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SIZE AND DISTRIBUTION OF THE PUBLIC DEBT IN SELECTED COUNTRIES

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Ever since the end of the First World War the existence of large public debts in the financial structure of the highly industralized Western countries has created important new problems for the effective pursuit of policies aiming at monetary and economic stability.

After the First World War, monetary instability was often caused or facilitated by sudden monetization of short-term debt held by banks and individuals. In the course of the twenties many governments concentrated their efforts on the consolidation of the large floating debt in order to curb these dangers. By reducing the real value of the debt, the post-war inflations themselves offered one type of solution - although an exceedingly costly one in economic, social, and political terms.

In the course of the thirties the practice of deficit financing increased public debts in almost all countries, but the problem at that time was one of translating monetary expansion into economic recovery, rather than one of preventing the existence of a growing public debt from interfering with anti-inflationary monetary policies. The increasing importance of the public debt in the financial structure of most countries was reflected by the declining role of the discount rate and the increasingly widespread use of open-market operations as an instrument of monetary policy during this period.

The huge growth of public debts during the Second World War created problems of far greater magnitude than those that characterized the post-1918 situation. In some countries the inflationary pressures generated by past and current deficit financing were so strong and the fiscal and other economic controls so weak that prices rose once more to a multiple of their prewar level. In these countries the relative importance of the public debt was again sharply reduced through inflation. Other countries escaped the dangers of open inflation through timely currency reforms, comparatively efficient control systems, and the disinflationary effects of budget and import surpluses.

* The statistical material on which this study is based was prepared by various members of the Division of International Finance and of the research staff of the Federal Reserve Bank of New York.

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Monetary policy generally played an important role in the breaking of open inflations, but - apart from the surgical intervention of currency reforms - was in general not heavily relied on in checking inflationary pressures in the countries whose price levels had not risen too sharply. This non-reliance on monetary policy took various forms. Negatively, it meant failure to resort to such instruments of monetary policy as, e.g., changes in the discount rate; but it also meant positive action on the part of several central banks which insured "pegged" market prices for government securities and thereby stabilized or depressed short-term and/or long-term rates of interest. Among the principal arguments adduced for these policies has been the importance and wide distribution of the public debt in the financial structure of the countries involved.

If only for this reason a comparative statistical study of public debts in various countries is of interest. Moreover, whether or not the existence of a large public debt justifies any particular type of monetary policy, it is clear that it brings about important changes in the conditions under which monetary policy must be pursued. To give but one example: Several of the countries that have pursued active monetary policies in spite of large debts found it necessary to take special measures, such as the freezing of a portion of bank-held securities, to make monetary policy effective.

The statistical approach

Public debt statistics are generally not comparable in scope and breakdown and most countries do not possess some of the statistics (e.g., distribution of the debt by types of holders) that would be most useful for the present inquiry. Nevertheless, an attempt is presented in the table on page 4 to circumscribe the concept "importance of the public debt" by a number of ratios relating the public debt or significant portions of it to various economic magnitudes. The two appendix tables contain the data on the basis of which these ratios have been calculated.

The first ratio is that showing the percentage relationship of the total public debt to national income; this ratio has little precise meaning except that it provides the most general yardstick for what we have called the importance of the public debt. In order to obtain a more meaningful and roughly comparable concept of public debt for the various countries in this study, external, non-interest bearing and intra-governmental debt has been deducted from the gross debt.

The second ratio, that of the public debt to the total money supply, is another general measure of the importance of the public debt but at the same time it can be interpreted in more concrete terms: it shows the extent to which the money supply would be expanded in the event of monetization of the public debt. To permit this interpretation, that part of the public debt which has already been monetized, i.e. which is held by the central bank, has been excluded from the calculations.

The third ratio is a simple one: it shows the portion of total budgetary revenue that is absorbed by the cost of carrying the public debt. This figure naturally gives one indication of the reluctance of national Treasuries to see interest rates rise. Another important indication would be the portion of the total debt that is due to be refunded in the relatively short-term future; unfortunately the national statistics giving breakdowns of debt into long-and short-term are too heterogenous to permit a comparison.

