

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 3rd February 1969

... Only two days ago I returned from my first visit to India. Like most of such visits it was too short; but among other things it did give me an opportunity once more to see British banks at work overseas. As always, I was impressed by what I saw.

The British overseas banks nowadays for the most part continue their work under conditions of considerable difficulty compared with the heyday of their expansion and usefulness before and after the turn of the century. Many of the countries in which they operate have been seeking to develop their own national institutions; and their efforts in this direction have at times taken a rather obstructive and narrow form which has provided an obstacle to overseas banking. It sometimes seems to be assumed that the employment of domestic funds outside the national boundaries is necessarily damaging and that development depends on the ownership and control of all business by the nationals of the countries concerned. Of course, purely indigenous banks must be encouraged to grow both in strength and experience. But it seems to me obvious that co-operation on an international scale, making full use of the great strength and world-wide experience of the international banks, will produce the best results for the countries where they do business.

The value of international banking is not confined to the activities of the British overseas banks, although I think those banks can fairly claim to have been some of the principal pioneers in this field. There are many other international bankers here tonight and I should like to pay tribute to the great part which they all play in nourishing international trade, both visible and invisible, by mobilising and using liquid financial resources in many currencies. There exists in the City of London perhaps the most comprehensive banking community in the world, and one that is ready to welcome newcomers. American banks join it nowadays almost as often as American airliners are hi-jacked to Cuba. Some of these newcomers have joined existing associations of banks. But there are now quite a large number which have remained isolated in the sense that, for one reason or another, they are not members of any such body. I would like to suggest, if I may, that there would be solid advantages to themselves and to the banking community as a whole if they considered joining one of the established associations or, if this seemed more appropriate, that they might like to come together in some new grouping or groupings. We in the Bank would be pleased to give what help we could to such developments.

I am sure you have all much enjoyed, as I did, the speech made by Mr. Rasminsky, the Governor of the Bank of Canada and our guest of honour tonight. He has paid us the compliment of giving much thought to what he should say to us, and the result I am sure you will agree is both wise and

stimulating. Some of you may perhaps have noticed at the end of last year that Mr. Rasminsky won what was for a central bank governor a most unusual award. This was given to him for outstanding achievement in the public service of Canada during 1968. A letter from his Prime Minister which accompanied the award spoke of his remarkable role in the successful resolution of the financial difficulties which faced Canada last March. I have been privileged to know Mr. Rasminsky for well over thirty years and it is no surprise to me that he is proving himself to be an outstanding central bank governor.

There is a good deal of misunderstanding about the role which central bankers can or ought to play in the international sphere. The international monetary system was under very severe strain on more than one occasion in 1968, and stabilising actions of various sorts were taken under the pressure of events. In these circumstances it is not surprising that there has been urgent and sometimes even hysterical questioning about the need for radical reform in the system. Various proposals have been made and some of them have received a good deal of support in some circles. Many have demanded the calling of a second Bretton Woods conference. This seems to me an ill-considered response to present anxieties and I was glad to see that the Chancellor has firmly rejected it. I should have thought the damage which could be done by protracted and public discussion in such a forum would be obvious to everyone.

There are those who have accused the central bankers of being largely responsible for the inadequacy, as they see it, of present arrangements; but this is a misunderstanding of our role. A famous Englishman once said: "Give us the tools and we will finish the job". In this field, we central bankers are technicians, and the system as it exists is one of the vitally important tools we use in our work. Most of us would say there is little wrong with it if only nations would use it as was intended; but even if we wished to, we are in no position to alter its basic characteristics. These originally emerged as a result of a political consensus some twenty-five years ago and could only be radically changed in a similar way.

It is true that the central bankers have exerted themselves exceedingly over the last decade to improve the flexibility of the system and give governments time in which to take necessary corrective action. It can be argued that these efforts, prompted by fears of the consequences of failing to make them, have gone too far in providing just that elasticity which enables the taking of hard decisions to be deferred. I think, however, that these central bank arrangements have been valuable and necessary; but I also believe that they are not a satisfactory basis for continuing international monetary order. That requires a substantial increase in owned reserves (as will be possible through S.D.R.s) and a better working of the adjustment process to ensure that those reserves are well distributed among the countries of the world.

The U.S.A., through the Federal Reserve System and in other ways, has provided a very large part of the short-term liquidity to which I have referred. The other major contribution has been made by the group of central bankers of the

principal industrialised nations of the world who have been meeting at the B.I.S. in Basle each month for the best part of forty years. For three quarters of that time the rest of the world, including the press, hardly knew that these meetings were taking place, and even if they had known they would not have taken any interest in them. It is perhaps too much to expect that after the dramatic events of the last four or five years a complete return to the earlier state of affairs can easily be achieved. There are many indeed who cannot understand why the central bankers should be so coy about publicity when the world is waiting anxiously to hear the results of their deliberations. I would like to try and explain the reasons for our attitude.

As I have already said, central bankers are technicians. So far as the international monetary system is concerned, their job is to operate it as efficiently as possible and to give due warning whenever they see that it is in danger. They cannot change the system themselves although they exercise their influence on governments if this seems to them appropriate. For the most part, of course, this influence is exercised in the interests of stability rather than in the promotion of change, but the latter is not outside their range of vision. Indeed they are sometimes more ready for change than the governments they serve. But because the major decisions are for ministers it would be inappropriate for central bankers either individually or collectively constantly to offer advice and criticism in public. Hence our need for privacy in Basle. These meetings are of immense value. We compare notes about the states of our economies. We examine tendencies in one country which may affect others. We try to concert monetary action so as to minimise harmful side-effects on each other. We discuss broad international questions coming within our field. All this helps us to do our jobs and advise our governments, but public pronouncements are usually neither necessary nor desirable. These are only appropriate when we have, on our own initiative and authority, made some technical arrangement which we need to make public. In the main, therefore, silence is our rule for good reasons; and much as my colleagues and I sympathise with the problems and difficulties of our journalist friends in these dramatic days, I would ask them to bear this in mind. I apparently provided some sorely needed material recently by being, it was said, nearly run over by a Basle tram – news of this non-event quickly circled the civilised world. I cannot undertake to provide this mild human interest each month. So I hope the press will try to understand and to help us in performing our proper function, otherwise perhaps the suggestion for a tunnel between the Schweizerhof and the new headquarters of the B.I.S., which will one day rise behind it, may have to be taken seriously.