VI - Conclusions.

1. Therefore, the thesis that the public’s behaviour does not appreciably influence the volume of deposits cannot stand up to the test of facts; instead, the influence exercised by the public, as creditor of the banking system, through the choice between deposits and banknotes, appears to be quite relevant, even if we consider only the direct and explicit influence (since only this influence is measurable).

Therefore there is much to be questioned about Keynes’ argument that money (including bank deposits), has, under all circumstances, a zero, or at any rate very small, elasticity of production, so far as the power of private enterprise is concerned, as distinct from the monetary authority, so that the supply of money would be determined exclusively by the «deliberate action» of the monetary authority. In reality, the same preferences which influence the demand for deposits, such as liquidity preference, on which so much emphasis is laid in the Keynesian system, as well as the particular preference which expresses itself in the choice between deposits and banknotes, act at the same time also on the supply of deposits. Also to this end, we can hardly fall back, according to Pigou’s felicite expression:

«in the real world we cannot always hope to react only with causes that act either on demand alone or on supply alone. The same cause may easily act upon both» (see loc. cit.).

Thus we can well say, in my words quoted by Schneider, that «under the circumstances in which we now live, money too, like any other good, is produced according to demand» (pp. 9, 10).

Consequently, saving, even if hoarded in the form of bank deposits, does not automatically exert under all circumstances that income-depressing effect which is attributed to it by the doctrines with which I take issue. Hoarded saving, in involving an increase in the credit extended by the public to the banks, constitutes, explicitly or otherwise, one of the conditions required for the banks to extend more credit to the public: rather than as a check, it acts as a stimulus to the bank’s ability to extend credit. The point therefore remains, as expressed in another phrase of mine quoted by Schneider, that «in the stages of normal economic development, the banks are induced by the hoarding of individuals to expand their credit to the public, thus introducing such a corrective to the hoarding as to eliminate any depressing influence of the latter on income and economic conditions» (p. 9).

2. We are thus back to what I wrote in the introduction: in the theories with which I take issue, the error lies in attributing general validity to schemes which have in effect a limited validity. In other words, the error lies in believing that the saving channelled through the banking system can automatically exert depressive effects, under all circumstances. This is a possibility which may come true only under special circumstances, and particularly in periods of recession and stagnation, because then the contribution of the other necessary elements of deposit creation may fail to act. Then, and then only, is a «deliberate action» of the monetary authorities required to prevent hoarded saving from becoming «sterile» or «abortive», causing or worsening cumulative downward movements income and business activity.

To this effect, in order to provide appropriate guidance for the monetary authorities, I believe that it would be most useful if someone could accept Macleod’s suggestion for continuing and extending in depth the quantitative studies intended to yield a better knowledge of the influence of the various levers of monetary and credit policy. On my part, I should like to express the hope that, here too, Prof. Schneider will contribute his theories and his experience to positive studies on the elements that have influenced the trend of bank deposits in Germany during the last few years.

Andreu Gambino

The Development of the Italian Economy

Having ascertained real national income for past years, the usual procedure is to divide it simply by a figure of population and to show the trend of real income per head. Such a result may be what we want if we are attempting to measure the trend of welfare, or of purchasing power, particularly if we need a background against which we can gauge the trend of demand for any single commodity. But this is only one of the uses which can be made of the figures, and probably not the most important one. For many purposes of applied economics, we are primarily concerned in studying the trend of productivity. It will be seen that a number of further adjustments have to be made to the figures before we can reasonably gauge this.

In the first place, we must take into account changes in working hours. There was a drastic reduction in working hours immediately after the First World War, and another in the 1930’s. These reductions made the trend of real income, when measured on a per annum basis, rise much more slowly than when measured on a per hour basis. In the second place, real income is the number of persons at work, not by the total population. The ratio between numbers of persons at work and total population varies in accordance with changes in the age structure of the population, number of retired persons, changes in school leaving age etc. Then further a deduction has to be made for the amount of unemployment at different dates. In defining labour force, there is a considerable ambiguity about the women numbers of farm families, and in order to preserve comparability between different countries and at different times, these are all omitted from labour force, as defined below.

