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Postwar Savings in Continental Western Europe

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Elinor Harris

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Postwar Savings in Continental Western Europe

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Great variations in the growth and use of savings help to explain differences in the rate of postwar economic expansion among Western European countries. The revival of savings has been hampered by low per-capita incomes in certain countries, and by an unstable political and economic climate in others. Without ample savings, it has been difficult for many private business firms to finance the expansion in plant and equipment, which would have been necessary for increased productivity and income.

In many European countries the dividing line between inflation and stagnation is narrow and the stability of equilibrium precarious. Many governments appeared to be confronted with the question of whether it would be a lesser evil to risk inflation, created by deficit financing, to support a level of investment greater than that which could be financed from voluntary savings; or to risk stagnation caused by national under-investment, due to monetary policies restricting investment to the volume of voluntary savings.

Until recently, the problem of overcoming the shortage of domestic savings has at times seemed as insuperable as that of eliminating the dollar gap. Nevertheless, just as the balance-of-payments position improved substantially in Western Europe during 1952 and early 1953, there has also been in these countries a genuine -- if weak -- revival of voluntary savings. Monetary policies that discourage capital flight and reduce the ever-present danger of inflation have contributed to both these developments.

The possibilities of raising savings and investment levels

The task of raising savings levels and increasing their use for productive purposes might be undertaken in three ways: (1) The ratio of savings to national income might be raised, for example, through temporary postponement of consumers' expenditure in anticipation of future price declines; or a permanent strengthening in the willingness to save on the part of individuals and business firms. (2) The income level (and thus the savings level, provided that savings ratios do not decline) might be raised through increased sales abroad or at home, reflecting increased business activity. (3) A greater part of the available saving might be channeled from gold or other idle hoards into productive investment by the stabilization of internal price levels, and the resulting reduction of the risk of corrosion of capital values through inflation. 1/

1/ In the language of economic theory this means: (1) a shift to the "right" in the savings function which relates savings (on the horizontal scale) to incomes (on the vertical scale); (2) an upward movement along a given savings function due to a rise in incomes; (3) a reduced liquidity-preference, or a shift in saving uses into less liquid assets.

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Simultaneously, private investments might be raised in several ways. An increase in private savings and in their flow into the capital markets would in itself tend to raise prices of outstanding industrial bonds and equities, and thus stimulate new business investment by improving the terms and reducing the costs of new bond or stock flotations. In addition, credit costs to business might be lowered by reducing discount rates or other means such as public guarantees, especially in selected areas where investment is highly responsive to downward interest rate changes or increased supplies of funds. Finally, the profitability of investment itself in the economy might be raised through improving the general outlook for the future level of consumer demand both at home and abroad. 1/

All these methods have been used by various governments and at various times. The present paper attempts to analyze these efforts and their results in postwar Western Europe.

Saving and investment relative to GNP

The greatest post-Korean savings revival has apparently been in those countries -- such as Belgium, the Netherlands, the United Kingdom, and Germany -- where monetary controls were actively re-introduced and accompanied by sound fiscal policies. Unfortunately, the comparability of data concerning the volume of investment and flow of savings is limited by serious statistical and conceptual difficulties. 2/

The relationship between gross fixed investment and gross national product in Western European countries seems generally to have ranged between 18 and 22 per cent (see Appendix, Table 1). The proportion of gross national product devoted to investment has been consistently highest in Norway and Sweden, which have stressed investment heavily. On the other hand, the relatively lower proportion (about 13 per cent) shown

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1/ In the language of economic theory, (1) a general reduction in "the" interest rate level (due both to an increase in saving -- or idle monetary supplies -- and to a reduced liquidity preference on the part of the public resulting in a bidding up of prices of outstanding bond issues and a corresponding reduction in their yields); (2) further induced selective interest rate reductions in areas where the investment-function (relating the val of investment on the horizontal axis to "the" rate of interest on the vertical axis) is highly elastic to interest rate changes; (3) a shift to the right in the investment-function itself.

2/ It is possible, for statistical purposes, to consider either gross domestic saving, as derived directly from the national accounts, or liquid saving as derived from various available financial statistics. Gross domestic saving in turn may be represented as gross investment plus or minus the foreign balance, a dubious statistical procedure; in some countries, the amount of personal savings is computed as the residual in the national accounts.

(Continued on page 3)

for the United Kingdom may be attributed in part (but not wholly) to the fact that the official British national accounts exclude current expenditure on maintenance and repair from the statistical measure of investment.

Investment shows in most countries a cyclical pattern. Gross investment generally rose between 1948 and 1951, but the rate of growth (or, in some cases gross investment itself) usually declined somewhat between 1951 and 1952. In particular, inventories declined in 1952 in Denmark, France, the United Kingdom and the Netherlands; this decline offset continued increases in investment in fixed assets.

At current prices, gross investment increased between 1948 and 1952 most rapidly in Western Germany, France and the Scandanavian countries. On this basis, Italy and Belgium achieved moderately large gains while the Netherlands and the United Kingdom scored the least impressive increases (see Appendix, Table 1,A).

