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MICHAEL MICHAELY



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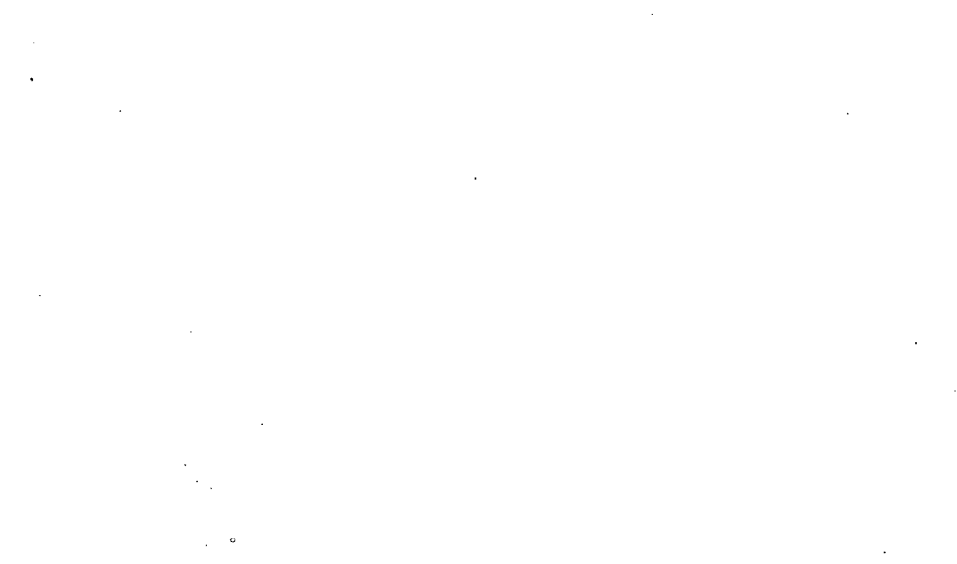
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FOREWORD

The postwar era is essentially one of fixed foreign-exchange rates. Since the late 1950's, it is also an era of largely free international transactions. This combination has inevitably made the maintenance of the present international financial system dependent on the use of international reserves and on the adoption of appropriate adjustment policies when balance-of-payments equilibrium is disturbed. While the problem of international reserves has attracted much attention, particularly in recent years, empirical analyses of adjustment policies have been, it seems, underrated in comparison.¹ One is thus inclined to agree with Meade's statement that:

I am saddened at the sight of so many people in such positions of great responsibility, and in such positions of intellectual and academic influence in these matters, spending such a high proportion of time discussing the differences—which I admit are very important, between the various ways of controlling and increasing international liquidity—relative to the proportion of time which they have given to what in my view is the much more important problem of how the countries in the free world—the developed, industrialized, liberal countries of the Atlantic community, if you like—adjust their payments to each other.²

It is this relatively neglected subject matter—the postwar pattern of response of policy measures to imbalances of payments—to which this study is devoted.³ Determining the pattern of policies in actual use is an essential part of evaluating the policies, schemes, institutions and manuals of conduct needed to improve the international monetary mechanism and assure an optimal flow of international transactions. A system of fixed and stable exchange rates—like the one existing

¹ Probably the most inclusive effort to redress the balance is represented by the recent work of the OECD's "Working Party 3."

² J. E. Meade in *Monetary Reform and the Price of Gold*, Randall Hinshaw, ed., Baltimore, 1967, pp. 121–22. Quoted also in Samuel J. Katz's review of the volume, *American Economic Review*, September, 1968, p. 1022.

³ An interim report of this study has been published as Occasional Paper 106, *Balance-of-Payments Adjustment Policies: Japan, Germany and the Netherlands*, New York, NBER, 1968. The present volume incorporates, with rather substantial changes, the contents of that report.

today, whether explicitly or tacitly—requires for its long-term maintenance a given manner of responses to imbalances of payments. The analysis of actual patterns of policies in view of this requirement would thus be indispensable in the examination of the degree of consistency, or stability, of the present international monetary regime.

