British economic policy over the last decade

*An address by the **Governor** to the Italian Senate in Rome, on 12 April, in which Lord Richardson discusses many of the problems with which he has been concerned during his period as Governor of the Bank of England.*

I count your invitation to address the Senate in Rome as a special pleasure and a signal distinction. Coming as I do from what was once a minor outpost of the great empire ruled from Rome, a summons to appear before the Senate has an irresistible power and authority. I feel that I tread in ancient footsteps in coming before you to speak of the economic policy of Britain—but I must warn you at once that our present situation is vastly more complex than Julius Caesar might have reported when he came back to Rome after his expeditions to my country in 55 and 54 BC.

I say a special pleasure because, after an education steeped in the classical languages and history, I have found myself engaged first in the law, and then in banking—two occupations which bear witness to the civilising influence which Italy has brought to the world. The very word bank was drawn from its Latin root into the English language by the early Italian bankers who spread their skills across Europe. I have only to step outside the Bank of England into Lombard Street to be reminded of those merchants from Northern Italy who pioneered the art of banking in my country.

And, in another sense, it is a special pleasure for a member of the British Upper House of Parliament to be invited to address the Italian Upper House. As a recent entrant to the House to which I am now privileged to belong, I am conscious that in speaking here I follow the distinguished example of the most senior member of that House—my friend Lord Hailsham who addressed you in 1981.

There are many differences between our two countries. Your climate is known for sun, and your temperament for eloquence and expressiveness. Our climate is known for cloud, and our character for reserve. But between our people there has long, I think, been a special quickness of understanding. This has certainly always characterised relations between the Bank of England and the Bank of Italy, with whose successive Governors, Dr Carli, Professor Baffi and now Dr Ciampi and their senior colleagues, I have had the privilege of close acquaintance and friendship, in our frequent meetings in Basle and elsewhere.

You have asked me to address you on the subject of British economic policy. With your permission I will seek to put the British experience into both a European and a world context. The interdependence of our economies has never been greater, and it is misleading to regard them as separate. Indeed, if I were not to speak in this wider context I should be ignoring a substantial part of my daily preoccupations.

Perhaps a convenient starting point is the contrast between that time nearly ten years ago when I entered upon my responsibilities as Governor of the Bank of England and today. The years between seem almost a distinct period of history. I may perhaps remind you that it was in January 1973 that the United Kingdom became a member of the European Communities and at last began to play its proper part in their various institutions. It was in March 1973 that the world finally abandoned the organised fixed exchange rate system of Bretton Woods and allowed the principal currencies to float against each other. And it was later in that same year that the OPEC countries confronted us with the first of the successive major increases in the price of oil.

There has been as well a more pervasive change. In the years before 1973 it was not thought unrealistic to envisage virtually uninterrupted growth, and it had come to be felt that, by adjustments of policy, governments could manage their economies so as to reconcile full employment with reasonable price stability. The spectre of the Great Depression had, it seemed, been exorcised. This was not surprising; for in the post-war period the free world achieved an unprecedented combination of growth, relatively stable prices, high employment and expansion of trade. To the attentive ear there were, however, in the music of that time, some baleful notes which foretold more threatening developments. But I doubt that anyone then foresaw the extent of the swamp of stagflation in which we have all been struggling since, or would have predicted that in the early 1980s we should see world output stand still, and then fall, and world trade likewise. For my country, with its newly-discovered oil endowment, those years were expected to be the golden 80s. But now in 1983, because forecasts of world recovery have cheated us so often, we lack certainty that the hoped-for recovery, though now more plausible, will actually arrive on time and prove sustainable.

I recognise that it is the future which interests you. But that future is for all of us conditioned by the past. It is for this reason that I think it important to try to understand why the hopes once so confidently held have been frustrated.

A general view of the last decade

It is obvious that a great many countries in the last ten years have experienced the sinister alliance of high inflation, low rates of economic growth and high and rising

unemployment. Disturbing in themselves, they are more properly regarded as symptoms of an underlying malfunctioning of our economic systems, which, moreover, has been steadily increasing.