There are some further minor adjustments which should be made to the national income figure if we are setting out to measure accurately the trend of productivity. We must...
convert figures of real national income into real national product. In the first place, we must take account of dividends and interest payable abroad, or received from abroad, a comparatively small item. We must then make a somewhat complex adjustment for changes in the terms of trade. It has happened on occasions that, with an unchanged real product, real income has nevertheless shown a marked fall, simply owing to a change in the terms of trade, to a higher price of imported goods, relative to the price of exports. Figures of real income have to be converted to real product by ascertaining the real values of imports and of exports separately. Finally, some allowance has to be made for what is known as imputed income. The imputed income which arises from owner-occupied houses tends to represent a fairly constant proportion of the national income; but we must take into account another form of imputed income, which represented a much bigger proportion of national income in the past than it does now, namely, the difference between the retail and the wholesale value of the farm produce consumed by peasant families. (In national Economic Progress). It is defined as the quantity of goods and services exchangeable for one dollar in the U.S. over the average of the years 1929-39, or, alternatively, the goods and services exchangeable for 1.649 dollars in the U.S. in 1939, which represents the same purchasing power. The 1925 dollar is used as the base, for the reason that the O.E.C. decided to use this as their base in measuring real product of five European countries in 1939, as compared with that of U.S.A.

The nature of the results stands out most clearly on the diagram. There was naturally a decline in real product per man-hour during the course of the First World War, but it was slight, and by 1919 the figure of productivity was once again on the line. And this general rate of upward trend was maintained until 1925. About that year began a period of slower rate of growth.

The effects of the world depression of 1929-34 can be seen. It must be remembered that this diagram shows real product per man-hour worked, not real product in the aggregate, which indeed fell seriously. The fall in

<table>
<thead>
<tr>
<th>Year</th>
<th>1926</th>
<th>1930</th>
<th>1932</th>
<th>1933</th>
<th>1934</th>
<th>1935</th>
<th>1936</th>
<th>1937</th>
<th>1938</th>
<th>1939</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real national income at market prices, billion lire</td>
<td>158.5</td>
<td>157.7</td>
<td>157.2</td>
<td>156.9</td>
<td>156.5</td>
<td>156.1</td>
<td>155.6</td>
<td>155.3</td>
<td>155.0</td>
<td>154.7</td>
</tr>
<tr>
<td>Real national income adjusted for imputed incomes, billion lire</td>
<td>158.6</td>
<td>157.7</td>
<td>157.2</td>
<td>156.9</td>
<td>156.5</td>
<td>156.1</td>
<td>155.6</td>
<td>155.3</td>
<td>155.0</td>
<td>154.7</td>
</tr>
<tr>
<td>Labour force, millions</td>
<td>20.9</td>
<td>20.9</td>
<td>20.9</td>
<td>20.9</td>
<td>20.9</td>
<td>20.9</td>
<td>20.9</td>
<td>20.9</td>
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<tr>
<td>Average hours per week</td>
<td>44.9</td>
<td>44.9</td>
<td>44.9</td>
<td>44.9</td>
<td>44.9</td>
<td>44.9</td>
<td>44.9</td>
<td>44.9</td>
<td>44.9</td>
<td>44.9</td>
</tr>
<tr>
<td>Real product per man-hour, lire</td>
<td>11.0</td>
<td>11.0</td>
<td>11.0</td>
<td>11.0</td>
<td>11.0</td>
<td>11.0</td>
<td>11.0</td>
<td>11.0</td>
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<td>11.0</td>
</tr>
</tbody>
</table>

income statistics it is only included at the lower value).

