

Extracts from recent speeches by the Governor of the Bank of England

Given at the annual banquet of the Overseas Bankers Club at Guildhall on 5th February 1968

... This, however, is the first time I have been on my feet in public since sterling was devalued on the 18th of November last, and I want to say something about that unhappy occurrence. For unhappy it was, let there be no mistake about that, even if it be accepted that devaluation had become necessary and indeed unavoidable. Much has been made of the part played by speculators in bringing the pound down. Speculators were there of course, particularly at the end, but it is a travesty of the facts to put the blame on them. The responsibility is ours in the U.K. We had a great deal of bad luck last year it is true, but for many years past it has been our inadequate performance that has undermined confidence in us and in ourselves. We all too thoroughly provided the raw material for a bearish view of sterling and have no right to complain because it was increasingly taken both at home and abroad – and not only by speculators.

Another complaint that needs to be examined is that our internal economic and social policies were being dictated by foreign bankers. I myself have never come across these mythical bogey-bankers. Dr. Carli will bear me out when I tell you that not once in the several credit support arrangements made in Basle did any foreign central bank seek to impose conditions before lending aid. They had their views about the appropriateness of our policies, of course, and from time to time these views were tactfully expressed, but there was no bargaining at any time. Throughout we were readily given all the support which central bank usages and resources made possible. It could be argued that we were supported too long and too well but that is another question. The true nature of this complaint is, I guess, simply that it is intolerable that U.K. policies and actions should need to inspire confidence abroad. I am afraid there is no way of escaping from that necessity while at the same time maintaining the standard of living to which we have become accustomed.

For many months past the world has listened to a great U.K. debate on whether to devalue, when, how and by how much. I have no doubt at all that the Government were right to try to avoid this course. In the end it became unavoidable because a real disequilibrium was demonstrably there, however much one may argue about its causes and their cure. Those who so readily advocated devaluation before we had made any attempt to apply other correctives had scant regard for our obligations abroad, for the risks entailed for ourselves and others and for the harsh medicine which must be taken to make devaluation work. All these things are now being made abundantly clear. Those who thought devaluation was a soft alternative to strict internal policies have been disabused. What will be their next refuge from reality, I wonder? Some of them would seek to solve our problems by constructing a permanent siege economy in the U.K. It would be difficult to think of a more unsuitable subject for such treatment. Woe betide us if these blind men ever

gained the ear of an unsuspecting British public.

We recognise and deeply regret that devaluation has caused disappointment and embarrassment to overseas holders of sterling. On our side there is no doubt that, properly managed, it provides the U.K. with new opportunities, even if these have been bought at a heavy price. So far we have been fortunate. No currency of first importance has followed sterling, so our new competitive advantage is nearly world wide. The countries of the sterling area have reacted in a restrained manner for which we have reason to be grateful, and yet further support has been readily forthcoming from the I.M.F. and from the principal central banks of the world. Dr. Carli's remarks this evening show that there is, moreover, understanding and a readiness to help with the longer-term problems of sterling, and to such co-operative attitudes we shall of course respond.

At home an immediate advantage of the act of devaluation is that it has removed one bone of contention. Now I hope we can be more united in concentrating on the basic problems which should be occupying our minds. Having now made ourselves competitive, how do we contrive to remain so? How do we ensure having available all the goods we could now sell abroad? How do we ensure prompt delivery and good servicing? Clearly all this depends on how we run the economy and here much new thinking is required.

There is a Latin tag which says it is difficult to talk about what everybody knows. And to talk any more about how to run the economy risks putting a double burden on the audience. It risks not just weariness at another repetition but also dislike for what sounds like a call to self-sacrifice.

Nevertheless, there is much that still has to be brought home to people in this country. We still need to get it across much better than hitherto that to work efficiently, to keep the growth in our incomes within the overall growth of our productivity, and to accept that emotion cannot be the sole guide to the speed of social advance, are not self-sacrifice. For us, they are self-preservation.

If we work efficiently there should be plenty of good jobs and decent profits. There should even be – much as I grudge saying this in front of a Chancellor of the Exchequer – increased taxable capacity. But if we do not work more efficiently, if we continue to be backward in adopting the best organisation and about getting the most out of labour-saving techniques, then there will soon be fewer good jobs, less profit, and dwindling taxable capacity.

I am sure this is the message for listeners at home. We must not appeal to other people but get on with things for ourselves. We have a lot of slack to take in. By slack I do not mean spare capacity but the slack represented by avoidable inefficiency in organisation and working practice. If we take in this slack, we can meet our external obligations and soon reach a position where we can have good growth at home. If we do not take it in, we will fall behind and, very probably, fall sharply behind.