Let me, as an example, quote the figures for inflation under successive governments in my country. Under the first post-war Conservative government, from 1951 on, the average inflation rate was $3\frac{1}{2}$ per cent a year; in the second half of the sixties, under the Labour government, it was $4\frac{1}{2}$ per cent; during the term of the Conservative government of the early 1970s it was 9 per cent; and during the last Labour government it was 15 per cent. Thus, regardless of the administration in power, we saw a steady worsening of our underlying inflation up to the end of the 1970s. Since then there has been a reversal of trend. Under the present government inflation has been brought down from 18 per cent in 1980 to about 5 per cent now. This experience of a long period of worsening inflation, finally confronted and reversed, is common to most of the nations of the West. But this important counter-attack has, in all our countries, though in varying degrees, involved substantial costs in lost output and unemployment.

Then again, the rate of economic growth in the United Kingdom has been slow. In the early post-war decades we improved on our previous performance, but, even so, it was lower than in many other industrial countries, including your own, averaging only about $2\frac{1}{2}$ per cent a year; but over the last decade it has been barely over 1 per cent. Slower growth has been accompanied by growing unemployment. In the United Kingdom unemployment has grown from 600,000 in 1973—or $2\frac{1}{2}$ per cent of the labour force—to about 3 million, or nearly 13 per cent. All OECD countries have shared this experience, a particularly serious aspect of which is unemployment among the young, one in five of whom in this vast area is now without work.

These trends—in inflation, in economic growth and in unemployment—clearly represent a major deterioration in economic performance. There is no doubt room for dispute about the explanation, but against a background so largely shared there must surely be factors at work in our individual societies which are common to many. One important factor which has been given a great deal of prominence was undoubtedly the oil price shocks. I shall comment on these first. But, as I shall try to make clear later, I believe that more fundamental factors which go back a long way have also been operative.

The oil price shocks

One can perhaps distinguish three effects on our economies of the oil shocks. First, dearer oil caused a direct increase in the general price level amounting perhaps, both in 1974 and 1979, to some 2 per cent for the average OECD country. In itself, this was quite modest. But it had of course further repercussions on domestic costs which greatly magnified the initial effects.

Second, dearer oil represented a considerable diversion of purchasing power to the producing countries which were not in a position immediately to spend it. The net reduction of demand at the time of each shock was fairly large, amounting on each occasion to about 2 per cent of the total. Over time, OPEC countries have learned to spend their higher current income, thus increasing demand for the goods produced by OECD countries. OPEC countries in aggregate have accumulated a large stock of financial assets, representing the higher export earnings they have not spent. This accumulation of assets can be seen as the counterpart to borrowing by oil consuming countries to sustain spending. Overall, however, there has been a deflationary effect. While significant, this nevertheless amounted on average to well under 1 per cent a year of OECD demand over the last decade. Thus, like the direct inflationary effect, it has been far from enough to account in full for the deterioration in the performance of our countries over these years. In addition, the shocks to the supply side caused by the large and rapid changes in absolute and relative prices must have had depressing effects on output, the extent of which we cannot yet fully assess.

Third, there was the associated effect of serious and massive imbalances in international payments. Rather contrary to intuitive expectations, the deleterious effect of these did not show itself immediately. This was because, partly through the recycling of the OPEC surpluses by the international banking system, deficit countries found it relatively easy to finance those deficits instead of taking severe measures of adjustment to reduce them. The resumption of growth and inflation after the first oil shock meant that the real burden of debt they had thus incurred was beginning to reduce when the second round of oil price rises struck. The different and more uniform response of the industrialised countries to the second oil shock, which has involved grasping the nettle of disinflation, has produced conditions where the adjustments necessary to reduce both deficits and the inherited and increased debt burden have to be faced. Such a process has inevitably reinforced the slower pace of growth inherent in the disinflationary process.

