Speech by the Governor of the Bank of England

Given at the annual banquet of the Overseas Bankers Club on 2 February 1976

. . . These agreeable obligations discharged, I am tempted to have done and sit down, and relax with the rest of you in expectation of pleasures to come in the speeches of our two distinguished guests tonight. But, without trespassing on the ground which they are likely to cover, there are two or three aspects of the world scene on which it may be appropriate that I should comment briefly.

I start with Kingston, Jamaica where last month, with many of the world's ministers of finance and central bank governors, I attended a meeting of the IMF Interim Committee. If you, as practical bankers, find the pronouncements issuing from international meetings somewhat arcane, I would feel some sympathy. But some points from Kingston were, I think, important.

The first is perhaps symbolic. In important respects the Bretton Woods regime, which served the world well for twenty-five years after the war, came to an end in the early 1970s. The Committee of Twenty strove to define a complete new system. But events and realities were too strong.

We have in fact settled for something less complete and less tidy, characterised more easily by what is lacking than what is present. No official price for gold; no obligations, present or potential, to adopt a fixed exchange rate in the old sense; no rules for settlement. Not so much an international system: more a set of international arrangements.

What we now have is a mixture of individual floating rates and wide areas of voluntary *de facto* exchange rate stability. And perhaps, with the world as it is – and likely to remain for the rest of the decade – this indeed provides the best achievable background for harmonious economic co-existence.

But untidiness is not the same thing as anarchy. The world is suffering its worst recession since the war, yet there has been no significant resurgence, as some feared, of aggressive, self-destructive economic nationalism – such as prevailed in the 1930s.

Instead it remains internationally accepted that when countries – or groups of countries – have a problem, they do not simply resort to unilateral action. International collaboration, and willingness to compromise, remain well rooted: without it, we should not have had agreement at Kingston. Partial fetters on each country's liberty enlarge the freedom of all; and we should welcome this.

When I spoke to you a year ago, I suggested that we might have a modest confidence that the international dangers then apparent, great though they seemed, would be contained by intelligent national or co-operative effort. That modest confidence has been justified: the world economy is in better shape today, and headed in the right direction.

Substantial progress has been made with two of the major problems, the oil deficits and inflation; but it has not been achieved without cost. While the oil deficits have been almost halved and while the rate of inflation has been brought down a lot – in the OECD area, from about 15% a year ago to about 10% – this has gone along with recession and some fifteen million unemployed.

Happily, however, the downward cycle has passed its nadir, and the world economy is beginning to expand again.

The pace of recovery is likely to be moderate and it is highly important that it does not falter. But despite its unwelcome implications for this country and many others, caution has to be accepted. For inflation is still, even in the most successful countries and despite high unemployment, running at rates that would previously have been regarded as quite unacceptable even at the top of a boom. A new outbreak of inflation, on top of the present levels, could quickly become very dangerous, and face us with the prospect of yet higher unemployment.

I have touched on one of the more dramatic developments in the international balance of payments last year – the great reduction in the surplus of the oil producers. Some of the other developments are, however, less comforting. The external position of many of the main industrial countries greatly strengthened last year. Some degree of improvement here was welcome and appropriate. What is less satisfactory is the position of many of the smaller industrial countries, and of the developing countries which do not produce oil but have to buy it. The developing countries in particular have been hit both by dearer oil and by world inflation and recession. Because they are poor, their capacity to adjust is limited; but their imports fell 5% last year and may now fall further. They will be helped by world recovery, as and when it comes, but they will still have large deficits, which will need to be financed.

The international banking system, particularly the euro-currency market, has to date made an important contribution, especially for the stronger developing countries. Syndicated medium-term credits to the non-oil developing countries announced last year amounted to well over $8 billion on a gross basis; and the flow continues. But commercial banking cannot cover the whole need; and the accumulation of market debt is likely to give borrowers, no less than lenders, increasing cause for careful consideration.

The emphasis must therefore turn more to official financing. Here we are faced with the facts that the IMF oil facility is nearing the end of its life, and that the scale of bilateral loans by OPEC countries may become more restricted. Hence the important decisions at Kingston both to create a trust fund, to be financed from gold sales by the International Monetary Fund, and to expand the credit facilities of the IMF, including the temporary increase in quotas by 45%. Many have feared such an expansion of credit will be inflationary: I regard it as a necessary step.

This is the Overseas Bankers Club Banquet, and I have felt it appropriate to touch briefly on these international questions . . .