Like the United States, our aim is to get our external payments into durable shape, and to get them there with all speed. But an improvement in the payments condition of the two main trading and reserve currencies must be matched,

until such time as we have improved our whole system of international reserves, by a corresponding diminution of surpluses earned by other countries.

The prospect could cause great anxiety. Happily, in all that has occurred so far we can find hope and encouragement. As I have said, we have been fortunate in the world's response to the devaluation of sterling. The need for the American measures has been well understood and I believe that throughout the industrialised world there is alertness to the dangers to international trade while present imbalances are being corrected. Certainly, we have encountered the most heartening attitudes in all our international discussions of these matters; and the French authorities provided tangible evidence the other day of their determination not to be deflected from their wish to stimulate their economy. I find further encouragement in what Governor Carli has just said.

For all our sakes, in other industrialised countries as well as here, there must be determination to hold on through short-term difficulties so as to reach a condition when we can advance together. Recent years have shown what other generations would have found an amazing readiness on the part of national governments and central banks to work together in what is, no doubt, enlightened self-interest as well as friendship. The months ahead will call for co-operation on at least as great a scale and in conditions which could be more difficult. I believe we will find this co-operation in official circles. You, gentlemen, who largely – and fortunately maybe – represent the non-official side of affairs, will help by extending similar foresight and understanding. I believe, too, we can count on you.

Given at the annual dinner of the Finance Houses Association on 21st March 1968

. . . No one will deny that this year's Budget is of outstanding importance. It has, I believe, a more crucial part to play in our affairs than any Budget since the war. Our future largely depends on its adequacy and on whether it is generally regarded both at home and abroad as being adequate and appropriate to our needs . . .

. . . I would like to tell you what I think about the Budget. There is no such thing as an ideal Budget, except in the world of dreams. All such exercises in practice are a compromise; an attempt to achieve as much as possible of a number of objectives, the realisation of some necessarily jeopardising the fulfilment of others. And over all lies the necessity to tailor aspirations to what is politically feasible. Even so, the only good Budget is one which boldly faces up to the economic position and problems of the day. On this criterion I judge Mr. Jenkins' first Budget to be a first-class achievement.

Following devaluation, our main objectives as I see them are, first, to cut the level of internal demand so that we may export more and import less; secondly, to prevent rising costs from whittling away our competitive advantage, even at our new rate of exchange; and, third, to preserve and if possible increase incentives to efficiency and effort.

The cuts in public expenditure announced last January

were the first important attack on the first objective. I wish this attack could have been bigger. The inability of governments to contract as well as expand public expenditure in harmony with the overall situation is a major weakness in economic management, particularly now that public expenditure forms such a large part of the whole. However, at least a valiant attempt was then made and now it is the turn of private consumption. The heavy increased taxation in the Budget should produce a reduction in domestic private demand of the appropriate order of magnitude. The choice of taxes has clearly been designed to minimise the discouragement to business and individual effort. You no doubt were pleased, even if surprised, to see that hire purchase terms control was not intensified. Some market opinion saw this as a sign of weakness. I do not agree. It is a tribute to the thoroughness of the Chancellor's measures in total that he has been able this time to avoid using terms control, which in many people's minds is synonymous with the much-derided "stop-go" policies. But I suggest it would be unwise to draw the optimistic conclusion that this type of control has now been permanently discarded.

The second objective is taken care of by the Government's incomes, prices and dividends policy announced by the Chancellor and by the statutory reinforcement of it which he seeks. All depends on how well this policy works in practice. With good will and understanding I see no reason why it should not work effectively. So far as wages are concerned, non-co-operation and strikes would be the most certain way of placing real standards of living and jobs in jeopardy. So in the long run would productivity bargains which do not fully live up to their name, and artificially inflated overtime.

As regards the third objective, positive incentives are hard to give at a time like this but at least the damage has been minimised and some hope offered for the not too distant future.

I devoutly wish that the full range of governmental measures necessary to make devaluation work and preserve its benefits could have been launched together months ago. If this had been possible we should undoubtedly have made more ground since the 18th November than we have so far. And we might not have been caught up so dangerously in the recent uneasiness surrounding the dollar and gold, which admittedly the devaluation of sterling helped to bring to the surface again. The arrangements which the central bank Governors made in Washington last weekend have brought calm to the exchange markets for the time being. I hope this calm will endure. It will have a better prospect of doing so if the U.S.A., as well as this country, is seen to be tackling its balance of payments problems successfully and with a due sense of urgency.

