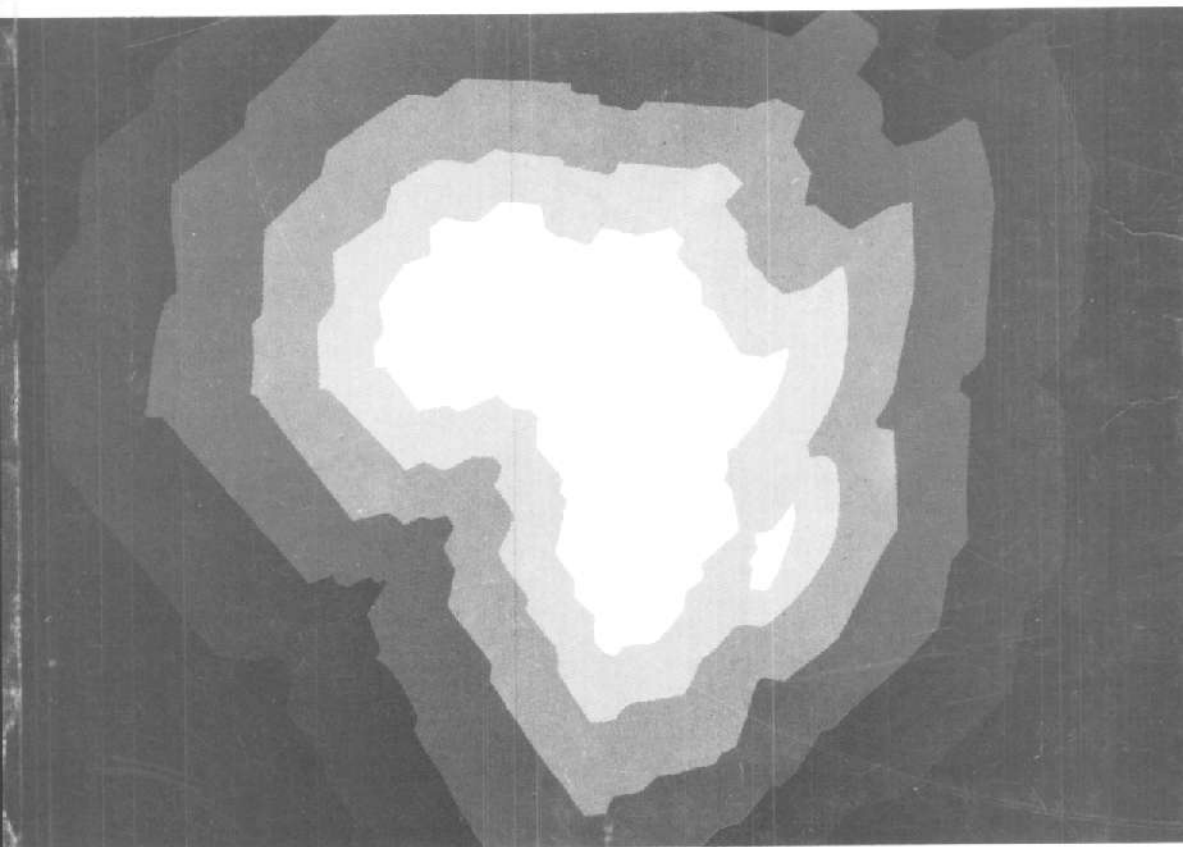


the credit markets of africa series

Arnaldo Mauri

MOBILIZATION OF HOUSEHOLD SAVINGS



Finafrica • Cariplo • Milan

Biography

Arnaldo Mauri is professor of Monetary Economics and Policy and Director of the Institute of Economics of the University of Milan. He is a member of the International Savings Banks Institute Development Aid Committee in Geneva and has for quite a long time studied the financial problems of developing countries.

THE CREDIT MARKETS OF AFRICA SERIES

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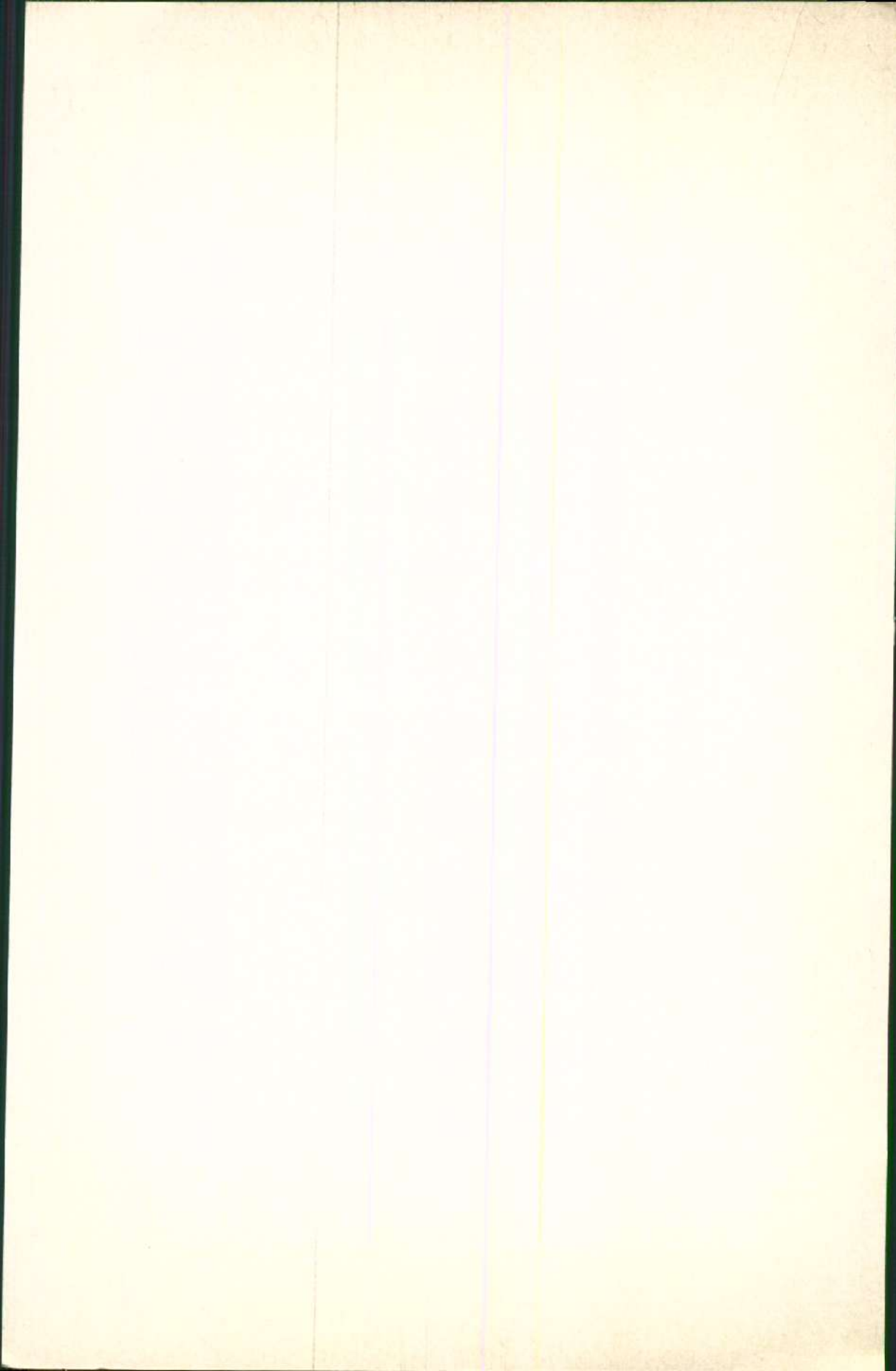
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FOREWORD

1. The four papers collected in this book are linked by one single line of thought, that is the concern for household savings. It may be appropriate to explain why a volume of selected readings in this particular subject appears as part of a series of monographs on problems of money, credit and development finance in emerging African countries.

It is a fact that in many of the less developed countries, especially in Africa, little — or at any rate not enough — attention is being paid to saving on the part of the smallest economic units, that is, households. Government documents and policy declarations have little to say about the promotion and mobilization of household savings, and few measures to this end have been adopted either in law or in practice. Nor is this neglect just a matter of oversight; it is a deliberate policy choice with respect to capital accumulation.

The reason why governments take this line is most often that they underestimate the considerable potential of this form of saving as a source of funds for economic and social development. Sometimes, too, neglect of household saving has ideological foundations, in so far as the aim is to concentrate all economic decisions, including those pertaining to saving and consumption, in the hands of the state and of public agencies. The result is a preference for public saving.

But in this second case, too, there is an element of misin-

telligence. The socialist countries of Eastern Europe, on which some governments of developing countries model their conduct, in fact switched several years ago to active concern with the problems of the promotion and mobilization of household savings.

2. However, since the middle sixties official attitudes have been changing. Thanks to an expert and sustained information effort on the part of international organizations, especially those under the auspices of the United Nations and the World Bank, the authorities of a growing number of developing countries have come to look upon personal saving, or better, household saving, in a new light. They have gained a better, sometimes a full, awareness of how these savings can be used as a primary source of capital accumulation and, hence, of economic development.