Comparative changes in gross investment at stable prices reveal an entirely different picture (see Appendix, Table 1, B). In "real" terms, Italy, Western Germany, and Belgium -- the three countries that have most consistently applied anti-inflationary monetary policies -- have achieved by far the greatest gain since 1948 (about 80, 60, and 45 per cent, respectively) while the Netherlands, Norway, Sweden, and the United Kingdom show negligible "real" increases ranging from 0 to 5 per cent. France, which under the Monnet Plan virtually doubled its investment expenditures at current prices, nevertheless achieved a "real" increase of only 18 per cent.

The stringent postwar financial reforms in countries such as Belgium, Italy, and Germany apparently made possible a substantial long-range rise in aggregate real investment and production. Financial policies which appear initially to restrict the growth of money incomes through restraint upon inflationary pressures may thus, at the same time, actually increase the flow of real incomes, investments, and savings. If applied too vigorously, however, such policies may also increase unemployment; in particular, Belgium and Italy have been criticized on the grounds that they have gone too far in the direction of monetary restraint at the expense of a satisfactory employment level.

Sources of investment funds

Although postwar variations in the proportion of gross national product devoted to investment have not been great, (with the exception of the Scandanavian countries) there have been very real differences in the methods of financing of this investment -- both by countries and over time (see Appendix, Tables 2-6).

(Continued from page 2)

The alternative method of estimating gross savings is to show saving as the sum of the discernable sources of investment funds including, for instance, bond and share offerings, savings deposits, bank credit, undistributed profits, and so on. Liquid savings are easier to compute, but can hardly be considered as a representative sample of total savings.

In Switzerland, which like the United States has enough savings to meet domestic investment needs and leave available a surplus for export, over 50 per cent of gross fixed investment was financed from personal saving. On the other hand, in France, Belgium, and Italy the capital market and private bank credit financed only about 10 to 20 per cent of the total. In these countries, business self-financing was high, ranging from about 40 to 45 per cent in the case of France and Italy to over 55 per cent in the case of Belgium. The remainder was paid for from public funds and official credit institutions.

Financing by external loans or grants was important in most Western European countries during the period of Marshall Plan aid; it has recently gone down substantially in the United Kingdom, the Netherlands, and the Scandanavian countries because of their improved external balances. As a result, gross domestic asset formation actually declined in 1952 in the United Kingdom and the Netherlands. In the case of Norway and Sweden, the gap was closed by an increase in general government financing; in Denmark, which restricted credit most effectively among the Scandanavian nations, the deficiency was met by a rise in savings of households and business enterprises. Private savings of individuals and business enterprises rose, between 1948 and 1952, five times in Denmark; three times in Sweden; but only 30 per cent in Norway, the only Western European country that has steadfastly refused to use the weapons of anti-inflationary monetary policy.

In most countries, there seems to have been little change over time in the share of investment financed from public sources, since the decline in available Marshall Plan aid counterpart was for the most part offset by increased domestic governmental aid from the general budget.

Changes in the forms of financial saving

Examination of the various forms of financial savings, such as gold hoards, cash holdings, savings deposits, life insurance, and individual subscriptions to bond and share issues, reveals important changes in economic attitudes. For instance, a flow of savings into financial institutions indicates optimism about the stability of the domestic economy while increased cash holdings reflect pessimistic **upward** price expectations.

Although aggregate gross investment and saving in the national accounting sense rose in 1952 at a greatly reduced rate (or in some cases actually declined), there was nevertheless a notable rise in savings deposits. In addition, contractual saving in the form of life insurance, pension funds, and special institutions — a cyclically stable type of personal saving — continued to rise at a fairly steady rate despite the decline in 1952 in the level of business activity. 1/ Moreover, in some countries, such as Italy, France, the Netherlands, and Germany there was also renewed interest by savers in domestic bond and share issues, although market financing continued to remain generally at a low level. 2/ Some attempt was made to encourage purchase of bond issues last year through "special" devices such as tax-exemption on interest yields or other preferential tax treatment; and escalator provisions linking bond values to a commodity of constant purchasing power. Austria, Germany, and the Netherlands made use of the former and France of the latter techniques, with only limited success.

The growth in liquid and institutional saving was presumably in part cyclical, representing a return to normal savings habits and an attempt to build up liquid reserves which had been depleted during the post-Korean spending splurge of late 1950 and early 1951. However, it also probably reflected the following long-term developments: the psychological effect of the growth of gold and dollar reserves and the improved external balance, particularly with the dollar area; the resulting decline in the black market prices for dollar exchange (i.e., a narrowing between official and "real" exchange rates); a levelling off or decline in internal price levels and strengthened confidence in the future stability in domestic purchasing power of the currency; and the continued growth in real incomes themselves.

1/ Individuals customarily maintain insurance or other "contractual" payments to a far greater extent in periods of recession than they would other forms of saving, such as saving deposits or bank note hoards. Thus, to the extent that individuals' savings are channelled to an increasing degree into such institutional forms, the volume of aggregate national saving is more likely to be maintained from year to year, in periods of recession as well as those of boom; and, to the extent that legal provisions regarding investment of such funds are relaxed, their flow into industrial bonds or equities may gradually rise. From a technical point of view, too, financial institutions receiving individuals' savings are better able than individuals to select productive and at the same time sound industrial bonds or equities —provided that official pressure to purchase government bonds is not too great — and, in general, they are more willing to do so than individuals.

