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Inflation: Some Lessons of Recent Foreign Experience 12 pages

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Inflation: Some Lessons of Recent Foreign Experience* Arthur W. Marget

Some months ago, in the Hearings before the Joint Committee on Employment, Growth, and Price Levels, the late Professor Slichter presented a table showing "the increase in the consumer price level and the increase in real product per capita in 15 countries." 1/ The conclusion that he drew from this table was that, although "creeping inflation is said to be bad for production," "examination of the experience of various countries in the free world shows no connection between the degree of inflation and the rate of increase of production."

Since I do not know what persons Professor Slichter had in mind as having said that "creeping inflation is bad for production," or the context in which they may have made such a statement, I am not prepared to challenge the fairness of Professor Slichter's presentation of their case. But I am certainly prepared to challenge the relevance of this particular way of posing the question as to the relation between "inflation" and "production"; and I am prepared to challenge it from the standpoint of the very issues in the debate which Professor Slichter himself, as much as anyone in our generation, instigated.

A central issue in that debate, surely, is the validity of the judgment which Professor Slichter expressed so forcefully in his testimony before the Joint Committee, as he had on so many other occasions: namely, that a sustained "slow rise in the price level" -- "creeping inflation" -- "is an _inescapable cost_ of the maximum rate of growth." 2/ Now, whatever else one may think of this way of posing the problem, one thing is clear: by its very terms, inflation is to be regarded as an evil. Professor Slichter apparently believed it to be an evil which is "inescapable" if we wish also to maintain the "maximum rate of growth"; no doubt he also wished to argue that the _extent_ of the evil consequences of inflation has been exaggerated. But I _cannot_ bring myself to believe that he ever wished to deny that inflation -- if only because of the inequity of its distributive effects -- is an evil which we should like to avoid if we could. 3/ Yet if this is so, the first question that should be asked is, not whether "creeping inflation is bad for production," but whether "creeping inflation" is _necessary_ in order to get that "maximum rate of growth" which is reflected in an increase of real product per capita over a period sufficiently long to permit a judgment as to its sustainability.

1/ _Hearings_ (86th Congress, First Session), Part 1, p. 11.
2/ _Hearings_, p. 8. Italics mine.
3/ See, in this connection, Professor Slichter's replies to the questions of Representative Kilburn, on page 21 of the _Hearings_.

* Paper prepared for joint meeting of the American Economic Association and the Econometric Society, December 28, 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.

What light could a comparison of "the increase in the consumer price level and the increase in real product per capita in 15 countries" be expected to throw on this issue? I suggest that any such comparison should start by asking two broad questions: (1) Have there been significant cases of countries with a relatively high rank in terms of percentage increase in real product per capita which also show relatively low percentages of price increase? The result, surely, should have some relevance to the question as to how "inescapable" inflation is if we are to obtain a satisfactory rate of growth. (2) In the case of countries in which a relatively high rank in terms of percentage increase in real product per capita has been associated with a relatively high percentage of price increase, how sustainable has the rate of growth in real product proved to be?

Since I do not wish to be charged with having selected a particular set of data calculated to produce a desired set of answers, I am prepared to take Professor Slichter's own data for "real product" and prices, and his own list of foreign countries -- except for one omission which I cannot let pass without comment. That omission is the case of Germany, for which Professor Slichter, in a later table, provided some price data, but no product data. 4/ Surely the omission was unfortunate: for it happens that Germany, over the period chosen by Professor Slichter, showed one of the highest percentages of increase in real product per capita in combination with one of the lowest percentages of increase in prices. 5/

But in fact the case of Germany is by no means unique, from the standpoint of the first question that I suggested: namely, whether there have been significant cases of countries with a relatively high rank in terms of percentage increase in real product per capita which show relatively low percentages of price increase. Italy, for example, is also a country which stands relatively low in Professor Slichter's ranking of countries by "per cent increase in consumer price index." Indeed, if one takes the wholesale price index, the degree of price stability attained by Italy since 1948 is even more impressive. As the Bank of Italy pointed out, with pardonable pride, in its Report of the year 1957, the general level of wholesale prices in Italy in 1957 was almost equal to that of 1948, "the first year of stabilization." The Report went on to observe that

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4/ The "later table" referred to is on page 12 of the Hearings. It was reproduced in a subsequent address by Professor Slichter (published under the title "Inflation -- A Problem of Shrinking Importance," in The Commercial and Financial Chronicle, April 23, 1959), with the insertion of price data for four countries -- Finland, Ireland, Netherlands, and Spain -- which had unaccountably been omitted from the table as given by Professor Slichter in his testimony of March 20, 1959.