As a result of this new awareness, the promotion and mobilization of household savings found a place among the intermediate objectives of development strategy. But this still left a whole series of problems regarding the ways and means by which to obtain satisfactory results. One approach was for the less developed countries to try and learn from the experience of today's highly industrialized countries during their take-off period.

Here, then, was an opportunity for the old-established savings banks of developed countries to offer really useful help, wholly in line with the moral principles to which they owed their own origin in the nineteenth century. The savings banks accepted the challenge and soon took active steps both in the field of research on problems of saving and in that of technical assistance and financial aid for projects designed to improve the mobilization of household savings in developing countries.

In these praiseworthy efforts the Italian savings banks distinguished themselves by the promptness, the scale and the manner of their action. If one day a book were to be written about the history of their endeavours, it would make most interesting, not to

say fascinating, reading, and again and again one name would recur in the chronicle: the name of Professor Giordano Dell'Amore.

But this is not the purpose of the present volume. Its more modest aim is merely to assemble a few papers which, by virtue of their content, of the occasion on which they were first put forward, and of the results and repercussions they generated, have become milestones in that history yet to be written. Even so, the collection is not complete, in so far as it naturally omits papers already published in other volumes of the "Credit Markets of Africa" series, notably in Volume 3, the Proceedings of an International Conference on the Mobilization of Savings in African Countries, held in Milan in September 1971.

3. The first of the four papers in the present volume is from the pen of Giordano Dell'Amore — in tribute to the man who, by his writings and in his capacity as Chairman of the Cassa di Risparmio delle Provincie Lombarde and as President of the International Savings Banks Institute (ISBI) and of the Italian Savings Banks Association (ACRI), has done so much towards an international reappraisal of the role of household saving in economic and social progress. The paper is taken from his book *Economia del risparmio familiare* (The economics of household savings), first published in 1963 and reissued in 1972 in a second, enlarged edition. It is a book of immense scope and, although for reasons of language it is not as widely known outside Italy as it deserves to be, it is without doubt one of the outstanding works on its subject in the literature of economics.

The pages of this book here reproduced deal with the conditions of household savings, or more precisely, of the propensity to save on the part of households. Given that a selection had to be made, the choice fell upon this particular chapter of the book because of its emphasis on the propensity to save.

It is indeed this economic variable which occupies a crucial

place in the whole philosophy of Dell'Amore's theoretical work and of his action at national and international level. He has devoted searching study to an aspect of saving often neglected by others. Contrary to prevailing Keynesian and Marxist doctrines, he shifted the perspective and viewed the process of "household saving" with reference not so much to the "capacity to save", and therefore to income, but rather to the "propensity to save". He also rescued the "propensity to save" from the subservient position vis-à-vis the "propensity to consume", to which Keynesians had relegated it, and gave it the independent status of an economic variable influenced by a number of economic and extra-economic determinants.

Once the principle that saving depends not solely upon income and that it is not a mere residual is accepted, it becomes plain how important Dell'Amore's analysis of the factors and circumstances which affect household saving in various social and economic systems is both for the theory of development economics and for governments in developing countries. In the latter context it is right to stress that some of the conditions discussed in the paper here included are of quite special relevance to developing countries. These are complex problems, and some knowledge of them is indispensable for anyone who, as a member of government or as head of a financial institution, wishes to pursue a policy for the promotion and mobilization of household savings.

4. Next in this volume comes a paper by myself, entitled "The Promotion of Thrift and Savings Banks in Developing Countries". It was written for a different purpose, and is quite different in approach. The reason for its inclusion here is that it marks a significant date in the history of savings banks.

The paper was presented as an official report to the Ninth International Savings Banks Congress held in Rome in the spring of 1969. It was the first time that the issue of savings promotion in developing countries was brought into light during one of the meet-

ings that savings bankers from all over the world hold every three years. I was able to draw on knowledge and information gained in the course of study missions carried out in a number of African countries on behalf of the United Nations Economic Commission for Africa and of the International Savings Banks Institute, and my purpose was to get the savings banks of the industrialized countries directly involved in a common scheme of assistance on the international scale. I put forward a set of proposals to this end.

On the initiative of Professor Dell'Amore, who had in the meantime been elected President of the ISBI, this report was taken as the basis for the formulation of a policy of savings promotion on the part of the Institute. In the autumn of 1969 the Institute set up a Development Aid Committee, an advisory body that had to outline an action programme for assistance to developing countries and to co-ordinate bilateral schemes.

The paper presents a structural analysis of the financial systems of less developed countries, with the aim of identifying deficiencies and suggesting innovations by which the mechanism of the mobilization of savings might be improved.

The third paper, entitled "*Il contributo del sistema bancario alla politica del risparmio nei Paesi in via di sviluppo*" (The Banking System and Savings Policy in Developing Countries), dates from 1970. Its author, Professor Mario Masini, has made several study trips to countries in Africa and Central America, and has done research work with the UN Economic Commission for Africa in Addis Ababa.

The paper contains a critical analysis of the part played by the banking systems of less developed countries during the First Development Decade, with particular reference to the promotion and mobilization of household savings. Its merit is that it assesses the activities of financial intermediaries within the context of the environment in which they operate, and highlights not only the charac-

teristics of the capital market, but the responsibilities of government in the matter of savings policy.

The volume closes with a study entitled "Savings Mobilization in Developing African Countries", written by Professor Paolo Mottura while serving with the UN Economic Commission for Africa in 1972 and distributed by the Commission to African governments the following year. Professor Mottura's assignment in Addis Ababa was part of a joint research programme on voluntary household saving and on problems of savings mobilization, the other participants, alongside the UN Economic Commission for Africa, being the International Savings Banks Institute and the Cassa di Risparmio delle Provincie Lombarde.

Although the paper carries the usual disclaimer that "the views expressed ... are not necessarily those of the Secretariat of the Commission", it is in effect a — largely successful — attempt to harmonize the philosophy underlying the Commission's policy in the matter of domestic saving with that of the savings banks. This alone justifies the inclusion of the paper in the present volume. Furthermore, the very fact that it was published with the imprint of the UN Economic Commission for Africa conferred upon this paper some sort of official status: it was certain not only of distribution in the highest circles of African countries, but of careful perusal by their financial authorities. It had a good chance, therefore, of exerting an influence on future policy decisions regarding the mobilization of savings.

A final point of interest in Mottura's paper is that it surveys earlier studies on the mobilization of savings in Africa and offers a first, if provisional, appraisal of the numerous current schemes and projects both for the creation and improvement of financial institutions offering deposit facilities for voluntary savings, and for training suitable personnel.

ARNALDO MAURI

GIORDANO DELL'AMORE

HOUSEHOLD PROPENSITY TO SAVE: THE PRE-REQUISITES (*)

In discussing the conditions which determine household saving, a distinction must be made between what it is possible for people to save and what part of their current income they are willing to withhold from consumption. This is called the propensity to save. Personal incomes, of course, vary from one individual to another and also over time, but without a certain minimum income no saving is possible at all. A general improvement in the standard of living, via the growth of average real incomes per head and the levelling of social inequalities, steadily raises the number of possible savers, but the actual amount saved at different times varies in accordance with people's willingness to set aside part of their income. Although the savings potential may grow, the savings ratio may remain unaltered if the propensity to save does not rise in its turn; contrariwise, the amount saved out of the same household income may be very different at different times. It follows that there is no such thing as an immutable savings ratio in relation to the size of *per capita* incomes, for the actual extent of saving is subject to the influence of a variety of personal factors, which, moreover, are vari-

(*) Reprinted by permission of the publisher from G. DELL'AMORE, *Economia del risparmio familiare*, 2nd edition (enlarged), Milan, Giuffrè, 1972, Chapter 3.

able even within one and the same social environment. If economic policy is to be successful in expanding a nation's capital resources, it may therefore have to go beyond attempts to promote the growth of national income and of average *per capita* income.

Because of these differentiated and unstable personal factors, the dynamics of household saving are altogether different from those of public saving. No less important are the differences between household saving and business saving, which, though part of private saving, responds to other motivations, notably those of self-financing. An individual or corporate entrepreneur's propensity to reinvest profits in the business clearly differs from the propensity to save which governs his choices regarding the use of his family's income.

The propensity to save plays a part both in deliberate and in instinctive saving, but is obviously more strongly subject to change in the former case, although even deliberate choices may not always be economically rational. Since social progress tends to reduce the proportion of purely instinctive saving, it tends, by the same token, to make the overall propensity to withhold part of income from consumption more variable over time. Accordingly, this overall propensity to save gains interest from the point of view both of theory and economic policy, for the latter cannot hope to achieve its aims unless it is guided by adequate knowledge of the conditions which influence the actual behaviour of savers.

1. ENVIRONMENT FACTORS

Spontaneous saving of both the instinctive and the rational kind is always the combined result of congenital and environmental factors. In instinctive saving, of course, the dominating influence is that of the individual's innate characteristics, but these in turn are always to some extent affected by the conditions of the social environment. These may indeed, especially at a time of rapid economic development, gain so much force as to eclipse the role of innate fac-

tors in savings behaviour. On the other hand, there are peoples where congenital factors are so deeply rooted and so general that the volume of saving does not change even when the possibilities of saving diminish because, say, of economic recession. Unfavourable economic conditions normally have more marked effects in economies where saving is predominantly deliberate rather than instinctive.

