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SUMMARY

Prof. R. S. Sayers ended his article on « *The Development of British Monetary Policy, 1951* » in mid-February 1952; later developments, and more especially the further rise in interest rates, which have since occurred in Great Britain, are therefore not considered in his text though they are envisaged in his forecasts and general line of approach. The article deals mainly with the subject from the technical standpoint; and offers a summarised description of the general mechanism of the « control of borrowing and investment » since the war, of the part played by the banks — which it is difficult to assess in precise terms — and of the measures taken after the change of government in the autumn of 1951.

These measures — in the opinion of prof. Sayers — have marked « no revolution in policy »... « no overturn of the ruling doctrines ». « Far from beeing a restoration of the " normal " » they « are without precedents, and in particular the continued reliance on official controls and exhortations can hardly be described as the restoration of a normal market ». This holds true also of the further rises in interest rates in March 1952 which, though representing a further moderate step away from extremely cheap money, have not upset the fundamental character of the policy that « remains essentially the old one of credit discrimination ».

With two qualifications, however:

(a) « in one respect at least something like the normal pattern has been restored, and that is in the liquidity position of the commercial banks... It is primarily by the restoration of the 30/70 ratio that the authorities have put teeth into the control of bank borrowing... By comparison with this tightening of control of lending, the rises [that occurred until February] in interest rates are probably of trivial importance in checking the money demand for goods and services or in stimulating saving — in checking inflation, that is to say »...

(b) Moreover, the new technical changes have « cleared the decks » for radical action and shaken « the markets into a new flexibility that permits the reversal of the cheap money policy, should the authorities finally elect such a revolution »...

The discussion on the advisability of such a revolution goes beyond the technical limits of Prof. Sayers' paper. Nevertheless, he states quite clearly that « a number of developments in the course of the next year or so will force the authorities to take further steps in one direction or another »; for « successful as it has been so far, this equivocal policy of reducing liquidity without a substantial rise in interest rates cannot continue for long »... And the dear money alternative is hinted by Prof. Sayers in references that might seem to have not a purely neutral meaning:

« There are substantial arguments against a high level (of interest rates) — arguments very like those that prevailed in 1945. On the other hand, much administrative difficulty would be avoided if all capital construction plans were drawn up on the basis of a 7 per cent long rate instead of a very much lower rate. The effects on savings should also be carefully considered: there has been a great redistribution of income since interest rates were last sufficiently high for savers to notice, and with an altogether higher rate a " savings drive " aimed at the smaller income might have spectacular results. It may even be that a high interest policy would make possible an actual expansion of investment programmes — an expansion Britain sadly needs. At least it should help to reduce the array of administrative controls and " hints from headquarters " on which the system of today depends — and depends at least as much as it did a year or so ago ».

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Prof. Mario Bandini gives a comprehensive picture of the « *Land Reform in Italy* » — now perhaps the problem of greatest interest for Italian agrarian policy, and one of the most important for the general economic policy of the country.

The Author, who has followed closely all the phases of the legislation on this matter, first as secretary of the Inter-Ministerial Committee and then as head of the Special Bureau for Land Reform set up by the Ministry of Agriculture, gives first of all an informative account of the underlying economic and political-social motives; and then he illustrates the three Acts under which the Reform is being carried out (the so-called « Extract Law », and the two special Laws for the Sila and for Sicily) and summarises the regulations concerning the establishment of the Land Reform Agencies.

The article concludes by an examination of the technical problems arising in the three main and successive phases in the implementation of the land reform: expropriation of the lands; their subdivision among the peasants and land improvement works; and the final stage of technical and financial assistance to the new farms.

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Prof. J. S. C. Wilson, in his article « *The Operation of Australian Central Bank Controls* », outlines the evolution of the Australian credit control mechanism until to day; describes its *modus operandi* and the complex variety of instruments at disposal of the Central Bank (« special accounts »; direction relating to advances in various classes and for various purposes; control of interest rates; etc.); and discusses the criticisms made by banking circles who would favor a more flexible and less « authoritarian » system. The emphasis placed on compulsion, however, is in Author's opinion, « a necessary consequence of the relative immaturity of the Australian financial institutions which does not allow of the adoption of the more sophisticated methods of credit controls worked out for the more mature economic and banking systems... ».

* * *

Prof. Karl F. Maier, in his article « *Has Western Germany a Liberal Market Economy?* » takes a definite stand in favour of an economic policy based on a free market and price mechanism, which he considers the most appropriate type of « economic order » for the solution of the two major problems facing post-war Germany, namely the development of exports and capital formation.