A further indication as to the importance of the debt in the financial structure is given by the ratio of commercial bank-held debt to total commercial bank assets. This ratio is useful in evaluating the extent to which banks are able to expand their reserves, particularly in conditions under which the central bank assumes the role of a residual buyer of government securities at fixed prices.

Finally, one of the most interesting questions concerning public debt structure is the distribution of the debt by types of holders. If the public debt is held by a great many institutions and individuals, the reactions to changes in interest rates and the chances of successful conversion are necessarily quite different from a situation in which an overwhelming portion of the debt is held by a few financial institutions. Unfortunately adequate data on the distribution of the debt by holders are available only in a very few countries. In general, all that it has been possible to do was to collect data on the amount of government securities held by the banking system (Central Bank and commercial banks). This information yields a residual figure which includes holdings of insurance companies, business corporations, and individuals. 1/

A further important distinction is that between marketable and non-marketable debt. The non-marketable security redeemable on demand at a fixed price has assumed considerable importance only in the public debt structure of the United States. The existence of large amounts of such securities creates special problems for monetary and debt management policies. These problems, however, are not too dissimilar to those created by savings in the form of deposits with State savings banks which in turn invest largely in government securities - the situation prevailing in many European countries.

1/ As mentioned previously the total debt figures exclude debt held by government agencies and trust funds.

Indicators of Size and Distribution of Public Debt in Selected Countries

(Percentage ratio at the end of 1949) 1/

Country	Public 2/ debt to national income	Public 3/ debt to money supply	Interest on debt to budgetary revenue	Commercial-bank-held debt to total com. bank assets	Bank-held debt to total debt 2/
United Kingdom	208	408	14	48	27
Netherlands	123	205	15	55	34
Australia	116	211	11	15	41
Canada	108	275	17	36	36
United States	100	179	14	43	45
Belgium	53	79	14	47	42
Sweden	46	120	6	12	45
Italy	30	65	8	15	37
France	30	62	4	20	47
Denmark	18	48	5	8	50

1/ For basic data as well as for explanatory and qualifying notes see appendix tables.
2/ Exclusive of non-interest-bearing and intra-governmental debt.
3/ Exclusive, in addition, of central-bank-held debt.

Results

The statistics which have been brought together in the table above for 10 selected countries, suggest a number of comments:

(1) As could be expected, the importance of the public debt is much greater for the countries that were active belligerents and avoided a multiple rise in prices than for those countries that experienced ruinous inflation or that did not participate actively in World War II.

(2) Among countries in the former category, the United Kingdom appears to be the country where the public debt is largest in relation to both national income and money supply. Partly because of the low interest rates paid and partly because of the compartively large size of the U.K. budget, the interest burden in relation to budget revenue is not higher for the U.K. than for the other countries in the group.

(3) Coming some distance behind the United Kingdom, the United States belongs to the group of countries comprising also Canada, Australia, and the Netherlands whose public debt is roughly of the same order of magnitude as the national income. In these countries the public debt held outside the Central Bank is two to three times as large as the money supply. The similarity among this group of countries extends to the ratios of debt service to budget revenue (about 15%) and of bank-held to total commercial bank assets (about 50%). As to the latter ratio, the only exception is Australia with the remarkably low figure of 15% which results from the tying up of large banking funds through the "Special Accounts" technique.

(4) Finally, there is a remarkable similarity of practically all countries examined with respect to the distribution of the debt between bank and non-bank holders. It appears that from one-third and one-half of the total debt is held in all these countries within the banking system, the remainder being subdivided among insurance companies, business corporations, and individuals.

Conclusions

It has sometimes been said that, in view of the extraordinarily large size and distribution of the public debt in the United States, foreign experiences with debt management and monetary policies cannot furnish any useful lessons for this country. A first conclusion of the statistics given above is that this argument has no basis of fact. While, in absolute terms, the U.S. public debt far outdistances that of any other foreign country, our comparison shows that in relative terms the problems raised by the size of the public debt can be no greater in the United States than in a number of advanced industrial countries. With respect to the one aspect of distribution of the public debt for which we are able to provide comparative statistics, the position of the United States is similar to the position of an even larger number of foreign countries than is the case with respect to the size of the debt.

A second conclusion, closely related to the first, is that there appears to be no clear-cut correlation between size and distribution of the public debt of individual countries and their monetary policies.

