L.5.2 RFD 331

Board of Governors of the Federal Reserve System

Division of International Finance

REVIEW OF FOREIGN DEVELOPMENTS

September 15, 1959

The Applicability of "Orthodox Monetary Remedies" to Developed and Underdeveloped Countries 14 pages

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NOT FOR PUBLICATION

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<u>The Applicability of "Orthodox Monetary Remedies" to Developed and Underdeveloped Countries</u>*

Arthur W. Marget

At the last (1958) annual meeting of the International Monetary Fund, a representative of one of the less-developed countries delivered a vigorous attack on the Fund's policies with respect to such countries. In dealing with the underdeveloped countries, he contended, the Fund was quite wrong in insisting "on the prescription of orthodox monetary remedies found highly effective in developed countries." "Most advice to the underdeveloped countries and the pressure exerted upon them," he declared, "are commonly rationalized in terms of an economic theory obtaining in a fully-industrialized economy, unrealistic so far as underdeveloped countries are concerned." 1/

At another session of the same annual meeting, a colleague of the speaker was, if anything, even more emphatic:

> "It is difficult to believe, despite a desire to be charitable in one's judgment, that after all these years of contact with the underdeveloped member countries there are among the officials of the Fund those who would not see or realize that a world of difference exists between the conditions existing in the industrial countries and those in the underdeveloped countries." 2/

I should like to emphasize, at the outset, that my concern, on this occasion, with propositions of this kind is solely within the context of the particular prescription of policy which they were adduced to controvert: namely, "the prescription of orthodox <u>monetary</u> remedies found highly effective in developed countries" for <u>underdeveloped</u> countries, as against the contention that these particular "remedies" are inapplicable to underdeveloped countries because "a world of difference exists between the conditions existing in the industrial countries and those in the underdeveloped countries." Whether there are some other fields of economic policy with respect to which it would be possible to establish the validity of such propositions as those that I have quoted; whether, indeed, a case can be made generally for the need for a specialized set of analytical weapons to deal with "the problems of underdeveloped

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1/ International Monetary Fund: <u>Summary Proceedings of the Thirteenth Annual Meeting of the Board of Governors</u>, October 1958, pp. 101,f.
2/ <u>Ibid</u>., p. 138.

* Paper prepared for the Round Table on Inflation, International Economic Association, at Elsinore, Denmark, September 2-10, 1959. The views expressed in this paper are entirely my own, and may in no sense be taken as reflecting the views of the Board of Governors of the Federal Reserve System. I wish, however, to express my thanks to my colleagues, Messrs. Yves Maroni and Allan F. Rau, for their assistance in assembling and checking some of the data cited.

countries": these are matters for others to discuss on other occasions. My concern here is with the field of internal financial policy in relation to inflation in both developed and underdeveloped countries, and with that field alone. And my contention is the very opposite of the propositions which I have quoted. What I contend is that whatever differences may exist between developed and underdeveloped countries in this field are as nothing as compared with the similarities.

In undertaking to establish this contention, I do not propose to take time to restate at any length the theoretical basis of the argument. I am aware that some uncertainty may exist as to just what the critics of "orthodox monetary remedies" may mean by "orthodox." One recalls the late Professor Schumpeter's report of the reply of the student, a violent critic of what he called "orthodox" doctrine, to Professor Schumpeter's challenge to name some representative of the "orthodox doctrine" he was attacking: "Oh, by 'orthodox' I mean anything I don't like." It is quite clear that the critics of the application of what they call "orthodox monetary remedies" to underdeveloped countries do not "like" those remedies; but while their marksmanship may leave much to be desired otherwise, I think we can see fairly clearly what they are shooting at under the heading of "orthodox monetary remedies." They are usually concerned with the situation of an underdeveloped country that finds its external accounts in disequilibrium. The "orthodox monetary remedies" which they reject as inapplicable to underdeveloped countries are those which proceed from the conviction that, whenever it can be shown that a major factor in the external disequilibrium is internal inflationary pressure, this inflationary pressure must be curbed; and that this curbing of inflationary pressure, in combination with whatever adjustment of the exchange rate may be called for in the circumstances of each particular case, will be sufficient to correct the external disequilibrium.

