

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 3rd October 1962

The twelve months that have passed since I first had the privilege of replying to this toast have not been uneventful in the economic field. The pendulum, which seemed in some ways to have reached the full extent of its travel in one direction in July of last year, has been swinging back; with the result that there are those who, understandably enough, are now beginning to be preoccupied with concern that the pendulum may swing too far in the opposite direction. It is, of course, the objective of economic, fiscal and monetary policy to attempt to ensure that this does not happen—to attempt to assure that the extent of the swings either side of what, at any given time, may seem to be the norm shall not be excessive.

We cannot afford to forget how much of our predicament last year was attributable to rising costs and to the concern that this caused that we were progressively becoming less competitive in selling our wares in the international markets of the world. It became essential to modify the rate of increase in demand at home which had been contributing to the upward pressure on costs. It was the prospect that we were becoming uncompetitive which was at the root of our deteriorating balance of payments situation last year. In the extreme situation of last year, extreme measures were necessary.

I think that real progress has been made over the last year in achieving a wider recognition in the country of these issues. The importance to us of keeping our costs competitive is something that we can never afford to forget.

The success of the Government's policies over this period in achieving, by and large, what it was intended to achieve is evidenced by re-establishment of confidence in sterling at home as much as abroad.

This last period has been one of restraint in the monetary field, but—as the various measures of July 1961 together with the general economic policies of the Government have had their effect—a period of gradually declining restraint, until at the present time it is difficult to point

to any policy being actively pursued with deliberate intent to restrain economic activity. Bank Rate has come down in five steps, from 7% to 4½%. Short-term money rates are certainly not at a level to deter business. Moreover, if all the considerations are taken into account, instead of merely a straight comparison of Bank Rate or Treasury Bill rates, which have different implications and purposes in different places, our short-term rates are broadly compatible with those in other leading financial centres. Long-term rates have also been falling and, as this tends to benefit long-term industrial investment, the authorities have shown by their attitude that they are not averse to the readjustment that has been taking place. Some of the additional Exchange Control restrictions imposed last year, together with some of longer standing, have been relaxed. The very large drawing we obtained from the International Monetary Fund has been replaced by a standby facility of \$1,000 million.

The most recent monetary relaxation has been the second decrease in Special Deposits to bring the level down to 1% for the London clearing banks, and half of 1% for the Scottish banks. I wish to take this opportunity more particularly to refer to this decision which was announced last week and which begins to take effect next week. This decision, I think, speaks for itself, but the purpose should be reinforced when I say that the bankers and others whom I addressed last year requesting them to exercise particular restraint in particular fields will be receiving a letter to-morrow withdrawing these requests. I am sure that I can rely on banks and other financial institutions, who have been so helpful in their co-operation, to continue to give priority where necessary, and encouragement always, to activities which promote exports and the overseas earnings of this country. I would also ask them, in so far as it is within their power, to give special consideration to the promotion of business in those areas

of the country where resources are not being used to full capacity.

Before turning to the future, I would, if only in passing, for in due course they will speak for themselves, welcome the National Economic Development Council and the National Incomes Commission. Both have an important contribution to make and a better understanding by the public at large of the merits of claims for higher incomes by any particular groups in the community could help to remove some of the confusion there is in many people's minds.

I agree with those who take the view that the correctives introduced last year have gone far enough and the task that lies ahead of us now is the most difficult one—to steer our economic expansion from now on in such a manner as will provide for continuing expansion, but without re-creating the same conditions which last year provoked the need for exceptional restraint. If we were to allow the slack, which undoubtedly exists in the economy to-day, to be taken up solely by stimulating increased demand at home, then we will certainly be setting ourselves on a course which will lead us on to the rocks which we have visited all too often in the past and which are altogether too disagreeably familiar. If we are to avoid this, we must be sure that in the expansion and growth which we all want to see, an even greater proportion of our whole economic effort than in the past goes into contributing to our overseas earnings—that the Government and business world alike give preference to expansion in those fields of activity which will generate in themselves the necessary ingredients for yet further balanced expansion, rather than those ingredients which contain only the makings of future imbalance and trouble. Surely we have learnt by now that expansion which is not suitably balanced between home and overseas inevitably contains the seeds of future trouble.

The burden has so far been put predominantly on industry and to a less degree on the merchanting world to provide the bulk of the solution to all our problems in this respect. The record of British exports this year and through the years is indeed no mean achievement. It confirms the belief that British industry can vie with any country in the world in imagination, skill and workmanship. But even this achievement is not enough—as the record

shows. The needs that lie ahead demand that we eliminate all avoidable hindrance to the further growth of British trade with overseas, and they demand that we lose no chance to share further the burden which falls on industry.

I have therefore been looking with particular attention to the part that the City can play in aiding industry in this field and, in pursuance of its own particular skills, to contribute yet further to the national purpose. And on this occasion when I speak for, and to, the Bankers and Merchants of the City of London in replying to this toast, you will perhaps not find it inappropriate if I dwell for a minute or two on these issues.

I suppose that it can be taken for granted that there is general acceptance of the fundamental fact that the national purpose demands, year in, year out, a rising level of overseas earnings to pay for the increasing volume of imports which is implicit in a rising standard of living in this country.

We are, after all, in these islands some fifty-three million people. We produce about half the food we require. We import practically all our raw materials, both for what we use and consume ourselves, as well as for what we manufacture for sale overseas. There is a steady demand by industry and individuals for a wide variety of goods manufactured overseas. Indeed, a rising level of world trade implies that we should buy more manufactured goods from overseas—particularly from the less developed countries of the world, if they in their turn are to earn their way in the world. All these things, and much else, have to be paid for out of what we earn from supplying goods and services to overseas customers.