This volume is divided into two parts. In the first (Chapters 1 and 2), the study's purpose and approach are outlined, and the findings pertaining to the system as a whole are presented. In the second part (Chapters 3 through 12), the experiences of nine countries are analyzed individually. The study was actually conducted, of course, in the reverse order. First, each country was analyzed separately to identify the policy reactions in the country. Following this, a synthesis of the individual studies was undertaken, in order to search for any general pattern, or patterns, in the international monetary system as a whole and to analyze the reasons for similarities or differences among countries. This part takes up such questions as whether the policies undertaken to adjust deficits and surpluses in the balance of payments are symmetrical to each other, or whether deficits and surpluses provoke different kinds of reactions; whether or not countries employ any strategy or strategies which assign certain policy instruments to balance-of-payments adjustment while reserving others for domestic targets; whether any general change in the policy pattern was discernible over the period under consideration; and if variables such as the size of trade or recent experiences with inflations and depressions explain differences in policy patterns among countries.

It must be emphasized that the study of individual countries is subordinated to the ultimate purpose of an over-all analysis of the international monetary system. The separate studies thus follow a uniform method, making it possible to incorporate them into a wider analysis. In the process, much specific information about each country is inevitably lost. In particular, each individual study does not purport to be a comprehensive description and analysis of all the policy actions taken by the country in question to adjust imbalances of payments. Such a comprehensive study of any single country would require much more attention than could be given to individual cases in an analysis of the present nature. In the present study, the individual patterns are, rather, presented with the aim of demarcating the most salient features of the system. This approach involved selecting certain policies for observation and excluding others: it led, specifically, to a concentration

on aggregative monetary and fiscal measures, with only scant attention to other policies.

This study is, basically, a statistical undertaking. Conclusions about patterns of policy reactions are reached in an "objective" fashion: that is, they are inferred from policy actions, rather than from statements about policy motivations. This may, perhaps, create the impression that the statistical inferences presented here are the sole possible source of evaluating policy responses. In fact, of course, many policy makers are quite articulate, offering very often published explanations of the policies followed. Moreover, other analyses of policy conduct, particularly in individual countries, are rather common. Such statements and analyses have been paid attention to, in the present study, mainly as a means of suggesting possible hypotheses and of checking the study's findings. References to relevant literature, had they been made at every occasion, would have made the presentation very cumbersome. The text of this volume thus avoids, by and large, such references. Instead, a bibliographical list of pertinent publications for each of the countries studied is appended at the end of the country's chapter; and a list of references which are not restricted to single countries appears at the end of Part I.

The wide scope of this study inevitably imposes severe restrictions upon its execution. From a variety of potentially useful methods of investigation, some must be selected and others neglected. The coverage of a large number of countries and the need to force the country analyses into the same mold, so that their findings would be useful as raw material for the international synthesis, led to much compression—and possibly oversight—in these analyses. The present study should therefore be viewed as having largely an experimental nature. It does not purport to provide definitive answers but to suggest probable and tentative conclusions and, hopefully, to provoke other studies of the issue; these—following different routes, employing different techniques and, in particular, examining more thoroughly the experiences of individual countries—may conceivably yield different conclusions or suggest alternative interpretations.

A considerable amount of data had to be assembled for this study. All of it came from published material—partly from well-known international sources (such as the *International Financial Statistics*), and partly from publications of the individual countries. Much of the data was found in the source in the form required for this study, while certain compilations had to be performed for other parts of the data.

Due to the vastness of this material, it is not presented in this volume. But the data for each individual country, as well as descriptions of the sources and methods, can be obtained from the National Bureau.

I am greatly indebted to those individuals whose help and advice were given to me throughout the course of the study. My chief recognition and gratitude are owed to Hal B. Lary, whose constructive comments and congenial criticism contributed heavily to the substance, shape and form of the study, and without whose continuous involvement and concern the study could not have materialized. The early stages of the study benefited from the help of a distinguished Advisory Committee, consisting of Peter B. Kenen (Chairman), Arthur I. Bloomfield, J. Marcus Fleming, George Garvy, Gottfried Haberler, Charles P. Kindleberger, Irving B. Kravis, Fritz Machlup, and Robert Triffin. The draft has been substantially improved by the criticism and suggestions received from the National Bureau staff reading committee, composed of Irving B. Kravis, Robert E. Lipsey, Ilse Mintz, and Peter Temin. Among my other colleagues at the National Bureau, many of whom lent a supporting hand, Phillip Cagan merits a special mention. In its final stages, the manuscript has benefited from a review by John Meyer, and by Emilio G. Collado, Robert V. Roosa, and Willard L. Thorp, who served on the reading committee of the Board of Directors. I also wish to acknowledge the contributions made to the studies of individual countries by various staff members of the International Monetary Fund—in particular, Carl Blackwell and Hannan Ezekiel—who were kind enough to comment upon the drafts of these studies.