The benefits—and costs—of North Sea oil

In coping with these shocks the United Kingdom has latterly enjoyed the advantage of possessing oil and gas in the North Sea, an advantage that most industrial countries do not have. We became a net oil exporter in 1981 and will remain so for some decades. Although we are at present the sixth largest producer in the world our production is in fact less than 4 per cent of the world's total.

We enjoy important contributions from oil both to the balance of payments and to government revenues. After allowing for interest and other payments arising from foreign investment in developing the North Sea, the net saving to the balance of payments as a result of having our own oil and gas can be put at some $20 billion a year. This far exceeds the surplus on our current balance of payments, which was about half that amount in 1981, $6 billion last year, and will no doubt be smaller this year. On the revenue side, the larger part of the profits on North Sea oil are taken in taxes and accrue to the public Exchequer. North Sea taxes now yield £8 billion or nearly 3 per cent of GNP.

Despite these advantages we have not escaped all the deleterious effects of the oil shocks. As a matter of policy, oil is supplied to the British domestic market at world prices so that we are not insulated from the direct inflationary effects. As far as the resource cost of energy is concerned, we have of course fared better than most other western countries who lack indigenous oil supplies. But to extract oil from fields deep under the sea has been difficult and costly. Thus we too have become worse off than in the 1960s—admittedly when the oil price was unrealistically low—though to a lesser extent than other countries. In real resource terms we now have to expend 50 per cent more for our oil than in the 1960s while others typically expend 300–400 per cent more. We have therefore had no miraculous free gift from heaven.

As the oil reserves are gradually depleted and oil exports decline, we will need to find alternative exports. Against that day, long-term prudence would require also that we should invest more, both at home and abroad, to replace the capital assets now being depleted. We have in fact been adding substantially to our investments abroad, especially since the abolition of exchange control in 1979, and are already beginning to see the benefits in a steady increase in our overseas income. But we have not been able to increase domestic investment in the way we would like. Investment does not grow when so much existing capacity is under-utilised and the return on capital depressed.

The oil situation has of course changed significantly in recent months and oil prices have fallen back. I am sure that this must be a helpful development for the world as a whole, provided the falls do not go too far or too fast. The position of producers—including ourselves—may be worsened in certain respects; but just as the rise in oil prices was by no means an unmitigated boon for the United Kingdom, nor do we see some fall as being entirely unhelpful. The balance of payments problems of many countries in the world will be eased; and as inflationary pressures are reduced, the prospects of renewed world growth must be improved.

The rigidities in our economic system

But whether its price is rising or falling, oil has only been one of the factors—though an important one—complicating the task of economic management over the past decade. It can only be in a superficial sense that we can attribute our misfortunes to outside shocks; because we can never expect to live in a calm world where nothing unexpected happens to inconvenience us. To be viable, an economy has to be adaptable. If we look, for example, at the experience of some of the vigorous, newly industrialised countries in the Far East, we see that although the initial shocks they sustained were as great, they have proved able to adjust to these shocks much more quickly and fully than we have. In recent years our own economies have become strikingly less adaptable and more rigid than they were.

The nature and causes of these rigidities deserve examination, for it is not in fact possible for our economies to survive without adjustment; nor is it possible for policy simply to accept the rigidities as inevitable. Over the past decade, as the underlying inflationary forces gathered momentum, it became increasingly clear to all our governments that these forces must be confronted and defeated, though it was equally clear that forces which were so deep-seated and had taken so long to build up would not be reversed quickly or without cost. The defeat of inflation necessarily takes time and is difficult to achieve without producing a deflation of the economy.

I will give three examples only of the kind of rigidities I have in mind, all deeply rooted in patterns of social behaviour. The first is organised pressure for regular increases in money wages; and in particular the expectation, backed by powerful means of enforcement, that wages must always follow prices upwards. It was only for a short period that we had any formal arrangement comparable to your *Scala Mobile.* But the pressures in the United Kingdom, as in other countries, though not so institutionally entrenched in this way, nevertheless have been very strong.

