

Extract from a speech by
THE GOVERNOR OF THE BANK OF ENGLAND
at a Dinner given by the Lord Mayor to the Bankers and Merchants of
the City of London on the 5th October 1961

. . . It has been the custom at this dinner, for the Governor of the Bank, to give a résumé of the economic and financial scene for the past twelve months. But having occupied this office no longer than the tenor of a 90-day bill, to which I would add the conventional three days of grace before expecting a protest, I think it would be inappropriate for me to follow precedent to-night and, indeed, I would by choice cast my mind forward rather than backwards.

However, the Chancellor of the Exchequer has referred, in some detail, to the measures taken at the end of July, and coming, as they did, less than four weeks after my taking up my new office, I feel that, if perspective is to be maintained, I should say a few words about the building up of the situation which called for such measures.

The revaluation of the deutschemark and the Dutch guilder, in early March, precipitated a wave of speculation such as has not been seen for many years. This speculation was initially not so much against the pound, as towards other currencies which it was erroneously thought might be revalued upwards. Be that as it may, the burden of the day, generated by these events, was borne by sterling; partly because of the leading role sterling plays in international commerce, and partly because the large volume of funds, which had found their way to London from overseas during the previous autumn, were now attracted by seemingly more interesting opportunities elsewhere. These speculative movements were very largely, and most effectively, countered by co-operation between other central banks and the Bank of England, under an arrangement which came to be called colloquially the "Basle Agreement". I do not intend here to go into any detail of the operation of the so-called "Basle Agreement", as it has been described elsewhere, but there are two points

which I would like to make about it. The first is that the title, with which it was endowed by the economic commentators, tends to imply something much more formal than that which actually took place. What actually took place was that, during the course of the normal routine monthly meeting of the central bank Governors at the Bank for International Settlements in Basle in March, it was agreed that, for the mutual good of all the countries represented there, they would counteract speculative movements, as and when they arose, by providing each other with what was tantamount to short-term banking accommodation, in one form or another. The essential of this operation was its flexibility, the shortness of the term, and mutual confidence amongst Governors that the funds would only be used to counteract speculative movements, and not with intent to underwrite basic balance of payments deficits. The second point I would like to make, is that the operation was highly successful in achieving what it set out to achieve. It is an important new milestone along the road of international financial co-operation.

Had events developed as they might well have done when the Basle arrangements started, a large proportion, at any rate, of the short-term debt, for in effect that is what it was that we had assumed under the Basle arrangements, would have been self-liquidating, as disillusionment set in amongst those who had incorrectly assumed the likelihood of a general revaluation of currencies, and as working balances in London were, as a consequence, rebuilt to their normal working levels.

Unfortunately, this did not occur, because between March when the Basle operations started and July, there was an increasing realisation, at home and abroad, of the unsatisfactory situation of our own basic balance of payments. So that by July, and I would like to emphasise this, it was the appraisal of

the objective observer, every bit as much as the speculator, that was calling into question our ability to remain competitive in world markets, or perhaps even our will to do so.

The situation that thus presented itself was a paradoxical one, in that whilst, at home, there was a feeling in the country at large, of high prosperity, near to boom, the outside observer could more readily recognise the inadequacy of our performance. We had borrowed short, and properly so, to deal with what I might describe as an attack of fever. This fever tended to obscure the deeper-seated, but more malignant, disease which was afflicting us as well; both diseases are curable, but while the fever would soon subside with appropriate treatment, the other would need more drastic treatment and longer-term care. As it was, we were left in the situation of owing our bills arising out of the treatment of the short-term fever, and were not earning enough to pay these bills owing to the longer-term disease which, in itself, required further treatment. The regime for the longer-term treatment was initiated by the various measures announced by the Chancellor at the end of July.

As to these measures, there is no need for me to dwell on them on this occasion. I would merely like to make one point. What I may call the non-monetary measures, which included the pause in wage and salary increases and the promised reduction in the rate of increasing government expenditure, although fundamentally the most important of all the measures, were likely to be relatively slow in producing their effect. But the seriousness of the situation that had arisen, together with the discouraging future outlook, demanded defensive measures making an immediate impact. I was therefore fully in support of the proportionately heavy reliance on the use of monetary measures in the short term, which alone could, in the time available, make this impact. On this occasion, as on many occasions in the past, the City was swift and whole-hearted in co-operating toward the national need. I would, however, not be true to my own convictions if I did not state that it is my firm belief that constant recourse to disproportionate use of monetary measures is no substitute for a consistent and appropriate national economic policy.