These are the simple propositions whose theoretical basis I have said I do not propose to restate at this time. I take this position first of all because I regard the propositions involved as too familiar in substance to require even the barest rehearsal before an audience of this kind, and too cogent in their simple logic to require detailed reasoning in support of them for any except those so irretrievably committed to "modernist stuff, gone wrong and turned sour and silly" that they will reject a priori any "system which allows the classical medicine to do its work." 3/ Over the past few years, moreover, I have had more than one

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3/ No one should need to be reminded that the quotation is from Keynes: Economic Journal, LVI (1946), 186. But, to judge from the unconscionable amount of rubbish that has been written by "modernist" economists since 1946 about such matters as "dollar shortage" and convertibility, it is certainly in order to be reminded that Keynes's topic -- "The Balance of Payments of the United States" -- dealt precisely with this range of problems.

occasion to state these propositions, in the simplest possible terms, before other audiences. If I may be permitted to refer in a footnote to such of these occasions as resulted in publication of my remarks on this head, there should at least be no doubt as to my own understanding of what is meant, in this context, by "orthodox monetary remedies," and the simple analysis underlying them. 4/ And I insist, in flat contradiction of the doctrines such as those which I quoted at the outset, that this analysis, and these "remedies," are applicable to underdeveloped and developed countries alike.

I should add, however, that even on these earlier occasions on which I did undertake a very brief and simple re-statement of the theoretical basis of the argument in question, I felt justified in keeping the theoretical argument to a minimum, for a reason which applies just as strongly to my topic of today -- the applicability of the so-called "orthodox monetary remedies" to underdeveloped and developed countries, respectively. The reason was simply this: that the arguments of the opponents of these "remedies" were designed to demonstrate either (1) that the remedies would not be effective in accomplishing the results which their sponsors asserted they would accomplish; or (2) that such results would not be attained without at the same time bringing about other consequences which the opponents of the "remedies" in question regarded as worse than the conditions which these remedies might be said to have "cured." In other words, they argued that certain things which possibly might be desirable in themselves simply could not possibly happen, whereas other things which were undesirable in themselves would certainly happen. But surely these are not propositions which should be debated in complete disregard of what recent and current experience is showing to be possible or "inevitable." If, for example, experience has shown that the "impossibilities" of the "dollar shortage" theorists have become, not only possibilities, but realities, and that both the lack of hope and the exaggerated fears of the opponents of currency convertibility were without foundation, what sense is there in wasting time on theoretical arguments

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4/ Cf. my lecture, "Der Weg zur Konvertibilität," delivered under the auspices of the Nationalökonomische Gesellschaft in Vienna, May 26, 1955, and published in the Zeitschrift für Nationalökonomie, XVI (1955), especially pp. 205 f.; my lectures on America Latina y la Convertibilidad, delivered in Mexico City, August 1956, under the auspices of the Centro de Estudios Monetarios Latinoamericanos, and published, in 1958, in the Centro's volume entitled Los Pagos Internacionales y la Politica Monetaria, especially pp. 44-45; and my testimony on September 18, 1956, before the U. S. House of Representatives Subcommittee on Customs, Tariffs, and Reciprocal Trade Agreements of the Committee on Ways and Means (especially pp. 109-110 of Part 1 of the Hearings before the Subcommittee, Eighty-Fourth Congress, Second Session). Bi-lingual, and, even more, tri-lingual readers will observe not only that I have quite shamelessly repeated in these three publications the whole paragraphs to be found on the specific pages cited, and other paragraphs as well, but also that in the present paper I have in other instances, with equal shamelessness, drawn without inhibition, and often with equal liberality, upon the Vienna and Mexico City lectures -- particularly the latter.

that were designed to show that these things, which have happened, could not possibly happen?

My appeal, then, is to the facts of experience: specifically, the experience of the period extending from the end of World War II to the present. Can there be any doubt that this experience covers a range of cases, within both categories of countries -- "developed" and "underdeveloped" -- sufficient to put to the test any easy generalizations with respect to basic differences alleged to exist as between the two groups of countries from the standpoint of the applicability to them of "orthodox monetary remedies"?