5/ See the table given in the Annex to this paper, which differs from that presented by Professor Slichter, apart from the addition of Germany, only in that (1) figures are given for per cent increase in real product per capita for both 1948-56 and 1948-57 (see note 12, below); (2) Professor Slichter's figures are corrected whenever his source indicates "a break in the homogeneity of the series"; (3) columns are added showing annual averages; and (4) countries are listed in the order of rank in terms of per cent increase in real product per capita instead of in terms of per cent increase in prices.

"the establishment of this fundamental stability is all the more noteworthy when account is taken of the underlying development of production and income. Industrial production has increased by 124 per cent, agricultural production by more than 40 per cent, and income in real terms ... by more than 60 per cent." 6/ And in fact, Professor Slichter's own figures gave Italy a very high relative ranking in terms of annual percentage increase in real product per capita over the period in question.

Surely there is small basis in the experience of these two countries, when judged against the experience of the other countries in Professor Slichter's list, to support the suggestion that inflation "is an inescapable cost of the maximum rate of growth." Perhaps Professor Slichter meant to argue nevertheless that the experience of the fifteen foreign countries was still on his side, since he included even Germany and Italy among "the important industrial countries of the free world" all of which "have had creeping inflation during the last few years." 7/ But surely it is a relevant reply to point to his own figures with respect to the relative degree of price rise shown in the other countries on his list, and to ask whether countries like Germany and Italy, which were denounced roundly enough as it was for their unwillingness to adopt fiscal and monetary policies that would have permitted them to join the inflationary procession, are not to be congratulated for having done as well as they did in resisting "importation" of the inflation that their neighbors were creating.

It is, indeed, necessary to look a little more closely at the experience of these two countries' neighbors; for here, too, the story is not as simple as it might seem to be on the basis of Professor Slichter's particular selection of facts. Professor Slichter pointed out, for example, that, according to his table, "Austria, with the greatest increase in the consumer price index, also had the greatest increase in real output" per capita. 8/ But he should have been made suspicious by his second table, to which I have already referred once, and to which I shall recur later on. This second table shows that, in the case of Austria, the overwhelmingly greater part of the price-rise which gives it the place of disgrace in Professor Slichter's first table took place before 1953. Actually, it took place before 1952, by which date the cost of living had actually doubled as compared with its level in 1948 -- an average rise, therefore, of 25 per cent per annum. But from 1952 to 1956 -- the latter being Professor Slichter's terminal date for his figures for increase in real product per capita -- the average price rise per annum was less than 2

6/ Relazione del Governatore sull' esercizio 1957, Rome (Tipografia Banca d'Italia), 1958, pp. 148, 151. On some of the special factors which account for the less favorable performance of the cost-of-living index over the same period -- including such elements as delayed adjustments in controlled rents and in the prices of public services -- see the Abridged Version (in English) of the same Report, p. 96.

7/ Hearings, p. 12.

8/ The "per man hour" in the Hearings, p. 11, is obviously a slip.

per cent. 9/ On the other hand, the average annual increase in real product per capita in Austria from 1952 to 1956 was 7.3 per cent. Nor is the Austrian case unique. In the case of the Netherlands, for example, from 1948 to 1951 the average annual price rise was almost 9 per cent, while the average annual increase in real product per capita was 3.2 per cent; from 1951 to 1956, on the other hand, while the average annual rate of price rise dropped to 1.8 per cent, the average annual increase in real product per capita actually rose to 4.6 per cent. Can this kind of result be said to reenforce the presumption that inflation "is an inescapable cost of the maximum rate of growth"? I should like to hope, on the contrary, that instead of feeling compelled always to associate Professor Slichter's name with that particular proposition, we may be able to cite more and more often other statements of his: those, for example, in which he admitted that "sometimes rapid growth has been accompanied" not only by stable prices, but actually "by falling prices"; and that "the economy has demonstrated rather impressively that it has been capable of operating satisfactorily" not only under rising prices, but even under "falling or stable prices." 10/ Meanwhile, it is statements such as those I have just quoted that encourage us to ask again just what basis can be found in experience, either in foreign countries or in our own country, for what I fear has come to be regarded as Professor Slichter's basic proposition: namely, that inflation "is an inescapable cost of the maximum rate of growth."