The steps in this direction started in 1948 — which account, in the Author's opinion, for the surprising revival experienced by production and exports — have been, however, halted half-way. « The problem of the development exports was solved with remarkable success through the mechanism of the market economy; but the problem of capital formation was approached by methods which suppressed the free market. Thus Western Germany does not have a free market economy but something half-way towards such an economy; and this half-way position is not liberal, and is not intended to be so. What it is intended to be is a social market economy, and what it is in danger of becoming is a centrally directed economy ».

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« *The Minimum Common Denominator* » by Prof. Corrado Gini is the second of two articles in which the Author presents the results of his new inquiries into the theory and calculation of the national income. The first paper was published in the previous number of this Review under the title « The Mask of Government ».

The Banca Nazionale del Lavoro assumes no responsibility for opinions or facts stated by authors whose contributions are published in the present Review.

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The Development of British Monetary Policy, 1951

by

R. S. SAYERS

The changes made on the British monetary scene after the change of government in the autumn of 1951 have been discussed as though they marked a revolution in policy. In fact there has been no overturn of the ruling doctrines. But teeth have been put into the old policy and by certain technical changes the decks have been cleared for action in case a radical change of policy should eventually be thought desirable.

I.

The roots of present monetary policy go back to the very beginning of the post-war period, when low interest rates were deliberately chosen in the face of an extreme scarcity of capital. The reasons for the choice then made have never clearly emerged — probably public debt considerations, dislike of the 1920 parallel, the economic thought of the 1930's and political dislike of high rentier incomes all played a part. However obscure the reasons, there was no doubt about the policy. The technical arrangements for a completely elastic supply of cash, whereby short-term rates were pegged at extremely low levels, were carried through without any hesitation or fumbling. Attempts to peg the longer-term rates of interest did not meet with such success, but the influence of the extremely low short-term rates was sufficiently strong to prevent the long-term rate from rising much above its wartime level of 3 per cent until 1949, when a precarious 3½ per cent basis was established. This structure of interest rates was reinforced by the abnormal liquidity of the commercial banks. Until the end of 1950 their proportion of relatively illiquid assets — investments and advances — did not much surpass 50 per cent, against the pre-1939 normal of 65 to 70 per cent. They could in effect support the continuing expansion of advances by turning in to the authorities in exchange for cash a sufficient proportion of their Treasury Bills and, as long as this position held, the expanding demand for advances could be met without creating any pressure on the banks to sell investments and so force up the long-term rate of interest. They might, it is true, have taken a bearish view of the gilt-edged market and reduced their investments, despite their high liquidity; on the other hand, as long as their position was abnormally liquid a neutral view of the future course of interest rates would push them in the direction of expanding their investments. In the event, they appear to have taken a compromise view, and pressed neither on one side nor on the other side of the market, holding their investments more or less unchanged, at any rate in total, over a considerable period. There may have been some « shortening » of the portfolio in some years — certainly there was during 1951, this tending to widen the gap between medium- and long-term rates of interest. The more or less neutral line thus taken by the abnormally liquid commercial banks probably accorded with the wishes of the authorities, and served for the most part as a steadying influence on long-term rates of interest within the 3-3½ per cent range.

This low structure of interest rates was made fully effective for much of the capital investment undertaken during the period: the Public Works Loan Board rate for loans for over 15 years to local authorities was only 3 per cent, and the nationalised industries also enjoyed very favourable treatment. The im-

plications of such a cheap money policy in the face of acute scarcity of capital may not all have been realised, but at least it was perceived that widespread rationing of demand was necessary. The rationing system consisted partly of arrangements within the government machine itself, under whose direct control much of post-war investment has been undertaken, and partly by the Capital Issues Committee supplemented by parallel « requests » to the commercial banks. The control thus exercised was on raising of capital through non-governmental channels, and did not in any way restrict the spending by firms of funds already at their disposal. Such internal funds were very large in the early post-war years, but have been gradually running down: the spending of them on capital development has of course been restricted by controls and other hindrances in the way of delivery of certain constructional materials. The control of borrowing, by the Capital Issues Committee and the banks, has generally been limited to borrowers of more than £ 50,000 in any one year, the very large number of small firms in a variety of industries being thus left untouched. The control has been exercised on the basis of a series of directives issued by the Chancellor of the Exchequer, in which classes of capital developments to be favoured or disfavoured have been described in rather general terms. The list has varied from time to time, though running right through the series there has been favour for export industries, fuel and power and other important bottlenecks, and improvements in efficiency in « essential » industries, while disfavour has been shown to entertainment industries and, latterly, consumer credit.

