

## 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 21st October 1965

This is the fifth occasion on which I rise to respond to the traditional toast. I would like, first of all, to thank the Chairman of The Stock Exchange for his good wishes in the ensuing year. Although Mr. Wilkinson proposed this self-same toast last year he was then speaking on behalf of Lord Ritchie, who has since retired from the chairmanship of the Council of The Stock Exchange, and I feel sure that I speak for all those present here this evening, and indeed for the whole City, in expressing our admiration for Lord Ritchie's many achievements during his term of office—achievements latterly in the face of great personal adversity. His many friends and colleagues will wish to join me in expressing our highest regards, and our best wishes for the future. In Mr. Wilkinson the Council of The Stock Exchange is indeed fortunate in finding a worthy successor and I am sure that we can look forward to continuing progressive leadership from the Council of The Stock Exchange under his chairmanship and, indeed, his speech this evening gives earnest of this.

My Lord Mayor, after this same occasion last year a highly valued friend of mine came up to me at the end of the evening and expressed some conventional kind words on my speech. He went on to say that, although he knew it was traditional for the Governor to give a résumé of financial events during the past year, such as changes in Bank rate and finer points of detail in the gilt-edged market or the money market, he found that part of my speech quite outstandingly tedious. Being an old friend he suggested that I might give thought at least to cutting down this part of my speech in future. He was, of course, quite right. But, if now I

were to give a detailed account of all the events of importance in the monetary and financial field over the past twelve months since we last met, I scarcely think that anyone would find it dull. I have had no complaints of boredom from the higher echelons of the Bank over this period. But there are other good reasons for departing from precedent this year. The Chancellor of the Exchequer, in his speech to us this evening, has concentrated on some of the fundamental issues involved in the management of the domestic economy and I find myself in full support of his quest to achieve effective management. I have even, on occasions, ventured to recommend it. But I have an additional reason for departing from precedent, in that it is not yet possible finally to close off our books on the sterling exchange crisis which erupted in November of last year, leaving until very recently an aftermath of disturbing debility in confidence—that tender plant so quickly blighted and so slow to recover. The recent improvement of sterling in the exchange markets, which has brought the pound above parity again, coupled with a substantial and continuing inflow of funds, is encouraging. It enables us to start making progress in discharging the obligations that we have assumed over the past months that we have been under strain. But it would be imprudent to underestimate the task that lies ahead of us or the time that the fulfilment of this task will require.

Our first charge must be to meet our outstanding market and central bank commitments and obligations. And when this phase is completed and we have discharged our short-term liabilities we will then be in a position to apply our efforts to the repayment of the \$2,400 mil-

lion that we have also borrowed from the International Monetary Fund in the course of the last twelve months.

The nation has been passing through a period of great peril this last year. This peril which threatened our standard of living and our national position in the world seems to have been more apparent to those who could dispassionately regard our position from without than it was to many people here at home engrossed in their own pursuits. Despite this, a favourable turn in the exchange markets during the past few weeks gives an encouraging sign of confidence that the measures taken by the Government will work through to establish a base on which future balanced prosperity can be built—confidence that restraint will be seen through to the extent needed to ensure beyond question the fulfilment of the undertakings that the Prime Minister has given of the Government's determination to see sterling riding high. It is only when there is sustained evidence of increasing productivity, coupled with elimination of excess demand at home and, hence, the removal of balance of payments strain that we will have achieved the base on which future balanced growth can be built. It is no part of this overall process to seek unemployment of men or machines but rather that there should be a redeployment to ensure that the vast productive capital investment in this country should be utilised to the greatest extent possible and, in particular, in those fields which contribute most to the nation's earning capacity in the world. The next stage is going to demand adaptability and readiness to accept change, for in modern capital-intensive industry underutilisation of equipment will throw away opportunities for income and profit.

But at this time any premature relaxation of restraint on the domestic economic front, the introduction of any new policies which would result in increased overall demand at home—no matter their purport—or increases in incomes in excess, or in advance, of an increase in national productivity and hence leading to increased prices, could swiftly halt our recovery. In our present state of convalescence we are under the constant survey of foreign friends who, for one reason or another, admire this country and wish to see us succeed but question whether we really have the sense of purpose and the determination to do so. Any back-

sliding on our part which lays us open to accusations that we are at this time putting social needs before financial responsibility, would very quickly cause the leaves on the plant of confidence to shrivel. To change metaphor in mid air I would suggest that, as financial convalescents, we are not in good shape to take any risks.

My Lord Mayor, in view of our very heavy dependence on foreign financial assistance this last year, it seems to me timely—and I hope you will share my view—to say a few words this evening about international financial co-operation. First, it would be very remiss of me if I did not take this occasion this evening to find an early opportunity to express publicly my very warm appreciation of the outstanding co-operation that we have received on more than one occasion during this last year from other central banks. This co-operation has come from central banks widespread throughout the world. As 113th Governor of the Bank of England I owe much to those predecessors who established such a unique standing in the world for The Old Lady of Threadneedle Street. But at the same time as thanking my colleagues abroad in this esoteric occupation known as central banking for their wholehearted co-operation, I must state that in my own view—a view I know they would equally share—governments have heavy responsibility, as I know the Chancellor of the Exchequer agrees, to avoid reliance to such a degree on inter central bank co-operation.

