

## Extract from a speech by the Governor of the Bank of England

*Given at the annual banquet of the Overseas Bankers Club at Guildhall on 30th January 1967*

... I am very appreciative of the honour which I have this evening of responding for the first time as a Vice-President of the Overseas Bankers Club to the toast of the Club proposed by the First Secretary, Mr. Michael Stewart, so generously and with such thoughtful eloquence. I am sure that we are all most grateful to him for sparing the time in a very busy and exacting life to be with us here tonight and for giving us so much good food for thought.

You have already been entertained and instructed by most admirable speeches from the Lord Mayor, Mr. Martin and Mr. Stewart. What more is there for me to say? The clearing bank chairmen have covered the ground pretty well in their annual statements. The Confederation of British Industry have their own ideas as set out in their advice to the Chancellor about the Budget. The Lord Mayor, more power to his elbow, has become 'the invisible man' and leaves me very little to say on that subject. Bank rate was apparently changed last week by an international committee of finance ministers. Are we, or rather am I, faced with another example very near home of redundancy and need for redeployment? Perhaps, after suitable retraining, I should apply for a job in the Treasury.

However, before I go may I say a word about the finance ministers who, as you may know, conducted their business at Chequers the other week-end without the distracting presence of their central bank governors. Some commentators have suggested that high interest rates are all the fault of the central bankers.

The fact is, of course, that central bank governors, myself included, have for some long time been uttering warnings about the dangers of undue reliance by many countries on credit restraint and monetary policy. The reduction of interest rates all round is something which central bank governors earnestly desire. But no one can lower interest rates simply by ordaining that this shall be so. If it were attempted we should merely find, as a distinguished British economist said a few years ago, that having thrown interest rates out of the door they could not be prevented from coming back through the window. In this field, as elsewhere, it is no use suppressing the symptoms without tackling the disease. The level of interest rates reflects the facts of life – the overall levels of demand in different countries; the rates of inflation; the pace of expansion of government expenditure; the balance in applying restraint between fiscal and monetary policies; the nature of the systems of taxation; the inter-relations between different countries' balances of payments; world-wide trends in the supply of capital and the demand for it: the list, of course, is endless. There can be no simple answer to the question of how high any country's rates should be at a particular time. But if finance ministers wish to change the present situation, and indeed only they can do so, their most important contribution will be to change appropriately the balance of their internal policies and in particular to get government expenditure under proper control.

The virtue of the Chequers meeting as I see it was that it brought each participant's domestic financial and economic problems under collective review at the highest level and should have increased the incentive to solve them in a way least harmful to the interests of the

others. Being responsible for market management, I applaud the restrained character of the communiqué. The trouble for politicians, as Mr. Stewart knows far better than I, is that it is so difficult for them to do good by stealth. They cannot avoid publicity and communiqués. How they must long sometimes to be central bankers, who can do good almost without it being noticed.

I must delay no further in saying how much I especially welcome the presence here tonight of Mr. William McChesney Martin, known affectionately to all his many friends throughout the world as Bill. I welcome him not simply because we are in the same game but because he represents for me, as he did I know for my two immediate predecessors – and I am happy to say this in the presence tonight of one of them, Lord Cobbold – a most wise, understanding and friendly link with the great American economy. The newspapers sometimes suggest that he is anxious to retire, as well he might be after a long and arduous, even though outstandingly successful, period of office. I hope I shall not be thought to cast any slight on the rest of the splendid team at the 'Fed.' when I say that any prospect of Bill going fills me with dismay. Besides serving his own country so well, his advice and ever ready help at all times, particularly over the past two years, have been of inestimable value to this country. I am glad to have the opportunity of thanking him publicly for his friendship and co-operation.

Nowadays, of course, there are voices that tell us that we have no hope of signing the Rome Treaty unless we cut ourselves free from the Americans, whatever that may mean.

