Extract from a speech by

THE GOVERNOR OF THE BANK OF ENGLAND

at the Institute of Bankers in Scotland Dinner at the North British Hotel, Edinburgh, on the 9th February 1961

. . . It is some four months, Mr. Chairman, since I spoke at the Mansion House in London about the monetary situation. It is always rash to pronounce judgment on the events of any recent period, and any final view about the effects of monetary policy in 1960 can only be reached much later. On present evidence I would claim that in 1960 monetary policy achieved a considerable part of its objective. I accept at once the criticism that credit restriction takes a long time to work through and that its incidence tends to be unfair, particularly in that present arrangements put a heavy share of the burden of credit restriction on the organised banking community. I also accept—indeed it is a theme which I have myself argued for many years past—that monetary policy cannot cure all ills and that it is a great mistake to expect it to carry loads which should be carried in other fields of government policy. Though it has a strong contribution to make to both, monetary policy cannot by itself ensure either the internal stability of the currency or the health of the balance of payments.

Within these limitations I would judge that the measures taken in the credit field in 1960 have been by no means ineffective or unsuccessful. They have contributed to preventing a dangerous 'over-boiling' of the economy last spring, they have helped to maintain confidence in sterling over a period when weakness would have been a danger both nationally and internationally, and they have had some influence in pushing bank credit away from consumption towards investment. And at the end of the year, despite some well known soft spots, business remained generally active, employment high and investment forecasts on the increase.

I mistrust this argument one hears so often, that 'stop-start-go' is the cause of all troubles. If we are to keep the economy running with a high level of activity, employment and development, and at the same time to keep the pound stable at home and abroad (and these are surely the things we all do want), then credit policy, or any other economic regulator, must be used sometimes in one direction and sometimes in the other. If the alternative is either to go too slow all the time or to go 'hell for leather' and not mind what is at the other end of the road, I prefer a bit of traffic regulation. Criticism of timing and methods is fair enough: criticism of the attempt to avoid boom and slump seems to me misplaced.

What really matters is that the fundamental policies should be right, that the country should live within its resources and should devote enough of its resources to productive investment, with an eye all the time on incentive, on efficiency and on costs. It is on these fundamentals that we should concentrate in the next period. This is surely the way to attack our balance of payments problem, and thus to make our contribution to righting the imbalance in international payments, of which we are now hearing so much. International balance cannot be restored by one country alone. Surplus and deficit countries alike have their part to play.

Provided that we can get these fundamentals right and can see our balance of payments moving in the right direction, which may need far-reaching review of policies, let us not bother over-much about short-term movements of money in one direction or in another. So far as sterling and dollars are concerned—and it is the stability of these two currencies which is mainly needed to foster confidence and trade through the world—both are well buttressed, both can look, if they wish, to massive second-line defences in the International Monetary Fund. I am sure that we must get used to drawing and repayment of I.M.F. facilities as a normal business transaction and not as a crisis measure.

In fact the foreign exchange markets have been fairly quiet over the last few months. One of the upsetting factors was the recurrent rumour about possible action by the U.S. authorities to revalue the dollar in terms of gold. These rumours gave rise to some alarms and excursions in the London gold market. Intervention in the London market is our responsibility but we have been in almost daily touch with the United States authorities and have kept them closely informed about the market situation. Our aim has been to keep the market as orderly as possible in all the circumstances and we have managed to keep price fluctuations within tolerable bounds.

I have always thought that there was no foundation for these rumours and have always expected that the new U.S. Administration would take the same view as their predecessors about the maintenance of the existing gold parity of the dollar. I welcome the resolute determination of the new Administration to defend the present parity on the constructive lines expressed in President Kennedy's recent statements.

The aim for 1961, then, is to work away at our balance of payments, and to take any short-term inflow or outflow of exchange in our stride. For industry and commerce the immediate problem is to increase exports. What can the bankers and members of this Institute do to help?

The arrangements announced on Monday about additional re-finance facilities in respect of exports are, I suggest, an earnest of the continuing concern of the banking system in promoting exports. These arrangements, made after discussion between the Bank of England and the banking organisations, should help materially to maintain the flow of medium-term credit for this purpose.

There is one other point I should like to stress. Speaking last week to the National Union of Manufacturers, I encouraged them to discuss their export problems with their bankers, and to seek advice and information about overseas markets from them. From the other end of the telescope I would to-night ask the Scottish banking community to make doubly certain that their branch managers are well informed about the services which the Government and the banking system can provide, and are in a position to give all possible information and advice to their customers on export business. This seems to me a field in which both your Institute and its individual members can give much help and encouragement. . . .