The table gives results for five-year periods since 1901, but the same calculations have been made for individual years, and the results are shown on the diagram. The units in which all real incomes and real products are expressed is the I.U. (international unit), first used in an article in a Weltwirtschaftliches Archiv in 1938, and in "Conditions of National and local taxation, in the 1929's, amounted to nearly 30% of the national income at factor cost — at that time the highest ratio in the world. It is an important but widely neglected truth, that excessive taxation, within a few years of its imposition, is likely to slow down the rate of growth of real product. Probably equally serious is the effect of a third factor, namely the extreme economic nationalism of the regime, which attempted to make Italy self-sufficient in a number of products, and to discourage foreign trade. Except in countries extremely well possessed of abundant natural resources, such a policy nearly always leads to a certain degree of impoverishment.

Regarding the rate of growth of productivity for the years before 1922, we may conclude that the "Liberal" regime of those years may have had its faults; but that the slowing down of the natural development of economic productivity was not one of them.

ITALY: REAL PRODUCT IN INTERNATIONAL UNITS PER MAN-HOUR

(Geographic scale)

The decline in productivity in the Second World War was considerably greater than in the First World War, not only because Italy was more deeply engaged, but also because her commerce with the whole non-European world was cut off, thereby further disorganising production. In the years 1943-45 Italy was a battleground, and it is indeed remarkable that productivity was kept as high as it was. Even in the worst year, 1945, real product per man hour was still higher than it had been in any year of peace up to 1913 — an interesting conclusion.

After the minimum of 1945, recovery pro-
Medium-term Lending by the French Deposit Banks and Banques d’Affaires

1. Definition.

Our first task is to give a definition of medium-term loans. We may base this either on the nature of the needs which the loans are intended to satisfy, or on the period for which the money is lent. Both are highly variable. For on the one hand there are many types of business which may be financed by medium-term credit — in fact the official list of them becomes longer every day; and on the other hand any period we may select as our criterion for deciding what is medium term is bound to be arbitrary. Thus periods varying from 18 months to 5 years have been accepted as coming within the category of medium-term lending.

The Bank of France has solved this problem by implication. By taking certain of its rulings together with its system of classifying loans for the purpose of registering risks, we may infer that its definition of medium-term credit has elements of both the criteria mentioned above. Thus the loans which are deemed to be at medium term and eligible for rediscount at the Bank of France are those made for financing investment in productive equipment, or foreign trade subject to Government guarantee, or building, and running for periods of three to five years.

If the credit runs for less than three years, this does not mean that the Bank of France will regard it as being at short term. The Bank will include it in the category of "non-mobilizable" or "non-mobilizable" credits in the manner which we shall describe below when we come to the system of classification used by the Bank in its *Centralk des Risques*.


At the beginning of this century the Bank of France began to admit to rediscount bills representing credits granted by banks to their customers, such bills being known variously as "credit paper", "finance paper", or "mo- bilisation paper" (1). The credits granted in this way might be used to finance either capital projects or transactions of a seasonal nature. In principle they were limited to a period of one year, but they were frequently renewed. Each transaction required the previous consent of the Central Bank. Rediscount was allowed on the transactions and not on the names, as was the rule for commercial paper. It was the regional banks, and more particularly those in Lorraine, that benefited from this system, which contributed to the industrial development of that part of France.

Such credits were mobilised at the Bank of France by the use of 90-day promissory notes signed by the beneficiary and guaranteed by the signature of another firm or party. The signature of the presenting bank formed the third of the three required by the Bank of France for rediscounts. Where the credit was not guaranteed by the name of an outside firm or party, the third signature would be obtained by cross transactions between banks. Bank A for instance would hand to Bank B 20 million francs' worth of promissory notes carrying its endorsement in exchange for 10 million francs' worth endorsed by Bank B.

Certain critics have maintained that such business was contrary to the statutes of the Bank of France, on the ground that the Bank had power to discount only "commercial bills" running for a maximum of 90 days, and bearing the signatures of three parties of known solvency. "Credit paper" is

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