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 November 1964

Tradition demands that, on this occasion, the Governor should give a brief résumé of events in the financial and monetary field in the past twelve months. I intend to be very brief in this respect, partly because direct intervention in the monetary field by the authorities has been modest over the past twelve months and partly because, at this time, our present position and future policies command more pressing attention.

Affairs in the money market call for few words. The money market kept the Treasury Bill tender rate close up to Bank Rate in the latter part of last year, thereby helping to retain the differential in favour of London against New York. But you will recall that during that time and subsequently the important task was to support confidence in industry, and to encourage the investment necessary to a further strengthening of productivity. Over the turn of the year such investment was thought to be getting under way, although relatively slowly. It emerged that a notable acceleration of stock-building had also been adding to pressures on the economy. By February it was clear that we had had a substantial increase in total demand during the closing months of 1963 and the appearances were that this would continue. These various factors, against the background of the very large government expenditure programme, pointed to the likelihood of incipient overheating and the decision was taken to increase Bank Rate to 5%—an amber light as opposed to a red. The money market took the opportunity of this change to readjust the Treasury Bill tender rate to a more normal differential to Bank Rate.

The gilt-edged market has been very steady during most of the year. After Bank Rate had been raised to 5% in February, the long-term rate moved to around 6%, where it has remained without showing any tendency to move far in either direction. Indeed, the gilt-edged market during the months prior to the election displayed a commendable strength and resilience.

The overall situation in the monetary and banking field this year has been beset by paradoxes. In February, as I have just said, prospects both within the economy and in export markets pointed to a build-up of overall demand, including potential consumer demand, which could bring about dangers of overheating. But events did not develop in that way. Despite the facts that industry's costs and capital expenditures were rising, and its liquidity falling, for some time industry made no major additional recourse to the banking system for finance. Capital issues were quite high, but bank advances increased only moderately until mid-summer when there was some contra-seasonal increase. However at no time were the banks excessively liquid. Retail sales showed no upsurge and personal savings seemed to show a sharp increase. Despite increasing deposits the likelihood of any major creation of excess demand financed by bank loans never became an issue calling for corrective measures. All in all, therefore, the domestic and economic scene viewed from the monetary angle indicated no action.

But all was not well in the two interrelated fields of productivity and exports. Despite the accelerating level of investment by industry and rising employment, which together surely justified anticipation of an increased product, little more was produced or, at least, delivered. Productivity remained at best flat and exports failed to increase to the extent which was reasonably anticipated. Imports, on the other hand, continued at a very high level. This is the situation which faces us now and it is against this situation that we have to formulate policy for the future.

The Chancellor this evening has properly concentrated on the Government's most recent measures and the fundamental policies which have to be adopted at home. It would perhaps be appropriate if I touch on some other aspects of what we have to face.

The reality is, as the Prime Minister has explained to the nation, that we are not paying our way in the world and I hope that the magnitude of the figures mentioned by the Prime Minister has made the impact that it should have done at home in this country. This deficit, of course, cannot continue. We, as one of the great industrial nations, can scarcely expect to rely on the borrowing of foreign savings to maintain our own level of spending. Still less can we expect foreign countries to create money to finance our expenditure—this would, in time of universally high demand, be mere inflation to which others would wisely refuse to be a party. So we cannot continue to indulge ourselves at the present rate unless we are willing to earn in the world at large the means to finance our needs and our indulgences. I use the word indulgence to include not only the borrowed fruit of a higher standard of living at home than we are earning, but also the indulgence of spending more resources than we have to call our own on undertakings and ventures overseas which do not contribute to our financial strength.

Our failure to earn sufficient abroad to finance our various aspirations in the world lies with ourselves. We have individually and collectively to give full value for what we want from the world. I cannot help but wonder whether all the talk of 'Growth'—with a capital 'G'—of a figure, becoming sanctified by usage, of 4% has not obscured the really important issues. Of course the people of this country, as in every country of the world, want a better standard of living. Probably every individual has a different interpretation of what this means to him, for the statistician can never get to the heart of the matter, but I would suggest that constancy of betterment, constancy of the value of money and constancy of the value of savings rank high in any considered judgment. It is essential in my belief to distinguish between 'Growth' in real terms and the beguiling but false semblance of 'Growth', parodied by inflation. If our costs and prices grow, our real standard of living will not. It is inflation that is a principal threat to a better standard of living, to real 'Growth' and to the balance of payments.

If, on the other hand, we maintain the purchasing power of our currency and the competitiveness of our costs, and profit also by our past experience, and in future maintain demand at home within our capacity to meet it, then the resultant strengthening of the balance of payments will once again help to provide the motive power for true 'Growth'. This is a statement of the obvious perhaps but let us be under no delusion, for it is our success or failure in the performance of the balance of payments that will sooner rather than later dictate the real standard of living of all of us in this country.

It is true that very adequate resources exist to defend ourselves from short-term forays. We have powerful assistance against speculation in the existence of the so-called 'Basle arrangements' which we are currently using, as we have done on previous occasions of need. These arrangements are designed to mitigate the effects of purely temporary and generally self-reversing movements of speculative funds.