You will observe that I have emphasized the diversity of experience within the two groups, as a necessary preliminary to an examination of the differences alleged to exist as between the two groups. The reason for this should be quite clear: to anyone, at any rate, who is not blinded in advance by a conviction that the monetary troubles, say, of the underdeveloped countries must be due to the fact that the countries are underdeveloped, and therefore not amenable to "the prescription of orthodox monetary remedies found highly effective in developed countries." For, to anyone not so blinded, it must be striking that (1) countries of similar degrees of development should have had such varied monetary experiences in the postwar period, according to the varying degrees of rigor of the fiscal and monetary policies followed in the respective countries; and that (2) the very same country, developed or underdeveloped, should have had such varied experiences at differing times within the postwar period itself, depending upon the kind of fiscal and monetary policy that it chose to follow at each particular time. It must then become fairly obvious that France, for example (a "developed" country, surely), as France was in 1956 and 1957, really had much more in common, in the fields of monetary and fiscal policy and the consequences of those policies, with an underdeveloped country like Brazil, than it had with developed countries such as Germany or the Netherlands; whereas an underdeveloped country such as Mexico, with its fully convertible currency, has had more in common with "developed" countries whose currencies are de facto convertible, or nearly so, than it had with Argentina, say, as Argentina was before the introduction of the drastic stabilization program in January of this year (1959).

Since I have mentioned the matter of convertible currencies, and have mentioned it specifically in connection with Latin America, I wish to emphasize how relevant the experience of an area such as Latin America is for this whole question of the applicability of "orthodox monetary remedies" to underdeveloped countries. Here we have twenty countries, all of them usually classified as "underdeveloped" -- and with reason so classified, despite the variations among them in terms of their respective degrees of "underdevelopment." Yet what a variety of experience these twenty countries have shown, with respect to their readiness to submit themselves to the discipline of "orthodox monetary remedies," and how different the degree of readiness shown by some of these countries at different stages in the period I have chosen for reference! At the one extreme, we have countries such as Argentina, as it was prior to the inauguration of the stabilization program last January (1959), or Brazil as it is now (May 1959). At the other extreme, we have no less than eleven countries with fully-convertible currencies, and another four countries close to convertibility in the sense that, although they may still make some (though relatively minor) use of multiple exchange rates to influence trade and payments, they maintain few or no quantitative restrictions in their trade and payments.

Now, one thing is certain: if a country's currency is convertible, this is not because the country will have been selected by Providence for a special blessing which it will have done nothing to earn, and which it can count on continuing to enjoy without effort on its own part. If a country's currency is convertible, this will be only because the country has chosen to follow the particular set of fiscal and monetary policies which make convertibility possible. And these policies are in fact identical in substance with the policies to which the critics I quoted at the outset have referred when they speak of "orthodox monetary remedies": the only difference is that what may appear as an unpleasant "remedy" to a confirmed rake appears as a simple matter of regimen to one who cares enough about his health to be willing to do what is necessary to preserve it.

We have, then, in the experience of the Latin American countries, a whole series of examples of the consequences of applying to underdeveloped countries that very type of "orthodox" regimen in the field of fiscal and monetary policy which, we have been told, may have been found "highly effective in developed countries," but is completely "unrealistic so far as underdeveloped countries are concerned." Quite obviously, the very fact of the attainment and the maintenance of convertibility (or quasi-convertibility) by the fifteen Latin American countries to which I have referred provides an immediate and irrefutable answer to the suggestion that it is "unrealistic" to suppose that underdeveloped countries, by following a type of regimen found "highly effective in developed countries," would be able to attain the particular kind of result which this regimen was expected to attain for the "developed countries": namely, convertibility. And it may be pointed out that the particular "underdeveloped" countries of Latin America to which I have referred were at one, in this respect, with "developed" countries such as the United States and Canada before the whole group of countries with convertible and quasi-convertible currencies was enlarged by the adhesion of those "developed" countries of Western Europe who undertook to establish formal external convertibility at the turn of last year (1958).