The part played by the banks in this « control of borrowing and investment » cannot be assessed in precise terms. Instructions have gone to the banks, in the shape of letters from the Chancellor of the Exchequer through the Governor of the Bank of England, informing the banks of the directives issued to the Capital Issues Committee and requesting them to conduct their lending in conformity with these directives. There has been no check whatever on the banks, who have been left to raise with the authorities any doubtful cases, an opportunity that has in fact been much used latterly. Beyond this *ad hoc* consultation there has been no attempt to secure uniformity of practice from one bank to another. Inevitably there was variation, some banks taking a much easier view than others. An easy view was for a long time possible, because the definitions of the favoured categories were so wide that almost anything could at least masquerade as essential to national efficiency. While no doubt some bankers tried conscientiously to impose the intended control, in other banks awareness of its existence was not particularly noticeable among local branch managers until late 1950 or early 1951. About this time the banks were, it is generally believed, called sharply to heel by the authorities and during 1951 the rank and file were made aware of a very definite tightening of the control. The bankers had time after time, in the published correspondence, reiterated their intention to comply with the Chancellor's wishes, but now at last — and without any additional paraphernalia — the control appeared to have become universally operative and seriously restrictive.

II.

All this time the banks, in restricting their advances, were acting against their own immediate interests, in that no considerations of liquidity impeded the expansion of advances and the interest that could be earned on these would far surpass the rates obtainable on the money market assets the advances could theoretically replace. In the early post-war years, therefore, rates charged on advances continued to crumble below the old 5 per cent minimum and by 1949 had reached their lowest level, when most fell within the 3½-4 per cent range. Towards the end of that year, however, the collapse of the gilt-edged market, breaking through the 3½ per cent line for long-term securities, caused bankers to stiffen their attitude a little: if 3½ per cent or more could be obtained on « governments » it was not worth cutting rates to business men any further than they had already fallen, and the crumbling process in the structure of overdraft rates came to an end.

In the summer of 1951, after the tightening of the « qualitative » control but before any further marked change had occurred in securities markets, the banks for the first time in twenty years initiated a widespread rise in overdraft rates. The origin of this change is obscure. On the one hand the statements made by the bankers themselves emphasised rising costs of administration, implied that this was part of a general rise in charges (which has certainly been imposed in commissions and other items subsequently), that it was the outcome (actually the premature outcome) of initiative taken by the banks without any governmental prompting, and that the changes would for the moment be confined to customers who were enjoying exceptionally cheap rates. On the other hand, a spokesman of the then Government has stated that the banks « were persuaded » to raise their loan charges, as part of the effort « to restrain less essential borrowing », the implication being that the government did the persuading. The bankers' suggestion that only specially fine rates would be affected hardly seems to have been justified, the actual increases being very generally applied. Whatever the truth of this episode, the upshot was that borrowing charges to commercial borrowers had at last turned definitely upward, and that the authorities at least acquiesced in this as well as in the rise in long-term interest rates that had taken place a year earlier. They still held the Treasury Bill rate pegged at ½ per cent, and the rates on local government long-term borrowing were also left unchanged on the ground that to raise them would not affect the size of local government investment programmes but would merely make them more costly.

III.

After the change of government at the end of October a number of technical steps were taken which, though not constituting a revolution of policy, effectively shook the London discount market out of a torpor that had lasted a dozen years or more, and at least served as a warning that radically different monetary weather might be at hand. The changes then made, detailed below, were the result of government initiative and no section of the market was left in any doubt about what it was immediately « expected » to do.

The steps taken were:

1) Bank Rate (the rate at which the Bank of England commits itself to discounting eligible bills) was raised from 2 per cent to 2½ per cent. This change, which traditionally would have been announced as decided by the Court of Directors of the Bank of England at their Thursday meeting, and which before 1919 would have been settled without previous consultation with the government, was announced by the Chancellor of the Exchequer; this novelty of procedure symbolises the direct responsibility now taken by the government.