It is true that the countries having relied most actively on monetary policy - France, Italy, Belgium - are also those whose debt is comparatively small. But, at the same time, Sweden, with a similarly light debt, has pursued until quite recently a policy of pegging the whole interest-rate structure.

If we now consider the countries with relatively large debts, we find that, while only the United States has consistently pegged the long-term rate of interest, the Netherlands and Canada have pursued, at least until the very recent past, a rather passive monetary and credit policy. Australia, on the other hand, has resorted to an extremely rigorous method of restraining bank credit.

Finally, at the far end of the scale, the United Kingdom with a debt relatively much larger than the United States, has not attempted to stabilize the long-term (as opposed to the short-term) rate since the failure of Dalton's "cheap money" drive. In fact, it has been argued with considerable force that the United Kingdom could not afford to peg the long-term rate precisely because of the huge volume of outstanding securities and the consequent danger of inflation in case of large central bank purchases.[1/] In the United States, on the contrary, it has often been said that the large size and wide distribution of the debt made firm support operations necessary to maintain orderly conditions in the security market.

Not only, therefore, have countries with similar debt burdens pursued widely divergent monetary policies (and vice versa); but we also find that the same facts with respect to public debts have been cited in different countries in support of opposite policies.

1/ R.S. Sayers, "Central Banking in the Light of recent British and American Experience", Quarterly Journal of Economics, May 1950, p. 204.

Appendix

Table I

Public Debts of Selected Countries - Basic Data

(Billions of national currency, end of 1949)

Country	Total domestic debt	Non-interest bearing debt (a)	Intra-governmental debt (b)	Interest-bearing debt held by Central Bank
	(1)	(2)	(3)	(4)
United Kingdom (c)	23.7	--	2.5(d)	1.6(e)
Netherlands	19.4	1.5	.5(f)	1.8
Australia (g)	2.4	--	.2	.3(h)
Canada	14.9	--	.8	2.0
United States	257	--	39	19
Belgium	207	68	.6(i)	6
Sweden	12.1	.1	1.8	2.5
Italy	2275	479	n.a.	235
France	2724	634	128 (j)	279 (k)
Denmark (l)	8.0	4.7	.2	n.a.

(a) Mostly large blocks of direct Central Bank advances to national Treasuries in connection with war or occupation expenditures.

(b) Debt held by government agencies and trust funds other than state savings banks.

(c) Data relate to March 31, 1949.

(d) Estimate of The Economist (April 8, 1950 pp. 784-786) adjusted to exclude holdings of savings banks which are included in holdings of banking system.

(e) Issue and Banking Departments.

(f) The only intra-governmental debt which it has been possible to identify consists of 502 million guilders of securities held by the State Insurance Bank.

(g) Data include both Commonwealth debt and state debts, for the reason that loan programs of the state and Commonwealth Governments are coordinated under the single authority of the Australian Loan Council; moreover, all securities are floated in the name of, and are guaranteed by, the Commonwealth Government.

(h) Holdings of Central Banking Division, Commonwealth Bank only.

(i) Estimated holdings of Caisse Générale d'Epargne et de Retraite for accounts other than savings institututions.

(j) Holdings of Caisse des Depots et Consignations other than holdings for account of savings institutions which amount to 365 billion francs.

(k) Includes 51 billion francs advances from various Central Banks of French Union.

(l) Data as of March 31, 1950.

Appendix

Table II

Public Debt and Related Economic Data for Selected Countries – Basic Figures for Ratios Shown in Text Table
(In billions of national currencies – end of 1949)

	Public debt I(a)	National income	Public debt II(b)	Money supply	Interest on debt	Budget revenue	Debt held by commercial banks	Total commercial bank assets	Debt held by banking system(c)
United Kingdom (d)	21.2	10.2	19.6	4.8	.5	3.7	3.2(e)	6.6(e)	5.8
Netherlands	17.4	14.1	15.6	7.6	.5	3.3	4.2	7.6	5.9
Australia	2.2	1.9	1.9	.9	.07	.63	.18(g)	1.2(g)	.9
Canada	14.1	13.0	12.1	4.4	.4	2.3	3.1	8.7	5.1
United States	218	217	199	111	5.3	38.2	67	156	97
Belgium	133	252	127	160	8.4	60.4	34	72	56
Sweden	10.1	22.0	7.7	6.4	.3	4.8	1.3	10.9	4.5
Italy	1796	5927	1561	2375	91	1108	298	1961	663
France	1962	6573	1683	2713	58	1434	275	1357	919
Denmark (f)	3.1	16.8	3.1	6.4	.17	3.1	.6	7.3	1.5