2/ In the past, high-income Europeans have invested a large part of their savings abroad, for reasons of political security and in order to evade domestic taxation on the investment yield. The recent rise in individual purchases of domestic bond and share issues may reflect some repatriation of such capital. The increased savings accounts and other institutional saving reflect increased holdings of middle-income groups who have typically shown little interest in share or bond issues, except for government bonds.

Changes in savings by countries

These points may be illustrated by an examination of individual countries. In Switzerland, where full confidence in the currency has been maintained and habits of thrift are thoroughly ingrained, the supplies of new investment funds far exceed the domestic demand for them. Evidence of this fact is the high degree of liquidity on the Swiss money and capital markets and the low and declining level of long-term interest rates, despite substantial Swiss lending abroad.

In France, a weak increase in savings occurred during 1952 and continued through 1953 (see Appendix, Table 2). The rise in 1952 took place chiefly in the form of subscriptions to government and other quasi-official bonds equipped with special "escalator" provisions designed to offset the ingrained inflation psychology of the French people: principal and interest of major bond offerings of the Central Government and the nationalized industries have been linked to a commodity of reputedly constant purchasing power, such as gold, kilowatt hours of electricity, or railroad fares. Still, as shown by a recent study of French investment preferences 1/ the public's present enthusiasm for such "indexed" loans remains slight, and until late 1953 the most popular form of savings continued to be real estate and gold. However, with the recent decline in gold prices on the French market, buyers' interest in gold as a form of investment has declined and substantial dishoarding of gold has apparently taken place.

1/ L'Office Dourdin, "L'Epargne en France", La Vie Francaise, June 5 and 12, 1953. The Dourdin study is based on a sample of 2,500, designed to represent the entire adult population of France except for the lowest economic groups and the unemployed (together estimated at 20 per cent of the total). Those covered in the study comprise 3 economic groups: Class A, described as "la grande bourgeoisie," high officials, and large land-owners; Class B "la moyenne bourgeoisie," including manufacturers, merchants, professionals and higher-salaried employees; and Class C, including wage earners, lower-salaried employees, tradesmen, and artisans. According to the replies to a question as to the 6 types of investment considered safest, real property was ranked first by 27 per cent of the respondents and gold was ranked first by 12 per cent; while other types of securities and business interests were favored by only 8 per cent and French industrial stocks by only 3 per cent. Over 40 per cent of the respondents said they did not know or failed to answer. When asked whether they believed in the future of the traditional form of savings by security ownership, only 20 per cent said "yes"; 60 per cent had no opinion and 20 per cent said "no". When asked an opinion regarding "indexed" loans, only 17 per cent found them interesting while over 75 per cent had no opinion.

Since 1948, the rise in French gross national product at current monetary values has been greatest of any country of Western Europe; and even when deflated by the French wholesale price index, the increase between 1948 and 1952 -- about 22 per cent -- remains substantial (see Appendix, Table 1). It may be concluded that in France individual savings have not been retarded primarily by any lack of growth of real incomes but rather by the inherent inflationary bias in the French economy which have reduced personal inclinations to save (i.e., the ratio of savings from incomes). These same factors have also influenced the financial forms in which personal savings are held: given an expectation of more or less permanent inflation investors were reluctant to hold assets whose money value was fixed, such as savings deposits and ordinary bonds.

It is often said that inflation and recession are not alternative, but simultaneous, risks in France. For instance, during the period of great upward pressure on prices in 1951, the first sign of weakness appeared in certain sectors of the economy; while in September 1953 when Premier Laniel attempted to reduce consumer prices by 10 per cent through "voluntary" action on the part of businessmen, he tried at the same time to stimulate investment expenditures and avert industrial stagnation through a reduction in the discount rate.

Many years of successive inflations have deadened the bargaining spirit of consumers and damaged personal incentives to save in forms other than gold, real estate, or equities. Contraction of available personal savings and stagnation in the private capital markets, in turn, have fed the already existing inflationary bias since they led to still further increases in the demand for tangible commodities and real property and to a still further reduction in competition and industrial productivity. The best-equipped business enterprises, which made the largest profits, could finance equipment requirements from their own internal financial resources; but their existing advantage over weaker competitors reduced their incentive to utilize capital in this fashion. The weaker competitors, on the other hand, could not get the funds required for expansion on the capital market because of the dearth of private saving, yet did not have adequate undistributed profits or other funds from internal sources.

As a result, in 1952 about forty per cent of all new fixed investments in France had to be financed through public funds, which ordinarily involved Treasury deficit financing. Moreover, over two-thirds of all privately financed investments came from internal business resources. This type of financing has inflationary implications in a country such as France, where consumer demand is inelastic and investment costs can easily be passed on in the form of higher prices;

and where, in addition, normal business competition is too weak to bring about price reductions corresponding to increases in productivity. Finance Minister Faure has deplored this situation and stated, as the guiding principal of his policy of "expansion without inflation" 1/, that savings out of national income must be increased if total investment is to rise -- a goal not likely to be attained unless internal price stabilization can be sustained indefinitely.

In contrast, in Italy, the dearth of adequate personal savings does not stem from any lack of domestic confidence in the currency but from the country's poverty and the fact that average per-capita incomes are very close to the "basic consumption" level where virtually all of current incomes must be spent. There are great disparities in incomes, with a somewhat higher standard of living and greater possibility of saving in Northern than in Southern Italy; but there is nevertheless little saving in the country as a whole, and, accordingly, inadequate private financing of investment outlays and very high interest rates on most private loans and investments. Moreover, the commercial banks are very cautious in their loan standards and eligibility requirements; and their influence is especially great because they also engage in long-term business financing on account of the atrophy of the private capital market for long-term funds.