In the immediate post-war years we, in common with most of the countries of Europe, and elsewhere too, were preoccupied in repairing within our own frontiers the havoc created by war. We did this behind the barriers we had erected with the particular purpose of husbanding our dwindling international resources required to prosecute the war. Our whole way of thinking, our administrative acts, our taxation policy and expediency—all were based on the very special considerations of those days, both at home and abroad.

The point I want to make this evening is that the attitude of mind which those days bred is out of keeping with the world of to-day, our

needs and position in it and the national desire for expansion. The task now is not just to husband what we have got; it is to achieve the expansion of the economy on a balanced basis, dependent as that is on expansion of overseas earnings.

It is true that as far as trading and commercial banking practices are concerned progress has been made in adjusting our ways to this present requirement. In this most volatile of all fields there is to-day considerable freedom of action. To-day it is more in the field of capital markets and investment that there is now call for more progress. There are still limitations on the scope of business that our Bankers and Merchants may carry on overseas. At home too, the wider development of the London capital market is limited by policies that discourage or prohibit the attraction of additional foreign business, which as a result is driven elsewhere. These are fields in which our Bankers and Merchants are exceptionally experienced and skilled. The barriers that remain here now impede the growth of important contributions to a stronger international economic standing for the country. In tax policy and its implementation too, I suggest that more regard should be paid to the problems inherent in international business.

Business, certainly in the present age, is no simple thing. It does not lend itself to simple explanation or even logical justification of each and every step. An illustrious ancestor of mine*—more highly versed in the City and international trade than I will ever be—wrote :

“A restriction or regulation may doubtless answer the particular purpose for which it is imposed, but as commerce is not a simple thing, but a thing of a thousand relations, what may be of profit in particular may be ruinous in general.”

The truth of those words is as great to-day as it was when they were written at the end of the eighteenth century.

I think we have at this time a great opportunity. I suggest we need a new, bolder attitude of mind. I think that the onus of proving the need to restrain enterprise should be made to rest on those who want to restrain it, rather than that those who want to exercise it should have to prove the justification.

I take the view that the existence of sterling as an international currency provides us with

a unique opportunity to increase our national earnings in additional ways over and above what industry earns by the sweat of the brow. Sterling holdings, for instance, are evidence that non-residents of this country by their voluntary and calculated action display more confidence in our ability to use these resources profitably and thereby protect their investment, than do those who would spurn the opportunity proffered to us. But I do think that there is a danger that if we do not use the opportunity which we happen to have, then we could by our own faint-heartedness bring about the worst of both worlds.

I will be more specific with my thoughts. I want to see more foreign business attracted to our markets so that we can earn more foreign money. The time has now come when the City once again might well provide an international capital market where the foreigner can not only borrow long-term capital but where, equally important, he will once again wish to place his long-term investment capital. This entrepôt business in capital, if I may so describe it, would not only serve this country well but would fill a vital and vacant role in Europe in mobilising foreign capital for world economic development. It would be to the advantage of British industry in financing our customers. This type of business in general tends to be less volatile in its effects on the balance of payments than much other business now carried on.

But if we are to make our markets attract more business we will need to provide a more complete service—a service at a competitive price providing what the customer wants. The capital market is a necessary element. The Stock Exchange of London still provides the widest and almost certainly the most efficient market of its kind in the world—not, as I am sure Lord Ritchie would agree, that there is no room for improvement. The level of Stamp Duty on transfers, increased when the practicability of foreign business was not a factor, is to-day surely a deterrent to foreign business. The foreign investor too prefers bearer certificates to the rather slow system of registration in general use in this country, and we used readily to provide them. Can we afford to discourage this foreign business or to require packaging which does not sell the goods? In the taxation

* Sir Francis Baring (1740-1810).

field, in the Exchange Control field, and in market procedure too, we surely need a new look as one part of the policies we must adopt if we are determined in our desire to increase our overseas earnings. These few thoughts on expanding market activities are only one aspect of much wider issues.

I would suggest that if we are to get out of the ever-recurring cycle of balance of payments troubles, to obtain that freedom of action we yearn for, a revision of priorities seems called for in the field of overseas investment. I am well aware that strenuous efforts are made to contain the growth of government expenditure overseas; were it not for this it would rise at an even steeper rate. There is here, so it seems to me, the basic problem of the relative national advantage of accepting continually rising commitments of government overseas expenditure on various counts, as against increasing potentially profit earning activities overseas. I find it difficult to contemplate that to limit the latter in order to meet the demands of the former could provide an enduring basis for the future.

We are now emerging from a period of restraint necessitated by the threat that we might fail to earn our way in the world. There is a very general consensus of opinion that we can now afford to expand. There is the possibility of putting too much accent on the stimulation of demand at home and risking the re-

creation all over again of another payments crisis. Or, alternatively, we could adopt another and longer-term approach—but which by no means calls for tightening the belt further at home—and concentrate to a greater extent on a policy aimed at increasing our overseas earnings on which to build uninterrupted the foundation for progressive expansion.

You, Mr. Chancellor, have just returned from attending the meetings in Washington of the International Monetary Fund and the World Bank. You launched there what has been popularly described as “a new initiative”. It has been suggested in the Press that your ideas were received with some caution by what were described as “conservative bankers”. I always suspect that this description is faintly disapproving. But, Mr. Chancellor, I can assure you, as a “conservative banker”, that I would welcome with enthusiasm every “new initiative” you may see fit to launch to strengthen the economic standing of the country. I want to see Britain grow with an expanding economy based on a sound and enduring payments position. I have no hesitation in assuring you that the Bankers and Merchants of the City of London, for whom I speak this evening, are impatient to contribute to the full the experience, the skill, the energy and the enterprise at their command in fulfilment of this aim.