The main task of compiling and manipulating the mass of the data was undertaken by Maxine Nord. At a later stage, Richard DeFiore helped proficiently in further statistical elaborations. I am indebted to both, as well as to Shmuel Shraier for carrying out most of the compilation of the bibliographic sections, to George Santiccioli for his attentive editing of the manuscript and to H. Irving Forman for applying his masterly craftsmanship, and his patience, in drawing the charts.

Besides staff meetings at the National Bureau, I have had the opportunity to discuss the study in seminar presentations at the University of Chicago, Columbia University, the Hebrew University, M.I.T., Princeton University, Rutgers University, the I.M.F., and the World Bank.

Finally, I wish to acknowledge the financial aid of the National Science Foundation and of the Ford Foundation, which supported the study as part of the National Bureau's program of international economic studies.

TABLE OF CONTENTS

FOREWORD

vii

Part I: General Approach and Findings

CHAPTER 1: APPROACHES, CONCEPTS AND METHODS

1. Subject Matter of the Study	3
2. Coverage of the Study: Countries and Period	5
3. The General Approach	7
4. The Analytical Method	8
5. Policy Instruments and Adjustment Policies	15
6. Determination of Imbalances of Payments	22
7. Other Policy Targets	27

CHAPTER 2: AN OVER-ALL VIEW OF POLICY PATTERNS

1. The Use of Budgetary Policy	30
2. Instruments of Monetary Policy	33
3. Compliance of Monetary Policy with Balance-of-Payments Requirements	37
4. Policy Responsiveness to Surpluses and Deficits	43
5. Relative Trends of National Monetary Policies: Long-Term Movements	46
6. Interrelationship of National Monetary Policies: Short-Term Movements	53
7. Policy Responsiveness and External Positions	57
8. Summary and Conclusions	62

Part II: Country Patterns

CHAPTER 3: EXPLANATORY NOTE

73

CHAPTER 4: BELGIUM

1. Policy Instruments	76
2. Statistical Analysis	79
3. Summary and Interpretation	92

TABLE OF CONTENTS

CHAPTER 5: FRANCE

1. Policy Instruments	95
2. Statistical Analysis	100
3. Summary and Interpretation	112

CHAPTER 6: GERMANY

1. Policy Instruments	117
2. Statistical Analysis	121
3. Summary and Interpretation	135

CHAPTER 7: ITALY

1. Policy Instruments	141
2. Statistical Analysis	144
3. Summary and Interpretation	153

CHAPTER 8: JAPAN

1. Policy Instruments	156
2. Statistical Analysis	160
3. Summary and Interpretation	173

CHAPTER 9: THE NETHERLANDS

1. Policy Instruments	176
2. Statistical Analysis	182
3. Summary and Interpretation	194

CHAPTER 10: SWEDEN

1. Policy Instruments	199
2. Statistical Analysis	201
3. Summary and Interpretation	209

CHAPTER 11: UNITED KINGDOM

1. Policy Instruments	211
2. The Determination of Imbalances	218
3. Pattern of Policies	227
4. Summary and Interpretation	247

CHAPTER 12: UNITED STATES

1. Comprehensive Policy Instruments	253
2. Comprehensive Policy Patterns	256

TABLE OF CONTENTS

xiii

3. Specific Policy Reactions	270
4. Summary and Conclusions	273

APPENDIX

A Few Experiments with Formal Correlation Analysis	281
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INDEX OF NAMES	289
----------------	-----