As a result of application of strict financial policies in the second half of 1947, the inflationary price trend was halted at that time; and the country's reserves of gold and foreign exchange -- which were virtually non-existent in the autumn of 1947 -- rose sharply, while some repatriation of capital from abroad was reported to have occurred. Largely because of stability in the Italian wholesale price index, the increases between 1948 and 1952 in "real" Italian gross investment (82 per cent) and in "real" gross national product (47 per cent) were greater than in any other Western European countries (see Appendix, Table 1, B). The ratio of gross investment to gross national product, too, increased considerably between 1948 and 1952, in part because of expanded public investment programs, especially in the South, but probably also in part because of an improved allocation of real resources.

1/ Finance Minister Faure has attempted to reduce investment costs through monetary and fiscal policies. A reduction in the rediscount rate of the Bank of France in September 1953 from 4 to 3 1/2 per cent, which has tende to draw down private bank rates generally, was supposed to decrease produc tion and investment costs. In addition, a 50 per cent reduction in the production tax on capital equipment was expected to result in a 10 per cent decline in the cost of investment goods and a comparable expansion in private investment.

As a result of financial stability, financial saving of individuals appeared to grow at an increasing rate during 1952 (see Appendix, Table 3).

However, the basic deficiency in Italian personal savings will doubtless remain until employment and per capita incomes can be raised substantially through increased productivity and reduced costs, accompanied by increased sales of Italian-produced goods in foreign markets. An alternative method to evoke increased private savings in Italy (as in Belgium) has been a government guarantee of private credit for selected purposes. Such guarantees tend to increase the flow of private saving (as well as of bank credit) into capital goods production by reducing the investment "risk"; and, at the same time, to reduce the excessive interest rate spread between long-term public and private rates and thus the cost of funds to private borrowers. In important areas where incomes are insufficient and private credit is totally lacking (such as in Southern Italy) direct public expenditures on land reclamation and other public work projects have expanded both investment and incomes.

Belgium, the Netherlands, and Western Germany are considered to be classic examples of how restrictive monetary policies can stimulate the growth of private savings and restore the working of the capital market; and possibly, in addition, help raise real incomes and investment over a longer-range period. Thus, in Belgium and Germany the increase between 1948 and 1952 in "real" gross investment (45 and 60 per cent, respectively) was exceeded among other Western European countries only by that of Italy; while in the Netherlands, where the growth in investment was less important, the post-Korean return to financial orthodoxy was nevertheless reflected in an improved external balance and in strengthened personal inclinations to save from current incomes. In all three countries, there has been, moreover, an apparent shift in the use of personal saving, i.e., in the flow of personal funds into the financial institutions and the capital market.

In Belgium, monetary reform and quantitative controls, including high (50-65 per cent) secondary reserve requirements against deposits, were adopted early in the postwar period; following the outbreak of the Korean War, the discount rate was raised while qualitative controls were not used. Monetary restraint in Belgium has effectively checked inflationary pressures and the ratio of "real" investment to gross national product has increased (see Appendix, Table 1, A); but its critics have charged that the policy has had undesirable effects on output and employment. Belgium has experienced a smaller monetary (but probably not "real") postwar expansion in gross national product than most other European nations, and has continued to suffer from high unemployment.

Public funds and foreign aid were less significant sources of investment financing in Belgium than in other Western European countries, and the proportion of gross investments financed internally by business corporations was the highest in Europe (see Appendix, Table 4). Less than 10 per cent of gross investments were financed by offerings of private industrial issues. Commercial bank credit, similarly, played little part in long-term financing; and the National Bank has abstained from any direct intervention on the market to maintain bond yields at low levels, a policy resulting in fairly high private long-term borrowing costs.

Since Belgium had already achieved internal financial stability in the early postwar years, the growth in savings deposits during 1952 reflected chiefly cyclical factors such as a desire by consumers to postpone expenditures and to rebuild cash reserves following the excessive rate of spending in late 1950 and early 1951. Savings deposits of households more than doubled, while other institutional savings (largely in life insurance) continued to rise at a steady rate. Subscriptions to capital issues, too, rose considerably between 1951 and 1952 and, in view of increased liquidity in the capital and money markets, interest yields declined somewhat. 1/

In the Netherlands, the prewar normal growth of personal saving, interrupted by World War II and restored in 1949, also came to a halt in the second half of 1950 and 1951 following the outbreak of hostilities in Korea. A substantial recovery in liquid saving occurred during 1952 (see Appendix, Table 5). In contrast to Belgium, monetary restraint was not put into effect until late in 1950; the new monetary policy is believed to have helped to induce, beginning in mid-1951, (a) a declining consumer price level; (b) an improved external balance; and (c) attitudes and expectations more conducive both to an increased rate of savings from current incomes, and to a wider use of existing savings for institutional investment and for long-term industrial and municipal loans.