What, on the other hand, in the light of these attained results, are we to make of the following proposition, advanced by the same speaker at the 1958 annual meeting of the Fund whom I quoted at the outset?

"We must bear in mind that it is the highly developed countries, or those that have completed their basic economic equipment, that can well afford to maintain their external accounts in balance and do away with exchange restrictions, tariffs, and other discriminatory trade practices. On the other hand, it is the underdeveloped countries, grappling with serious internal problems, that can least afford to do these things." 5/

It is, I think, something of a commentary on the allegation that "a world of difference exists between the conditions existing in the industrial countries and those in the underdeveloped countries" that this question of whether a country "can afford" the luxury of convertibility has been raised just as categorically in recent years with respect to developed countries, such as those of Western Europe. It was, for example, only some five years ago that a well-known British economist, in an article entitled "The Convertibility Risk," not only questioned whether the "sacrifice" involved in making sterling convertible was one which Britain could "reasonably take," but protested, apparently in all seriousness, that no one had told him what convertibility was supposed to be "in aid of": "That," he insisted, "is the great mystery." 6/ The editors of The Financial Times, in which his article had appeared, undertook to resolve the "mystery" (in an editorial appropriately entitled "In Aid of What?"), and undertook incidentally to comment on what Britain could "afford" to do:

"In the long run convertibility is a necessary instrument for securing the international division of labor; without it we inevitably cut ourselves off from the full use of the immense technical resources of North America. If by importing something from the U. S. rather than making it ourselves, we achieve lower costs, then our position [i.e., the position of Great Britain] is strengthened by importing it. Perhaps no great damage was done by ignoring this simple truth during a period when U. S. aid was available in large amounts, and when, moreover, our main competitors were as inconvertible as ourselves. But can this country [i.e., Britain] really afford to hold back if Germany, for example, goes convertible, with the deliberate aim of strengthening her competitive position in world markets by giving her exporters the full benefits of the international division of labor?"

The "great mystery," in short, which the eminent economist had found impenetrable -- the "mystery" of what currency convertibility is supposed "to be in aid of" -- was nothing but the "mystery" of the results of an effective working of the price system over as wide an area as possible in order to obtain the most productive use of human labor, and

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5/ IMF Summary Proceedings, p. 102.
6/ Professor R. F. Kahn, in The Financial Times, September 10, 1954.

therefore the highest possible standard of living for the broad masses who supply that labor. In what sense, then, can it be said that an underdeveloped country cannot "afford" to follow fiscal and monetary policies designed to keep that country from falling into the kind of situation in which it could not make the most productive use of its resources? On the contrary: why should it be supposed that a poor country -- in the sense of a country with a low per capita income -- can better "afford" an uneconomic use of its resources than a rich country? If the purpose of economic development is precisely to *raise* the real incomes of the mass of the population, what sense does it make to *depress* those real incomes by forcing the income-recipients to pay higher prices for the goods they consume than are necessary?

Surely the difficulty in understanding must lie elsewhere; but it is not always easy, in listening to impassioned attacks on the applicability of "orthodox monetary remedies" to underdeveloped countries, to be sure just where the difficulty does lie. I have suggested that the very experience of a group of countries, such as the Latin American group of countries I have specified, in attaining convertibility or near-convertibility as a result of the application of "orthodox monetary remedies," shows that the thesis of nonapplicability of the "remedies" cannot be taken to mean that the goal of currency convertibility is a goal impossible of achievement for underdeveloped countries. If it means anything, it must mean that these countries which found it possible to attain and maintain *convertibility* for their currencies have not found it possible to do this *and at the same time* follow certain other policies which some of the opponents of the use of "orthodox monetary remedies" would like to have them follow.