If underlying international stability can be achieved, prosperity in the U.K. is undoubtedly within our grasp, but it must come through expanding exports of competitive quality and price; and much of the foreign exchange proceeds of those exports must, I fear, for a long time ahead be used to pay off the heavy debts which we have incurred as a result of living for too long far above our means.

May I now turn for a few minutes to a matter of more parochial concern to the members of the Finance Houses Association, namely, to the subject of credit controls. I am sure that you, even more than we, would prefer such controls to be gentle in action, steering the level of business in the direction appropriate to our overall economic situation without needing ever to bite savagely and unexpectedly so that business confidence is seriously disturbed. I certainly wish we could achieve this degree of sophistication in economic management. It requires foresight, co-ordination and political courage and will-power.

In the hope that we shall be more successful in the future we must press ahead with the task of widening the scope of the intermediate and more continuing credit controls which were foreshadowed in the Budget speech of April 1967. Since then I am afraid emergency conditions have compelled us to go backwards and restore the regime of credit ceilings from which we had been hoping to escape.

The finance houses never did escape from them. This was because we felt we had to deal first with the banks other than the clearing and Scottish banks and because the finance houses do present a specially difficult problem. They straddle such a wide range of activity, from industrial and agricultural re-equipment to small consumer durables. Their financial structures differ greatly, some relying very largely on deposits and others very little, some having considerable capital and reserves in relation to borrowed funds, while the capital resources of others are small. There are also large differences on the assets side of the balance sheet, depending partly on the nature of the business and partly on whether or not the particular house has links with banks and other financial institutions. Moreover, there are some providers of credit who do not rank as financial institutions at all and who are, therefore, not at present on my mailing list. We are now giving much thought to all these problems and hope it will not be too long before we have something to discuss with you.

But to return to ceiling controls under which you labour at present, I am of course aware of their shortcomings. They inhibit competition, holding down the go-ahead along with the complacent, and they fail to discriminate between the houses which devote a fair proportion of their lending to productive investment and those which concentrate on consumer goods. There is also an element of luck – or should I say, hazard – attaching to the choice of base date; those whose business happens to be flourishing get a better start than those who happen to be in a trough.

Let me take this opportunity of telling you how grateful I am to you all for working faithfully to a system of control which must be distasteful to you. I know that it is not easy to comply and that the pressures have been great. I wish I could offer you some early prospect of relief, but it is hard to see how this can come soon when it is so urgently necessary to restrain internal demand and to keep on restraining it for the sake of the increased exports which we all know are essential to secure our future. Unless it is made secure neither your business nor any other will achieve the lasting prosperity we all desire.

. . . Here in Cambridge this coming week there is a notable example of the Institute's encouragement of thought about these broad-canvas problems and endeavour to see that the thought is slanted in a forward-looking manner. The Institute of Bankers' Cambridge Seminar, on "The future of British banking", opens this Sunday and goes on for another four hard-working, twelve-hour days. One hundred bank managers, all under 40, have been selected to attend and have been preparing themselves for the past three months. Mr. John Thomson, Chairman of Barclays Bank and formerly Chairman of the Committee of London Clearing Bankers and President of the British Bankers Association, will present a paper on "The role of the commercial banks in the economy", and three other leading English bankers will present papers on other central topics. All these papers we hope to see published in due course.

This seminar, and we hope there will be others like it in future years, is essentially one designed to give an opportunity for bankers to meet together in this country. In this it differs from the International Banking Summer School which meets each year in a different land. The International Banking Summer School was founded by the Institute in 1948. It has had a very well-deserved success ever since and I feel sure it will live up to this record at its coming-of-age meeting at Trinity College, Dublin, next July.

These international gatherings are, I am sure, of great benefit to all who take part in them. My own task would be impossible if I did not belong to an international family of central bankers acutely alive to the interdependence of all nations and the need to collaborate closely in the international monetary field.