(a) Total domestic debt minus non-interest-bearing and intra-governmental debt (see Table I for basic data).
(b) Total domestic debt minus non-interest-bearing, intra-governmental, and central-bank-held debt (see Table I for basic data).
(c) Includes holdings of commercial banks, savings banks, and central bank. Ratio (5) in text table is obtained by dividing figures in this column by public debt I.
(d) Data as of March 31, 1949.
(e) Estimates for London Clearing Banks.
(f) Data as of March 31, 1950.
(g) Includes holdings and assets respectively, of General Banking Division, Commonwealth Bank.

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February 13, 1951

A CONTROLIST CRITICISM OF THE GERMAN EXPERIMENT J. Herbert Furth

Our public and private life is overshadowed by the conflict between individualistic and collectivistic organization of society. In a world ruled by rational beings, this conflict would be decided by accurate observation, criticism, and comparison of the actual social systems based upon the two opposing principles or upon any of the many possible compromises between the two extremes. In such a world, any contribution to the science of comparative economic policy would be of vital importance. Even in our real world, such a contribution will be welcome at least to those of us who still hope for the triumph of reason over the rush to total destruction.

Mr. Thomas Balogh, fellow of Balliol College, Oxford, is probably the most extreme protagonist of "controlist" thought this side of Marxism. The German authorities, on the other hand, have become the leading representatives of "liberalist" policy in Europe. It was inevitable that Mr. Balogh should try to come to grips with his adversary, and his booklet on "Germany: An Experiment in 'Planning' by the 'Free' Price Mechanism" is the result of the struggle. The booklet includes a paper that the author wrote in April 1950 for a round table conference organized by the German trade unions, and a postscript added in September.

Mr. Balogh's position

Mr. Balogh examines the argument that the German currency reform and the abolition of many economic controls in the summer of 1948 resulted in an "economic miracle", and summarizes the results of his examination in the following theses: 1) "Decontrol accounted for little or none of the improvement in production." 2) "The currency was reformed according to a wicked formula." 3) The open inflation following the currency reform had "to be dealt with by cutting the general level of demand. This was harshly done." 4) Because of the resulting unemployment, "amid a wild display of luxury, at least 60 per cent of the people have yet to recover a decent standard of living." 5) "Production is at least 20 per cent below potential capacity . . . When the attempt is made to recreate mass demand and to wrench the productive system into another shape, a serious crisis and terrible social cost will be inevitable. These can be mitigated only by an immediate, coordinated reversal of the present policy." 6) "Present policies cannot restore the country's foreign viability at a socially and politically tolerable standard of life for the majority."

7) The currency reform weakened the trade unions and "their weakness may even inhibit increases in productivity since large scale investment at high interest does not pay at the present low relative level of wages." 8) "The burdens of war have not been fairly distributed. Too many refugees remain unsettled, too many workers unemployed. Social contrast and social iniquity breed violent politics . . . Unless there is a quick and thorough change in present policy, the Germans may be driven into courses most dangerous to peace" (pp. 5-7).

Mr. Balogh believes that the rate of increase in production between 1948 and 1950 was not substantially greater than that between 1946 and 1948. "The miracle so often talked about, however, is due to the fact that, while the progress since June 1948 was suddenly made manifest to tourists, progress before the currency reform was carefully and malevolently concealed with the intent of making illegal pecuniary gains . . . Even such improvement as has taken place cannot justly be attributed . . . entirely or even mainly to decontrol." The author states that the most important factors were "(a) the increase in coal production as a result of the deliberately planned and selective incentive scheme . . . (b) this was combined with a very mild winter . . . (c) at the same moment the imports of industrial raw materials and products . . . rose precipitately . . . The imports of raw materials expanded six-fold in spite of the recurrent incapacity to take full delivery of Marshall Aid, due to the monetary policy pursued" (pp. 12-13).

