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

Given at the Lord Mayor's dinner to the bankers and merchants of the City of London on 17th October 1968

. . . This particular dinner is always a special occasion for the Governor of the day, appearing as he does before his constituents, so to speak, for the annual accounting. At least this time I cannot complain of lack of material. Unfortunately these riches coincide with what some will think to be an overdue determination on my part to be briefer this year.

I said something about the devaluation of sterling at the Overseas Bankers dinner last February. What has happened has happened. We must now look forward, not back, except in so far as the latter may help us to learn from past mistakes.

I have also spoken about Government policies since devaluation, largely in praise of their scope and objectives but less enthusiastically about the speed of action. All I will add now is that none of us concerned with these matters can afford to make any more mistakes. The Chancellor inherited his onerous job at a particularly difficult time. From what I have seen of him in action I believe he is as likely as anyone to steer us safely through the still difficult waters ahead.

We always knew that this first year after devaluation would be a most anxious one. This was because we knew that we should quickly be bearing the additional burdens which devaluation entails and would have to wait for the benefits. The latter have been slower in coming than had been hoped for, but at last they seem to be in sight, although the continuing high level of imports gives cause for concern.

Our problems meanwhile have been greatly exacerbated by the weaknesses of the international monetary system. To these weaknesses we have only too clearly made a substantial contribution. But others too must share the blame. The gold exchange standard worked well enough while there was general willingness to accept the dollar and sterling as adequate alternative reserve assets to gold at the prevailing monetary price. The system can only endure if this willingness is fully restored. It was on the verge of collapse last March when the central bank Governors met in Washington. For my part, I find the tendency to attack the role of gold in the system somewhat ironic, when it is not gold which is the root cause of the present uneasiness but doubts about the alternative reserve assets. While admitting all the imperfections of gold as a monetary asset the enthusiasm for getting rid of it owes much to the fact that in this inflationary age currencies cannot stand comparison with it. By all means let us progress towards a rational international monetary system which depends less on the vagaries of gold or on alternatives which are inevitably managed with more regard to national than international considerations. I suggest, however, that in this necessarily long process we concentrate on containing the role of the alternatives first and leave to the last any discarding of gold in which most of the world rightly or wrongly still firmly believes.

The Washington agreement and the subsequent action taken by the U.S. and U.K. authorities have for the time being produced relative calm, but there are no grounds for complacency. We have bought time in which to get ahead with more fundamental reforms. Such reforms are vital, however much the management of the present arrangements may be improved. The further progress made in Stockholm in preparing the way for the introduction of Special Drawing Rights is therefore wholeheartedly to be welcomed. But let us remember that the essential quality of these drawing rights is to be as good as gold, and that they are intended, in the beginning at least, to supplement gold, not to replace it.

In Basle last month I was told by someone who had just come from the conference of the International Economic Association in Montreal that the general view there was that there was a ten-year cultural gap between the central bankers and current economic thought. I forbore to enquire who was held to be in front of whom. I myself would have thought that both economists and central bankers were generally agreed that all was not well with the international monetary system. It is when one moves on from diagnosing the illnesses to prescribing the appropriate remedies that disagreements appear. And there it seems to me that the differences between the economists themselves are as great as those between them and the central bankers – nor would I pretend that the latter always see entirely eye to eye with each other. No grand solution commands everyone's assent: nor is one likely to. We must always remember – lest we become too discouraged – that reforming the international monetary system can never be a question of finding the most ingenious or elegant solution: it will always be largely a matter of reconciling many differing sovereign national interests.

As I foreshadowed in my speech at the Overseas Bankers dinner last February, the central bankers backed by their governments, and with much help from the B.I.S. for which we are grateful, have done their best in 1968 to minimise any further shocks to the international monetary system which could have arisen, following devaluation, from a too precipitate decline in the use of sterling as a reserve currency. The Basle agreement of last month with the associated agreements between Britain and the countries of the sterling area should be an important stabilising influence. Under the agreement the U.K. will be assuming a large addition to her burden of overseas debt falling due for repayment within the next ten years. But without an agreement the immediate burden of conversion of sterling balances could well have been so great as to be insupportable, leading to chaos.

This was not just a stop-gap arrangement rushed through in an atmosphere of crisis. It represents a carefully thought-out and considered move. Those most anxious to see us rid entirely of what is now called "the burden" of running sterling as a reserve currency have been disappointed by the limited scope of the new arrangements. They appear to think that, if only we had been more imaginative, all these overseas sterling liabilities could have been passed quite painlessly to the I.M.F. without more ado. I am afraid it is not as simple as that. Admittedly some may have been misled by thinking aloud by highly respected central banking colleagues of mine. Let me console them by saying that in aspiration there is less difference between us than they may think. But, as I see it, the world is going to need sterling as an important international trading currency for a long time to come. While this is so, its function as a reserve currency is not likely to be entirely eliminated. To the extent that it is reduced, I do not think we can count on this being wholly painless for the United Kingdom. Moreover, it must at all times be kept abundantly clear that we will not be parties to any changes which would be detrimental to the interests of the holders of sterling balances.