There are some theories bruited around on both sides of the Atlantic that what is called an increase in international liquidity would solve the problem of imbalances arising in the balance of payments of the leading industrial countries of the world. That there may one day be a shortage of international liquidity is, I believe, common ground and I am strongly in favour of this issue being studied. It has little relevance, however, to our problems of recent months and I would prefer to confine myself this evening to some consideration of the implications of the co-operation that we have received this year.

The need for co-operation of such a kind was one of the lessons of the pre-war years. Very briefly, the experiences of the 1920's

and 1930's with nationalistic *sauve-qui-peut* economic policies, with mounting tariff protectionism, competitive deflation and devaluation of currencies, with mass unemployment, led to the resolve even whilst the war was being waged that the future economic policy of the world should be based on the greatest freedom in payments, the minimum of impediments on the international movement of goods due to quotas or tariffs and the avoidance of competitive exchange depreciation.

The United Kingdom has played a leading part in all the various institutions dedicated to this end, the International Monetary Fund, the G.A.T.T., what is now known as O.E.C.D. and more recently the Group of Ten and others. The outcome has been the evolution of a concept of interdependence based on individual nations' responsibility to the common purpose. This first of all means that each country has a responsibility to run its own domestic affairs in such a manner as to avoid engendering dangers to the system as a whole, either by incurring excessive deficits or excessive surpluses in the balance of payments. Secondly it means that redress of imbalance should be brought about by means that avoid disrupting the growth of international trade. In practice this requires that recourse should not be made to restrictions on current payments by exchange control nor restraints on the international movement of goods through arbitrary quota restrictions or tariff increases.

Of all countries we indeed stand to gain by this concept of interdependence; reliant to the extent that we are on foreign earnings, we would be the first to suffer, as we have suffered in the past, if any of our important customers imposed restrictions on imports or payments. It is salutary to bear in mind that what may be essential exports from our point of view may not be essential imports to our customers.

It follows from this concept that I have tried to explain that if a country finds itself running, or about to run, either an excessive deficit or an excessive surplus, then adjustment is called for by action on the overall level of demand at home, be it on investment or on consumption, be it public or private, rather than by steps which would today be regarded throughout the world as disrupting international trade. This action on demand must, of course, be coupled with financial policies which

influence capital markets, particularly in their international aspects, in an appropriate manner.

The balance as between investment and consumption, public or private, is a question of priority and a policy decision for the government of the country concerned. In our case, in the United Kingdom, until productivity can be raised to an adequate degree, the process of adjustment must take the form largely of restraining overall demand. Naturally a continuation of investment which contributes to our export sales by enlarging output and reducing costs, improving handling and transport, is essential. This means that other forms of demand cannot be allowed to increase before the growth of productivity to which I referred earlier is attained and thereafter can only be allowed to increase within the aggregate to the extent that it does not make inroads on what must have first priority.

So it is within the ambit of this concept that I have very briefly tried to explain, my Lord Mayor, that we have to seek the solution to our problems. It is due to our subscription to Article VIII of the International Monetary Fund Articles, with the responsibilities that that carries with it to allow complete freedom of current account payments, that we have been able to borrow \$2,400 million from the Fund; and it is in the confidence that we wholeheartedly subscribe to the philosophies that I have attempted to describe that it has proved possible to seek co-operation on a vast scale from like-minded central banks.

Interdependence too in the free movement of private investment capital is important. We certainly need to see more foreign investment, with the know-how it brings, in this country. Indeed the National Plan predicates an important element of its balance of payments reconciliation on the inflow of new foreign investment into this country. If this is to be realised we are committed to ensuring that both the costs of production and taxation of profits on direct and portfolio investment compare favourably with investment opportunities that exist in countries comparable to ourselves. But investment, like trade, is not one-way. The emergency situation of these past months has called for measures restraining overseas investment and even bringing into the reserves a proportion of the proceeds of foreign investments realised. Looking forward to a satisfactory

outcome of our recent troubles and to an emergence into a world of increasing interdependence, exchange control on private capital movements must needs become as obsolete as the dodo.

But a factor which I believe will be predominant in imposing freedom of capital movement upon those responsible for such matters is that the capital intensiveness of industry is rapidly increasing. To set up the industrial installations of the future is likely to call for such large demands of capital that the European capital markets, of which I would claim that London is the foremost, will be unable to meet the needs of industry of the future other than on a basis of interdependence.

My Lord Mayor, I am in no doubt whatsoever that the future wellbeing of this country and its position and influence in the world depend on a strong pound. Early this year I

remarked that, thanks to the lifeline held out to us by our friends we had crept from the edge of the abyss that confronted us last year. Over recent months, still dependent on the lifeline, we have climbed further away from the abyss. We still have to show that by our own efforts, our own endeavours and our own realisation of our position, we can continue the climb on the strength of our own native resourcefulness. The greatest peril to further progress lies in continuing attempts to take more out of life than is put in—to expect higher reward for the same or even less performance. Those who press in this direction are heading for the abyss and not away from it. But I believe, my Lord Mayor, that those who are marching in the right direction vastly outnumber the others and I am convinced that we can prove that confidence in the future of the pound sterling is justified beyond question.