But it is the lessons of foreign experience that I have been asked to discuss on this occasion. I pass, therefore, to the second of the broad questions which, I suggested, should be raised with respect to Professor Slichter's data: "In the case of countries in which a relatively high rank in terms of percentage increase in real product per capita has been associated with a relatively high percentage of price increase, how sustainable has the rate of growth proved to be?"

For this purpose, I suggest that we continue for a bit with the experience of Austria, which, as we have seen, Professor Slichter was content to sum up in the simple statement that "Austria, with the greatest increase in the consumer price index, also had the greatest increase in real output" per capita. What happened in Austria in 1952, to reduce the rate of price rise from an annual average of 25 per cent to an average rise of less than 2 per cent? It was not an act of God: it was a rigorous program of fiscal and monetary stabilization, which the Austrian authorities were moved to adopt because no other choice was open to them as responsible officials concerned for the economic welfare of their country. Similarly,

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9/ If, following Professor Slichter's somewhat unsymmetrical procedure, we take 1957 as the terminal date for price-rise, the average price rise per annum (1952-1957) in Austria was 2.[illegible] per cent. Similarly, the average price rise per annum for the Netherlands from 1951 to 1957 was 2.5 per cent, as against the figure of 1.8 per cent for 1951 to 1956 given in the text. The figures, in all cases, are taken from Professor Slichter's own source: The United Nations Statistical Yearbook.

10/ Hearings, p. 6.

it was to the rigorous program of stabilization undertaken by the Netherlands in 1951 that we must attribute the results in that country to which I called attention a moment ago.

It is proper to point out here, therefore, that there is not a single case, in Professor Slichter's list of foreign countries, in which a relatively high rank in terms of percentage increase in real product per capita has been associated with a relatively high percentage of price increase without that country's getting into such serious difficulties that a sudden halt had to be called to those "expansionist" monetary and fiscal policies which were alleged by their defenders to be the only kind of policies compatible with the "maximum rate of growth." To be convinced of this, one has only to rearrange Professor Slichter's list of countries in such a way as to rank them in order of average annual increase in real product per capita. 11/ Let us then take as our dividing line the case of Belgium, on which Professor Slichter commented especially, as a country which, having had a relatively small increase in its price level, also had a relatively small increase in real per capita output (actually, in terms of annual average increase in real output per capita, Belgium holds a midway position, ranking eighth in Professor Slichter's list of sixteen countries). We then discover this: that the countries which showed a higher average annual increase in real per capita output than Belgium were either countries (namely, Germany, Italy, the Netherlands after 1951, and Austria after 1952) which, like Belgium, showed relatively small price increases, or were countries (such as France, Spain, and Finland) which were destined, in the near future, to undergo the shock of interruption attendant upon a major change of direction in fiscal and monetary policy and a depreciation of the exchange rate -- in short, a major financial and economic crisis. 12/

11/ See the Annex to this paper.

12/ Incorporation, in a separate column in the Annex to this paper, of the data for 1957 from the United Nations Statistical Yearbook for 1958 (the latest issue available at the time this paper was prepared), confirms these conclusions, and, if anything, strengthens them. One notes, for example, that Switzerland, which Professor Slichter had selected for special comment (Hearings, p. 11) as the country which, "with the most stable price level, had one of the smallest increases in per capita real output," while it continues to show the lowest annual average price rise when the figure for 1957 is included, now joins the group of those "stable" countries -- Germany, Italy, Austria, and the Netherlands -- which showed an annual rate of increase in per capita real output greater than that shown by Belgium, the latter now ranking ninth (instead of eighth) in the list of sixteen countries. As for the three "unstable" countries in the group above Belgium on the list -- France, Finland, and Spain -- all three were to go through a financial and economic crisis which culminated in a stabilization program involving, among other things, a devaluation of the currency. The Finnish markka was devalued in September 1957; the stabilization of the French franc proceeded by stages which culminated in the further devaluation of the franc in December 1958; the Spanish stabilization program, which included devaluation of the peseta, was inaugurated in July 1959.