2) A new rate, fixed for the time being at 2 per cent, was introduced at which the Bank of England would lend for 7 days when necessary to the discount market on the security of Treasury Bills. This in a sense replaces the old « Advances Rate », normally ½ per cent *above* Bank Rate, at which the Bank of England would lend for 7, 10 or 14 days. As, other things being equal, the Advances method of obtaining help from the Bank of England is generally more convenient for the market, the new 2 per cent rate, rather than the formal 2½ per cent Bank Rate, is the effective rate at which the market can be expected to go « into the Bank » for temporary and relatively small help. At first sight it would appear that the raising of the Bank Rate from 2 to 2½ per cent was of no account: from the market's point of view, there was an actual reduction since the « Advances Rate » is now 2 per cent against (a purely theoretical) 2½ per cent in the preceding period. This, however, neglects the importance of Bank Rate as an « Index » and the « shock effect » of raising this signal for the first time in twelve years.

3) The market was more directly affected by the stoppage of the automatic machine at the back-door of the Bank of England. The understanding whereby the Bank's own operator had always been willing to deal in Treasury Bills at the price of ½ per cent per annum, so pegging the rate at this level, was terminated. A totally ineffective Bank Rate (to be imposed at the Bank's front door) was

thus replaced by a new Advances Rate (2 per cent) which the Bank threatened to enforce at any time without notice. Actually its operator has continued to deal frequently in the market, in effect keeping the market rate a shade below 1 per cent; but occasionally he withdraws and allows the market to be forced « into the Bank » in the old-fashioned way, borrowing then taking place for 7 days at 2 per cent. This occasional action appears to be used either for jerking rates up again when they are tending to slip away much below 1 per cent, or simply to keep the men in the market mindful of the possibilities and of the procedure to be followed in a flexible market. It is, indeed, part of the general plan of restoring flexibility in a market that was almost atrophied.

4) The rates for loans to local government authorities were raised from 3 to 3¾ per cent for loans longer than 15 years and from 2½ to 3 per cent for those from 5 to 15 years. The new rates reflected the then state of the gilt-edged market; in February 1952, after gilt-edged prices had fallen considerably, these rates were again brought into line, the long rate going to 4¼ per cent.

5) A large block of Treasury Bills was replaced by rather longer-term paper suitable for the same holders. All holders of bills were offered, up to a total of £ 1,000 millions, exchange into 1¾ per cent Serial Funding Stocks maturing on November 14, 1952, 1953 or 1954. £ 450 millions were allotted to mature in 1952, £ 200 millions in 1953, and £ 350 millions in 1954. It will be important to remember that £ 450 millions will be maturing as early as November 1952. It is quite clear that the banks were told how much of their Treasury Bills were to be converted — in total about £ 500 millions were allotted to them. Since the new stock is classed, in bank balance sheets, as Investments and not as a « money market asset » this operation removed at one stroke most of the abnormality in the liquidity of the commercial banks.

6) The commercial banks raised their rates on time deposits from ½ per cent to ¾ per cent.

7) The Chairman and Deputy-Chairman of the bankers' private organisation sent a letter to the Press, in which they referred to the Chancellor's statements, warned borrowers that « requests for advances will be more and more critically examined and that bank borrowing will tend to become more expensive » and urging the community to help by « examining most carefully the purposes for which further credit is required and refraining from asking for any advance which is not for essential purposes ». There is no precedent for such a warning; it must be supposed to have been, if not officially inspired, at least officially approved and welcomed, and to be part and parcel of the process of « government by exhortation ». It is believed that the banks have already carried out the threat that borrowing would become more expensive, by raising rates to some borrowers by a further ½ per cent.

8) A further directive was issued to the Capital Issues Committee. Among the directions were: « Clear priority should be given to projects which are essentially and positively related to the rearmament programme, to the stimulation of exports to desirable markets, to the saving of imports, particularly from dollar sources, and to the relief of basic deficiencies, especially of raw materials. ... they should discourage... projects for the production of inessential goods, especially where these are intended mainly for the home market and consist largely of metal-using projects ». An extraordinary innovation was the following sentence: « Moreover, where applications are made for consent to long-term borrowings to refund bank advances already taken up, the fact that the money has already been borrowed should not weigh with the Committee, who should concern themselves mainly with the eligibility of the purposes which have been financed by the advances or will in due course be made possible through the refunding operation ». In view of the prevalence of temporary financing by the banks of fixed capital development, pending eventual cover by raising of permanent capital, this provision appears to be of great importance in freezing many loans already made by the banks before the latest

definition of permitted objects or in days when control was more lax. The only possible object of such provision (since the capital development has already by definition been undertaken) must be to strike terror into the hearts of the bankers and leave them laden with frozen assets. It is so difficult to believe that this was the intention that it is legitimate to suppose that an error of drafting occurred, and this supposition is strengthened by the fact that after an initial howl of disapproval this innovation appears, at any rate to the outsider, to have been quietly forgotten. What clearly remains of the Directive is a closer definition of approved uses, extension of those specifically disapproved, and firm words to the banks to keep them in line.