There is, of course, a sense in which this conflict of aims is a real one. Quite obviously, it is not possible to be at one and the same time an anchorite and a rake. Similarly, one cannot expect to be able to reap the economic benefits of currency convertibility, and at the same time pursue policies of monetary and fiscal profligacy, in a world in which other important countries are unwilling to indulge in such profligacy. But the real trouble comes from the fact that the opponents of "orthodox monetary remedies" are themselves not prepared to recognize their own policies as policies of profligacy. For them, these policies are simply an alternative "over-all framework of policies" which are "appropriate" to countries that are "seeking development," whereas the "classical remedies," formulated "in terms of an economic theory founded upon assumptions of conditions obtaining in a fully-industrialized economy," are completely "unrealistic so far as underdeveloped countries are concerned." 7/

From this statement of the issues, one might suppose that the alleged conflict between the "orthodox" or "classical" "remedies," on the one hand, and "development," on the other, was a conflict which had been

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7/ IMF *Summary Proceedings*, p. 102.

found only in the case of underdeveloped countries: that it was a conflict which would simply not be encountered in a "fully industrialized economy," upon which the "economic theory" underlying the "classical remedies" is supposed to be "founded." But this is just another example of the vice of starting from the abstract proposition that "a world of difference exists between the conditions existing in the industrial countries and those in the underdeveloped countries" without bothering to examine the facts of experience with respect either to doctrinal discussion or to implemented policy in the "developed" countries, in particular.

First, a brief word as to doctrinal discussion. By some semantic accident, it happens that the word used most commonly in discussions of the "developed" countries with respect to increases in the standard economic aggregates is not "development," but "growth." But once this linguistic accident is recognized, how can it be suggested that discussion of the alleged conflict between the "classical remedies," on the one hand, and "economic development," on the other, is something which is peculiar to the underdeveloped countries? I reach out on my desk at random: I look at the Tenth (March 1959) Annual Economic Review of the OEEC (an organization in which the "developed" countries, to put it moderately, are in something of a majority) and I find it entitled: "Policies for Sound Economic Growth." I see a massive volume, published under the auspices of the United Nations Economic Commission for Europe in 1954, entitled "Growth and Stagnation in the European Economy." I am reminded by this morning's newspaper that the committee set up under the chairmanship of the Vice President of the United States is called the "Cabinet Committee on Price Stability for Economic Growth." And, just to be sure that I have not been suffering from hallucinations as a result of an overdose of reading material based upon the assumption that the alleged conflict between the "orthodox monetary remedies" and "economic development" is a problem peculiar to the underdeveloped countries, I ask my secretary to bring me the file of public statements made by the Chairman of the Board of Governors of the Federal Reserve System, beginning with the most recent. What the file shows is that every single one of these statements acknowledged the support of economic growth as one of the principal responsibilities of those charged with the formulation of monetary policy. 8/

8/ The most recent statement by Chairman Martin at the time this paper was completed (May 1959) was his statement of February 6, 1959, before the Joint Economic Committee, 86th Congress, 1st Session (reprinted in the Federal Reserve Bulletin, February 1959, pp. 110 ff., especially p. 117 ff.). See also the preceding statements by Chairman Martin: before the Executives' Club of Chicago, December 12, 1958 (published in The Commercial and Financial Chronicle, December 18, 1958, p. 1, and especially p. 100); before the Committee on Finance, U. S. Senate, April 22, 1958 (published in the Federal Reserve Bulletin for May 1958, pp. 540 ff., especially p. 541); before the Select Committee on Small Business, November 21, 1957 (Hearings of the Select Committee, 85th Congress, 1st Session, p. 320); and before the 38th Annual Meeting of the Texas Mid-Continent Oil and Gas Association, October 2, 1957 (published in the Proceedings of the Association, Dallas, Texas).

The very fact, then, that the relation between economic "growth" and "financial stability" is being discussed at least as much in "developed" countries as the relation between economic "development" and the applicability of "orthodox monetary remedies" has been discussed in underdeveloped countries is itself a further commentary on the suggestion that in these matters "a world of difference exists between the conditions existing in the industrial countries and those in the underdeveloped countries." But the fact that a topic is much discussed does not provide any assurance that it will be discussed with wisdom. Indeed, my own view is that another thing that developed and underdeveloped countries have in common in this field is a set of spokesmen who vie with one another in the degree of irresponsibility they have shown in advocating an "over-all framework of policies" for the financing of "growth" or "development" in opposition to the policies identified as "the orthodox monetary remedies."