It is, indeed, this essential part of the recent monetary experience of foreign countries which makes it so necessary to state the concept of "maximum rate of growth" in terms such as those I suggested earlier: as being "reflected in an increase of real product per capita over a period sufficiently long to permit a judgment as to its sustainability." For this is just what it has been difficult to make people understand while the euphoria of inflationary expansion was upon them. It all seemed so simple -- to everybody, that is, except a minority of Cassandras who were accused of being unwilling to credit the evidence before their eyes. There really wasn't much, if any, inflation going on anyhow -- so the argument ran. But even if there was some inflation, it was a trifling price to pay for the real gains that were being achieved before our eyes: full employment, high and even increasing production, a spirit of renewal, of advance, of general ebullience that, as anyone with eyes in his head could see, made utterly irrelevant the caveats of those who croaked interminably: "But what of the morrow?"

Now, I have not the slightest intention of undertaking to defend all those who have preached the imminence of a Last Judgment as the inescapable penalty of Inflationary Sin, in all its forms and in all its degrees. On the contrary, I feel very strongly that hysteria is none the less hysteria when it comes from an excess of caution with respect to the use of the weapons of fiscal and monetary policy for purposes of expansion than when it comes from a complete inability to appreciate both the limits to, and the dangers inherent in, the use of fiscal and monetary weapons for that purpose. But I feel quite as strongly, on the basis of just this part of recent foreign monetary experience to which I have invited your attention, that, more often than not, the wrong lay on the other side: on the side of those whose euphoric obsession with the glories of the prosperity they were experiencing made them unwilling even to consider the possibility that this prosperity was being undermined by the very methods of finance which they regarded as essential for its continuance. Specifically:

1. It was wrong to overstate the role of potential increases in output as an anti-inflationary force. The way to fight inflation, we were told, is to increase production, which would then provide its own offset to whatever increase in the stream of money-spending may be necessary to obtain this increase in production. Above all, there must be no restriction of credit for "productive" purposes. For this would deprive us not only of the fruits of growth in themselves, but also of the major anti-inflationary force which increased production itself represents.

Now, the trouble with this kind of contention is not that it rests on a logical absurdity: there is nothing inherently absurd in the idea that, other things being equal, the presence of unemployed resources in large quantities and varied, or easily variable, forms permits -- indeed, calls for -- a greater amount of monetary expansion than a situation in which such resources are not available. The trouble with the kind of position that I am attacking was twofold:

First, the argument, as I have stated it, involves a degree of analytical primitiveness that is not made respectable simply by referring to Keynes's General Theory, or by quoting some of that book's least fortunate propositions, without even the benefit of such qualifications with respect to the "simplifying" nature of Keynes's "assumptions" as he himself provided. 13/ The only kind of analytical apparatus which can serve us here is one which, while retaining the basic conception of the determination of realized prices and quantities sold as the result of the confrontation of the streams of money-spending and of goods sold, respectively, would incorporate into a comprehensive analytical structure of money-flows and goods-flows not only what we know from "monetary" theory, so-called, but also what we know from the so-called "general theory of value" and from the study of institutional practice. 14/

Secondly, the argument, by simply assuming that as long as any increment in the goods stream is possible, this increment will always be sufficient to match the increment in the stream of money-spending, would simplify out of existence the essential problem of the monetary authorities, which is this: to see to it that their actions, within the sphere of phenomena they are able to affect, are such as to conduce to the establishment of a level of money-spending sufficient to support a sustainable rate of growth, *without* overflowing into the phenomena of inflation. That this is just what the monetary authorities of the countries in question did *not* succeed in doing is quite clear from Professor Slichter's figures. Inflation was *not* confined to countries in which there was no possibility of a significant increase in the volume of output: on the contrary, as his own figures demonstrate, several of the countries which showed a relatively high percentage of price increase also showed a relatively high percentage increase in real product per capita. And even these figures do not give the full measure of the failure of internal financial policy in those cases; for wherever the phenomenon of internal price rise was accompanied by a serious *loss in foreign exchange reserves*, it is quite obvious that the internal price rise would have been even greater had this price rise not been moderated by the increase in the flow of *imports*, of which the internal inflationary pressure itself was the principal cause. In other words, the increase in output was not only insufficient, in itself, to offset the inflationary effect of a still greater increase in money spending: it was insufficient to do so even when supplemented by a considerable volume of *external* real resources.

