

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 2nd February 1970

. . . This year the international storms have given way to a period of calm as welcome as it has been long in coming. This has been helped by exchange rate adjustments by France and Germany, both of which were eventually managed with a minimum of international disturbance. The Special Drawing Rights scheme has been launched and has also had a stabilising effect. This I hope will prove to have been an auspicious event that will alter, much for the better, the shape of things to come. Time will show. There has been much breath and ink spent on the working of the international monetary system, but now that the Directors of the International Monetary Fund are engaged in a thorough discussion of the whole subject, perhaps the rest of us may await their views in silence.

I propose, therefore, with your indulgence, to look inwards rather than outwards on this occasion. As we are entering a new decade with a major change in our economic fortunes in the United Kingdom, it is perhaps an appropriate moment to take stock.

We were in external deficit for six years: from the middle of 1963 to the first quarter of 1969. Since last spring, however, we have been in considerable surplus. It looks very likely that we shall achieve, even probably substantially exceed, the target of £300 million in the financial year 1969/70 which the Chancellor set at the time of his last Budget. This is, of course, very gratifying to all of us. What has brought the change about? How far has there been a permanent improvement? How much is due to temporary factors? What unsolved problems remain to give us caution for the future?

There are those who would not have one slighting word said of our achievements in 1969, while others have not a good word to say for them. I am not concerned to enter into this partisan debate. Anything I say will be an attempt simply to set out the facts as I see them. If our undoubted progress is to be continued and consolidated, we must realise clearly what are its foundations. Unless we do, we shall not know whether they are strong enough to carry us through a successful future, and we shall underestimate the magnitude of the problems we have still to solve.

Before I enlarge on this thought, however, let me make one thing clear. Whatever qualifications it may be right to make, the turn-round in our external economic position in 1969 is the best thing that has happened to us for years. It has saved us from further humiliations, which seemed all too close little more than twelve months ago. It has restored our confidence in ourselves and that of others in us. It has enabled large debt repayments to be made and helped us to occupy our minds with something more than a nail-biting anxiety over immediate problems and dangers. At the very least, it is a most welcome breathing space and hopefully much more than that if we can only play our cards right from now on.

This is true, even though it be acknowledged that we have been lucky. And about time too, I would say, after the various international disturbances, political and economic, from which we have suffered in recent years.

We have benefited greatly from the unexpectedly large increase in world trade; and we should take heed of the fact that, nevertheless, our exporters' share in it has continued to decline, even if much more slowly than in the recent past. Our long-term capital account has been more than usually favourable, partly because of substantial borrowings on overseas capital markets which may be less easy in the future. Then, domestic activity has been rising a little slower than was expected; and in particular stockbuilding – so important an influence on our import bill – has been subdued. These and other circumstances may well be less favourable to our external position in the future. We shall need therefore to do all we can to preserve our remaining competitive advantage and to ensure that no undue growth of home demand prejudices the export-led expansion which, for some considerable time yet, must be our objective.

However, if we owe much to good fortune, we also owe much to our own good efforts. I am sure that in 1969 the conjunction of firm fiscal and monetary policies has been the indispensable foundation of our achievements. I do not believe that without them we could have produced the turn-round in our balance of payments that actually occurred. But if there is anything we should have learnt from our experience over the past decade and more, it is the necessity for a continual firmness and steadiness in policies and the danger of sharp changes. If we are to consolidate our present improved position and avoid a return to all the evils of stop-go, or go-stop as I prefer to call it, I am sure that any substantial or indiscriminate relaxation would be wrong.

I have already paid tribute to the work being done by the Chancellor and his colleagues in containing the growth of government expenditure. My encouragement of this good work is wrongly supposed by some to arise from a dislike of public expenditure as such. This is entirely untrue. A large part of our difficulties in the post-war years, and the origins of many bouts of stop-go, have come from our inability to control adequately the various sectors of internal demand or to get our priorities right. The work now being done in the field of government expenditure will help us to do better in the future. . . .

Speaking of priorities in internal demand, few rank higher than private business investment. We do not have enough of such investment in the United Kingdom and what we have is not used with maximum efficiency when we get it. While it seems to be the case that in 1969, despite our necessarily severe monetary policies, investment by private manufacturing industry has been rising quite strongly, we cannot be complacent about the rate at which we are adding to the new productive capacity which is so essential for maintaining our growth and strong balance of payments in the years ahead.

If there is one minor benefit that one may reasonably expect from an improved economic situation, it must surely be fewer words from me. Tonight, therefore, I will touch

on only one more subject. It is rather a sore one but, I believe, success in handling it means more to our future prosperity than almost anything else. This is the problem of wage inflation. It is not a problem peculiar to this country. At one time or another all countries are faced with it; at least they have been since the War. But this does not relieve us of the need to solve the problem in the United Kingdom. If incomes go on rising without regard to increases in productivity, we will be unable to restore order to our economic and financial affairs, and will be able to look forward only to erratic and occasional increases in real prosperity in conditions of growing unfairness leading to social tension and disorder. We cannot simply rely on other countries coping even less satisfactorily than ourselves with this universal problem. Some of them can better afford to fail here than we can. International competitiveness is immensely important to us. It is worth a great deal of present restraint to preserve and indeed increase the edge we now have over other countries, and to exploit it for all we are worth. If we fail to do this there is no great hope of increased prosperity, lower taxation or monetary ease – rather the reverse in fact.

But now that things are at last going so much better for us, it would be wrong for me to end once again on a gloomy note. It is quite possible for us to maintain and consolidate recent progress, and I believe we will, provided we do not become too starry-eyed about it and face the future with realism and determination.