In the Netherlands, as in Belgium, the traditional distinction between the short-term loan function of the commercial banks and the long-term function of the capital market has been well maintained. This has been possible because of the continued existence of an active private capital market, a situation not typical of present-day European countries generally. The Nederlandsche Bank has not directly intervened in the

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1/ Appendix Table 4 does not show changes in cash holdings; thus, the larger amounts deposited in savings banks or invested in securities may have come from previously accumulated liquid assets.

private bond market; the market has, therefore, remained sensitive to changes in the demand for investment funds and to the level of savings as well as to changes in monetary policy. In the first year after the Korean War, with the revival of industrial demands for capital as well as the increase in discount rates from 2 1/2 to 4 per cent, a shortage of investment funds developed which was reflected in a steady rise of interest rates. In 1952, on the other hand, the total supply of available investment funds on the capital market grew while governmental and industrial demands for these funds contracted. With the resulting fall in public and private interest rates, the local authorities have been able to borrow funds for construction and other public works projects on an increasing scale and at declining costs.

In Germany, recovery of personal savings followed the 1948 monetary reform, but the movement of savings into the capital market for productive uses appears to have been somewhat sluggish. While only 6 per cent of available personal income was saved in 1949, the rate was as high as 14 per cent in 1952; however, the private securities market failed to keep pace with the rise in savings and capital formation. Thus, between the 1948 currency reform and the end of 1952 total gross fixed investment amounted to DM 89 billion, but individuals and business firms acquired only DM 0.8 billion in newly issued bonds (out of a total DM 3 billion placed with the public including the banks in that period) and only DM 0.5 billion in newly issued shares, of which only a part represented new capital (see Appendix, Table 6). This lack of interest in bond and share issues may be explained by the great desire for liquidity and the heavy fiscal burden on the yields of securities, especially the double taxation of dividends.

Delay in the development of a capital market in Germany has been attributed in part to artifical government maintenance of long-term rates at levels below those which would have been realized had the market forces been permitted to come into play. Prior to December 1952, the interest rates on public loans were officially fixed at a maximum of 5 per cent and the "ceiling" on industrial loan rates was set at 6 1/2 per cent. However, in December 1952 it was decided to allow market rates to be readjusted according to market conditions. At the same time, in order to prevent too sharp a rise in the cost of construction and essential government financing, the Government decided to grant complete tax exemption on interest yields from new government bond issues, certain mortgage bonds, and municipal securities.

Largely as a result of increased aggregate savings and of the measures "freeing" bond rates in the private capital market, there was a substantial "thawing" in the market during 1953. This was reflected in an increased volume of bond and share offerings and, paradoxically, a gradual decline in private bond yields later in the year following the initial rise in yields early in the year. Total placement of securities in the first eight months of 1953 amounted to nearly DM 1.9 billion, compared with DM 0.8 billion in the corresponding period of 1952. Security purchases of life insurance companies and pension and other trust funds -- whose investment funds have risen as a result of heightened individual interest in insurance policies and other institutional saving -- have increased considerably. Direct security purchases of individuals and corporations also have increased; and loan conditions have become easier, a change reflected chiefly in maturities. For example, at the beginning of 1953, an average rate of interest of between 7 1/2 and 8 1/2 per cent, offered at between 94 and 96 per cent, had to be granted on industrial issues with 5-year maturity; while in September the maturity of an offering made on these terms was 8 to 10 years. For such issues, the effective rate of interest has therefore fallen by about 1/2 of 1 per cent.

Impact of monetary policy on the revival of savings

The impact of recent monetary policy upon Western European economies may be broadly classified under two headings; (a) the interest rate (or short-run) effect; and (b) the psychological (or long-run) effect.

(a) Interest-rate effect -- The initial result of official discount rate policy in the post-Korean period was to increase public and private yields. The change in discount rates was transmitted throughout the public and private rate structure in the following manner: the "market" interprets a rise in the discount rate as indicative of higher rates also of future offerings of public medium- and longer-term bond issues; this expectation tends to reduce prices of outstanding public bond issues, and this price decline is transmitted to private bond and share quotations. At the same time, the higher price of central bank reserve credit normally increases the expense of obtaining private bank credit for rebuilding inventories or other purposes.

In countries in which the stability and convertibility of the domestic currency is not questioned -- a situation, however, that prevails in very few European countries -- higher interest rates might also have encouraged an inflow of capital, or a repatriation of domestic capital from abroad, as a result of the increased interest-yield differential between domestic and foreign investment.

(b) While these effects as such do not necessarily increase the supply of domestic savings, there appears to have been in many countries also an important psychological effect of revival of monetary controls. By strengthening the confidence in the willingness and ability of the authorities to avoid inflation, the increase in the discount rate led to a rise in the savings ratios, independently of the change in the market rate of interest. Thus, when most countries lowered the discount rate again in 1953, the level of savings nevertheless appeared to remain permanently higher than before; and in fact, continued to rise as confidence in the currency improved further. This psychological factor also was probably responsible for the changed pattern of savings with a reduced preference for gold, land, or liquidity. The new (higher) level of savings thus became also more significant because a larger part of the saved funds was channelled into productive investment. These effects, rather than the direct influence of the original increase in the "price" of savings, have probably been decisive for the rise in savings and the reawakening of capital markets since late 1951.

Paradoxically, the increase in discount rates may thus have tended, over a longer period, to reduce private interest rates by stimulating private savings. Such reductions have indeed occurred in the Netherlands, the United Kingdom, and Germany.

