ing to demand » (page 124). The banks can only satisfy the demand for credit as far as their lending potential allows. If demand exceeds that potential, applications for credit, even those offering the necessary guarantees, have to be turned down.

(c) Deposit saving has only one kind of influence on the banks lending potential and willingness to lend: a restrictive one. There are other forms of saving (saving in securities and with savings banks) which stimulate credit. Gambino is therefore right in saying that the public has an influence on lending potential — *but not on the actual volume of credit* — not only through the change in the habits of payment but also by the form of saving adopted. But this fact, which is well known to modern economists and often emphasized by them does not alter the fact that any increase in the propensity to save by itself — whatever the form of saving — has a contractive (15) effect on the national income while the effect of any increase in the propensity to invest is by itself expansive — and what is more, *under all circumstances*, and not, as Gambino believes, only in *certain* circumstances. The assertion that an increase in the propensity to save exerts a contractive effect only in a recession is untenable.

ERICH SCHNEIDER

(15) Incidentally, I did *not* say in my article in « L'Industria » that « the reduction is in direct proportion not only to the " level " but also to the " gradient " of the propensity to save » (Gambino, page 111).

A REJOINDER

Professor Schneider's diffuse reply makes it easier to identify the nature and scope of our disagreement as to the influence on income formation of saving in the form of bank deposits.

But first I must seek to clear up certain possible misunderstandings to which Professor Schneider's approach to my arguments may have given rise. For one thing I disclaim any intention of seeking to revive, lock, stock and barrel, the classical theories, according to which there is always a close link between individual acts of saving and investments as a whole. I have tried to show that the link may be inoperative in specific circumstances and particularly in periods of recession and stagnation. And I have stressed, too, the fact that the adjustment of savings to investment is a far more complex process than the classical economists had assumed.

My case was made out, as Schneider admits, « in a modified form, and based on different arguments », not only from those of the « classical economists » but also from those of the « Keynesians ». For I showed that, while the flow of savings is one of the factors which may give rise to variations in the volume of deposits, that volume may and usually does vary without any corresponding variations in the volume of real goods «saved ». That is to say, this variation may take place not only without « genuine » saving, but even without « forced » saving. On the other hand, I showed that, in considering the process of adjustment of savings to investments, and particularly that part effected through the banking system one must take account of the fact that the adjustment is effected by the interplay not only of variations in the rate of interest but also and above all of variations in the volume of supply and demand (of « loanable funds ») at a more or less stable rate of interest. The latter eventuality is more closely connected than the former one with those variations in income about which so much has been written in the recent years.

Given this approach, I cannot — as Schneider suggests — be held to « contest the fact that the central bank's influence on the commercial banks' lending potential is considerably greater than the public's » (page 218). Indeed, I explicitly criticised certain contentions currently advanced in Italy, arguing, against those contentions, that even in Italy the monetary authorities had always had and still have a decisive influence on variations in the volume of deposits and hence on the « commercial bank's lending

potential ». But I also joined issue with certain views current in countries other than Italy, and maintained that the public, too, had a considerable, though not decisive, influence on the volume of deposits. And, as regards the « direction » of that influence, I contended that saving in the form of bank deposits acted as a stimulus and not as a check on the banks' lending potential, since increased saving, leading to an increase in the credits extended to the banks by the public, satisfies one of the necessary conditions (though not of itself a sufficient condition) for the banks in their turn to grant increased credits to the public.

2. The preceding sentence brings out most clearly the point on which Professor Schneider and I disagree — i.e. the direction in which the public can exert an influence on the volume of deposits and hence on the banks' lending potential. His standpoint is diametrically opposed to mine. He believes that increased savings in the form of deposits always and without exception act as a check and not as a stimulus. He never tires of insisting on the point: « Savings in bank accounts *can never act as a stimulus to lending but always only as a check and reduce the banks' willingness to grant new credit* » (page 216). « Saving in the form of deposit hoarding restricts rather than stimulates the flow of credit » (page 219). « Deposit saving, has only one kind of influence on the banks' lending potential and willingness to lend: a restrictice one » (page 220) (1).

My case is that the link between individual acts of saving in the form of bank deposits and investment as a whole can be inoperative only in certain circumstances. Schneider on the contrary holds that this link is inoperative in all circumstances, always provided that savings are channelled through bank deposits.

To sum up, my contention involves a modification of the classical approach, but only by adapting and qualifying it to take account of the different sets of circumstances relevant to the problem (and more especially the different phases of the trade cycle). Schneider's interpretation, as against this, involves the radical rejection of the classical conception and conclusion is, as he puts it, « that any increase in voluntary savings by itself — whatever the form of saving — has a contractive effect on the national income... and, what is more, under all circumstances, and not... only in *certain* circumstances » (page 220).