SUBJECT INDEX	291
---------------	-----

TABLES

2-1	Budgetary Policy During Periods of Imbalances of Payments	31
2-2	Policies During Periods of Conflicting Requirements of External and Domestic Positions	33
2-3	Responsiveness of Monetary Policy to the Balance of Payments	43
2-4	Exceptions to Policy Patterns in Individual Countries	45
2-5	Discount Rates	49
2-6	Rates of Increase of Money Supply	51
2-7	Discount-Rate Changes: Relation to Other Countries	55
2-8	Measures of External Position	59
2-9	Summary Description of Measures of External Position	61
4-1	Belgium: Movements of Policy Variables During Subperiods of Imbalances	82
4-2	Belgium: Changes in the Discount Rate and Position of Target Variables	83
5-1	France: Movements of Policy Variables During Subperiods of Imbalances	104
5-2	France: Changes in the Discount Rate and Position of Target Variables	105
5-3	France: Significant Changes in Money Supply and Position of Target Variables	110
5-4	France: The Budgetary Balance and Positions of Target Variables	111
6-1	Germany: Movements of Policy Variables During Sub- periods of Imbalances	122
7-1	Italy: Movements of Policy Variables During Subperiods of Imbalances	147
8-1	Japan: Movements of Policy Variables During Subperiods of Imbalances	162
8-2	Japan: Reference Dates of Cycles of External Reserves	165
8-3	Japan: Changes in the Discount Rate and Positions of Target Variables	170
8-4	Japan: The Discount Rate and Industrial Production During Subperiods of Imbalances	171

8-5 Japan: The Budgetary Balance and Movements of Policy Targets	172
9-1 The Netherlands: Movements of Policy Variables During Subperiods of Imbalances	184
9-2 The Netherlands: Changes in the Discount Rate and Position of Target Variables	186
9-3 The Netherlands: Changes in the Minimum-Reserve Ratio and Position of Target Variables	189
9-4 The Netherlands: The Budgetary Balance and Position of Target Variables	193
10-1 Sweden: Movements of Policy Variables During Subperiods of Imbalances	204
10-2 Sweden: The Discount Rate and Position of Target Variables	206
10-3 Sweden: Credit Supply and Position of Target Variables	207
10-4 Sweden: The Budgetary Balance and Position of Target Variables	208
11-1 United Kingdom: Balance-of-Payments Position and Movements of Policy Variables	226
11-2 United Kingdom: Changes in Bank Rate and Position of Target Variables	232
12-1 United States: Indicators of Balance-of-Payments Position	260
12-2 United States: Movements of Policy Variables During Periods of Surpluses and Deficits	261
12-3 United States: Movements of Selected Policy Variables, 1958-66	263
12-4 United States: Movements of Policy Variables in 1950-57 and 1958-66	265
Appendix Table A-1: Coefficients of Correlation of Monetary Instruments with Target Variables	282
Appendix Table A-2: Coefficients of Correlation of Instruments with Variables, with Time Lag	284
Appendix Table A-3: Coefficients of Correlation of Discount-Rate Changes with Target Variables	285
Appendix Table A-4: Coefficients of Correlation of Monetary Policy with Balance-of-Payments Position	286

CHARTS

2-1 Movements of Monetary Policy Variables During Imbalances of Payments, 1950-66	35
2-2 The Balance-of-Payments Position, 1950-66	36
2-3 Discount Rates, 1950-66	47
2-4 Rate of Change of Money Supply, 1951-66	52
4-1 Belgium: Time Series of Selected Variables	80
4-2 Belgium: Patterns of Target Variables During Discount-Rate Cycles	86
4-3 Belgium: Patterns of Policy Variables During Industrial-Production Cycle	88
5-1 France: Time Series of Selected Variables	101
6-1 Germany: Time Series of Selected Variables	125
6-2 Germany: Patterns of Target Variables During Monetary Policy Cycles	130
6-3 Germany: Comparisons of Price Movements	137
7-1 Italy: Time Series of Selected Variables	145
8-1 Japan: Time Series of Selected Variables	161
8-2 Japan: Patterns of Policy Variables During Balance-of-Payments Cycles	166
9-1 The Netherlands: Time Series of Selected Variables	187
10-1 Sweden: Time Series of Selected Variables	202
11-1 United Kingdom: Time Series of Selected Variables	221
11-2 United Kingdom: Alternative Balance-of-Payments Indicators and Composite Index	224
11-3 United Kingdom: External Reserves and Rate of Exchange	225
11-4 United Kingdom: Patterns of Policy Variables During Balance-of-Payments Cycles	229
11-5 United Kingdom: Patterns of Target Variables During Bank-Rate Cycles	234
11-6 United Kingdom: Patterns of Policy Variables During Unemployment Cycles	237
11-7 United Kingdom: Patterns of Target Variables During Credit Cycles	241

11-8 United Kingdom: Patterns of Target Variables During Money-Supply Cycles	245
12-1 United States: Time Series of Selected Variables	257
12-2 United States: Patterns of Target Variables During Monetary Policy Cycles	267