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APPENDIX

Table 1

A. Gross Investment and Gross National Product

at Current Prices

(In billions of national currency units)

Countries	Gross investment (Including stocks) (1)	Gross investment (Excluding stocks) (2)	Gross national product 1/ (3)	Gross investment as per cent of gross national product 2/ (2) ÷ (3) (4)
Belgium				
1948		40.0	289	14
1949		46.3	294	16
1950		57.9	326	18
1951		59.5	362	16
1952		65.9	379	17
Denmark				
1948	4.03	3.68	19.6	19
1949	4.67	4.47	20.8	21
1950	5.99	5.24	23.6	22
1951	6.19	5.74	25.8	22
1952	6.08	6.33	27.2	23
France				
1948	1,272	1,192	6,739	18
1949	1,814	1,514	8,319	18
1950	1,864	1,606	9,359	17
1951	2,572	2,234	11,820	19
1952	2,390	2,295	13,455	17
Germany				
1948 3/	15.36	12.60	71.0	18
1949	17.07	15.05	79.8	19
1950	20.87	18.27	90.3	20
1951	29.23	22.94	113.5	20
1952	31.39	25.43	125.6	20
Italy				
1948	1,513	1,200	7,266	17
1949	1,451	1,375	7,622	18
1950	1,621	1,520	8,308	18
1951	2,046	1,835	9,795	19
1952	2,099	2,120	10,332	21

	(1)	(2)	(3)	(4)
The Netherlands				
1948	3.76	3.11	16.0	19
1949	4.11	3.52	17.8	20
1950	5.55	3.99	19.8	20
1951	5.35	4.29	21.9	20
1952	3.82	4.42	22.7	19
Norway				
1948	5.10	4.62	14.1	33
1949	5.87	5.37	15.2	35
1950	5.88	5.73	16.8	34
1951	6.98	6.38	20.4	31
1952	7.25	7.25	22.0	33
Sweden				
1948	8.08	7.72	28.4	27
1949	7.67	7.54	29.2	26
1950	8.31	8.54	31.1	27
1951	11.39	10.39	38.3	27
1952	12.60	12.05	41.5	29
United Kingdom 4/				
1948	1.54	1.39	11.67	12
1949	1.56	1.53	12.38	12
1950	1.46	1.67	13.10	13
1951	2.47	1.86	14.48	13
1952	1.93	2.05	15.52	13

1/ At market prices.
2/ Gross investment excludes stocks.
3/ July - December 1948 data expressed at annual rate.
4/ Investment excludes current expenditure on maintenance and repair.

Table 1

B. Gross Investment and GNP at Stable Prices, Deflated by Wholesale Price Changes

Countries	Wholesale price index 1948=100 (1)	Gross investment (Excluding stocks): In billions of national currency units (2)	Gross investment (Excluding stocks): In index numbers 1948=100 (3)	Gross National Product: In billions of national currency units (4)	Gross National Product: In index numbers 1948=100 (5)
Belgium					
1948	100	40.0	100	289	100
1949	95	48.7	122	309	107
1950	100	57.9	145	326	113
1951	121	49.2	123	299	103
1952	114	57.8	145	332	115
Denmark					
1948	100	3.68	100	19.6	100
1949	102	4.38	119	20.4	104
1950	115	4.56	124	20.5	105
1951	147	3.90	106	17.6	90
1952	143	4.43	120	19.0	97
France					
1948	100	1,192	100	6,739	100
1949	112	1,352	113	7,427	110
1950	121	1,327	111	7,734	115
1951	155	1,441	121	7,625	113
1952	163	1,407	118	8,254	122
Germany					
1948 1/	100	13.13	100	74.0	100
1949	107	14.61	111	77.5	105
1950	104	18.27	140	90.3	122
1951	124	19.27	147	95.3	128
1952	126	21.01	160	103.8	140
Italy					
1948	100	1,200	100	7,266	100
1949	95	1,447	121	8,023	110
1950	90	1,689	141	9,231	127
1951	103	1,782	149	9,510	131
1952	97	2,186	182	10,652	147
The Netherlands					
1948	100	3.11	100	16.0	100
1949	104	3.38	109	17.1	107
1950	117	3.41	110	16.9	106
1951	143	3.00	96	15.3	96
1952	140	3.16	102	16.2	101

Table 1, B Continued — Postwar European Savings

	(1)	(2)	(3)	(4)	(5)
Norway					
1948	100	4.62	100	14.1	100
1949	102	5.26	114	14.9	106
1950	115	4.98	108	14.6	104
1951	143	4.46	97	14.3	101
1952	152	4.77	103	14.5	103
Sweden					
1948	100	7.72	100	28.4	100
1949	101	7.47	97	28.9	102
1950	106	8.06	104	29.3	103
1951	140	7.42	96	27.4	96
1952	148	8.14	105	28.0	99
United Kingdom 2/					
1948	100	1.39	100	11.67	100
1949	105	1.46	105	11.79	101
1950	120	1.39	100	10.92	94
1951	146	1.27	91	9.92	85
1952	149	1.38	99	10.42	89

1/ July - December 1948 data expressed at annual rate.
2/ Investment excludes current expenditure on maintenance and repair.

