

LETTERS

H. GEORGE AND THE POPE

SIR, — The May/June issue of LAND AND LIBERTY (p.42) carries a review by S.C.B. of a book on Henry George. The book under discussion is *Henry George in Europe* by Michael Silagi. After a long review the writer S.C.B. ends with this: "An interesting aspect revealed by the author is the origin of the Papal Encyclical *Rerum Novarum* devised as a counter to Georgist ideas."

This is not and cannot be true. The economic writing and philosophy of H. George were examined, and nothing inconsistent with Christian social doctrine was found in either. What may have confused the author Michael Silagi is the fact that on the publication of *Rerum Novarum*, Henry George criticised Pope Leo XIII on the matter of private property which the Pope was defending against Communism. What shocked George was that no distinction was made between land and other types of property—that no definition of land ownership was included in the Encyclical.

So really the boot was on the other foot. George questioned the Pope's social teaching. Despite this the Catholic Church officially clears Henry George, thus apparently endorsing his distinction.

As an ardent admirer of Henry George, and a Roman Catholic, I hope you will find space to publish this letter to clear the record.

Yours faithfully,

MARIE MCCRONE

Laxton,
Northants.

BANK CREDIT AND INFLATION

SIR, — In claiming that I am in error in stating that banks can lend more money than they hold as deposits, Mr. Oliver Smedley seems to be failing to make a necessary distinction between practice and theory. I bow to his superior knowledge when he says that in the last fifty years banks have never done so, but this

is not the same as proving that they never have nor ever could. Oddly enough, the rest of Mr. Smedley's argument supports my contention, not his own: I am referring to his point that I have forgotten that one bank's advance is another (or even the same) bank's deposit.

If we analyse the theory behind lending, we at once become aware that a bank's lending powers would theoretically be infinite if it could always be sure that every one of its advances were deposited with its own branches, because it could then indulge in a self-cancelling process of debts and credits without reference to its deposits at all. As a matter of fact, the big Banks are, if taken corporately, virtually in this position today since as far as advances and deposits are concerned they already take in one another's washing. Their only loss in this relatively closed system is the leakage of funds to banks abroad through foreign trade which *eventually*—and I stress the long-term nature of the process—could lead to a loss of reserves for the country as a whole.

From this we can deduce a general law, which is that in a closed system credit (and debit) can be infinitely expanded. But, just in case the reader should think the millenium has arrived he should also bear in mind that the number of individuals or corporations found to be credit-worthy in any system is markedly finite. If then the banks do not indulge in infinite credit, it is partly because they have only a relatively small number of creditworthy customers, and partly because they dare not get out of step with the other banks which alone have the ability to demand payment for inter-bank debts. With these two admittedly stabilizing provisos, banks can operate their credit-systems wholly independently of their deposits, again provided, of course, that they have sufficient deposits to engender confidence in the public in the first place. All this springs from

the basic fact which I previously emphasized that credit and debt, being self-cancelling, can have neither an effect on inflation nor on the amount of money in circulation. On the other hand, were this infinitely-sliding scale of credit and indebtedness not possible, then credit would in a sense be acting like money and depending for its value on its quantity. But at this point the wheel of the argument comes full circle and justifies the point which Mr. Smedley generously credits me with: namely, an understanding of the crucial difference between money and bank (or any other) loans. Since he admits this distinction too, he must logically accept the theory behind the above argument; although I did say in my previous letter that to express the theory in this way is certainly enough to make the pragmatic banker blanch.

Yours faithfully,

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Cardiff

PROMISES TO PAY

SIR, — Once again I must reply to Mr. Henry Meulen.

He tells me that the inscription on the old Scottish notes ran ("with small variations" which he does not specify) "I promise to pay to bearer on demand one pound sterling" and that the notes were redeemable in coin. That would have meant that in payment for one Scottish pound note the bearer would expect to receive one gold coin, being a pound, of a certain weight and fineness.

"Surely it is equitable" he writes "that if the free market price of gold rises, the holder of the note should receive a smaller weight of gold on redemption than before the rise." Presumably if the price of gold fell he should receive a larger weight of gold on redemption.

No, Mr. Meulen, this would not be equitable nor even practicable. It would not be equitable because the holder of the note would not know what size of coin he would be due to receive. It would not be practicable because it would be impossible to have gold coins, all