13/ See pp. 295 f. of the *General Theory*.

14/ The meeting point of these bodies of doctrine is that at which the curves of demand $D_p = F(p)$ and supply $q = \phi(p)$ are brought into relation with stream equations of the form $D = pq$ and thence $MV = \sum D$. I would be glad to give here a reference to some work other than my *Theory of Prices* if I knew of one which attempted to do, on a sufficiently large scale, what I attempted to do in that work. Since, however, I do not know of such a work, I venture, with complete lack of modesty, to invite attention especially to Vol. II, Parts Two and Three, of my own book. But I wish to take this occasion also to note that some facets of this aspect of the *Theory of Prices* have been commented on recently by Manuel Gottlieb, "Price and Value in Industrial Markets," *Economic Journal*, LXIX (1959), 23, 29, 31, although not directly in connection with the problems with which this paper is concerned.

But the very fact that external resources were utilized, and exhausted, in the process shows how really egregious has been the failure of internal financial policy in those cases in which the mere possibility of an increase in output was supposed to be a safe counterpoise to such inflationary forces as might be generated by a program of monetary expansion initiated in the interest of attaining and maintaining a desired rate of growth. This leads me, indeed, to my second charge as to what was wrong with the position of so many "expansionists" during the period of euphoria:

2. It was wrong to ignore the fact that a continuing increase in output itself becomes unsustainable whenever it becomes based upon the utilization of external resources which are limited in amount.

This, one would have thought, is a proposition so self-evident that the real difficulty is to understand how anyone could have seemed to deny it. The answer, of course, is that it is not usually denied in so many words. On the contrary, the argument usually runs in terms such as these:

There are some countries -- the Enlightened Countries -- which wish to pursue an expansionist monetary and fiscal policy directed toward the maximization of employment and output. Unhappily, these Enlightened Countries are frustrated in their efforts by the policies of a set of Benighted Countries, whose authorities are obsessed by the idea of maintaining monetary stability. The frustration comes from the fact that the Enlightened Countries, after having shown what they could do in the way of increasing output through the use of "expansionist" policies, are pulled up short by the loss of their foreign exchange reserves. This, it is suggested, would not have occurred if only the Benighted Countries had "expanded" pari passu with the Enlightened Countries.

But, quite apart from the question of the propriety of claiming a right to impose upon other countries one's own variety of choice as between inflation and something called "growth," it is notable that these "enlightened" ones fail altogether to ask what would have happened to the level of output in their own countries if the Benighted Countries would have become "enlightened" to the point of inflating as wildly as the countries that behaved least responsibly in that respect. Under these circumstances, it is true that the countries first "enlightened" might not have lost their foreign exchange reserves; but neither would they have then acquired the real resources into which they converted these foreign exchange reserves, and which enabled them to increase their output to a level which became unsustainable precisely because their foreign exchange reserves were not unlimited.

I should like to point out, moreover, that the argument is not changed if, to the volume of foreign exchange reserves which a country owns, we add the amount of external resources which it can borrow or induce a generous foreign dispenser of "aid" to grant. In all cases, the foreign resources involved are limited. It is this limitation of command over foreign resources which makes unsustainable any boom based upon a steady drain on such resources; it is to this that the lack of sustainability of "growth" is to be attributed and not to a sadistic refusal upon the part of the Benighted Countries to engage in a comradely inflation. And if the suggestion is that, by failing to join in such a comradely inflation, Benighted Countries such as Germany and Italy -- to take two outstanding examples -- condemned their trading partners to a rate of growth no greater than their own, I call attention again to the rank which these two countries have in a table of growth rates derived from the statistics adduced by Professor Slichter.