Owing to our disappointingly slow progress in curing our balance of payment problems this has been a hard year in the field of domestic credit. The 8% Bank rate fixed as a purely temporary shield while we took the first shock of devaluation last November had to be maintained far longer than originally intended. The principal cause of this was the continued weakness of sterling, but an important contributory factor was the upward trend of U.S. short-term rates forced on their authorities by the long delay in passing into law the President's proposals for a tax increase. I am glad that the recent upturn in our affairs has permitted a second small reduction in Bank rate – which, contrary to popular rumour, did not displease the I.M.F., Mr. Schweitzer has told me. This reduction should not be taken as signifying any relaxation whatever in the current credit squeeze. The level of internal demand still gives cause for concern. I know there are weighty opinions which do not consider that the trend of the money supply has any reliable significance in this context. Maybe it is no foolproof guide, but I for my part believe that we should be more concerned with it, as indeed I know many informed observers overseas feel we should be. The money supply cannot become the be-all and end-all of policy. But when it continues to rise rather fast, and from a level that is high by historical standards, and, above all, when it does this at a time of deficit in overseas payments and when people are uneasily aware that the longer they hold money the less they get for it, then I am sure we must pay attention. I do not accept that controlling the money supply is simply a question of the proper use of central banking techniques, as some appear to believe. Much more fundamental matters are involved.

Banking credit to the private sector is only one source of money to spend. It is certainly more effectively controlled than other elements. For this I would like to thank the banking community which continues to give its wholehearted co-operation despite the increasingly severe restraints we have had to place upon it. I know it is hard for the banks year after year to live under these conditions which do so much to take the challenge out of their job. The development of their facilities has nevertheless proceeded apace. I, for one, do not find the charge of sleepy uncompetitiveness, even in present difficult conditions, at all convincingly made out.

The banking system has had more to occupy it than just the credit squeeze this past year. In June the Bank of England published the details of a Cash Deposits scheme applicable to all banks other than the clearing and Scottish banks to whom Special Deposits apply. Both schemes will be used to regulate credit in periods when relatively mild control is all that is required. I wish I could feel that such conditions were in early prospect. When they do return we shall also need some comparable new arrangements in the finance house field, more flexible than the combination of ceiling control and terms control to which the major houses are at present subject. Proposals are being worked out.

Only this week arrangements have at last been completed for the issue of sterling certificates of deposit by any bank wishing to do so and for the organisation of a market in them. This new instrument will appear at the end of this month and should be a worthwhile addition to the facilities available in the London market. It marks a further development in the competition for deposits which has grown up alongside the interest rate cartel, which the clearing banks have been urged from several quarters to abandon. The authorities are considering their own attitude to the cartel and will publish their findings in due course. I offer no personal views of my own at this point. I merely suggest to those who take a serious, rather than a polemical interest in this subject, that the recent experience of the Canadians in this field is worth studying.

The various merger proposals have undoubtedly provided most excitement in the banking world in the past twelve months. These culminated in the reference of the Barclays/Lloyds/Martins Bank proposal to the Monopolies and Mergers Commission, with the result you all know. The Commission were inclined to criticise the authorities, which for this purpose means principally me, for failing to make plain to all the clearing banks just how far merging would be permitted to go. Apart from the indication of a generally more forthcoming attitude by the authorities, which found expression in the Prices and Incomes Report on Bank Charges, I did not think it expedient for me actively to promote particular unions. Even if I had done so it would have made little or no difference to the end result but would have caused a good deal more heartburning in between. As I see it, the main shape of the deposit banking system is now fixed for a good many years ahead, although minor proposals will doubtless still be entertained. I have strongly urged those banks who have merged to lose no time in carrying forward the process of integration and rationalisation so as to economise in the use of resources and help contain the rising level of banking costs.

Banking mergers have not been the only mergers, though they may have been more dignified than some. The early life of the Take-over Panel has been anything but a quiet one. There is little that I wish to add now to the letter on the subject which I made available for publication on the 15th August. Work is going on to improve the Take-over Code and its application. The lessons learnt by all concerned should be beneficial in the future. I hope so, for I do not think it is reasonable to expect me to intervene personally and publicly in every instance where trouble arises.