To-day Bank Rate has been reduced from 7% to 6½%. I have little to add to what the Chancellor has said, except to endorse that this change calls for no less resolution in the application of the Government's declared economic policy over the longer run or of the other measures of monetary restraint. This modest reduction in Bank Rate is made possible by an improvement in the exchanges. There is also the evidence of credit restraint in which the banks and other financial institutions have been co-operating.

Following the measures taken in late July, application was made to the International Monetary Fund for the largest drawing that that Institution has ever given any member country, amounting to the equivalent of £536 million. I would like to pay tribute to the I.M.F. for the speed and competence with which our application was handled. It would also be only right and proper to record appreciation to the other member countries of the International Monetary Fund for their full co-operation. This very large operation took place in complete conformity with the general principles of the Fund, in the creation of which through the years we have played our full part. This drawing has to be repaid within five years.

I said at the outset, my Lord Mayor, that I would prefer to cast my mind forward rather than backwards. We now face the future, due to our drawing from the International Monetary Fund, with the benefit of having obtained a breathing space and the necessary room for manoeuvre to adapt ourselves to filling the position that we see for ourselves in the world of the 1960's. It is essential that we make good use of this breathing space. Let us be under no illusion that we have been forced into borrowing from the Fund solely by the activities of foreign speculators. We have been spending overseas more than we have been earning overseas; at the same time at home we have allowed the level of demand to grow in such a way that, in the home market, behind some debilitating protective barriers, increased costs have been passed on to the consumer in higher prices, with the result that, by comparison, the profit motive in exporting is to-day in many cases inadequate. This is a highly vulnerable state of affairs for a country that depends to the extent that we do on our ability to export. It has been estimated that to make

ends meet in the international sense, that is to avoid running further into debt or dangerously depleting our reserves, we need to increase our exports by an amount which is indeed formidable. We will have to produce, and deliver increasing quantities of our manufactures to the choice of our overseas customers, to meet the delivery dates required of us, and above all at the right price. Our ability to sell abroad is dependent on selling wares that our customers want in markets where we do not set the price.

In the matter of prices no country, least of all ourselves with our heavy dependence on exports, can afford to ignore the economic climate and conditions of the contemporary world. That climate to-day is one of generally stable prices, for the sound reason that those countries, who are making the most progress in increasing their real wealth, are also pursuing policies of stability.

Increases in money profits or money incomes only represent increases in real wealth if the increased money is matched by an equivalent increase in goods or services. Otherwise the increase in money, be it in profits or be it in incomes, merely means paying more money for the same goods. This cannot be widely enough understood. For external and internal reasons alike, therefore, I place the greatest possible importance on the stability of the currency. I believe firmly that we should seek the attainment of a steadily rising standard of living, based on an orderly monetary foundation, which alone can safeguard the interests of all sectors of the community.

If we are to maintain our present standard of living, let alone improve it, we have to work for it and not against it. There are, I believe, a number of factors working against it, stemming in part from our national tendency to revere the past to an excessive extent, to hanker after the good old days or to use our energies to fight evils and abuses, many happily long disappeared, of the bad old days. Are there not still many out-dated customs and practices in industry which owe their origin to mitigating the dire hardships of the years of depression between the wars, but which to-day

only result in limiting the advance in the standard of living? Is it perhaps not possible that the overall level of government expenditure to-day has grown to levels that the population as a whole is not willing to support by forgoing personal consumption to the extent necessary? Is our system of taxation matched to the present needs of the nation? Are the money rates we have seen in this country in recent years the most appropriate to achieving the rate of progress we would like to see? Are we saving enough? Is the high level of government expenditure overseas not perhaps based more on our Imperial past than tailored to our changing position in the world or the need to confine financially unremunerative expenditure overseas to what, as a nation, we are prepared to earn overseas? Do the remnants of the 'siege' economy which remain with us from the last war make any positive contribution to our good or merely restrict our earning capacity? These are some of the questions that are crossing my mind in my first few months of office. These are only some of the questions that we have to find an answer to in the breathing space we have obtained.

My Lord Mayor, we are faced with a great challenge and I welcome the Chancellor's reference to a new sense of purpose, for it is absolutely essential that we make full use of the opportunities provided by the support of the International Monetary Fund, to accomplish what we have not yet achieved; that is to adapt our economic way of life to our present position in the world and to the present age. I read recently that we are in fact nearer the year 2000 than the year 1920, so let us look more to what we wish to achieve between now and the year 2000. One of the great heritages of the bankers and merchants of the City of London is their ability to adapt themselves to changing circumstances. Were this not so we would not be gathered here to-night and I certainly would not be replying to this toast, but I know that I can speak with complete assurance when I say that, given the opportunities, the bankers and merchants of the City of London will continue to make an increasingly significant contribution to our economic strength.