The value of this collaboration was proved once again in Washington the week-end before last. Earlier declarations had failed to stem the speculation in gold which reached such a scale as to threaten the whole international monetary system. Private speculation on an increase in the official price of gold was nourished by weighty opinions in the press that this was the only way to restore stability. I make no comment on the validity of such opinions. All I can say with confidence is that the U.S. determination to defend the present price could not be firmer. There are many reasons for this attitude. One of these reasons is, in my opinion, infinitely more important than the rest put together. This is that an increase in the price of gold would put off for many years the evolution of the international monetary system away from its present total dependence on gold and reserve currencies and towards the creation of a reserve asset. This would be a calamity only less serious than the collapse of the present system in chaos. In any event progress along this evolutionary path must be gradual and controlled so that confidence in the new reserve asset may be built up. Such progress would cease altogether if present reserves were vastly increased by a large increase in the price of gold and by the dishoarding of gold which would follow it. I hope therefore that the arrangements made in Washington, which have achieved a good initial success, will carry us through until the new reserve asset is available for creation. These arrangements are designed to conserve the existing stocks

of monetary gold by ensuring that they only pass between central banks who agree to deal in gold only with each other at \$35 an ounce and not to sell gold on the free market.

This Washington agreement has produced a calmer atmosphere in the world's exchange markets. I am delighted that the Chancellor's excellent Budget had the benefit of these calmer conditions. It deserved them and should help indeed to ensure that they continue. If they do, the British economy has at last a great opportunity to prosper. The reduction in Bank rate last week was a response to more favourable conditions both at home and overseas which we were very glad to be able to make.

Perhaps I may turn now to that part of the home front which particularly concerns most of us, that is the banking sector. No doubt you would like to know what I think about the latest clearing bank mergers, approved and pending. I fear I have to disappoint you. I am being deprived of the pleasure of a quiet night in Cambridge by the need to appear early tomorrow morning before the Monopolies Commission to give evidence on the Barclays/Lloyds/Martins proposal.

These mergers are only one facet, if a spectacular one, of a trend that began some years ago. There can be little doubt that great changes lie ahead; changes both in services provided and in the mechanisms for providing them, which will tax the banking knowledge and skill of bank staffs more than ever. We have seen the clearing banks taking substantial interests in finance houses, setting up specialised subsidiaries, forming links with merchant banks either directly or in joint ventures, and associating themselves with their foreign counterparts, particularly in the Common Market. I think we have to recognise that the tendency for U.K. companies to merge and expand to compete internationally is bound to exert pressure on the banks to follow suit and provide facilities on a matching scale. It is reinforced by the desire to make the most efficient use of staff and of computers.

This pressure has already made a considerable impact on the banks' thinking both from the domestic and overseas aspect. At home the banks are in the process of expanding the services they offer to the general public, spurred on partly by the prospect of sharpened competition from the Post Office Giro. We have seen the introduction of over-the-counter sales of units of the banks' own unit trusts, and also of cheque and credit cards; no doubt cash dispensing machines which are so far only experimental will become commonplace. One or two of the joint stock banks have entered the field of new issues, and new forms of financing are being evolved to meet the requirements of the revolution in container transport, which requires a more flexible approach than the traditional bills of lading issued by shipping companies for specific consignments.

Equally important is the technological advance brought about by computers. The tying of several branches to one computer centre will mean that the details of a customer's account will be on tap and he will be free therefore to use the services of any of the branches on the same network. This involves heavy capital outlay, and it is the desire to reduce duplication of expensive machinery, coupled with

the need to employ staff more efficiently on the specialised work arising from the multiplication of services, which provides the essential logic behind these mergers.

On the overseas side, London has led the development of the euro-dollar market and played an important part in the international bond market. We have seen more recently the creation of the market in dollar certificates of deposit, and after the passing of the Finance Bill sterling certificates of deposit will soon be with us. All these moves demonstrate that the City's complex of expertise and facilities is alive to new opportunities. But the value of the City's contribution to invisible exports has only been fully appreciated by the general public since the publications of the findings of the Atlas and Reddaway committees. The Atlas report recommended that there should be a permanent organisation to promote invisible earnings, and as a consequence I and the British National Export Council have jointly set up a new committee on invisibles to encourage foreign exchange earnings. Whatever may be the future of the pound's role as a reserve currency after reforms of the international payments system that lie ahead, London's importance as an international centre for the financing of international trade, whether in sterling or other currencies will, I am convinced, continue undiminished. The City will therefore continue to be a centre for a large volume of international payments, and it is very timely to look for new ways of exploiting our skills in the provision of financial services.

Whatever the eventual outcome of all the events I have described, I am sure it will make great demands on the banking skills of the men and women who staff our banks. A thorough banking education has become more vital than ever before for those embarking on new banking careers. So I reply to the toast of the Institute in the confident belief that the service it gives to its members and to the country is becoming ever more important.