Then, a word about the new Permanent Committee on Invisible Exports. I am truly sorry that Sir Thomas Bland was not spared for long to see this Committee in action when he had done so much in sponsoring the report which prepared the way for it. I know he hoped that Mr. Cyril Kleinwort would be willing to assume the chairmanship and I was delighted when Mr. Kleinwort accepted my invitation to him to do so. I am sure the Committee will become an increasingly useful focal point for dealing with the problems and needs of invisible earners, whose contribution to the credit side of our balance of payments is so vitally important. There are some I know who would like to turn this Committee into a militant pressure group speaking loudly whenever possible on behalf of City interests. I believe the method so far chosen, under which representatives of the various government authorities concerned are full members of the Committee, is the better one. Admittedly it offers less scope for uncompromising public utterances, but it does provide continuing opportunity for the careful examination of problems in an atmosphere of co-operation, which should in the long run lead to more tangible results.

Finally, in the year of the Fulton Report, may I take a most unusual step and say a word in praise of civil servants, among whose ranks I do not figure, despite what newspapers may sometimes tell you. The great cry these days is that we all should be more professional, yet I can never remember a time when there were more amateurs telling the professionals how to do their jobs. For a large part of my more than forty years in the Bank I have worked closely with civil servants at all levels. Indeed, I would judge that my experience of them from the outside is the equal of that of most people. Maybe I have been privileged to work with the best of them; I can only say that I hold them in the greatest admiration – even when I disagree with them, which from time to time I do. Their professionalism is, of course, in the art and practice of government. If politicians did not have this behind them they could not effectively apply their policies. Civil servants are not professionals in all the various walks of life on which they impinge. It would be impossible for them to be so, and even if possible I doubt whether it would be desirable. They should naturally know enough of the outside world and maybe more than they do now. But anyone who thinks that our Civil Service would be better run by a collection of practical businessmen has very little idea of the qualities and professional experience which it requires. No doubt the Service could be improved. There is hardly any aspect of our life in this country which could not be. For my part I feel that if all other parts were as good as the Civil Service, and equally uncomplainingly worked only half as hard, many of our present troubles would quickly disappear.

In short, I would like to endorse the words of Peter de Blois, Archdeacon of Bath towards the end of the 12th century, who said, "I do not condemn the life of civil servants, who even if they cannot have leisure for prayer and contemplation, are nevertheless occupied in the public good and often perform works of salvation."

Given at the annual dinner of the Society of County Treasurers at the Merchant Taylors' Hall on 28th November 1968

. . . Local government, on the face of it, is an exercise in decentralization. Nowadays a good deal of this is more apparent than real. Speaking as a private citizen, I feel strongly that the reality of local government should never become insufficient to give people the feeling that they have enough democratic control over the orderly development of their local surroundings and over the amenities of their daily lives. We cannot push this too far, I know, although students and nationalists these days make larger claims in this direction than most of the rest of us. So, when you come to celebrate your not too distant centenary, dare I express the hope that you will not meet as an assembly of sovereign Treasurers. You may have heard of the elderly professor of economics who walked out of a discussion about tariffs with the remark "All I have to say is thank God countries are as big as they are".

For my part I think the surrender of some measure of sovereignty might be worth while for the benefits, as I see it, of belonging to a larger political and economic unit.

I have never felt this more keenly than over the past few weeks and particularly during the exhausting days we spent in Bonn a week ago. The international monetary system as it now exists is certainly not in a very happy state. I have more than once expressed my concern about it, as have many of my colleagues. Not unnaturally, we are as conscious as anyone of present difficulties and dangers because in our daily work we are constantly being brought up against them. Our lives would be much easier if the system worked better. We are well aware of the limitations of the technical shifts to which we are put to shore up the structure. But that structure can only be changed or movements made within it by governments, acting either singly or collectively. Bretton Woods was an intergovernmental conference. The I.M.F., which it produced, does not act as an entirely independent international monetary authority; indeed its directors generally reflect the policy of the one or more governments they represent and act on those governments' decisions. If the present system is to be changed it must be as the result of a political consensus.

Nevertheless, let me remind you, as the Chancellor did the other day, that the present international monetary system has served us all pretty well in the last twenty-five years. That does not mean that we should neglect to improve it if we can but we would do well to consider how far our present troubles arise from weaknesses of the system and how far from continuing abuses of it by more than one country.

Perhaps I may now turn to the domestic scene in the U.K.

The country has, not unnaturally, been disturbed by the additional taxation and restraints on credit which the Chancellor announced last week. The new import deposits which he announced at the same time will doubtless also cause difficulties and protest both at home and abroad. All these things may be seen by some as a sign of further defeat in the long struggle to put our house in order and face the world from a position of strength instead of weakness.