My principal contention here, moreover, is that this irresponsibility has been greatly fostered by the treatment generally accorded to the broad facts of experience. If we may take the "developed" countries, to begin with, I submit as an example the discussion, in the United Nations World Economic Survey, 1956 of what was presented as a "dilemma" for the "industrial countries": "the dilemma of reconciling their desire for rapid economic growth with the need to maintain internal and external balance." 9/ No one could accuse the authors of the Survey of having been excessively solicitous to emphasize the analytical considerations which might be expected to throw doubt upon the reality of this "dilemma"; but it is surely not unreasonable to ask that whatever is presented in the way of summary analysis in a given document should bear some indication of at least a cursory examination of the factual record of experience presented in the very same document. Thus, in a portion of the Introductory section of the Survey entitled "Economic Growth and Inflationary Pressure," the authors went on record as follows:

> "Though the decision to reactivate monetary policy after years of disuse commands wide support, it may not be inappropriate to ask whether the pendulum may not by now have swung too far in the opposite direction." 10/

The discussion in support of this proposition was more than a little confused by a type of exposition which seemed to identify a defense of the rescue of monetary policy from "disuse" with a defense of alleged "beliefs" (believers unnamed) with respect to what "monetary policy can by itself provide." 11/ But, again, my principal complaint is that, apart from a general admission that the economic growth of "industrial countries" "has continued in the face of the most restrictive monetary policy this generation has

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9/ World Economic Survey, 1956 (United Nations, Department of Economic and Social Affairs, New York, 1957).

10/ Ibid., p. 7.

11/ Ibidem. Italics mine.

known," the summary analysis did not reflect with any degree of adequacy what the Survey itself presented as a factual record of the experience of the particular "industrial countries" which were under discussion. 12/ There was, for example, in the chapter entitled "The Balance of Payments Experience of Industrial Countries," a table showing the Rate of Increase in Economic Activity in Industrial Countries from 1950 to 1955. In the light of the caveats in the Survey's Introduction concerning the dangers and the shortcomings of monetary policy, in particular, from the standpoint of fostering Economic Growth, might it not have been pointed out, even if only in passing, that of the five countries which the table shows us as having had the most rapid growth in real output in 1950-55, four (Germany, Italy, the Netherlands, and Canada) had made consistent use of anti-inflationary monetary policies? 13/ (The fifth country was France: thereby hangs a special lesson, to which I shall revert presently.)

It is this kind of result that I commend to the attention of those who have taken seriously warnings of disaster, from the adoption of "orthodox monetary remedies," of the kind which were suggested darkly by the eminent British economist I cited earlier as having asked what convertibility was supposed to be "in aid of":

> "Perhaps the Randall Commission staff put their finger on the spot when they wrote that 'convertibility would tend to impose a discipline on countries by inducing them to follow appropriate internal financial policies necessary for the continued maintenance of convertibility.' If this is what really accounts for the popularity of the cause of convertibility, at least let the argument come out into the open, and, rearing its ugly head, challenge fair combat." 14/

I take it that there can be little doubt as to what we were to understand by the "ugly head": the specter of that mass unemployment and brutal disruption of the productive process -- even, perhaps, on the scale of the 1930's -- which, we are asked to believe, will necessarily follow from the following of "appropriate internal financial policies necessary for the continued maintenance of convertibility." As for disruption of the productive process, I point again to the results recorded in the table in the "Rate of Increase in Economic Activity in Industrial Countries" to which I referred a moment ago. As for the effects on employment: the same table shows that the greatest gains registered in the period examined were again shown by three countries (Germany, Canada, and the Netherlands) which have been notable for having followed precisely the "appropriate internal

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12/ The quotation is from page 3 of the study cited.

13/ The table, which appeared as Table 13 on page 41 of the Survey, is reproduced in the Annex to this paper. The second table in the Annex shows the figures brought up through 1958. It will be observed that the five countries showing the greatest increase in the "index of real output" are the same in this second table (1950-1958) as in the original table (1950-1955).