While savings consist of the part of household income withheld from consumption, they are not a residual quantitatively determined by the propensity to consume. If they were, the formation of savings would depend exclusively upon that volatile propensity. But experience shows that income recipients often plan in advance to set aside a certain sum within a predetermined period, and that this leads them to forgo even some non-superfluous consumption; clearly, the propensity to save then becomes the dominant factor in the choices which govern the allocation of disposable income. Leaving such possibly exceptional cases apart, the fact remains that the propensities to save and to consume influence each other reciprocally, in the sense that decisions on the use of income are taken in response to closely connected motivations the effective strength of which depends upon innate and environmental factors, as described above. Their relative strength tends to be more changeable the more disposable incomes grow. This is why it is interesting and by no means futile to study the propensity to save as distinct from the propensity to consume, even though the two are closely related psychologically and economically.

Innate factors work out differently among different peoples, and sometimes also in one country among different regions, depending on a variety of circumstances. For one thing, history may have left its mark on the physical and psychological make-up of local population groups, but more often geography is behind these differences, in that the distribution of mountains and flatlands, the nature of the soil and the climate combine to shape different location pat-

terns of production in any given space, with direct effects on the propensity to save.

Individual innate factors are always in various measure influenced by education, in so far as it enlarges the technical and social knowledge which directly or indirectly governs all human actions. Generally speaking, education increases people's awareness of the risks of economic activity, and at the same time imparts to them knowledge and skills by which to avert or mitigate those risks. Risks of any kind are always an expression and a function of ignorance, and hence education helps to diminish them and to enhance the spirit of providence among all peoples. This does not, of course, prevent the ability of more or less accurate economic prediction from varying between one country and another, because this ability too depends to some extent upon innate characteristics which cannot be wholly suppressed or indeed greatly altered by cultural advance.

Individual innate factors, tempered in varying degree by education, are not normally the sole determinant of the propensity to save, because other influences are at work within the family. Contrary to a common opinion, we usually find not just one simple and isolated personal willingness to save, but a sort of composite family propensity, in so far as each member of a household is influenced by the propensities of all other members and influences them in turn, even in the absence of any conscious intention of doing so. This joint behaviour may, at least at certain times, be dominated by the attitude of one member, who need not necessarily be the head of the family. It follows that no serious study of saving is possible without taking account of the structural and social characteristics of the household units which make up any given country's population.

The part played by these characteristics in the process of accumulation confirms that saving derives not only from individual decisions. At equal disposable incomes, the amounts set aside vary according to environmental circumstances. The family is the smallest

social unit within which decisions on the use of its own income are taken, but there are also larger units which continually influence these decisions.

Leaving aside the social interdependencies evident especially in consumption, there are in the first place innumerable private associations of all kinds, to which potential savers belong for one reason or another, then territorial units (parishes, provinces and regions), and ultimately national and international communities whose political, economic and financial affairs in many ways affect the distribution of household incomes between consumption and saving.

The closest relationships, and those most interesting for the economist, are those at national level, where government intervention can and does exercise an influence of varying degree on the volume of saving at equal disposable incomes.

The most relevant fields of such intervention are the legal, political and social order, as well as economic, social and monetary policy. They all offer scope for government to create the conditions either for an increase in the propensity to save or for its decrease, by reducing the incentive for both individuals and groups to forgo full immediate consumption of their income. These conditions deserve the most careful attention in the study of the fluctuations to which the rate of household saving is subject over time.

2. THE LEGAL, POLITICAL AND SOCIAL ORDER

Foremost among the conditions which, at equal incomes, determine the population's propensity to save in any given country is the existing legal order. Where the legal order safeguards security, stability and the inviolability of the law, economic progress generally moves at a quicker pace and more people are inclined to save.

What matters most for saving is the law governing property rights and the circulation of wealth. Effective protection of private

property in all its forms is an essential incentive for withholding part of one's income from consumption. Every potential saver naturally wants to be reasonably certain that he, or his heirs, will be able to enjoy in the future the wealth he has accumulated by personal sacrifice,¹ without fear of being deprived of it by an abuse of force.

The risk of insecurity did much in the past to keep down the propensity to save, and still does so today in many backward countries where private property does not enjoy adequate legal protection or is exposed to the danger of being eroded in one way or another because of deficiencies in the maintenance of public order.

In socially advanced countries with a non-collective economy, formal legal safeguards of private property rights are often inoperative in practice because of the legalized violence of certain expropriation measures which empower government to deprive citizens of their property against derisory compensation entirely divorced from its real value. Nationalization, for instance, may well appear advisable and be decreed for reasons of general national interest, but in carrying it out fair compensation should always be paid in order to avoid adverse psychological effects on the propensity to save, which it is certainly always in the national interest to uphold. Nor is this enough. If nationalization were to extend further and further to the detriment of private ownership of the means of production, this would likewise undermine the incentive to save — witness the extremely low volume of saving in collectivized economies, where capital formation has to rely chiefly upon forced saving, with all its social and moral consequences.

As indicated, it is not enough to guarantee the right of an individual's personal enjoyment of the wealth he has saved, but he must also be able to transmit that wealth to his chosen heirs. An inheritance law which unduly restricts the right of transmission of

¹ See Alfred Marshall, *Principles of Economics*, Book IV, Chapter VII, paragraph 4. Eighth edition, London, Macmillan, 1961, p. 187 f.

property upon death is, therefore, counterproductive from the point of view of saving. The limitations often imposed by law on this right, especially as regards landed estate, are an obstacle to the growth of saving, however much they may be justified and expedient for other reasons, notably in order to prevent a socially harmful fragmentation of land holdings. Similar effects may derive from excessively high death duties, which discourage saving for the altogether commendable purpose of bequeathing a legacy to well-loved heirs.

Furthermore, as general economic conditions improve, people need more security for the wealth acquired by saving, and so every impairment of the right to keep and bequeath such wealth causes increasingly harmful reactions among savers. These reactions may become manifest both in the volume of savings and in their use, for where private property is not adequately protected, savings are to a large extent hoarded rather than invested in production, directly or indirectly. The large volume of hoarding which is so often deplored in developing countries is in no small measure due to just such causes.

In order to reduce harmful hoarding and to promote the growth of certain uses of savings, the governments of some countries provide a direct state guarantee for some categories of savers. This happens with respect to bonds issued by corporations not directly subject to Treasury control, and also in respect of bank deposits, in which case the state guarantee relieves savers also of the economic risk of bad management by deposit banks.¹ A state guarantee is, of course, implicit for deposits with government agencies, such as post office deposits in many countries.

To promote saving among large and growing population groups it is, furthermore, necessary for the law to facilitate the rapid circu-

¹ See Giordano Dell'Amore, *I depositi nell'economia delle aziende di credito*, Milan, Giuffrè, 1951, p. 577 f.

lation of wealth of every kind, even apart from inheritance. Every legal provision which prevents or impedes the circulation of wealth, or makes it too costly, discourages saving. Especially harmful in this regard are legal provisions which allow only certain social categories to own specified goods, like agricultural land, because people who might otherwise wish to acquire such goods are then discouraged from forgoing consumption.

An intensive circulation of capital investments, unhampered by legal or economic obstacles, helps to increase national income and to spread prosperity, and at the same time makes more people more willing to save. There is much to be said, therefore, for a legal order which facilitates the circulation of capital by such means as, especially, an efficient system of registration for negotiable bonds. The creation and spread of loan certificates, especially bearer and registered bonds, are crucial steps in the advance of an economy, for they make possible the rapid mobilization of investments, which in turn enables people to transfer their savings quickly from one use to another when general or particular circumstances so dictate, and thus reduces the economic risks of postponing the consumption of current income.

Political conditions, both domestic and international, are no less important than the legal order in determining the degree of the propensity to save. Other things being equal, this propensity rises in peacetime, when no military hazards threaten the preservation of wealth painfully accumulated by saving.¹ War risks, on the contrary, not only diminish the spirit of thrift, but encourage all social groups to consume more at once, so that many families overspend their current income and make inroads into capital previously accumulated. The painful experiences of Italy not so long ago confirm

¹ See Giuseppe Prato, "Risparmio e credito in Piemonte nell'avvento dell'economia moderna", *La Cassa di Risparmio di Torino nel suo primo centenario*, Turin, 1927, p. 12.

that war risks may have much more disastrous effects upon saving than even an economic crisis.

War also has adverse effects on the distribution of the national income, in so far as it accentuates social inequalities. Windfall profits accrue to certain groups as a result of political prices and requisitions as well as of foreign trade, currency and stock exchange controls, while the owners of savings deposits and fixed-interest securities have to stand by helplessly as their capital melts away.

Domestically, thrift is encouraged by a democratic regime guaranteeing an ample measure of freedom of speech, of the press and of association, which strengthens the sense of individual responsibility and social duty. In a dictatorship, where people have no political liberty, the spirit of thrift languishes and the desire to take care of one's future needs is stifled, because the future of individuals and families alike is at the mercy of unpredictable political events unhindered by any constitutional checks. In these circumstances there is little scope for the prudent foresight which is the chief motive for renouncing the immediate consumption of the whole of one's income.