Mr. Balogh does not deny that the currency reform, despite its wickedness, had some beneficial effects. At the time of the currency reform, "Germany possessed no full monetary system . . . . The distributive machinery thus completely broke down and wholly disproportionate effort was needed by everyone to obtain the necessities of life which could no longer be purchased against money. The creation of <u>any sort</u> of acceptable currency, under any conditions, would have represented an immense gain. Productive and distributive efficiency would have been improved by <u>any</u> currency reform" (p. 15; author's italics). The author seems to consider the currency reform "wicked" mainly because of two features: First, the wiping out of the German national debt "reduced to penury, without redress, the small saver . . . It also represented a deadly blow against . . . the Trade Unions whose means had been compulsorily invested in Government bonds." Second, "an orgy of spending broke loose; fantastic profits were made . . . . The spending spree transferred a greater part of the new money into the possession of a small class and, in the main, of the anti-social class of hoarders and speculators" (pp. 22-24.)

In order to check the rise in prices and the expansion of credit, the central banking system decided in November 1948 "upon a drastic deflationary policy": it increased reserve ratios and put an embargo on new credits. "With the exhaustion of the first wave of disordered buying and investment, the basic deflationary forces asserted themselves" (pp. 33-35). The author concedes that "the level of total real income in 1949 increased to 102 per cent of 1936 . . . and the volume of consumption was even higher at 104 per cent . . . . Gross capital formation in 1949 increased from 26 to 31 per cent of the national income" (pp. 35-36). He asserts, however, that "the consumption of the rich also expanded conspicuously" and that per-capita real earnings of employees were only 67 per cent of prewar. "A more reactionary development in the distribution of the national income has hardly ever happened in a highly industrialized country. The social ravages of the great inflation were less terrible than this . . . . The fall in mass-consuming power further contributed to the deflationary spiral" since unemployment doubled in 1949. (pp. 36-38).

It is true that attempts were made to reverse the trend: counterpart funds were released "at an accelerating rate", the bank rate and the reserve ratios were reduced, the embargo on new credits was lifted, and the expansion of credit once more accelerated. The central banking system "consented to finance investment and exports in anticipation of repayment by long-term funds (either counterpart funds or savings)" (pp. 42-44). However, the author feels that these attempts were ineffective. "It is hardly to be expected that this temporary finance will be a sufficient stimulant to cause an increase in the national income." Moreover, the "whole problem is immensely complicated by the foreign trade and payments situation in which Germany finds herself as the result of the war, the loss of foreign markets especially in Eastern and South Eastern Europe, and the stifling of trade with the Soviet Zone. Unfortunately, the policy of the Government, instead of minimizing the dangers arising out of this structural unbalance, was calculated rather to increase it" (p. 45). "The great liberalisation of trade has made capital flight easier; it has rendered Germany less capable of balancing her trade accounts without further sharp deflation . . . Finally, liberalisation of inter-European trade might make 'soft' currency markets more profitable and thus -- even with greater equilibrium in intra-European [sic] trade, decrease the pressure to force dollar exports" (p. 49). "There are even indications that the present German Government had more in mind than the intrinsic merits of the scheme when they espoused the cause of European Union and liberalisation . . . . In the short run the scheme makes any active social and employment policy difficult if not impossible; it thus preserves the status quo due to the currency reform" (p. 51; author's italics).

The author sums up by stating that "national output increased, but the increase was artificially slowed because deflation had to be enforced in order to avoid an open inflationary spiral. At the same time the distribution of the national income became more unjust than ever the Nazis made it" (p. 53).

The author's reform proposals are divided into measures to be taken "within the 'free' pricing system" and those referring to direct controls. The first group includes the reform of the central banking system, which "will have to be brought under the control of the Government" and must be given "full open market powers", as well as a tax reform, such as a "progressive capital levy", a more progressive income tax, tax concessions for public housing and other anti-unemployment projects, and increased taxes on luxuries (pp. 58-61). The second group is based on the assumption that without direct controls any increase in the national income and especially in employment was likely to worsen the balance of payments, and that this deterioration could probably not be counteracted by an increase in exports. "Thus only one real question remains: how precisely are imports to be cut? The choice lies between deflation and control. The fact is ignored by most commentators." The author proposes therefore to limit "the proportion of sales in the home market, by agreement with the industries concerned"; to reestablish "some physical control of investment"; and to improve utilization of existing capital "by working multiple shifts" (pp. 61-63).