Having thus been brought back to the argument of Professor Slichter, one is reminded that it is "creeping" inflation whose evils he regarded as generally exaggerated. Would he have said that the question I have been raising with respect to the sustainability of inflation-accompanied "growth" does not apply to cases in which the inflation involved is only of the "creeping" variety? If so, then, remembering that Professor Slichter identified "creeping inflation" with "a slow rise in the price level," it would be interesting to know how he would have proposed to deal with the case of France, which I have cited among the countries whose process of growth was interrupted by a major financial and economic crisis that was precipitated by a need to deal at last with the consequences of continuing inflationary pressures. For, in Professor Slichter's own table comparing the percentage of price rises between 1948 and 1953, on the one hand, and between 1953 and 1957, on the other, France is shown as having evidenced one of the smallest annual average percentages of price rise in the latter period.

The table of Professor Slichter's to which I have just referred has, indeed, a broader interest for us from the standpoint of our interest in the relation between "creeping" inflation -- supposedly innocuous, or nearly so -- and inflationary phenomena of a more virulent kind. For it is this table on which Professor Slichter relied for support when he characterized as "a widely disseminated bit of nonsense" the statement that "creeping inflation is said inevitably to become a gallop." 15/ Professor Slichter's argument was simplicity itself. One has only to look at his table, he suggested, to see that

> "All of the important industrial countries of the free world have had creeping inflation during the last few years, yet in every case except Switzerland and Belgium the rise in the consumer price index was less in the period 1953-57 than in the period 1948-53."

But surely the next question is this: why did this come about? In the case of France, the principal thing that was happening in the latter part of the period was that the internal consequences of the existing inflationary pressure were being masked by the exhaustion of the country's foreign exchange resources. When these reserves were exhausted,

15/ *Hearings*, p. 12. Cf. also the paper referred to in note 4 above.

the authorities were driven to adopt measures in the fiscal and monetary field which, had they been adopted earlier, would have avoided the crisis that culminated in the drastic program of December 1958. I have already called attention to the explanation in the case of Austria: it lay in the fact that the Austrian authorities adopted, in 1952, a similarly rigorous program of fiscal and monetary stabilization. And in the case of the other countries included in Professor Slichter's table, the reason, in every case, was that the policies pursued by the monetary authorities were conditioned by a concern lest the "creeping inflation" turn out to have much more serious consequences than it might seem to have been incurring at the moment. In short, if "creeping inflation has not yet turned into something worse -- the case of France from 1956 to 1958 shows that this "something worse" need not take the form of a "gallop" in terms of internal price rise -- this is because the monetary authorities, in particular, have tried to do something to prevent that "something worse" from happening.

This much was on occasion not only admitted, but insisted upon, by Professor Slichter himself. This is how he put the matter, for example, in commenting on his table in an address delivered a month after his appearance before the Joint Committee:

> "Various reasons enter into the tendency for the rate of increase in prices to drop, but the most important of these reasons is the simple and obvious fact that it takes money to buy goods. If people wish to buy in anticipation of higher prices, either they must curtail their purchases of many things ... or they must draw on their credit. Their ability to draw upon their credit depends upon their creditworthiness and partly upon the reserve position of the banks. Consequently, whether or not creeping inflation becomes a gallop rests in the last analysis with the monetary authorities." 16/

Yet if this is so, the most important question we have to ask about "creeping inflation" is not whether it did or did not turn into "galloping" inflation in the years 1953 to 1957, or any other particular set of years one chooses to adduce. The question we have to ask is this: is there anything about the acceptance of "creeping inflation" as inevitable which would threaten to undermine the power of the monetary authorities to carry out their responsibilities? The answer, surely, is unequivocal: In any country in which the size and composition of the public debt is a matter of concern, the acceptance of "creeping inflation" as inevitable must mean a progressive deterioration in the prospects for the government's selling long-term fixed-interest bearing securities. This means a progressive deterioration in the structure of the government debt in the

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16/ Italics mine. The quotation is from paragraph 4, "Creeping inflation is not likely to break into a gallop," in section VI of the paper referred to in note 4, above.