No true Briton has any wish for this country to be unduly dependent on any other. I am convinced that entry into the European Economic Community is the best way to greater prosperity for the United Kingdom by forcing us to be more self-reliant and competitive, which we shall certainly have to be to prosper in that exacting market, large though it is. But how can anyone think that it would make any sense either for us or for Europe as a whole to turn our backs on America? What we need is the maximum of contact, co-operation, and understanding between Europe and America on an equal footing one with the other. Europe will never be equal to America if it is not united. We must be thankful that reports of the discussions undertaken by the Prime Minister and the Foreign Secretary are so far reasonably optimistic. They certainly deserve our full support in the vitally important mission which they have undertaken on our behalf.

I am aware that some Europeans – possibly even including some bankers – have expressed concern about the sterling balances and the possibility that if we join the European Economic Community, the instability of these balances might become a problem for them. I repeat firmly what I said last autumn. These balances are not the United Kingdom's main problem. They do, of course, represent very large liquid liabilities but they have been extraordinarily stable since the war, even if a bit troublesome during the past two years. Moreover, as the Lord Mayor at least knows full well, they are far outstripped in amount by our total overseas assets, even though these are admittedly less liquid. No-one can deny that running a reserve and international trading currency is not made any easier when our gold and foreign exchange reserves are not as large as we should like but our difficulties in this respect have been caused entirely by our own inadequate performance in the balance of payments field. As this performance improves, which we are confident it will during 1967 and thereafter, the problem will recede.



The purpose underlying our desire to join the European Economic Community is to increase our strength by widening the markets open to us. Whatever initial difficulty we may face, our prosperity should soon be greatly increased by joining the Market. In these circumstances, preoccupation with the sterling balances will further decline. I do not believe that at any time they will become a problem bringing difficulty for our European partners.

The Bank of England and the City in general are sometimes accused of being attached to the international function of sterling for the sake of the prestige it gives, and that they set this above the general good of the community. Nothing could be further from the truth. The first thing that needs to be understood is that the holding and use of sterling overseas is something which cannot be made to disappear simply by wishing it. Unless we can pay off these liabilities we must continue to live with them, and we should remember that although they cost us large sums in interest we do, as the Lord Mayor is taking such pains to make more widely known, earn a great deal from the trade and multitude of services which have been built up on the sterling system. If that system could be made to disappear, something would have to be put in its place of equal use, not only to the central banks of the world but to the trading community. This is not to say that we should not be willing to consider, as we have been, any sensible arrangements for reducing the amount of the sterling balances or making them less volatile without detriment to their holders.

But I must re-emphasise that whatever new arrangements for sterling may or may not come to pass, the first and the best way in which we must seek our objectives is to continue steadfastly to keep our balance of payments in order. I have heard this spoken of as if it were some object of policy which we can freely choose to put in the forefront for the time being but which we are equally free to abandon in favour of other policies perhaps having more human appeal. This is a delusion as tempting but no more sustainable in the long run than the spendthrift's determination to have what he wants even though he has not the money to pay for it. Keeping the balance of payments in order is not so much an act of policy as a compelling necessity. Countries of great wealth and large gold and foreign exchange assets such as the U.S.A. may be able to run a balance of payments deficit with impunity for a number of years but no country, however wealthy, can do that for ever, and we know that the U.S.A. is resolutely determined to bring its recurrent deficits to an end. Ours have gone on almost as long, with nothing like the same resources to back them. We are equally determined that this should end, and quickly.

Nor would I accept for a moment that there is a basic antagonism between balance in external payments and strong and sustained growth at home. There is a direct link between them. Our balance of trade has been weak for the same reason that our growth has been slow. We have not been inventive enough, dynamic enough, cost-conscious enough, radical enough in our approach to old ways of doing things. Other people have done better. As a result their economies have grown faster and in too many cases their goods have seemed preferable to British goods, both in their markets and ours. The Government has now given a lead by reducing the overall pressure placed on our domestic resources though, as you know, I believe more could and should be done to improve the balance within total expenditure between private capital investment and government spending. The Department of Economic Affairs has

been doing valuable work, both in pioneering an incomes policy and in consulting with industry as to the best way ahead. It remains, however, for the nation as a whole to make some basic changes. I believe this is beginning to happen. May the pace quicken.