I do not think that the Chancellor's measures should be so regarded. Unpleasant though they are, I am sure that he was absolutely right to take them, as he was to support the tightening of hire purchase controls which preceded them. All these measures were necessary primarily because of the performance of the British economy, but recent dangerous developments in the international situation made them doubly and immediately necessary as a defence against the pressure on our reserves which these developments had brought about. Happily markets have reopened on a calmer note and I hope this will continue.

The basic reason for the measures is quite simply that our internal economy has not fully responded, in the way intended, to the Budget and to the other earlier restraints placed upon it. The Budget strategy was clear and, I believe, right. Its purpose was to bring about a reduction in consumption in the second half of this year some £200 million below what the probable out-turn will be. The intended reduction would have led to a lower level of imports than has in fact been achieved and thus would have improved our trade balance substantially. In the event, our forecasts have not been fulfilled and the additional measures are designed to bring the economy back on course again. The only alternative would have been to abandon or modify our objectives. Given the task ahead we are in no position to do this. Indeed having made a sensible strategic plan for strengthening our external position in the near future it would be irresponsible to throw up the sponge just because some intermediate tactical manoeuvres had proved less than completely successful.

The main reason why things have gone wrong has been the unwillingness of the people in general to accept the restraint on consumption which must be accepted if we are to improve our trade balance and our overall balance of payments and begin paying off our recently incurred heavy overseas debts. This unwillingness has been strengthened by the expectation of continuing inflation and distrust of money. Consequently people have drawn on their savings and have spent more than they otherwise would. In addition much talk about the need for quantitative restrictions on imports has, I fear, contributed to the unwelcome buoyancy of our imports for the past six months. The present batch of measures should show that the Government is determined, without such aids, to achieve the substantial surplus they have set themselves. I hope that a by-product of the stringency in credit conditions which is likely to develop will be a real damping down in expectation of inflation. This would contribute to an improvement in our fortunes out of all proportion to that suggested by the conventional arithmetical calculations of the effects of taxation and other measures.

The new measures have not only been a shock. Many people feel that they are a further step down what is in their opinion the wrong road. Admittedly a policy which seems to entail ever-increasing restriction tends to be a depressing one. Nevertheless I believe the Government are on the right road. As I see it, the aim of their policy, including their incomes policy, is not only to ensure that we preserve as much as possible of the competitive advantage given to us by devaluation but also that our ability to take advantage of this by expanding our production in satisfaction of increasing export demand is not prejudiced by an over-ebullient home market. Hence the need to curb the level of internal demand.

This does not mean that we cannot at the same time have an expanding economy; it merely means that the way to expansion must be through increasing exports and replacing imports. Germany has shown what can be achieved by stable and competitive prices and really aggressive export promotion. We must follow her example as best we can.

Many people say that the containment of internal demand must be brought about primarily by a reduction in public expenditure and I myself have urged this on the Government more than once in recent years. However, it is only fair to say that since the Budget, in welcome contrast to earlier years, if I may say so, the volume of public expenditure has been kept under close control and remarkably well in line with the stated target. It is private consumption which has not been responsive; hence it is on this consumption that pressure has been brought to bear. If the new measures proved inadequate, it might well be that attention would again have to be turned to public expenditure because of the absolute necessity of achieving a sufficient contraction of overall internal demand by one means or another.

This is the tug-o-war to which I referred earlier. I can well understand that you and many other people may be convinced that the expenditure which you finance is too essential to be cut. It is not for me to presume to indicate priorities. All I say is that the total level of internal demand must be contained and what one sector does not contribute the other must.

In this connection I do not think it unfair to remind you as representatives of local authorities in general that expenditure by all local authorities last year was over £5,000 million or nearly one sixth of the gross domestic product of this country: this figure having gone up from under £2,500 million in 1960. This hectic expansion even of the most essential expenditure within the general context to which I have referred, must inevitably place great restraints on the other components of internal demand. I think it is arguable that those restraints have been too great and that there ought to be a better balance between the various components in the future. I invite you to ponder over the following figures. Between 1960 and 1967 our gross national product increased by 50%, personal consumption by roughly the same amount, while exports and re-exports only increased by about 35%. At the same time, central government and local authority expenditure on current and capital account, taken together, increased by over 80%, while expenditure of local authorities alone increased by over 120%.

Please do not think that what I have said is intended to be a schoolmasterly lecture on your alleged misdeeds. I merely seek to remind you of the limitations within which, as I see it, we have inescapably for the present to work. If we do this successfully we all, including the authorities you serve, will have far greater scope to bring to reality the ideals and plans on which we have set our hearts.