Political liberty is a precondition, too, for a social structure propitious for the growth of saving. Saving gains from high social mobility, because this leads to quicker selection of men, production processes and capital investments, as well as to the emergence of a broad middle class, the source of a growing number of potential savers.

Where social mobility is free of legal and political obstacles, inequalities of wealth get evened out more quickly and there is a better chance of making optimal use of the personal abilities of each and every member of the national community; in addition, far more people have the legitimate aspiration to rise into the higher classes, so that there are greater incentives for making the sacrifices involved in saving, for the possession of an appropriate amount of capital is often useful, if indeed not necessary, for the success of these aspirations.

Although the social order is one of the fundamental dynamic features of national life, little has been done so far to study its implications for the process of saving, which yet are assuming growing importance for economic development throughout the world.

3. GENERAL ECONOMIC POLICY

In examining what government can do in the more strictly economic field to promote saving, a distinction has to be made between measures designed to exert a direct influence at any given time upon the savings ratio and upon the qualitative composition of incomes withheld from consumption, on the one hand, and on the other those which derive from the general purposes of economic policy and seek to stimulate the propensity to save among all social groups in the nation as a whole. Leaving specific measures of the first kind to be discussed later, let us first take a brief look at the more general ones.

Broadly speaking, it may be said that all government action aiming at the growth of national income and the promotion of economic welfare helps to increase the number of potential savers and the general propensity to save. Until not so long ago it was a widely held opinion that the bulk of savings originated in the well-to-do classes and that therefore they were apt to expand in a regime of marked social inequalities resulting from an uneven distribution of national income; but this view is not only morally improper, it is altogether unfounded in fact. On the contrary, thrift is encouraged when prosperity is broadly spread by a reduction of inequalities in income distribution. It is simply not true that an improvement in the living standards of the working classes leads to a transfer of purchasing power to people who use it entirely for increasing their own consumption. Admittedly, when higher incomes accrue to families below the subsistence level, the additional money is in the first place used to raise consumption, but as the economic conditions of

each household go on improving, new possibilities of saving are created and the sense of thrift is strengthened, the more so if at the same time the degree of education among the poorer classes rises.

Incontrovertible proof of this fact can be found in the enormous and very fast increase in the number of savings accounts opened by simple workmen in all sectors of production with banks in regions undergoing rapid economic development. An economic policy which, in line with such obsolete views as are described above, tries by direct or indirect means to increase profits to the detriment of wages must, in the long run, be counterproductive so far as the formation of savings is concerned.

If saving is to be stimulated, the first thing to do is to encourage technical progress of every kind, so as to make the best use everywhere of natural resources and new technologies. This implies, too, that the best use must be made of the personal skills and talents of all citizens; to this end, an appropriate social climate needs to be created, involving, among other things, greater mobility of manual and intellectual workers, of managers and entrepreneurs.

Such an economic policy helps, in addition, to reduce economic imbalances among different regions and to get rid of the dualism so characteristic of many countries, especially those of slow economic development. Often enough relative backwardness is due, to some extent, to the high degree of concentration of economic activity in certain regions, where favourable local conditions are reinforced by attractions offered to the human, technical and financial factors which keep the process of development in motion.

Certainly, the kind of economic dualism from which so many countries suffer is aggravated by an inadequate geographical distribution of technical progress and of social overhead capital, not to speak of organizational deficiencies in public administration. As a result it is impossible to take full advantage of local natural and human resources. If government stood by passively and allowed free play to the market forces, these environmental economic disparities

would not only fail to disappear in time, but would tend to get worse, and in the long run this would be detrimental even to the more favoured regions. Economic prosperity cannot endure for long in isolation, concentrated in a few privileged regions; if it is to be soundly based and lasting, it must expand geographically. Among other things the growth of trade, an essential condition of general prosperity, depends in the first place upon the domestic market, which is bound to be narrower so long as certain regions of the country are inhabited by people who are poor and underemployed, and whose consumption remains small in size and poor in quality.

Economic activity based upon broad technical progress and the full use of personal abilities leads to higher productivity and hence to cost reductions which are a condition not only of a better distribution of the fruits of economic progress at home, but of increased competitive strength abroad, which in turn generates an improvement of more than temporary nature in the balance of payments, to the benefit of monetary stability.

But none of this can happen without a highly differentiated pattern of production, whereby alone the best advantage can be taken of all natural and human resources. Intensified trade may promote advantageous specialization of production in certain sectors, but it is never wise to push specialization beyond a certain limit, both because outlets are apt to change with changing tastes, habits and international relations, and because economic and social development proceeds faster where there is a wide range of differentiated economic activities providing scope for the prompt and systematic use of all disposable technical and human factors.

Differentiated production must, of course, be flanked by a high degree of factor mobility, which makes room for better sectoral adaptation in response to short-term business conditions and to more or less frequent structural changes in the domestic and the international market.

In an economic system of this kind it is easier, too, to maintain a sound balance between the production of consumer goods and capital goods, and thereby to lessen the discontinuity of the development process, which needs just this kind of balance. Developing countries often suffer from profound imbalances in this respect, in so far as conspicuously specialized production, especially of primary commodities, exposes the economy to the risk of sharp fluctuations in income, investment, consumption, trade, saving and foreign exchange reserves, to the immediate detriment of the purchasing power of the currencies concerned.

However, the chances of reaping the fruits of a differentiated and flexible pattern of production depend upon one prior condition, which is the existence of a widespread entrepreneurial spirit.¹ The ability to found and successfully run any kind of enterprise is a personal quality which is in part innate, and hence unequally distributed among different peoples. There is obviously more to it than just the gift to think up and initiate new ventures, because this gift may not be accompanied by the ability to put these ideas into effect, and it is upon that ability that depend the chances of making profits, the measure of its effectiveness in practice. But entrepreneurial ability may be stimulated by the social environment and enhanced by the individual's personally carrying out an economic activity at his own risk; contrariwise, it may not come to the surface at all when the necessary conditions are absent in the environment. It follows that the authorities have it in their power to do quite a lot for the spirit of entrepreneurship, for they can create the conditions in which it can emerge, gain strength and spread throughout the whole national territory and all economic activities.

The pace of development is determined by many, interdependent and interacting, impulse factors, but entrepreneurship qualifies

¹ See Giordano Dell'Amore, *I presupposti etici e sociali della programmazione economica*, Milan, Giuffrè, 1962, p. 9 f.

the efficacy of all the others. Population growth within an appropriate demographic structure, accelerated technical progress, an ample supply of skilled labour, a widespread propensity to save are rightly considered the most important impulse factors,¹ but they cannot become fully operative unless they are co-ordinated and fused by organization in economic enterprise, which alone can transform an economy's growth potential into actual growth.

Entrepreneurship cannot prosper in the absence of adequate scope for the deployment of private, individual or corporate, enterprise. This does not necessarily mean absolute and untrammelled economic freedom, but does suggest that it is essential for the economy to have a large number of private enterprises which in all sectors of production provide an opportunity for entrepreneurial capacity to prove itself and gain strength.

From this point of view, then, it is counterproductive for government or local authorities unduly to extend the area of direct management of economic activities. There are of course cases where direct public management is necessary or desirable in the general interest, but apart from these it is better that government should intervene only with systematic and co-ordinated measures designed to promote, guide and possibly curb private activity, so as to keep it on the most advantageous course best serving the nation's needs.

There can be no sound social equilibrium if private producers are deprived of adequate opportunities of action, which indeed are a condition of the full utilization of entrepreneurial capacity. But this requires, in addition, the determined and ever watchful protection of small and medium-sized enterprises, which are the proving ground of entrepreneurial capacity and allow of the most efficient selection of entrepreneurs prepared to take on the economic risks of direct investment in industry, agriculture or trade. Especially in

¹ See Marco Fanno, *La teoria delle fluttuazioni economiche*, Turin, UTET, 1956, p. 43.

developing countries, a multitude of small and medium-sized enterprises constitutes a social nursery that they can ill do without if they want to quicken the pace of economic development. There are no valid grounds at all for the view that the developing countries' social advance can best be speeded up by nationalizing the means of production in some way or another; in the long run this approach is bound to be harmful.

For purposes of the formation of savings, too, small and medium-sized enterprises play an essential part, because independent workers, that is, small entrepreneurs, are more than others willing to keep down household consumption for the sake of accumulating more capital for investment in their business.

Economic policy today disposes of a wide range of direct and indirect means for protecting and encouraging small and medium-scale enterprise. Among direct means, growing use has been made since the end of the war of credit incentives, and an example of indirect ones is systematic government action to remove the economic privileges often enjoyed, especially in industry, by large public and private concerns and used by them to reinforce their existing position of superiority over smaller firms.

There are some financial conditions, too, among those necessary for the spread of efficient entrepreneurship, which, as cannot be stressed too often, is indispensable for differentiated economic activities resting upon the sound exercise of private enterprise.

These financial conditions include, first and foremost, the greatest possible liberty of capital investment and mobilization. Such liberty must, of course, be reconciled with the national interest, which may, at times, demand certain restrictions such as economic planners nowadays like to incorporate in some sort of unitary plan. But entrepreneurial capacity cannot bear all its fruits if it is hemmed in by too many public restrictions, which in effect prevent disposable capital from being channelled to such uses as may at any given moment appear most profitable. Such restrictions should be imposed

only with great caution and preferably not at all, using instead indirect measures designed to guide entrepreneurial choices in the direction which government considers would best serve the national interest; this is certainly better than to add to the already numerous obstacles which, in a modern economy, inevitably circumscribe the operative sphere of entrepreneurs.