direction of an overloading with short-dated securities. And as long as the holders of short-dated securities have only to wait for these securities to mature in order to obtain cash, the prospect of debt-monetization on a large scale will continue to threaten the control of the monetary authority over the one magnitude which is crucial to the exercise of its powers: namely, the money supply. This is not a chimera invented by central bankers solely for the purpose of frightening those who might otherwise feel that "creeping inflation" is something with which we ought not be seriously concerned. Anyone who followed the discussions a few years ago in Britain, for example, of the need for debt-funding in relation to the effectiveness of the weapons of monetary policy, will recognize how sobering the lessons of experience have been in just this field. 17/

Sobering, too, have been the lessons of experience to warn those who would dismiss the whole problem by suggesting that, even with creeping inflation pursuing its relentless course, the government will still be able to sell long-term securities -- not, indeed, with a fixed rate of interest, but with "indexed" rates of interest. One is aware of the high academic authority that can be cited in "theoretical support" of the device. 18/ But it is fair to say that no country has applied the experiment of "indexing" for a longer period and over a wider area than in recent times has Finland. And there, whatever it may have been possible to say in favor of the device as a stop-gap measure to moderate inequities and to keep some kind of activity going in critical areas while a program of basic stabilization was being worked out, there can be little doubt that the widening applications of the device came to be so mutually stultifying as to raise very serious doubts as to what in fact was being accomplished by the exercise. Certainly there is nothing in the Finnish experience to deny the "greater long-term gain from a policy of stable prices as opposed to the policy of a stable standard for deferred payments," or the proposition that "there can be no question that a single stable standard is preferable when it is obtainable." 19/ This is another way of saying that, in the end, nothing can take the place of a firm determination to scotch the evil of inflation by doing everything that is humanly possible to prevent it from getting out of hand in the first place. And the determination to do so should be strengthened, not weakened, by what the facts of experience have shown with respect to the compatibility of this goal with the goal of fostering a rate of economic growth which will prove to be the maximum rate of growth precisely because it will be a rate of growth that will be sustainable over longer periods.

17/ See, for example, W. M. D[acey], "The Floating Debt Problem," in Lloyds Bank Review, April 1956, pp. 24 ff.; and W. T. C. K[ing], "Should Liquidity Ratios Be Prescribed?", The Banker, April 1956, pp. 186 ff.

18/ See the literature cited on pp. 1-2 of David Finch, "Purchasing Power Guarantees for Deferred Payments," in International Monetary Fund Staff Papers, V (1956). Mr. Finch's paper itself is a well-balanced discussion of the issues of principle involved, and presents (in the first of two Appendices) a summary of such "Details of Some Recent Applications" of "indexing" as were available when the paper was published.

19/ Finch, op. cit., p. 16.

	Per cent increase in real product per capita, 1948-56	Average annual increase, 1948-56	Per cent increase in real product per capita, 1948-57	Average annual increase, 1948-57	Per cent increase in consumer price index, 1948-57	Average annual increase, 1948-57
Austria.........	93.9	11.7	106.1	11.8	124.0	13.8
Germany.........	1/53.8	9.0	3/60.0	8.6	14.0	1.6
France..........	47.4	5.9	3/30.1	4.3	76.7	8.5
Italy...........	1/32.6	5.4	3/41.9	6.0	27.9	3.1
Spain...........	2/34.5	4.9	2/34.5	4.9	55.7	6.2
Finland.........	2/31.4	4.5	33.7	3.7	87.5	9.7
Netherlands.....	1/20.2	3.4	39.3	4.4	46.2	5.1
Belgium.........	2/23.0	3.3	3/20.4	2.9	12.6	1.4
United Kingdom..	22.7	2.8	25.0	2.8	50.6	5.6
Canada..........	20.7	2.6	18.8	2.1	26.2	2.9
Sweden..........	1/14.6	2.4	3/18.6	2.7	46.8	5.2
United States...	18.4	2.3	19.8	2.2	16.7	1.9
Switzerland.....	2/16.3	2.3	30.0	3.3	9.4	1.0
Norway..........	1/12.6	2.1	3/15.8	2.3	51.4	5.7
Denmark.........	16.1	2.0	21.8	2.4	43.2	4.8
Ireland.........	1/ 8.6	1.4	3/12.9	1.8	41.8	4.6

1/ 1950 to 1956.
2/ 1948 to 1955.
3/ 1950 to 1957.

Source: United Nations *Statistical Yearbook* for 1957 and 1958.