IV.

What are the essential elements in this programme? They appear to be three:

A. The abnormal liquidity of the banks has been removed by the funding operation and by the occasional closing of the Bank of England's back-door supply of cash.

B. Prospective borrowers have been clearly warned that funds may be quite unobtainable, either from the banks or otherwise, unless their purposes fall within the range approved under the latest C.I.C. directive.

C. Rates of interest generally have been raised. Government paper is on a basis of about 1 per cent for three months' paper up to about 4¼ per cent for long-term loans. (Cf. post-war minima, ½-2½ per cent; and early 1950, ½-3½ per cent). Bank lending rates are mostly in the range 4-5 per cent (against 3½-4).

The picture would not be complete without adding a fourth, less tangible change: an altogether novel degree of uncertainty has been introduced. The authorities have not explained their policy in any detail and it is not clear how far they intend to go in raising interest rates, in blocking borrowing, or in continuing to rely on exhortation. Indeed, it is not clear that they have made up their minds on any of these questions.

V.

The entire operation has been regarded in some quarters as a restoration of a more normal state of affairs in the banking system, a removal of fuel for inflationary fires, and a preparation for a much dearer money policy should that eventually appear necessary. Far from being a restoration of the « normal », the technical steps taken are without precedent, and in particular the continued reliance on official controls and exhortations can hardly be described as the restoration of a normal market. But in one respect, at least, something like the normal pattern has been restored, and that is in the liquidity position of the commercial banks. The transfer of about £ 500 millions from bills to « investments » had the effect of reducing the « liquid assets ratio » from 39 per cent to 32 per cent, the « Investments plus Advances » ratio jumping from 56 per cent to 64 per cent. As the demand for advances continues to rise (now due largely to rising prices) these ratios may be expected to move further towards 30 and 70 respectively. The importance of this lies in the fact that in the inter-war period bankers were in the habit of getting uncomfortable if their liquid assets ratio fell below about 30 per cent, though some of them would put the argument the other way round by saying that they felt uncomfortable when their illiquid assets ratio reached 70 per cent. This 30/70 ratio has been given much prominence lately; it is clear that the bankers are aware of it — possibly a hint from headquarters has put it on the same firm footing as the 8 per cent cash ratio. As, therefore, the limit is reached, and expansion of the total assets is presumably precluded by official policy in restraining the supply of cash, the banks will feel obliged to sell Investments in order to finance further Advances in the permitted categories. It is indeed believed that one or two banks have already felt it necessary to sell some gilt-edged securities. Two important consequences flow from this: 1) the urge, that the banks have felt for many years (on which their organisation has been partly based), to expand Advances has been brought to an end; and 2) the banks are likely to

be sellers, not buyers, of gilt-edged securities while rising prices and defence production give rise to new demands for Advances.

It is primarily by this restoration of the 30/70 ratio that the authorities have put teeth into the control of bank borrowing. « Guidance » from the Chancellor has been repeatedly given, and the banks have repeatedly given assurances of co-operation in restriction of « unessential lending », but there has not hitherto been any pressure on the banks to sell investments if they wanted to expand Advances. The banks are now for the first time given a strong incentive to check the growth of Advances, and the authorities have told them in which directions the check should be applied. This continuing control — for official control it is — is no new thing in the post-war market, but it does contrast with the pre-1939 position, when banks were left for the most part to decide, on private enterprise grounds, which applications for advances should be rejected. By comparison with this tightening of control of lending, the rises in interest rates are probably of trivial importance in checking the money demand for goods and services or in stimulating saving — in checking inflation, that is to say. The general fall in security prices has, of course, reinforced the decline in liquidity for the time being: on a falling market, new issues are left largely with underwriters and the next ones are deferred. The impact effect of the measures taken was thus to make borrowing much more difficult both inside and outside the banks, and this deflationary object has been attained without a very great rise in the cost of government borrowing. The government has secured a considerable measure of success without really showing its hand on interest rate policy.

VI.