Turning to disinvestment, it is common knowledge that withdrawals of capital, especially at the international level, are often impeded or delayed by government in the interest of monetary stability. On the domestic market, tax provisions may be just as harmful in making it, at least temporarily, difficult to disinvest without loss so as to redeploy capital in more profitable uses. Such obstacles to financial transfers are likewise counterproductive from the point of view of the propensity to save, which needs the stimulus not only of a wide range of investment opportunities, but also of facilities for a quick and easy switch from one to another form of capital use.

Entrepreneurial capacity is enhanced, too, by the possibility of complementing own capital by loan capital borrowed at reasonable rates, for promising ventures can be undertaken more easily when adequate credit is obtainable quickly and in the preferred technical form. The widest possible freedom of choice with respect to loan funds is of the essence, but this depends crucially upon the existence of an efficient credit market, which in its turn can neither come into being nor expand without suitable economic policy.

An active and well-functioning credit market needs an abundant supply of well-distributed savings to sustain a steady flow of dealings in loan funds, and in turn stimulates the formation of savings by making them more profitable.¹

¹ See Giordano Dell'Amore, *Introduzione allo studio del mercato del credito*, Milan, Giuffrè, 1960, p. 145 f.

To be sure, profitable investment opportunities are not the only reason why people save, for in very many cases they do so instinctively, without any direct or immediate economic advantage in view. Nevertheless the fact remains that the propensity to save is stimulated by the credit market offering the chance of placing every portion of income withheld from consumption at once in interest-bearing loans of whatever technical form the individual saver may prefer. A continuous flow of dealings in highly differentiated loan funds is a determining condition of economic progress.

Contrary to what Ferrara says,¹ credit does not multiply existing wealth,² but opens up chances to augment it by promoting saving and providing opportunities for more profitable investment. Other things being equal, these chances are maximized when transactions in loan funds sustain an extensive market in which every supply of savings is quickly taken up at prices reflecting present and future economic conditions. In these circumstances sterile hoarding of disposable capital is reduced, idle wealth comes to take part in the development process and is transformed into a force giving impulse to social life, there are stronger incentives to renounce present for future consumption, and the volume of savings employed in production grows, to the benefit of the rate of saving.

The credit market stimulates saving also for the additional reason that it enables unconsumed income to be put to the most profitable use, thus making possible an intensive circulation of capital and raising its elasticity. Thanks to this savings are continually redistributed among different firms and different sectors of the economy; moreover, their transfer from one place to another is encouraged, so that geographical imbalances in saving and investment are mitigated and disparities of economic development be-

¹ See Francesco Ferrara, "Della moneta e dei suoi surrogati", *Raccolta delle Prefazioni*, Biblioteca dell'economista, series II, Turin, 1857, p. 509 f.

² See Fedele Lampertico, *Il credito*, Milan, Treves, 1884, p. 37 f.

tween countries and between different regions of one country diminish. The area of productive capital use is then widened, the premises for the emergence of an international credit market are created, and savings tend to move readily from one use to another and to gravitate towards the most profitable investment, thereby maximizing their contribution to general economic progress. Intensive circulation of savings also fosters social mobility, which would stagnate without mobility of the capital funds needed to finance projects by which the most dynamic members of the national community may hope to rise to higher levels of wealth and social status.

An efficient credit market impedes the concentration of capital and the urbanization of money which tends to follow that of people, especially at a time of rapid economic development. It thus helps to balance production and consumption, yet makes room for such concentration as is useful in the public interest, in so far as it makes loan capital available for projects which could not be carried out without large-scale investment. The enormous capital investment required for technical progress would often be impossible in the absence of an active credit market, by means of which economic concentration of capital can be combined with dispersion of its legal ownership, and funds can be placed in long-term uses without loss of liquidity.

Thanks to intensive capital circulation, investment can be distributed geographically and among different firms regardless of who owns the money. Hence the credit market removes some of the drawbacks implicit in the strict observance of private property rights and thereby helps to ensure the survival of a legal institution which is one of the cornerstones of mankind's material and moral progress. Likewise, the risks of production can be transferred from savers to those entrepreneurs who are best able to take on these risks in the most advantageous conditions, or to combine them suitably so as to reduce their incidence. As a result, costs are reduced and prices fall, to the benefit of all.

These transfers are useful especially for the great mass of savers who lack the capacity to deal with the hazards of running a business of their own and hence have no intention of doing so. These savers include a steadily growing number of people employed in tertiary activities, such as are characteristic of the most advanced economies but could not flourish without an active credit market.

Another important advantage is that firms can make their economic choices faster and, more generally, that the pace of social life quickens. The rapid turnover of disposable savings, transformed into investments, reduces the amount of capital necessary for obtaining a given volume of output, or, in other words, the same amount of savings allows of an expansion of economic activity and of an increase in the incomes it generates. This more intensive use of capital derives largely from seasonal variations in most firms' capital requirements; these unequal needs can be reconciled by an active credit market, so that in the end effect investment becomes less discontinuous.

In addition to investment selection, the credit market also offers means of combining capital uses in other ways than savers themselves would do. It can, for instance, accommodate long-term loans which would be unattractive to individual savers, given their growing liquidity preference. Active dealings, often by means of appropriate securities, make it possible quickly to transfer long-term assets to such firms as are best able to tie up money for a protracted period. It may indeed be said that the credit market confers a high degree of liquidity upon capital as a whole and thereby does much to expand investment and to put savings to the best possible use.

4. SOCIAL POLICY

Entrepreneurial capacity, even when stimulated by favourable financial conditions, cannot yield its full benefits without the willing

co-operation of a disciplined, physically efficient and professionally trained labour force. To create such a labour force requires an appropriate long-range social policy, including all aspects of systematic and permanent protection of workers.

One of the foremost preoccupations of government nowadays is full employment, with reference particularly to farmers and industrial workers as well as to technical and administrative personnel. The neglect with which this problem was treated by government until not so many decades ago is now definitely a thing of the past.

Before the Great Depression in the years 1929 to 1932 government rarely intervened to combat unemployment by means of extraordinary public works financed with budgetary funds. Since then such intervention has come to be regarded as the fastest-working instrument of counter-cyclical policy¹ and has successively been reinforced by other measures as part of a broader approach of a less haphazard and contingent nature.

Theory, meanwhile, has come to the conclusion that unemployment, especially if it is so prolonged as to appear chronic, is in large part the deplorable result of sheer government inefficiency, in so far as the civil service is incapable of organizing the rapid absorption and proper distribution of the available labour supply. Nowadays economic planners regard this as one of their paramount tasks.

But social policy means more than just to guarantee the effective exercise of the right to work, which in some countries is now embodied in the constitution. It aims in addition at preventing work from being carried on in conditions which impair the worker's health; it does so by such measures as restrictions on working hours, protection against occupational diseases, and safety precautions to be taken by employers against accidents at work.

As regards working hours, successive reductions have brought

¹ See Costantino Bresciani-Turroni, *Introduzione alla politica economica*, Turin, Einaudi, 1942, p. 249 f.

the 70-hour week of the mid-nineteenth century down to today's maximum of 40 hours in most economically advanced countries — which obviously demonstrates that in the course of a century the marginal need for goods has enormously diminished. This is a field of repeated, at times hotly contested, but certainly beneficial government intervention, especially with respect to children, who suffer most from unduly long working hours.

In more recent years trade unions have been pressing for weekly working hours to be concentrated in fewer days, with a view to a more convenient arrangement of leisure time. The effect of this on the size and distribution of the week's consumption is obvious. However, if unfavourable consequences for the propensity to save are to be avoided, this shift of working hours, which has enormous economic and social implications, can reasonably be encouraged only in countries where the habit of thrift is firmly rooted and where the average annual rate of saving is already high enough.

Nor is the physical efficiency of the workers the only matter of concern. The technical and cultural quality of the labour force, too, is being steadily raised by vocational training. There is no need to dwell at length on the immense economic and social importance of modern government action in this field.

Then there is state intervention with regard to the level of wages and the manner of their payment. These are matters which touch very closely on saving, for clearly every rise multiplies the number of potential savers and increases their willingness to set part of their earnings aside, especially once total wages are in excess of vital necessities. Family allowances have been of signal benefit in the crisis of the family as an institution, in so far as they make good deficiencies in earnings based solely upon the productivity of labour and as such insensitive to the unequal economic and moral needs of different households.

As will be explained in the following section, the reinforcement of family bonds is one of the most efficacious incentives for

saving. The same can be said of wage indexation in the form of automatic threshold increases, because they stabilize real labour incomes at times of falling purchasing power of money and thereby reduce shifts in the distribution of family incomes between consumption and saving.

The reverse of the coin, of course, is that corporate profits become more variable and with them the sources of self-financing. Even so far as wages are concerned, the advantage may be wholly offset if the threshold increases are based on technically wrong calculations, for then they have the undesirable effect of accentuating inflation.