In his postscript, the author acknowledges that "in the meantime the German economy has experienced a distinct revival . . . This expansion took place smoothly, without any strain in the productive system . . . . Dr. Erhard, the Minister of Economic Affairs and his satellite economists . . . seem to regard this development as a conclusive vindication . . . of the 'liberalist' policy pursued. Nothing could be further from being the case!" (pp. 66-67). Actually, the author points out, "unemployment has remained substantially above the dismal figure of 1949 . . . . The deflationary policy of the Government continues . . . . The revival was almost entirely due to the increase in exports . . . Germany like most other countri s benefited by President Truman's enlightened Keynesian economic policy . . . The glee of the more extreme adherents of laisser faire both at home and abroad due to having solved the foreign trade problem without 'controls' was premature . . . Such improvement in Germany as has been experienced was made possible by the moderation of the Trade Unions which held back wage demands. The worsening of the distribution of the national income continues" (pp. 67-69).

Criticism

Mr. Balogh's paper touches on so many important subjects that a thorough review would transcend reasonable limits of space. This review will, therefore, touch only briefly on these topics that do not deal directly with the main question of "planning by the 'free price' mechanism." Mr. Balogh is quite right, for instance, when he denounces the currency reform amendment of October 1948 (p. 23), the delay in legislation providing for "equalization of burden" (p. 25), the excessive decentralization of commercial and central banking (p. 31-32), the laxity in tax enforcement (p. 37), the slow pace of counterpart fund releases (p. 42) and the inadequate implementation of the German anti-unemployment program (p. 44). On the other hand, it is puzzling when Mr. Balogh asserts that "the insistence of the U. S. authorities on introducing a dollar clause in all German trade agreements rendered the exaction of reparations 'in kind' impossible and thus gave a final pretext /sic/ for a rupture with the Soviet" (p. 18); or that it was the currency reform, and apparently not the war, that "improverished . . . those whose possessions had been destroyed by the war or abandoned when they fled or were expelled from their homes" (p. 28). And to recommend the complete subjection of the central bank to government control (p. 58) seems particularly inappropriate in a country where such subjection led twice in one generation to the complete destruction of the monetary system.

These are side issues, however. Mr. Balogh's main thesis rests on the following five statements, which will be examined one by one: 1) Germany's production has not increased as much as it would under planning; 2) The increase that actually took place was due to factors other than the "free price" mechanism; 3) Germany's monetary policy was deflationary; 4) Germany's foreign trade problem has not been brought closer to solution; and 5) Germany's national income distribution has been changed to the disadvantage of labor.

1. The increase in production -- From the point of view of economic theory it is probably a pity that the "liberalization" of German economic policy coincided -- not by coincidence -- with the currency reform and with the beginning of the European Recovery Program. It is almost impossible to prove which one of

these factors was most important in determining the rise in German production. It is also quite likely that other events, such as those mentioned by Mr. Balogh (pp. 12-13), contributed to that development. However, there is at least prima-facie evidence that "liberalization" was not entirely neutral in that respect. Mr. Balogh cites approvingly (p. 6) a study by his Oxford colleagues, Burchardt and Martin, on "Western Germany and Western Reconstruction"; this study devotes a whole section to proving that "a mere currency reform" and foreign help, although essential, would be "inadequate" to reactivate the German economy unless supplemented by a proper economic policy. It is true that these authors -- like Mr. Balogh -- thought that only strict direct controls could do the trick; however, they agreed that the policies pursued by the German authorities would have a decisive bearing on the effect of currency reform and foreign help.

In any case, the initial stimuli could not account for the continuation of the sharp upward trend in Germany's production from the end of 1949 to the end of 1950. Mr. Balogh assumes that this second spurt was due "almost exclusively" to the changes in the U. S. economy and in the international situation in general. It is quite unlikely, however, that the increase in exports by \$1.1 billion annually, or a decline in the import surplus by \$0.5 billion annually, would in itself account for a rise in industrial production by about \$3.5 billion annually. The conclusion that German economic policy had something to do with that development can hardly be disputed.