Successful as it has been so far, this equivocal policy of reducing liquidity without a substantial rise in interest rates cannot continue for long. A number of developments in the course of the next year or so will force the authorities to take further steps in one direction or another:

1) The fall in security prices — the rise in interest rates generally — is partly the result of fear that further restriction measures, possibly including a higher Bank Rate, are coming. If there are no such further measures in the next few months, the uncertainty will gradually evaporate, and security prices will tend to *rise*. Acquiescence in falling security prices so far suggests that a rise would be unwelcome to the authorities.

2) Maturing debt will have to be refunded. In particular, in August £ 450 millions of the new Funding Stock will become a « money market asset », and in November the government will have to redeem it. Presumably the banks will again be « asked » to take up longer-term paper, but they will find it hard to swallow this if they are at that stage being compelled to sell investments in order to maintain the 30/70 ratio.

3) The demand for advances for the approved purposes is almost certain to continue to increase more than reductions can be enforced in disapproved directions. This assumption is based on the sharp rises in wage-rates already made but not yet fully effective on the costs of goods in process; further increases in wages seem almost inevitable. The pressure will, according to present indications, cause the banks to sell gilt-edged securities. But who is to buy these securities, when firms are being made to feel as illiquid as possible? The « 30/70 scissors » have not worked for a long time, and when they did work many conditions were very different. It may well be that fixity of the cash base (if this is what the authorities intend as an interim policy) will cause a very sharp fall in security prices — *i.e.* a further sharp rise in the long-term rate of interest; the alternative of allowing the cash base to increase, in order to prevent investment sales by the banks, would be interpreted by markets as a sign that the authorities will not really enforce dear money, and security prices would *rise*.

There is thus an instability in the present situation, an instability caused by present uncertainties — about how far the authorities will go in the direction of dearer money and tight credit conditions. The market in long-

term securities can hardly remain for long in its present position: either there will be signs that official talk of tightness ahead is an idle threat, and security prices will rise (long-term rates fall) to levels more in conformity with the extraordinarily low levels at which some short-term rates still stand, or the authorities will have to make up their minds just how far they mean the rates of interest to rise.

One idea in the air is that the authorities should hold the quantity of money stable and « let the rate of interest find its own level ». In view of the expanding money value of the national income and the consequential increasing demand for active money, this is another way of saying that rates of interest should be allowed to rise, but without taking the responsibility of deciding just how far they should rise. For this view economists can find no defence: there is nothing sacrosanct about the present supply of money, and if higher interest rates are thought desirable, a conscious choice should be made of the levels to which it is desired that rates should rise.

VII.

What the rate of interest policy should be is another question, which cannot be debated at the tail-end of a paper that has been primarily concerned with the technical arrangements. There are substantial arguments against a high level — arguments very like those that prevailed in 1945. On the other hand, much administrative difficulty would be avoided if all capital construction plans were drawn up on the basis of a 7 per cent long rate instead of a very much lower rate. The effects on saving should also be carefully considered: there has been a great redistribution of income since interest rates were last sufficiently high for savers to notice, and with an altogether higher rate a « savings drive » aimed at the smaller incomes might have spectacular results. It may even be that a high interest policy would make possible an actual expansion of investment programmes — an expansion Britain sadly needs. At least it should help to reduce the array of administrative controls and « hints from headquarters » on which the system of today depends — and depends at least as much as it did a year or so ago.

That the steps taken late in 1951 brought about a rise of ½ or 1 per cent in interest rates can scarcely be counted a net advantage. By itself it is not enough to make much impression on the planners of capital development and, on the other hand, it does raise the cost of servicing the National Debt. The changes have created a position of instability, of uncertainty, which lapse of time must bring to an end in one way or another; the question of high or low interest rates in the middle nineteen-fifties must be resolved very soon now. Perhaps most strongly of all in defence of the authorities it can be urged that the markets have been shaken into a new flexibility that at least permits the reversal of the cheap money policy should the authorities finally elect such a revolution.

15th February 1952

Post-scriptum — Since the above was written (in mid-February) Bank Rate has been further raised, to 4 percent, and the new Advances Rate correspondingly to 3½ percent. The market rate for 3 months' Treasury Bills in about 2¹/₃ percent. The commercial banks have raised their Deposit Rate to 2 percent, and their lending rates are now nearly all in the range 4½-5 percent. Security prices have moved down a very little: the yield on long government bonds is about 4¹/₃ percent. Severe rtstriction of bank advances has been experienced by traders. In short, while a further moderate step away from extremely cheap monty has been taken, the policy remains essentially the old one of credit discrimination, but it has been made altogether more effective and also, for the government, altogether more expensive.