Wages policy is inseparable from pensions policy, with respect to retirement age, to the amount of pension payments and to contributions by employers and employees. This whole set of co-ordinated conditions has a direct influence upon the workers' propensity to save, both during their working life and afterwards.

While cost-of-living bonuses are a direct means of supplementing wages and making their real purchasing power less volatile, the economic and moral welfare of workers can be improved also by a variety of other benefits which help their families to a higher standard of living. To give just one example, we may mention the effort all countries are putting these days into low-cost housing, providing pleasant and sanitary dwellings which, in many cases, the tenants are eligible to purchase by instalments spread out over a very long period.

All public action of the kinds mentioned would, however, still fail to guarantee adequate and permanent protection of the working classes without an efficient system of social insurance against the risks of sickness, accidents, disablement, old age and unemployment, to the extent that the latter cannot be wholly eliminated by energetic economic policy.

Social insurance is the most important form of labour protection initiated during the second half of the nineteenth century,

generally under pressure of labour unrest which induced government to intervene with a view to maintaining political calm. The classical approach underlying this kind of intervention lasted well into the present century, but has broadened in recent decades. First of all, the range of beneficiaries was widened from the initial industrial labour force, whose trade union organization was strongest, to include all workers, at least in the more advanced countries.¹ As a result, social insurance systems are increasingly organized on a more comprehensive basis and disparities between one country and another are tending to become less marked than in the past.

Secondly, the whole philosophy of government intervention in this field has been changing in the direction of incorporating the system of compulsory insurance in a broader programme of social security, in line with the new political ethics of closer national solidarity. No longer is it a matter merely of protecting the working class against occurrences which deprive it temporarily or permanently of a living wage, or curtail its amount. Now the aim is to enable workers to meet also other, non-subsistence expenses such as sudden increases in family needs, and more generally to conduct economic policy in such a way as to protect human welfare at all times and to promote the material and spiritual betterment of the poorer classes.²

¹ In some countries, as in Italy, the social insurance system now covers also independent workers, like craftsmen and owner-farmers, whose income is generally lower than that of wage labour. A number of bills have also been introduced in Parliament for the extension of social insurance to housewives.

² The incorporation of compulsory insurance into a broader system of social security is inextricably linked with the name of Sir William (later Lord) Beveridge, who stated explicitly that "organization of social insurance should be treated as one part only of a comprehensive policy of social progress. Social insurance fully developed may provide income security; it is an attack upon want. But want is only one of five giants on the road of reconstruction and in some ways the easiest to attack. The others are disease, ignorance, squalor and idleness." (*Social Insurance and Allied Services - The Beveridge Report in Brief*, London, HMSO, 1943, p. 4).

To this end, it is proposed furthermore to apportion a part of national income not on the basis of free market forces, which are held to be incapable of generating an equitable distribution of wealth, but according to the needs of each family unit.¹

Pending the full application of this principle for the achievement of overall social security as outlined, much is being done everywhere to develop social insurance. This has already had profound effects on the formation and investment of savings. The area of forced saving has been enlarged enormously, and in relative terms, too, the trend is for savings to become more and more concentrated in a few major provident and social insurance funds, which have thus become the principal agents of a redistribution of wealth.

The dangers of this concentration are evident, because it makes the economic system more bureaucratic and less flexible, and increases the volume of incomes withdrawn from the direct assumption of the risks of economic activity. These savings, furthermore, have so far everywhere escaped the control of central banks and the whole system of liquidity management by which the latter try to maintain monetary stability.

The harmful aspects of the system are not in dispute, and there is a rightful and general call for rules designed to co-ordinate the use of this conspicuous volume of savings in the interest of the public at large.² On the other hand, no consensus of opinion has as yet emerged with regard to the effects of the system on the beneficiaries' propensity to save voluntarily.

One argument frequently heard is that any provision which reduces the economic risks sustained by various social groups

¹ See Francesco Vito, "La sicurezza sociale e i suoi riflessi sulla formazione e sulla distribuzione del reddito nazionale", *Rivista internazionale di scienze sociali*, 1949, p. 283.

² See Giancarlo Mazzocchi, *Risparmio e ciclo economico*, Milan, Giuffrè, 1957, p. 149 f.

weakens their spirit of enterprise and foresight, and with it their sense of thrift, to the detriment of national income growth. There are some who maintain that the physical and economic protection of workers and their families lessens the incentive to withhold part of wage earnings from consumption and set it aside for future, ordinary or exceptional, needs. It is also said that people are discouraged from saving by the very redistribution of incomes via compulsory insurance, because the latter tends to reduce inequalities in the workers' economic conditions and hence makes them less willing to incur the sacrifices involved in the act of saving.¹

Generally speaking, there is assuredly more incentive to make provision for future needs when the income out of which a person can save is irregular. For people without investment income, who have nothing to live on but what they can earn by their personal labour, saving is a necessary safeguard against the economic consequences of the risks of work. When these risks are, not perhaps totally eliminated but at any rate greatly reduced, the willingness to restrict non-essential family consumption is bound to diminish.²

While all this is no doubt true, it is only fair to add that the chief beneficiaries of social insurance and, more generally, of social security programmes are workers earning less than a subsistence wage, and that the whole system does a great deal to improve the living conditions of a vast number of people working in factories, in the fields and in offices.

As a result, the productivity of labour improves, not least because workers, in the knowledge that they are secure from misfor-

¹ See Congrès international pour l'étude des problèmes de l'épargne, *Rapports généraux*, Paris, 1957, p. 209.

² The stimulating effects of income fluctuations on the propensity to save are manifest also in corporate saving. United States statistics show that the volume of self-financing in the post-war period was largest in manufacturing industry, and rather smaller in electricity supply and telephone companies, whose earnings are much less subject to fluctuations.

tunes menacing the tranquillity of their family, acquire more confidence in the future, feel themselves to be united with the other social classes in a common national destiny and are more readily prepared to submit to the discipline of the social order and to the authority of central and local government. It may be stated as a general proposition that the productivity of labour is maximized by guaranteeing workers a high degree of security, which in turn cannot be achieved without a high level of productivity. Social security, then, implies an overall growth of national income, leading to a general increase in the savings potential, to the benefit of the whole community.

Social insurance is rightly regarded as one of the built-in stabilizers of the modern economy. The contributions of the working classes are a form of forced saving at a pre-established rate. For the poorest among them, this admittedly curtails voluntary and direct saving, but higher up in the social scale compulsory saving encourages the growth of voluntary saving, so that social insurance, far from paralysing spontaneous thrift, encourages it and strengthens the sense of individual and collective responsibility.

Evidence to corroborate this view can be found in voluntary life assurance, which is more common where saving in other forms is higher. Italy provides a striking example, in that the richest region, Lombardy, ranks proportionately highest in the whole country as regards life assurance premiums paid, savings deposits and security investment.¹

What has been said above does not, of course, exclude that it may be in the national interest to keep social benefits within certain limits which, while wide enough to give all workers an adequate sense of economic security, leave a certain margin of uncertainty

¹ For comparative figures on the growth of life assurance and savings in different regions of Italy see Filippo Virgili, "Dal risparmio all'assicurazione", *Bancaria*, 1941, p. 502 f.

as an incentive to complement compulsory with voluntary insurance and to save in other ways as well. This would make room for a vast expansion of the volume of income freely withheld from consumption.

5. MONETARY POLICY

All the legal, political, economic and social conditions listed so far as favourable to the propensity to save, would remain ineffective for this purpose in the absence of lasting monetary stability, which alone obviates the risk of a drastic reduction in the purchasing power of savings often so painfully withheld from household consumption.

The adverse effects of inflation on economic activity have been amply demonstrated in economic theory.¹ Among other things, expectations become more uncertain, economic calculation is falsified, and easy windfall profits provoke unhealthy speculation, which removes every incentive to introduce technical and organizational improvements. Inflation may occasionally call forth daring ventures, it never encourages the sort of methodical and patient industriousness which alone promotes social progress.

No less harmful are the effects of inflation upon investment. As monetary depreciation masks the real productivity of capital, investment errors by both public and private entrepreneurs inevitably multiply. Capital is put to uses which would be eschewed in a regime of sound money, to the detriment of those more profitable for the community as a whole. These distortions of the investment pattern are more serious and more harmful in developing countries, where corrective economic and financial factors are slower to come into play. The utilization of bank credit and direct loans, in its turn,

¹ See, e.g., Giordano Dell'Amore, *La difesa della stabilità monetaria dopo la caduta del sistema aureo*, Milan, Giuffrè, 1961, p. 59 f.

undergoes a qualitative deterioration; this shows up in a decrease of long-term credit at constant and moderate interest rates, such as serves to finance the fixed assets required for technological innovation. Overall, the choices regarding the allocation of disposable capital become unstable and risky; more investment is diverted from sectors offering the highest social return and fixed investment falls, contrary to the growing needs of technological progress.

Economic development becomes more discontinuous and slower. Though many firms in industry and trade are led to expand, this merely creates short-lived illusions about the real effects of monetary depreciation. These illusions are fed, too, by a temporary fall in the number of bankruptcies, due to the paralysis of the healthy process of selection of firms.

