to use the moneys he had won in privateering, said, "The Bank hath benefit of interest on all moneys which it creates out of nothing." This was repeated by Sir Edward Holden, founder of the Midland Bank, on December 18, 1907, and is, of course, generally admitted today.

This organizational structure for creating means of payment out of nothing, which we call credit, was not invented by England but was developed by her to become one of her chief weapons in the victory over Napoleon in 1815. The emperor, as the last great mercantilist, could not see money in any but concrete terms, and was convinced that his efforts to fight wars on the basis of "sound money," by avoiding the creation of credit, would ultimately win him a victory by bankrupting England. He was wrong, although the lesson has had to be relearned by modern financiers in the twentieth century.

Britain's victory over Napoleon was also helped by two economic innovations: the Agricultural Revolution, which was well established there in 1720, and the Industrial Revolution, which was equally well established there by 1776, when Watt patented his steam engine. The Industrial Revolution, like the Credit Revolution, has been much misunderstood, both at the time and since. This is unfortunate, as each of these has great significance, both to advanced and to underdeveloped countries, in the twentieth century. The Industrial Revolution was accompanied by a number of incidental features, such as growth of cities through the factory system, the rapid growth of an unskilled labor supply (the proletariat), the reduction of labor to the status of a commodity in the competitive market, and the shifting of ownership of tools and equipment from laborers to a new social class of entrepreneurs. None of these constituted the essential feature of industrialism, which was, in fact, the application of nonliving power to the productive process. This application, symbolized in the steam engine and the water wheel, in the long run served to reduce or eliminate the relative significance of unskilled labor and the use of human or animal energy in the productive process (automation) and to disperse the productive process from cities, but did so, throughout, by intensifying the vital feature of the system, the use of energy from sources other than living bodies.

In this continuing process, Britain's early achievement of industrialism gave it such great profits that these, combined with the profits derived earlier from commercial capitalism and the simultaneous profits derived from the unearned rise in land values from new cities and mines, made its early industrial enterprises largely self-financed or at least locally financed. They were organized in proprietorships and partnerships, had contact with local deposit banks for short-term current loans, but had little to do with international bankers, investment banks, central governments, or corporative forms of business organization.

This early stage of industrial capitalism, which lasted in England from

As long as the "Paper Money" represented specific pieces of Gold or Silver, this gave a SECURED VALUE to this piece of paper and, with the value of Gold & Silver fixed by Law, it preserves the VALUE of the PROPERTY which was EXCHANGED for this "PAPER". It has a "FIXED VALUE". With our(?) Monetary System entirely based upon a BORROWED INTEREST BEARING FORCED DEBT "PAPER" OF NO VALUE, I ask this question; What do YOU receive when you "SELL" your WEALTH, your GOODS & PROPERTY, your LABOR, YOUR TIME OF LIFE, WHAT do you GET and HOW MUCH ARE YOU ALLOWED TO KEEP FOR YOUR OWN USE?