Source: -- Gross domestic investment and gross national product for all countries except Belgium: the official national accounts and the International Monetary Fund, International Financial Statistics; for Belgium: gross domestic investment (excluding stocks) from Ministere des Affaires Economiques et des Classes Moyennes, L'Economie Belge en 1952 (Bruxelles, 1953); Belgium's gross national product derived from national income data, as shown in International Monetary Fund's International Financial Statistics, by adding estimated indirect business taxes and capital consumption allowances and deducting estimated government subsidies.

Wholesale price indices, International Monetary Fund, International Financial Statistics; in the case of Germany, the 1948 index is estimated from raw material and industrial price indices, as shown in Statistisches Jahrbuch für die Bundesrepublik Deutschland, 1953.

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Table 2

FRANCE

A. Financing of New Fixed Investment

(In billions of French francs)

Year	Public authorities	Per Cent	Self-financing	Per Cent	Bank credit, capital markets and other methods	Per Cent	Total	Per Cent
1949	709	64	246	22	154	14	1,109	100
1950	721	60	335	28	144	12	1,200	100
1951	675	41	727	44	248	15	1,650	100
1952	742	41	720	40	358	19	1,820	100

B. Evolution of Reported Liquid Savings of the Public

(In billions of French francs)

	1948	1949	1950	1951	1952
Increase in savings and time deposits	90	110	146	98	142
Life insurance (net addition)	15	12	18	23	25
Short-term Treasury bills 1/	10	30	57	80	71
Government bond issues	108	108	31	0	228
Bond issues of nationalized and quasi-government organizations	41	19	52	43	41
Industrial bond issues	7	10	11	11	7
Industrial share issues	41	41	31	44	67
Share offerings in limited liability companies	6	9	10	6	7
Deduct: amortization on outstanding bond issues and purchases of securities by government institutions	-(59)	-(66)	-(31)	-(18)	-(67)
Total reported liquid savings of the public	259	273	325	287	521

1/ Excess of subscriptions over redemptions.

Source: - Part A, Bank for International Settlements, 1952 Annual Report;
Part B, "La Situation Economique de la France au Debut de L'Ete 1953," Etudes et Conjoncture, No. 7, July 1953

Table 3

ITALY

A. Financing of Gross Investments 1/

(In billions of lire)

Year	Public authorities	Per Cent	Non-traceable funds 2/	Per Cent	Market issues	Per Cent	Depreciation allowances	Per Cent	Total	Per Cent
1948	450	30	300	20	150	10	600	40	1,500	100
1949	400	28	175	12	250	17	625	43	1,450	100
1950	500	31	300	18	150	9	675	42	1,625	100
1951	550	27	475	23	150	7	875	43	2,050	100
1952	625	30	275	13	275	13	925	44	2,100	100

B. Growth of Selected Liquid Financial Savings

(In billions of lire)

	1948	1949	1950	1951	1952
Savings and time deposits	277.0	210.4	156.5	191.7	324.6
Postal savings accounts and savings bonds	143.1	180.1	166.8	107.6	166.6
Life and other private insurance	29.6	33.6	29.0	44.8	50.8
Total annual growth, selected individual savings	449.7	424.1	352.3	344.1	542.0
Industrial share issues offered for public subscription	86.1	89.6	65.5	81.4	107.0
Industrial bond issues offered for public subscription	24.4	107.6	32.7	7.4	15.2
Total industrial security offerings	110.5	197.2	98.2	88.8	222.2

1/ Includes investment in stocks.
2/ Includes retained profits and bank credit (particularly that granted for financing of stocks).

Source: — Part A, Bank for International Settlements, 1952 Annual Report; Part B, Banca d'Italia, Annual Reports for the years 1950 and 1952 and Istituto Centrale di Statistica, Annuario Statistico Italiano, 1952.

APPENDIX

Table 4

BELGIUM

A. Financing of Gross Investments

(In billions of Belgian francs)

Year	Public authorities	Per Cent	Official credit institutions	Per Cent	Capital market 1/	Per Cent	Self financing	Per Cent	Total	Per Cent
1947	8.3	24	6.4	19	4.7	14	14.7	43	34.0	100
1948	7.3	19	6.4	17	5.5	14	18.7	50	38.0	100
1949	8.7	19	10.2	23	5.8	13	20.3	45	45.0	100
1950	12.4	19	13.6	21	5.6	9	32.9	51	64.4	100
1951	14.8	21	10.5	15	5.8	8	38.6	56	69.8	100

B. Postwar Growth of Net Savings

(In billions of Belgian francs)

	1948	1949	1950	1951	1952
Savings of households:	23.8	27.7	26.9	30.4	39.7
Saving deposits	7.1	7.8	4.1	5.4	11.0
Saving "reserves" 2/	4.7	4.2	4.5	5.8	6.6
Mortgage loans	(1.5	(1.2	1.9	2.1	1.5
Mortgage repayments	(	(	2.8	3.3	3.8
Investment in real estate	3.7	4.2	6.4	6.6	4.8
New subscriptions to bond and share issues	6.8	10.3	7.2	7.2	12.0
Savings of business firms: 3/	6.8	6.3	9.8	11.2	9.0
Total net savings	30.6	34.0	36.7	41.6	48.7

1/ Excluding amounts borrowed by the Government and by official credit institutions.

2/ Life insurance, pension funds, and other contractual savings of households.

3/ Undistributed profits; the figures considered to be "net" business savings only.

