

CREDIT IS NOT MONEY

SIR, — After the kind remarks made (May/June issue) by Mr. Meulen about my article on inflation, it may seem churlish not to concede the one point on which we disagree, namely, my contention that the banks can and do 'create credit'. However, it is not true to assert that banks are wholly limited to lending the money lent to them by their depositors. They can, in fact, lend much more, provided that they always ensure that the incoming revenue from their credit-loans more than covers their net outgoings from depositors' withdraw-

als. Perhaps in its extreme form this proposition will make the average banker blanch; but some banks nevertheless quite legitimately tend at times to lend more than they have on account. Even so, this should not worry Mr. Meulen unduly, because it is an expansion of credit which results, not an expansion of money; and, as I have shown in my article, the expansion of credit only brings about a redistribution of prices within the market, not an overall increase in those prices. The creation of credit consequently has no permanent disruptive effects and is, indeed, often necessary to stimulate trade. What I had hoped sufficiently to have emphasized in my article was that the creation of credit is not the same as the creation of money and that the two processes must be kept wholly distinct if society is to prosper.

Yours faithfully,

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