3. Since that is the position, I fear there is no alternative but to agree to disagree.

In fact Professor Schneider's reply does not so much get to grips with my arguments as dogmatise on some aspects of the Keynesian theory which he still regards as the be-all and end-all of the « new » credit theory, in the face of my detailed analytical demonstration of its flaws, particularly as it is documented by references to the original Robertsonian formulation of these aspects. And so Professor Schneider imagines he need do no more than provide a summary numerical illustration (on page 216) and quote *in extenso* a passage from Gestrich (on page 216-217).

The trouble is that both illustration and quotation merely serve to confirm my case, since the process schematised in the one and outlined in the other is observable only in periods of recession and stagnation. In fact Schneider starts from the assumption that «in a modern economy most funds in bank accounts have been transferred from other bank balances, most savings in bank accounts have their origin in the immobilization of demand deposits » (page 216). Which would mean that the bank's liquidity and hence their lending potential would be unchanged. But this assumption is valid only in a slack period. In fact, when business is normal, the upward trend in deposits (considered as a whole and not as individual items) does not lead to less use being made of the deposits themselves, i.e. to a lower velocity of circulation. On the contrary, it involves a greater preference by the public for deposits to banknotes and hence, provided there is no change in the note issue, an increase in the banks'

(1) I must admit that I was wrong in saying that Professor Schneider refused « to admit that the amount of money lent by the banking system as a whole can depend on private enterprise »: I should have said that he ruled out the possibility of the influence of private enterprise operating in the « direction » I had in mind.

liquid resources. The increase in deposits or, to put it more precisely, the tendency on the part of the public to extend larger credits to the bank in the form of deposits, foils down to an increase in the banks' liquidity and to a stimulus to the creation of deposits « desidered » by the public. The phenomenon does not in fact give rise (in periods of normal development) to « lower entries on the entrerpeneurs' accounts » and the « freezing of existing credits » on which Gestrich dwells at such length.

4. It goes without saying that our disagreement does not extend to all the theorems championed by Schneider. Especially since, for some of them, I have tried to provide a fuller demonstration, emphasising the interplay between the variations in the volume of demand and supply (of « loanable funds ») at an unchanged rate of interest, a process which supplements that of variations in the rate of interest.

In the same way I have stressed the very point Schneider uses as an argument against me. For me, too, « the previous or simultaneous formation of cash savings is not a prerequisite of the extension of credit by the commercial banks » (page 218). But, for me « the necessary prerequisite » is a greater propensity on the part of the public to extend credit to the banks. In other words, it is an increase in the « degree of preference » shown by the public in the choice between deposit and banknotes, an increase which does not presuppose an expansion of saving. So that while, on the one hand, the increased savings, which really do exist may satisfy (as recalled at the outset) one of the necessary conditions for an increase in the banks' lending potential, that very condition may be satisfied by any other means leading to an increase in the « degree of preference » on which I have dwelt at length on other occasions (2).

In these circumstances, I should like to assure Professor Schneider that I have no intention of « disregarding » « modern » theories of credit and even less of opposing the Keynesian Revolution by a Restoration of the classical economists. My intention is rather to contribute to the laborious digestion of the Keynesian models and to help sort out the wheat from the chaff (3).

We can only succeed in bringing the theory of credit up to date by trying to determine the qualifications, conditions and circumstances subject to which both the « old » models and the « new » ones will work. And not by persisting in the belief that only one group or the other is absolutely « true » or « fallacious ». And in this indispensable clarification Professor Schneider will undoubtedly make the same constructive contribution as he has done to other fields of economic theory.

AMEDEO GAMBINO

(2) It is therefore not the case, as Schneider asserts, that the « crux » of my argument is the assumption inter alia that « increased savings in the form of deposit hoarding... are actually a prerequisite of an expansion of bank credit » (page 215).

(3) In this sorting out process it is important to take into account the differences between « saving deposits » and « demand deposits ». I therefore share Professor Schneider's view that it would not in fact be « justified » to « put them on the same footing ». We should not, however, lose sight of the basic unimportance of a distinction on these lines and of any analogous distinction, however relevant it may be to certain aspects of banking technique and policy. One need only recall the through discussion of this question by Marget (in « The theory of prices », 1938, Vol. I, pages 466-7) and the explicit rejection of the distinction by W. F. Crick of the Midland Bank (in « The Genesis of Bank Deposits », Economica 1927, reproduced in « Readings in Monetary Theories », 1952), who writes: « Bank deposits include all the funds held by the banks to the credit of customers, whether withdrawable at demand or at an agreed period of notice, a distinction which by the way has very little force ». It seems to me, therefore, that Schneider is going a little too far in drawing such a sharp distinction between the effects of savings channelled through commercial banks (in demand depositis) and those channelled through saving banks (in saving deposits).

In any case, in discussing these aspects of the Keynesian theory, we can only refer to deposits as a whole, since Keynes used that very conception, lumping together « saving deposits » and « demand deposits » (as recalled in « General Theory », page 167, note 1).