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 those who 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

A REJOINER

Professor Schneider’s diffuse reply makes it easier to identify the nature and scope of our disagreement as to the influence on in- come formation of saving in the form of bank deposits. But first I must seek to clear up certain points of misunderstanding to which Professor Schneider’s approach to my arguments may have given rise. For one thing I declare any intention of seeking to revive, lock, stock and barrel, the classical theories, according to which there always is 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 a 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 «leanable 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 conclusions currently advanced in theory, 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 a stimulus. He never tires of insisting on the point: «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 restrictive one» (page 220).

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 any arguments asdogmatize on the «orthodox»凯恩斯ian theory which he still regards as the bo-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 Robertson’s 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 Geitrich (on page 216-237).

The trouble is that both illustration and quotation merely serve to confirm my case, since the process schematized in the one and outlined in the other is observable only in periods of recession and stagnation. The 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 215). 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 pe- riod. 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 circu- lation. On the contrary, we know that the preference by the public for deposits to bank-notes and hence, provided there is no change in the note issue, an increase in the banks'
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, falls down to an increase in the banks' liquidity and to a stimulus to the creation of deposits «dizeder- ed» by the public. The phenomenon does not in fact give rise (in periods of normal development) to "lower entries on the entrepeneurs' accounts" and the "freezing of existing credits" on which Geirrith dwells at such length.

4. It goes without saying that our disagree- ment does not extend to all the theorems championed by Schneider. Especially since, for some of them, I have tried to provide a fuller demonstration, emphasizing 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 simultane- ous formation of cash savings is not a pre- requisite of the extension of credit by the commercial banks» (page 218). But, for me «the necessary prerequisite» is a greater pro- portion of the public on the part of 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).

(2) It is therefore not the case, as Schneider asserts, that the "reason" of my argument is the assumption (inert alla that

In these circumstances, I should like to assure Professor Schneider that I have no intention of "disregarding" a "modern" the- ories 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 deter- mine the qualifications, conditions and cir- cumstances subject to which both the «old» and the «new» ones will work.

And not by persisting in the belief that only one group or the other is absolutely «true» or «false». And in this indispensa- ble clarification Professor Schneider will undoubt- edly make the same constructive contribution as he has done to other fields of economic theory.

Amadio Gambino

increased savings in the form of deposit- holding... are actually a prerequisite of an expansion of bank credit» (page 235).

(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 ana- gogue 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 Trigges (in «The Theory of prices», 1938, Vol. I, pages 397 onwards) and the explicit rejection of the distinction by W. R. G. Clark of the Midland Bank (in «The Genesis of Bank Deposits», Economists 1937, reproduced in «Readings in Monetary Policies», 1942), 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 («demand deposits») and those channelled through saving banks («savings deposit»).

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 assumption, lumping together «saving deposits» and «demand deposits» as recalled in «General Theory», page 169, note 2.

4. The Future of Italian Natural Gas and Oil

The growth of the natural gas industry in Italy and some of the more controversial issues confronting it were lucidly analysed in a well- balanced article by AVR in this Review (7). Since then a great deal of water has flown under Italian bridges and a growing volume of methane gas through the nation's pipelines. More accurately, through ENI's network, which has now reached the imposing figure of 3,660 kilometers (equivalent to 2,296 miles). ENI, the Ente Nazionale Idrocarburi (i.e. the State Hydrocarbon Corporation) has raised the output of methane gas to the creditable figure of 2,900 million cubic meters in 1954 and plans a target of 3,500 for 1955 and 100 million of 4,500 for 1956. The production of all other concerns combined fluctuates around 290 mil- lion cubic meters.

Another important development during the past two years has been the discovery of oil in Sicily (3). The Italian subsidiary of the American Gulf Company has struck oil at three points near Ragusa in the Southeast corner of the island. One well (December 1954) in production and the output of all three wells is tentatively estimated at 150,000 tons a year. Indeed, the optimists declare that the Ragusa field as a whole may eventually yield as much as a million tons annually. This may seem small beer, but the importance of the Sicilian strike will be appreciated when it is remem- bered that Italy's present production of oil (in the Po Valley) is under 100,000 tons a year. Nor does the strategic value to the West of a reserve of fuel in the centre of the Mediter- ranean need any underlining. Another Sicil- ian deposit was located by the Darcy Explo- ration Company, an offshoot of Anglo-Iranian, at Vittoria, slightly further west, but the quality of the sample is disappointing and it is not certain whether the find will in fact be exploited.

The Sicilian discoveries appear to have strengthened American interests in their firm conviction that there is a rich oil-bearing strata- tum in the Po Valley, at present the exclusive reserve of ENI, and they have been pressing strongly for some time, in the name of free enterprise, to be allowed to join the search for the precious liquid in that area. It is not known on what technical reasons the existence of oil on any extensive scale is assumed, but this absence of any proof other than mere supposition makes it all the more important to examine the main heads of the criticisms levelled against ENI's policy and status in the course of the current controversy and the alternatives between which Italy is being call- ed upon to choose in shaping its industrial future.

By way of background it must be explain- ed, at the risk of covering familiar ground, that the legislation governing oil and methane gas prospecting and exploitation varies accord- ing to the region concerned. In this respect Italy, like Caesar's Gaul, is divided into three parts. In the Po Valley, ENI has an absolute monopoly. In Sicily, there is, on paper at least, a free for all (4), whereas in the rest

(3) The Sicilian Law on Hydrocarbons. The search for and exploitation of liquid hydrocarbons and natural gas in the Auto- nomous Region of Sicily is governed by Law No. 13, 26 March 1935, which stipulates that: (a) prospecting licenses shall not cover an unoccupied area of more than 10,000 hectares or a period of over three years (Article 5); (b) the licensees who has fulfilled his obligations is entitled to work any deposits of hydrocarbons discovered in the area defined in his license (Article 6). The concession shall be for not less than 20 and not more than 30 years; (c) the concessionary shall pay the Region an annual royalty in cash and in kind (Article 7). Where the royalty is payable in kind, the proportion of the