To enable countries to make major redeployment of their resources, which is what we urgently have to do in this country, support is available, if required, from the International Monetary Fund. But let us be clear that such support only enables us to borrow time during which to put our affairs in order and to earn the wherewithal to repay the debts we will have incurred.

In addition to maintaining the value of money, it is in the more profitable utilisation of all our resources that most urgent and energetic action is called for. In this challenge that faces us, it seems to me that it is of the greatest importance to concentrate on the positive elements—on those elements of our activities that we want to see grow and contribute further to our strength. We need to make much better use of the investment that has been made in modern up-to-date productive capacity. Only increased productivity will provide the exports in the volume necessary, even with the incentives that were proposed last week.

I mentioned earlier the disappointing growth in our exports which is a serious matter. Conditions in many export markets would appear to be favourable. Our prices and costs in this country have over the last two or three years been more stable than those in the principal continental European countries. Unfortunately one still hears stories of enquiries from abroad meeting either such dilatoriness in handling, or such extended delivery dates, that foreign buyers meet their needs in other markets with a mere fraction of the delay. I have heard the argument strongly put from time to time that a successful export performance is dependent on the strength of the home market. But let us not overlook the fact—the basic fundamental fact—that without a sufficient export performance in aggregate the home market is bound to decline in real purchasing power. If British industry is to sell more in world markets—and our future will indeed be bleak if we fail in this—we must become more competitive, competitive in price, in delivery, in styling, design, packaging and above all salesmanship. It should be a matter of social pride but also of profit to export more. Is sufficient priority given to export orders even at the price of keeping the home consumer waiting? Is it that those who on our national behalf exert themselves as salesmen of our wares do not, after tax, earn a comparable reward to that of their foreign counterparts?

While, so to speak, on the earning side of the balance of payments—the positive elements—I must mention once again that I believe the City, with its very considerable financial and commercial ingenuity, could contribute even more than it does today to our overseas earnings. We are still driving away from this country business that would bring us useful earnings in foreign exchange. We are not showing sufficient flexibility as yet in our taxation arrangements or in certain other of our regulatory procedures. It seems to me essential that a proper place be found in the balance of payments to permit of the widening of these activities and the more rational treatment of investment in any part of the free world. British citizens and companies, by originating or participating in overseas investment in the past when they were not so restricted, created assets which have sustained us over the years and additionally opened up further opportunities for our exports. It is up to us in our generation not only to husband such resources, which we have inherited, but to add to them further. Unfortunately British investment in the non-sterling area has in the post-war years either been heavily curtailed or made artificially unattractive in order to permit out of our available resources other types of expenditure overseas. In any overall review of the reallocation of our resources it would seem to me most important that overseas investment should no longer continue to be regarded as the residual figure and the first target for retrenchment at every gust of adversity—our future prosperity demands a proper level of remunerative overseas investment.

We know, however, only too well that these positive achievements in the balance of payments will take time. In the meanwhile it is certainly true that we must cut back on some forms of direct overseas expenditure. We must also reduce expenditure in this country which distracts resources from contributing to the top priority of closing the payments gap. We must look hard at all forms of government expenditure at home and abroad, be they old or be they new. There are expenditures whose origins, of course, lie or at one time lay in some aspect of national policy but whose annual cost has become more burdensome over the years. Government statements which have been made on these matters have given encouragement. On the side of restraint we must, of course, avoid the obvious pitfalls of withdrawing too much in on ourselves—anything remotely resembling a siege economy could only redound to our disadvantage. The world has been busy breaking down barriers. Trade, commerce, finance, tourism are all reciprocal so that the international payment freedoms which have been slowly built up since the war and acceded to under the aegis of such institutions as the International Monetary Fund must be recognised and respected. Any temporary deviations from the free course of trade will, of course, only be accepted internationally as palliatives of short duration to permit the introduction of speedy remedies to structural defects—and it is on this basis that last week's import surcharges were introduced.

The ingredients of our deficit are, of course, highly complex. The increase in imports is a disturbing factor. The longer-term remedy lies in the demand for British goods being the first choice at home and abroad because they are best in quality and design and are the best value for money. Likewise the necessary level of investment capital in this country, no matter what its source, be it from investors in this country or from abroad, will in the ultimate become available not because of any artificial restraints such as exchange control and the like, but because investment in the future of Britain is manifestly the best investment that can be made.

My Lord Mayor, we are all faced by a great challenge. How do we meet it? First of all, at home, let us inculcate a deeper understanding of value for money—to give honest value for money received. We cannot afford to seek in featherbedding and spurious security at home a substitute for enterprise. We need to encourage enterprise and see that its success is rewarded. We need, I think, to judge overseas expenditure, other than the normal current payments of the citizen, against a criterion of the financial return to this country. We must perforce return to a more commercial judgment of the value to be received by this country from our outlays overseas. We must, I believe, curb and reverse the post-war trend of continual increases in financially unremunerative outlays overseas. We have a long history of bestowing our bounty on others and it is understandable that we should want to preserve demonstrations of our imperial past—but prestige is earned not bought; least of all on borrowed money. I am convinced that the future prosperity of this country at home and its power in the world abroad depend above all on the strength of the pound and the strength of the pound depends today, as it always has, on wise and prudent husbandry of our resources so that they may grow and fructify.