14/ Kahn, "The Convertibility Risk," loc. cit.

financial policies" which are represented by their enemies as altogether incompatible with the achievement of maximum sustained growth in employment. 15/

I make the same charge of ignorance or misrepresentation of the facts of experience against those who have applied to the underdeveloped countries with even greater readiness the suggestion that a basic "dilemma" is involved for these countries in "reconciling their desire for rapid economic growth with the need to maintain internal and external balance." Again I cite as evidence the experience of the twenty countries of Latin America; and again I take, as a measure of the degree of success in maintaining such "balance," the attainment and maintenance of convertibility.

I find it interesting, for example, that when, a few years ago, the Economic Commission for Latin America published data on gross product in ten Latin American countries for the period 1945 to 1953, the two Latin American countries which showed the greatest increases were two countries (El Salvador and Guatemala) whose currencies were -- and are -- fully convertible. 16/ And, in fact, the picture with respect to economic growth in the Latin American countries with convertible or quasi-convertible currencies is not changed appreciably if one looks at the statistics -- with all their admitted inadequacies -- for periods somewhat different from that covered by the particular E.C.L.A. data to which I have referred. 17/ Nor is it changed appreciably whether one takes relatively small countries (such as El Salvador and Guatemala, which I have cited) or a relatively large country; or whether one takes a country with mineral resources subjected to intensive exploitation, or countries whose mineral resources -- if they exist -- have not been so exploited. Over the period 1950 to 1956-57, for example, the small countries of Guatemala and El Salvador showed a growth in real gross national product of 5 per cent and 5.3 per cent per annum, respectively, and over the period 1953 to 1956-57, a growth of 7.4 per cent and 7.8 per cent per annum, respectively; the comparable

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15/ It may be observed also that in the second table (1950 to 1958), the country occupying fourth place, in terms of percentage gain in the index of employment, is now Italy, instead of the United States and the United Kingdom, as in the original table (1950 to 1955). Both tables, indeed, provide a wry commentary on the criticism so often directed against the Italian monetary authorities, in particular, for an alleged over-concern with monetary stability at the expense of economic growth.

16/ See the Economic Survey of Latin America for 1953 (United Nations, Department of Economic Affairs, New York, 1954), p. 24

17/ Of the figures published since that date by the E.C.L.A., the latest available to me at the time of writing (May 1959) are those published in the October 1958 issue of the Economic Bulletin for Latin America, pp. 46-47, covering, for seven countries, the period 1948 to 1957. It is worth noting that the two countries showing the greatest growth during this period, also, were again two countries -- Venezuela and Mexico -- with fully convertible currencies.

figures for the relatively large country of Mexico are 4.9 per cent and 7 per cent, respectively. 18/ Similarly: the growth in real gross national product for oil-rich Venezuela from 1950 to 1955 was 7.3 per cent per annum; the figure, from 1950 to 1954, for Ecuador, a country without known -- or at any rate exploited -- resources in oil and comparable mineral wealth, was 7.8 per cent.

Let me make it as clear as I can that for these brief references to the statistics I claim nothing more than this: that they are illustrative of the statistical material, fragmentary and unsatisfactory though it is, which must somehow be explained away by those who regard as demonstrated beyond all cavil the suggestion that there is a basic conflict (or "dilemma") between a "desire for rapid economic growth," on the one hand, and "the need to maintain internal and external balance," on the other. And I say the same thing with respect to such statistics as we have for the growth experience of those Latin American countries whose grossly inconvertible currencies have been evidence enough of their disregard of "orthodox monetary remedies." In Chile, for example, the average annual increase in real gross national product, which was at the relatively low rate of 2.1 per cent per annum for the whole period 1950-1956, fell to an actually negative figure for the years 1953-1956.