3. Germany's monetary policy -- All through his paper, Mr. Balogh berates the "deflationary" character of Germany's monetary policies, and his accusations have been shared by a good many other critics. This use of the term "deflationary" could be justified only if "deflation" meant the avoidance of increases in the price level and the cost of living. From December 1948 -- when the "deflation" allegedly started -- to November 1950, the cost of living for the average family of industrial workers decreased indeed by 10 per cent, and the wholesale price level of industrial products by 1.5 per cent -- a feat that is the more remarkable since in the same period the price index of basic raw materials (most of them imports) advanced by 16.5 per cent. All monetary indices, however, rose quite sharply. Total money supply (currency plus adjusted bank deposits) increased by 47 per cent, short-term commercial bank credits by 167 per cent, and medium- and long-term bank credits by about 1,100 per cent. In fact, there has not been a single month since the currency reform in which the volume of both money supply and bank credit, didnot show a substantial increase --

a situation more symptomatic of inflationary than of deflationary pressure.

It might be argued that the rise in the supply of money was somewhat smaller than the rise in production, and that a slightly faster rise might have stimulated production even more. It is impossible to prove or disprove such a statement. However, in view of the general fear of a recurrence of inflation shared by all social, economic, and political groups in Germany, it would have been appropriate for the monetary authorities to err on the side of caution rather than of recklessness. The policy of the monetary authorities did not aim, as Mr. Balogh seems to believe, at reducing the volume of money and credit but merely at avoiding an excessive rate of expansion. The execution of this policy may have been questionable in detail but the policy itself can hardly be criticized on principle.

4. Germany's foreign trade -- Mr. Balogh attacks the German authorities for failing to improve the balance of trade. It is true that the import excess, which amounted to about $900 million in 1948, rose to about $1,100 million in 1949 and dropped only to $723 million in 1950. However, in view of the large increase in the total volume of trade, the ratio of the deficit to total imports declined from about 55 per cent in 1948 and about 50 per cent in 1949 to 27 per cent in 1950. Moreover, the unsatisfactory result in 1950 was due entirely to developments in the fourth quarter, which were to some extent beyond the control of the German authorities. In the second quarter, the deficit had already been reduced to an annual rate of $420 million; in the fourth quarter, it jumped again to an annual rate of $900 million. This rise was caused mainly by two factors. First, German importers stepped up their purchases of raw materials in view of the expected threat of shortages: the average October-November 1950 volume of imports (at constant prices) was larger than the average of the preceding twelve months by 29 per cent for consumers' goods (food and finished manufactures), but by 53 per cent for producers' goods. Second, the rapid rise in prices of imported materials turned the terms of trade sharply against Germany: if the price level of the second quarter had prevailed in the fourth quarter, the deficit would have been about 40 per cent less.

Exports as such continued to develop very favorably, including exorts to "hard currency" areas, which Mr. Balogh feared would be hurt by the program of trade liberalization (p. 49). In fact, exports for the fourth quarter reached an annual rate of

$2,750 million, and were larger than the imports for any previous quarter. Mr. Balogh was therefore wrong in assuming that a considerable increase in exports was impossible and that equilibrium in the balance of trade could be restored only by sizeable cuts in imports (p. 62). At the present level of Germany's exports, the country would already be completely self-supporting if imports were merely prevented from rising above the 1950 average.

5. Germany's income distribution -- The alleged injustice of the distribution of Germany's national income is Mr. Balogh's most incriminating indictment of the country's economic policy. Data on national income, and especially national income comparisons in "real" terms, are subject to a large margin of error, and it is difficult to get unanimity as to the present and past level of income and the present and past share of labor. However, according to the best available statistics (Wirtschaft und Statistik, December 1950, and Monthly Report of the Bank Deutscher Laender, November 1950), Germany's "real" national income rose between the second half of 1948 and the first half of 1950 by about 17 per cent; in the same period, "real" industrial payrolls rose by about 44 per cent, or slightly more than the volume of industrial production. Similarly, on a 1938 basis, "real" industrial payrolls stood in September 1950 at about 110 per cent or perhaps 10 per cent higher than "real" national income and about 5 per cent higher than the volume of industrial production. Despite the obvious shortcomings of these comparisons, the figures seem to indicate that the relative share of industrial labor in national income was, in September 1950, somewhat higher than in 1938 and substantially higher than in 1948. The development may not have been good enough, but it disproves Mr. Balogh's contention -- unsupported by statistical evidence -- that the relative situation of labor had been deteriorating.