Most often agriculture is the chief victim of the ensuing major changes in economic relationships, since it cannot adjust to them quickly enough. It is perhaps not far from the truth to say that the plight of agriculture in most countries is largely a delayed consequence of the dwindling value of money during and after the second world war.

All this accentuates economic fluctuations and moreover precludes reasonable planning both in the public and in the private sector, just when it is most needed and should take the longest possible view.

But nowhere does inflation do more damage than in the formation of savings. It blurs the distinction between income and capital and profoundly alters income distribution, especially in so far as not all incomes respond equally flexibly to changes in the value of money. As a result, the composition of household incomes changes, and so do the relative shares of wage income and capital income, of money income and income in kind, of fixed and of variable income.

The very social structure alters with the emergence of new classes of income recipients. This generates widespread and sharp

psychological reactions among the bulk of the population, with direct effects upon people's tastes, preferences, aspirations and habits, and more generally upon economic and social relations. The pattern of this income redistribution is uneven. Some people do better and some do worse. Since the erosion of the value of money dispenses its favours blindly, it leaves a trail of justified grievances, at the cost, generally, of political stability and of the sound selection of men, production processes and capital investment.

In rural areas, inflation often favours the establishment of new small farms, but in the context of the economic system as a whole the artificial and unhealthy climate of monetary depreciation works to the benefit of the largest firms, which are quicker to take advantage of windfall profits, and to the detriment of the small and medium-sized ones which are the nursery of private entrepreneurship and accelerate social mobility.

Another circumstance that leads to income redistribution during inflation is that the incidence of taxation on different groups of taxpayers alters. Inflation has rightly been called a rough kind of tax falling unevenly upon different social units.¹ Fiscal inequities are thus accentuated, tax evasion is encouraged and there is mounting discontent among the less fortunate, and often more disciplined and thrifty, classes.

Naturally, the changed income distribution is reflected in the pattern of consumption. Consumption as a whole expands, partly because of the treacherous delusion that the easy gains of inflation are there to stay, and partly because inflation works to the benefit of people not given to thrift. The imbalance between aggregate supply and demand with respect to goods and services is accentuated and adds new fuel to the inflationary process. Monetary depreciation alters consumer preferences, because every change in the com-

¹ See Riccardo Bachi, *Principi di scienza economica*, Turin, Einaudi, 1938, Vol. 2, p. 257.

position of household incomes affects the pattern of household consumption, and not only alters the scale of wants but makes them qualitatively more exacting.

For all these reasons, inflation gives rise to profound changes in the qualitative composition of savings, especially since every form of saving has its own peculiar elasticity with respect to variations in the purchasing power of money. In addition to such qualitative shifts, the total real volume of saving diminishes because all social classes are less willing to defer consumption.

Even instinctive saving, which by definition takes place without any deliberate motive, is affected in so far as the monetary climate influences the public's psychological attitudes, not excluding the most deeply rooted instincts.

As more and more people become aware of the economic implications of monetary depreciation, its deleterious effects on thrift eventually spread to all potential savers, too. These implications are no longer unknown even to the least educated sections of the population. What happened to money during and since the second world war has taught them all, by personal experience, how important money is in the economy, and they have also seen that government powers in this respect are not always used in the most enlightened and farseeing way. Nobody today is indifferent to the threat and progress of inflation.

The public's most immediate reaction is manifest in saving. At times of monetary depreciation the propensity to save declines even among the traditionally most thrifty classes. The adverse effects are felt first in the towns, and subsequently spread to rural areas where they do even more harm, because higher consumption is accompanied by psychological reactions sharply in contrast with the rural population's traditional mentality of prudence, orderliness, hopeful patience, love of ancestral ways of life and distrust of easy gains.

The sense of thrift is swept away by a dangerous mania of speculation, fanned by the infectious belief that it is easy to earn big money without the methodical and patient performance of constructive work, so that there is no point in making the sacrifice involved in regularly setting aside part of one's earnings.¹

In the light of all this, we must conclude that government plays a major part in determining the propensity to save, and that it should make every effort to prevent any loss of purchasing power of incomes withheld from immediate consumption. Fortunately, monetary policy can be conducted in a more flexible way than fiscal policy, because monetary measures do not require the sort of prolonged parliamentary debate which generally has to precede tax changes. Equally fortunately, much progress has been made in the application of monetary remedies during the last forty odd years, since the abandonment of the gold standard.

Nevertheless immense difficulties remain, as we all know only too well. All currencies are more vulnerable today, both for domestic and for international reasons. One of these is the universal desire to speed up the pace of economic development, heedless of the fact that beyond certain limits acceleration is impossible without impairing the purchasing power of money. Within those limits there is no contradiction between expansion and monetary stability, and governments do not need to decide which of the two is preferable; given various alternative rates of economic development, they simply have to choose the highest which does not push up the general level of prices, on the underlying assumption that so far as savers are concerned, no technical expedient can replace confidence in monetary stability.

¹ As Costantino Bresciani-Turroni points out ("Vicende del marco tedesco", *Annali di economia*, 1931, Nos. 1-2, p. 441 f., published in English under the title *The Economics of Inflation*, London, Allen & Unwin, 1937), the harmful moral effects of inflation are reflected, too, in crime statistics, which rise appreciably in periods of drastic falls in the value of money.

In some countries an attempt has been made in recent years to introduce indexation for some forms of investment of savings;¹ but the results were disappointing, partly because this device may have unfavourable indirect effects, and partly because it leads people to fear that a devaluation of money is impending — a belief which certainly is not conducive to thrift.

6. MORAL FACTORS

We have seen that the behaviour of potential savers is increasingly subject to the influence of economic and social events. It changes with progress, and it is obvious that government can do very much to influence the propensity to save of all categories of the population.

None of this, however, does away with the paramount part still played by personal factors in the choice of the proportion of income to be withheld from household consumption. Personal factors, above all, shape each individual potential saver's judgment about the relative importance of present and future needs.

To form any such judgment at all, a person must have the mental habit of foresight. This habit is all but unknown among primitive peoples and tends to grow with education, with improvements in social conditions (especially means of communication) and with progress in statistical methods.

The mere habit of thinking of the future does not, of course, necessarily go hand in hand with an ability to predict it correctly. But predictions may likewise turn out to be wrong simply because of the uncertainties which, in various measure, surround future events. Better education certainly does much to enhance predictive skills, but every potential saver still has his own difficulties which

¹ See Giordano Dell'Amore, *Gli incentivi all'accumulazione del risparmio*, Milan, Giuffrè, 1956, p. 19 f.

vary according to the aims he pursues for the future and according to the type and flow of future income he expects.

As regards aims for the future, it is common knowledge that the needs and ambitions of every family change all the time. It follows that even the most outstanding skill in predicting future consumption may fail to arrive at precise quantitative estimates of the requirements which will have to be met. No less considerable uncertainties may similarly make it hard to estimate future incomes reliably, quite apart from the sometimes drastic changes due to monetary devaluation. However, other things being equal, these unknowns by no means discourage thrift; on the contrary, they may stimulate it, at least with people of a provident nature.

Furthermore, the difficulties of prediction multiply with the length of the period considered, and it becomes more tempting to take the longer view as pure labour income is supplemented by investment income. Once a person owns some capital, he usually wants to keep it intact or indeed to add to it, and this leads him to make a careful assessment of his family's future needs.

In any event, the relative importance any potential saver attributes to future as against present consumption depends closely upon his own personal spirit of sacrifice. This moral factor may be enhanced by the established customs of an individual's social environment, and these are sometimes so deeply rooted as to impart an instinctive character to saving. Thrift is a matter in which the force of tradition is often decisive in determining the volume of saving, and it hardly needs to be said again that especially in rural areas this moral factor in the past was paramount in determining each country's annual rate of saving.

But throughout all social classes the relative strength of this moral factor differs from one household to another, depending on the number of family members and on the closeness of family ties. This explains why even now rural folk save more than any other population group. Work on the land strengthens the spirit of provi-

dence and family ties alike, and a relatively high birth rate makes for larger families, for whose no doubt higher future needs even quite hard sacrifices are deliberately made in the present.

Unfortunately, however, family ties are getting looser both in urban and in rural areas. Faster, safer and cheaper transport makes personal movements easier, which is good for production but disperses families. Similar effects follow from the increase in the number of women at work, which gives women economic independence but diverts them from their traditional tasks which have done so much, among all civilized nations, to cement the moral bonds of family life.

Another circumstance that weakens the incentive to save is that people have fewer children. Smaller families naturally worry less about the uncertain economic future of their descendants. They have less reason, too, to forgo consumption for the sake of accumulating an adequate capital endowment especially for the girls, who in the past often could hope for a satisfactory marriage only on condition of a good dowry. The passing of such traditions is not a matter of regret, for it makes room for the better utilization of personal abilities and hence for general cultural and moral betterment. But so far as thrift is concerned, nothing is gained by parents worrying less about the economic future of their children, and parental providence cannot be wholly replaced by the greater effort that is put nowadays into the education of the young. Whichever way one looks at it, to uphold the moral values of the family is certainly one of the cardinal means by which government can promote the propensity to save and can exercise a positive influence on the value judgments governing the choice between present and future consumption.

The stronghold of moral values is religion, because prior even to being a social institution, the family is a spiritual manifestation deeply rooted in an ultramundane concept of life.