But what should we say of a country such as Brazil? At certain periods (e.g., 1950-54), Brazil showed an average annual rate of growth in real gross national product (namely, 5.7 per cent) which, while it is in no sense more striking than that shown by the countries with convertible currencies which I have cited, is none-the-less impressive. The answer, surely, is clear. We should say of Brazil, an "underdeveloped" country, precisely what one must say of France, a "developed" country, as France was prior to the taking of the measures which culminated in the dramatic stabilization effort at the turn of last year (1958): The "economic growth" that we desire is a sustainable growth: not the kind of "growth" that can proceed only so long as there are foreign exchange reserves to exhaust or foreign resources to borrow or beg in an atmosphere of continuing crisis.

This is, indeed, one of the basic lessons of experience, and one of the clearest confirmations of the validity of the simple analysis underlying the so-called "orthodox monetary remedies" for internal and external imbalance. Let those who still insist that these "orthodox monetary remedies, found highly effective in developed countries," are "unrealistic so far as underdeveloped countries are concerned," look once again at what experience shows, in both developed and underdeveloped countries. And let them disregard that experience at their peril.

Attachment: Annex (Tables I and II)

18/ For El Salvador, the source is El Desarrollo Economico de El Salvador (Economic Commission for Latin America, April 1959), p. 8. For Mexico, the source is the Annual Report of the Banco de Mexico for 1957, p. 64. For all other countries cited, the source is the United Nations Yearbook of National Account Statistics for 1957. The reason for setting the terminal dates as 1955-57 instead of 1957 is that these terminal dates vary, among the individual countries, according to the availability of the data.

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From World Economic Survey, 1956, p. 41:

Rate of Increase in Economic Activity in Industrial Countries from 1950 to 1955

Country a/	Index of real output b/ in 1955 (1950=100)	Index of employment in 1955 (1950=100)	Cumulative annual rate of increase in real output b/ per employed person, 1950 to 1955 (percentage)
Germany, western	155	123	4.6
Italy	138	c/104	c/4.4
Netherlands	d/127	e/107	e/2.4
Canada	125	108	3.0
France	124	e/102	e/2.9
United States	121	105	2.9
Norway	120	103	2.8
Belgium	116	f/100	f/3.4
Sweden	116	g/103	g/2.7
United Kingdom	115	105	1.7
Denmark	107	e/103	e/1.5

Source: United Nations, Economic Survey of Europe in 1956 (sales number: 1957.II.E.1), chapter VII, tables 1 and 4, and Bureau of Economic Affairs.

a/ In declining order of the percentage increase in real output from 1950 to 1955.

b/ For Belgium, France, Italy, United Kingdom, gross domestic product; for western Germany and Norway, net domestic product, for all other countries, gross national product.

c/ 1951 to 1955.

d/ Organisation for European Economic Co-operation, General Statistical Bulletin, No. 1, 1957 (Paris).

e/ 1950 to 1954.

f/ 1948 to 1954.

g/ 1949 to 1955.

II

The same table brought up through 1958:

Rate of Increase in Economic Activity in Industrial Countries from 1950 to 1958

Country a/	Index of real output b/ in 1958 (1950=100)	Index of employment in 1958 (1950=100)	Cumulative annual rate of increase in real output b/ per employed person, 1950 to 1958 (percentage)
Germany, western	184	132	4.2
Italy	151	c/109	c/3.6
Netherlands	140	111	2.9
France	138	104	3.6
Canada	133	114	2.0
Sweden	127	d/103	d/3.0
Norway	125	103	2.4
United States	123	107	1.8
Belgium	123	e/102	e/2.6
United Kingdom	119	105	1.5
Denmark	f/115	g/102	g/2.1

Sources: OEEC, 10th Annual Economic Review and 8th Report of the O.E.E.C.: Index of real output.

United Nations, Economic Survey of Europe in 1958 and World Economic Survey 1956: Index of employment for all countries except Canada and the United States.

Board of Governors of the Federal Reserve System, Federal Reserve Bulletin, December 1958 and March 1959: Index of employment in the United States.

OEEC, General Statistics, January 1959: Index of employment for Canada.

a/ In declining order of the percentage increase in real output from 1950 to 1958.

b/ Gross national product.

c/ 1951 to 1958.

d/ 1949 to 1958.

e/ 1948 to 1958.

f/ 1957.

g/ 1950 to 1956.