On another point, however, Mr. Balogh's criticism appears at first glance to be better founded. It is quite true that unemployment in Germany fluctuated in 1950 between a peak of 2.0 million (February) and a low of 1.2 million (October), or between an estimated 9.5 and 5.5 per cent of the total labor force. This volume of unemployment is about twice as high as may be conceded as both tolerable and unavoidable in a "free" economy. The human misery, political unrest, and economic waste to which it gives rise, is particularly disquieting in a country which still remembers the "full employment" policies of the Nazi regime and which is exposed to the "full employment" propaganda of its Soviet neighbors. It is also particularly unnecessary at a time when the task of economic rehabilitation indicates an urgent need for more labor rather than a lack of employment opportunities. If such a volume of unemployment were actually inseparable from a "liberalist" policy, that policy would be in need of radical revision.

However, Mr. Balogh himself points out the difficult problem created by the inflow of refugees (p. 40); as long as that inflow continues, Germany will necessarily have a slightly higher percentage of unemployed than a stabilized economy such as that of the United Kingdom. More important, the German authorities have not exhausted the weapons against unemployment provided within the framework of a "liberalist" economic policy. Mr. Balogh himself points out a number of fiscal and monetary measures which the authorities might adopt (pp. 58-61), and the list could easily be supplemented by further proposals, aimed at channelling credit from short-term speculation to long-term investment. Finally, Mr. Balogh should consider that the German economy still contains sectors in which controls have not been abolished, such as housing (rent control) and agriculture (price ceilings and subsidies of imported foodstuffs). Rent control, whatever its social benefits, may have retarded the rise in new housing construction as much as the absence of sufficient tax and credit incentives; and the anti-liberalist agricultural policy certainly had something to do with the fact that employment in agriculture dropped between September 1947 and September 1950 from 1.7 to 1.1 million -- while employment in industry, trade, and transportation rose from 8.5 to 10.5 million. If employment in agriculture had remained constant, unemployment in the fall of 1950 would have been halved. While it could not be stated with assurance that a "liberalist" agricultural policy would have had that result, it seems unfair to attack the "liberalist" policy in industry and trade for the decline in employment in agriculture.

Conclusions. Even those points in which Mr. Balogh's criticism seems well founded do not support his general thesis. The German authorities may be making as many mistakes as any, and they may be subject even more than others to the influence of pressure groups and hampered by the lack of social and political cohesion. Just because of these shortcomings, however, it would be particularly dangerous to entrust the German Government with the power that centralized planning inevitably confers upon the planning authorities.

Nevertheless, the gap between the author and the reviewer may not be as wide as would appear at first glance. Mr. Balogh praises the "enlightened . . . economic policy" of the U. S. administration (p. 68). Since he is dealing with the events during the first half of 1950, he must have in mind the policy of the administration during the cyclical fluctuation of 1949-50. This policy consisted mainly in letting the market take care of itself with the aid of some "built-in" stabilizers; it was more "liberalist" than "Keynesian" and Mr. Balogh's praise might be endorsed even by "the more extreme adherents of laisser-faire."

Moreover, Mr. Balogh describes in classical language the effects of the currency breakdown in Germany, which preceded the currency reform of 1948 (p. 15). This breakdown was the inevitable consequence of the policy of permanent "repressed inflation", and Mr. Balogh's implied condemnation of such a policy is quite heartening.

Finally, Mr. Balogh's paper is valuable even where its arguments are unacceptable. Mr. Balogh tends sometimes to exaggerate merits and demerits, to let his emotions get the better of his judgment, and to indulge in personal gibes at his opponents; but these very faults provoke disagreement and make for lively discussion. For this reason Mr. Balogh's paper may be a better contribution to its subject than if it had been right, but dull.