The mere appeal to this concept always makes it possible to stimulate the spirit of sacrifice demanded by the deliberate curtail-

ment of present consumption to the full extent allowed by disposable income. The renunciation of full and immediate enjoyment of income would often seem unjustified in terms of dividing income between consumption and saving exclusively on the basis of comparative economic advantage, were it not that irrepressible moral motives deny the existence of an hypothetical *homo economicus* forever intent upon making his choices serve his own self-interest. However, it is not enough to leave the guardianship of the family to religion alone without the support of economic provisions, such as aid to newly-married young couples and to large families, or cheap and pleasant housing for the poor. This kind of policy is powerfully assisted by many public credit institutes, which in some countries have even organized an advisory service for their depositors, the intention being to suggest suitable means of balancing household budgets and to inculcate a sense of thrift upon the poorer classes.

In addition to family ties, the spirit of sacrifice of potential savers draws sustenance also from a sense of social responsibility. As economic and cultural conditions improve, a change takes place in the essentially egoistic mentality underlying thrift for the mere sake of taking care of future personal and family needs. People become increasingly conscious of the social function of saving as the source of capital for the investment necessary to full employment and prosperity among all classes of the population.

Thanks to this social awareness, the well-to-do classes, while having no economic worries about their own and their children's future, may yet be led to save by a spirit of national solidarity. Indeed, the conviction gains ground that saving is the price which the affluent must pay for perpetuating the guarantee of property rights. From this conviction it is only a small step to the realization of the constructive social value of wealth. Once again we see how the propensity to save can be strengthened by religious feelings, with their constant appeal to the brotherhood of men and with

their restraining effect on the natural impulse to take immediate advantage of all the pleasures current income can buy.

The spirit of social solidarity can be invigorated by suitable publicity campaigns for saving. But such publicity needs to adopt a new approach. In the past, virtually the only point stressed was the need to think of one's own and one's family's future, which meant appealing essentially to personal and family egoism. This kind of publicity necessarily loses much of its efficacy with the growth of social and individual insurance, and makes no impression upon the mounting number of potential savers for whom general economic progress holds out the prospect of one day disposing also of some investment income and thus being liberated from the uncertainties connected with income exclusively earned by personal work. In a more advanced economic setting, savings publicity is likely to make a more general and more permanent impact if it calls upon people to renounce the full consumption of current income for the sake of contributing to national welfare and buttressing social solidarity, the foundation of the whole community's economic and moral betterment.

Any publicity campaign can, of course, offer various inducements to strengthen its appeal. Examples abound in many countries.¹ There are general inducements, appealing to all population groups, and specific ones, pointed at particular categories. Among the latter, favourite targets in recent decades have been children and teenagers, on the theory that schooldays are not too early to teach the young a sense of thrift.

Generally speaking, both types of inducements vary in effectiveness according to the volume of potential savings on which publicity can be brought to bear. This volume depends upon the income elasticity of saving, and this in turn is conditioned by the distri-

¹ See Giordano Dell'Amore, *Gli incentivi all'accumulazione del risparmio*, op. cit., p. 12 f.

bution of national income. Elasticity is highest where the middle-income groups are most numerous. Both very low and very high incomes are almost totally unresponsive to any kind of economic incentive; the former leave no margin for saving, and the latter, once consumption has reached saturation point, are the source of what may be called automatic saving, which cannot be noticeably increased by purely economic incentives but responds only to moral appeals or social imperatives. It is reasonable to conclude that the current trend in all countries toward a reduction of income inequalities enhances the efficacy of incentives for household saving.

Their efficacy varies also with the kind of income. It is highest for property income, a good deal lower for earned income, and variable for mixed incomes according to the proportions of the two in the total. This is one of the chief reasons why in poor countries, where labour incomes predominate, the formation of savings is not only slow but inelastic. It also explains why any particular incentives policy may meet with widely different response within one and the same country. In Italy, for example, the effects of any measure designed to influence the propensity to save are necessarily very different in the underdeveloped areas of the South from those it may have in the North.

The need for appropriate publicity for saving, complete with general and specific incentives and inducements, appears the more pressing in the light of what advertising does to stimulate the propensity to consume. Advertising nowadays uses a wide range of means, including some technically highly sophisticated ones, and often succeeds not only in increasing habitual wants, but in creating new ones and in refining consumer tastes. The overall effect is an expansion of total demand for goods and services, accompanied by qualitative improvement. Of course, advertising finds a better response among certain population groups, notably among the young, who today dispose of a much higher share of national income than

in the past, and also among women, who are generally easier to persuade than men.

All economically advanced countries are battlefields of publicity: saving vs. consumption. Unfortunately, the latter often wins, chiefly because commercial advertising is the work of skilled experts in a host of companies intent only on making a profit for themselves, whereas savings campaigns are conducted either by government departments of less than brilliant efficiency, or else by credit institutes whose public status requires them to serve the general interest. In any event, the efficacy of savings campaigns is paralysed from time to time by monetary depreciation, which is a powerful helpmate of commercial advertising even in the absence of runaway inflation.

Just how much effect a savings campaign can have as against enticements to consume depends largely upon the susceptibility of potential savers, and this in turn is determined by their moral standards. This is another field in which government can do much to raise the propensity to save. There are many means it can use to this end, and all of them should be deployed on the principle that the choice between present and future consumption should be guided not by incidental considerations of economic advantage for oneself or one's family, but by a broader moral and social view which may lead people to forgo some part of possible consumption even if this is of no direct advantage to them.

Such standards can more easily be inculcated upon all population groups in a regime of political liberty and genuine democracy, which calls for the largest possible measure of individual responsibility on the part of each citizen.

Never was it more urgent to remind the public of their individual responsibilities than today, when technical and economic progress demand more and more highly organized public administration. Bureaucracy stifles moral values and withers individual talents. Another enemy to be fought is the materialistic view of life and the illusion that it is possible and desirable to solve the eco-

economic problems of one's family by means of chance winnings or the windfall gains of lucky political or monetary circumstances. Thrift is a hard school of methodical sacrifice. It can be encouraged indirectly by teaching every single person that the intellectual and moral strength by which to safeguard the family's economic well-being must be found first and foremost within oneself, and that it is no good waiting for chance or fortuitous circumstances to provide outside help in achieving a drastic change in social status.

But ingrained habits do not change from one day to the next. To make a lasting impact, these admonitions must be combined with a determined drive to extol the moral virtue of work and indeed to create the conditions in which work opens up the way to social betterment for all, even for those who start out without any capital of their own. Equally determined must be the fight against every form of gambling, which nourishes the hope of quick enrichment thanks to the fickle favours of blind fortune.

Clearly, government has to go a long way yet before it has done all it can in the matter of promoting thrift. Take only the example of Italy, where games of chance are a penal offence but in practice are legalized by the licensing system and tolerated for the sake of the revenue with which they boost government and local authority finances. Worse still, the state itself runs a lottery; it not only has the monopoly of doing so, but propagates it by publicity. The Italian Treasury furthermore makes sure it gets a generous share of the profits from more modern forms of betting, which thrive on competitive sports without doing anything at all to develop them to the benefit of the people's physical condition.

Just how inexpedient such public allurements are is obvious on a little reflection. The illusory hope of quick enrichment due to chance regularly subducts from household budgets considerable sums which it would be better to save. What causes more concern is the harmful moral effect of the notion that it is easy to win a lot of money without hard work and personal endeavour. The state is

doing the opposite of what it should do: instead of extolling the moral value of work as the very foundation of national production and of the people's spiritual betterment, it weakens public morality and discourages the systematic and persevering efforts which promote technical progress and the formation of savings alike. Nor can anything be said for the glaring inconsistency of a government which, in the name of morality, punishes the games of some and legalizes those of others for the sake of revenue, albeit the latter may serve the public good.

This contrast between legal and moral prescripts and fiscal advantage is common knowledge. Yet some public finance experts put forward a curious reasoning. Having declared gambling to be a need like any other, and that as such it should be taxed, they acknowledge that it is in the fiscal interest of the state to prohibit private games of chance in order to widen the circle of clients for government-sponsored gambling, but go on to argue that monopoly prices may well deter some would-be gamblers. This is tantamount to saying that all the government need do to combat this alleged "need" is to charge more for the game than profit maximization would demand, relying for the rest on economic progress and on the moralists' propaganda to make their mark on gamblers' motivations.¹ No time need be wasted on refuting this theory so totally in contradiction with what we have found to be necessary. It would assign the state a purely passive function, instead of the duty of government to lead the fight against everything that encourages idleness, immorality, improvidence and waste.

To sum up, we are driven to conclude that the propensity to save does not depend solely upon the economic conditions which establish a direct connection between the volume of savings and the pattern of distribution of the national income. In the short run

¹ See Antonio De Viti De Marco, *Principi di economia finanziaria*, Turin, Einaudi, 1934, p. 321 f.

these conditions may exercise a decisive influence, but for anyone taking a longer view it becomes clear that thrift is the resultant of many interacting forces which are deeply rooted in psychological and moral behaviour patterns, themselves subject to the ceaseless influence of the social environment. It is in this light that we can take the full measure of the ruling classes' responsibility in respect of the formation of the national capital resources upon which all progress rests.