Details may not add to total because of rounding.

Source: — Part A, Bank for International Settlements, 1952 Annual Report; Part B, La Caisse Generale d'Epargne et de Retraite de Belgique, Compte Rendu des Operations de l'Annee 1950 and 1952. Bruxelles, 1951 and 1952.

Table 5

NETHERLANDS

A. Financing of Gross Domestic Asset Formation

(In billions of guilders)

Year	Public authorities	Per Cent	Self financing	Per Cent	Private individual and corporate saving	Per Cent	Foreign loans or aid	Per Cent	Total	Per Cent
1948	1.4	38	1.5	40	- 0.3	- 8	1.1	30	3.7	100
1949	1.7	41	1.5	37	0.7	17	0.2	5	4.1	100
1950	1.4	25	1.7	31	1.3	24	1.1	20	5.5	100
1951	2.0	37	1.8	34	1.4	27	0.1	2	5.3	100
1952	2.4	63	2.0	53	1.2	32	- 1.8	- 48	3.8	100

B. Liquid Assets Held by the Non-Banking Public, 1949-52

(In millions of guilders)

	December 31, 1949	December 31, 1950	December 31, 1951	December 31, 1952
Liquid asset holdings - by ownership:	10,800	9,880	9,990	11,090
Private individuals, trade, and industry	9,140	8,590	8,770	9,380
Institutional investors 1/	720	540	590	610
Savings banks	820	630	460	590
Provinces and municipalities	120	120	170	510
Liquid asset holdings - by type of asset:	10,800	9,880	9,990	11,090
Claims on the government	2,350	1,790	1,200	1,670
Claims on provinces & municipalities	300	400	570	260
Claims on the commercial banks 2/	600	610	940	1,110
Outstanding bank notes, coin and banking deposits	7,550	7,080	7,280	8,050

1/ Includes social insurance, pension, unemployment, and other funds.
2/ Includes time deposits and savings accounts.

Source: -- (Part B): Nederlandsche Bank, Report for the Year 1952.

APPENDIX

Table 6

GERMANY

A. Financing of Fixed Investment Since the Currency Reform

Source of investment financing	June 21, 1948 - Dec. 31, 1949 (In billions of DM)	1950	1951	1952	June 21, 1948 - Dec. 31, 1949 (As a percentage of fixed investments)	1950	1951	1952
1. Public budget resources	3.3	2.9	4.3	5.2	24.4	24.7	27.9	31.0
2. Private internal sources								
Long-term bank loans	0.6	1.2	1.2	1.6	4.4	10.3	7.9	9.7
Building and loan associations	0.2	0.5	0.4	0.5	1.5	4.0	2.6	2.7
Insurance companies	0.5	0.4	0.6	0.7	3.7	3.5	3.7	4.0
Unemployment and other social insurance funds	0.4	0.3	0.7	0.6	3.0	2.6	4.5	3.8
Loans under the Investment Assistance Law	—	—	0.1	0.3	—	—	0.5	1.9
Security issues 1/	0.5	0.2	0.3	0.6	3.7	1.6	2.1	3.8
3. Counterpart funds	0.4	1.8	0.8	0.5	3.0	15.0	5.3	3.3
4. Anticipatory credits of the commercial banking system	0.1	0.6	0.1	—	0.7	5.0	0.7	
5. Residual item 2/	7.5	4.0	6.9	6.6	55.6	33.4	44.8	39.8
6. Net capital investments in fixed assets (#1 - #5)	13.5	11.8	15.4	16.7	100.0	100.0	100.0	100.0
7. Normal depreciation of fixed assets	9.3	6.5	7.6	8.9				
8. Gross capital investments in fixed assets (#6 + #7)	22.8	18.3	23.0	25.5				

1/ Excludes, to avoid double counting, placements with insurance companies and public subscribers.

2/ Includes, in addition to statistical errors, short-term bank credits, private lendings, and financing out of own resources.

Details may not add to total because of rounding.

Source: — The Bank Deutscher Länder, Monthly Report, August 1951 and March 1953.

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APPENDIX

Table 6

GERMANY

B. Growth of Selected Liquid Savings

(In billions of DM)

	July-December 1948	1949	1950	1951	1952	1953 3/
Saving deposits 1/	1.3	1.5	1.0	0.9	2.4	2.6
Time deposits (running for over 6 months) 1/	0.8	1.3	0.8	0.6	0.8	2.4
Life and other insurance	0.1	0.4	0.4	0.6	0.7	0.7
Saving in building and loan associations	2/	0.2	0.5	0.4	0.6	0.7
Total net growth, selected liquid savings	2.2	3.4	2.7	2.5	4.5	6.4
Total bond placements	2/	0.5	0.5	0.7	1.3	2.4
Total share placements	2/	2/	0.1	0.2	0.3	0.3
Bond and share issues placed with private investors, banks and business	2/	0.3	0.2	0.3	0.8	1.7

1/ Includes, for 1948 and 1949, amounts arising from the Currency Conversion.
2/ Less than 50 million DM.
3/ In the case of insurance, the 1st quarter 1953 amount is expressed at an annual rate; for all other items the 1st half-yearly, 1953, data are expressed at an annual rate.

Source: The Bank Deutscher Länder, Monthly Report, October 1953, January-February 1951, and January 1950.

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