

## What is productive credit creation?

According to Gabler's economic lexicon, credit creation is "the creation of money through the issuance of credit," since most of the world's money originates through the issuance of some form of credit. Banks and central banks can create credit and/or money. If a bank purchases an asset (a bill of exchange, bond, stock, etc.) from a non-bank, the bank pays for it with a claim on itself, by issuing a note to the buyer. If the possessor of this note then withdraws it from the bank, the amount of money in circulation is increased by the amount on that note. Strict limits are placed on such credit or money creation by banks, either through limiting the banks' liquidity directly, or through restricting the amount of credit they can obtain from the central bank. The central bank is therefore the ultimate source of all credit and money.

Productive credit creation differs from other sorts of credit, in that certain restrictions are also placed on its use—namely, its purpose must be to activate labor power and productive plant, which would otherwise go unutilized. For example: Whereas in mortgage credit, the real value of the mortgage, and the issuing institution's collateral, is the value of the actual house or land, in productive credit creation, the real value lies in the goods which are produced as a result of the issuance of the credit, thereby creating an added value which, in the optimal case, will be greater than the combined interest and amortization on the original credit.

Central bank credit creation, for example, occurs

through the issuance of relatively low-interest credit to banks, the purchasing of securities, or the discounting of bills of exchange. With productive credit creation, the central bank must take pains to ensure that the additional monetary aggregates put into circulation, correspond, at the very minimum, to a correspondingly growing aggregate of produced, economically useful goods. If, according to this method, a portion of the money remains unaccounted for, this means inflation, or the debasement of the national currency. Banking institutions are therefore well advised to avoid all forms of unproductive (and usually secretive) credit creation, which is what occurs, for example, when a central bank uses cheap credit to prop up bankrupt banks (as recently occurred in Japan), or to plug holes in the national budget by cranking up the banknote printing presses (as in Russia today, or in Germany in 1922-23).

Productive credit creation, on the other hand—for example, if Germany's central bank issued credit to finance the creation of new jobs on urgently needed infrastructure projects—is not only unobjectionable from the monetary policy standpoint, since it acts to stimulate the economy, but it would actually have a *deflationary* effect, since, by employing a great number of previously unemployed people, far more physical value (e.g., railways, housing, the necessary parts and materials) would be created, than the aggregate of goods which had been implicitly put up as collateral for the original central bank credit. (And this does not even take into account the savings in government unemployment and welfare expenditures as a result of these people becoming employed again, or the additional public revenues coming in from these workers, who can now pay taxes and contribute to the social security fund.)—*Gabriele Liebig*

had brought this belief in the beneficent entrepreneur, who voluntarily pays higher wages, back from his tour of America in 1925. And it is indeed true that Tarnow was promoting the principles upheld by Henry Ford, who paid his workers decent wages, so that they could afford to purchase his automobiles.

Although Woytinsky was not personally present at the abovementioned conference of the List Society, soon thereafter he signed on to the proposal for a job-creation program oriented toward the German economy alone, and for financing via the Reichsbank. He did so in close consultation with Tarnow and Baade. Whereas in a Dec. 9, 1931 memorandum, Woytinsky was still talking exclusively about international job creation through gold bonds issued by the Bank for International Settlements (BIS), only two weeks later, on Dec. 23, Baade, Tarnow, and Woytinsky presented their "Theses on Combatting the Economic Crisis" to the ADGB's executive board. In this document, the idea of international job-creation

through "the undertaking of public works on a grand scale," is complemented by a section on "combatting the crisis within the framework of Germany's own economy":

"We fear that irrationality in the world economy and in world policymaking, has already assumed such proportions, that effective anti-crisis measures on the international level will not come about as speedily as is necessary for Germany to survive. For this reason, the German Social Democracy must develop, alongside its demand for an international understanding for purposes of international job creation, a very concrete program for combatting the crisis within the framework of the German economy alone. This national salvation program must not be confined to general demands, but it must very concretely lay out the measures that the public sector of the economy must take, and also how these measures are to be financed.

"The central feature of these planned economic anti-crisis