A counterpart to this has been that over the past fifteen years or so the United Kingdom has seen a very sharp fall in company profitability. In the early 1970s industrial and commercial companies earned a return on assets, after adjusting for inflation, of about 10 per cent. This was already low by international standards. Since then profitability has fallen, even further with us than elsewhere, to a low of about 3 per cent in 1981, from which it recovered somewhat last year. The fall has been concentrated on manufacturing industry.

Second, there has been a tendency for government welfare expenditure to increase progressively— in part because of demographic factors, in part because of powerful social demands for steady increases in this kind of spending, often with little regard to the economy's potential to provide it. In combination with the slower growth of the economy, these trends have with us, as in many other countries, put great pressure on the government budget. Thus in my own country it has been difficult to keep the budget deficit under control without increasing taxation and consequent damage to the enterprise sector. A recent feature of policy has, however, been the stubborn drive to contain government spending which has made it possible for us to halt this process.

Third, industry in all western countries has been slow to adapt to the competition coming from Japan and the newly-industrialising countries of the Far East. This competitive pressure poses great problems for all our countries. Adaptation—the contraction of old industries and the development of new ones—is a difficult process. The reaction has too often been a tendency to look to protectionism or trade management. That time is required to adapt is understandable. But prolonged protection damages the resilience of industry, and is harmful to the welfare of our peoples. We must see that any unavoidably protective devices are temporary and do not increase.

Different countries have tackled these rigidities in different ways and with differing degrees of success. You will expect

me to say something of our experience. Policy in recent years has been directed towards mastering inflation and towards improvements of the supply side of the economy designed to lay the basis for better performance. This has involved the removal of market distortions, for example the abolition of pay, price, dividend and exchange controls, a switch in the balance of taxation from direct towards indirect taxes and reductions in public expenditure. I want particularly to speak of the factors which I believe have been important in the significant progress that we have already achieved against inflation, which in turn has improved the prospects for the economy as a whole. It is appropriate for me as a central bank Governor to speak on this because of the central role which monetary policy has come to play in the anti-inflationary struggle.

Inflation and monetary policy

Earlier, before our decade of discontent, an element of discipline had been provided, under the Bretton Woods arrangements, through a fixed exchange rate and the need to adjust fiscal and monetary policy—and hence the growth of nominal income—in order to maintain the rate. Formally, the external discipline was removed for the United Kingdom when sterling was floated in 1972, though I believe it is one of the enduring lessons of the period since then that the fundamental external constraint cannot be escaped, whatever the exchange rate regime.

Twice in the subsequent period we had resort to an incomes policy—a formal policy of restraint over the growth of wages that placed considerable reliance on the co-operation of the trade unions. This policy appeared at the time to offer promise; but each attempt turned out to be short-lived. Following its breakdown in the winter of 1978–79, this approach to policy has not been an option. It nevertheless remains the case that governments cannot avoid responsibility for wages in the public sector; and it is widely—I would hope increasingly widely—recognised that wage moderation more generally, within a policy framework directed at influencing nominal income, is an essential element in achieving lower inflation in combination with lower unemployment. But we have not yet found an effective means through which these considerations can be translated into a structured complement to other policies.

Alongside this experience the role given to monetary policy has grown. In its ultimate objective the aim of monetary policy has been to constrain the growth of nominal income to a rate that is consistent with the productive capacity of the economy. By exerting downward pressure on inflation in this way the goal has been to establish a framework of stability as a necessary precondition for sustainable long-run growth of output and employment. With fast inflation, and changing expectations about inflation, nominal interest rates had become an unreliable guide to monetary conditions. Throughout the past decade, therefore, we have had control of the money supply as the intermediate objective of our policy.

One can have a policy of this kind without formally announcing it, but it is likely to be both clearer and more effective in reinforcing political resolve and in affecting expectations, if it is publicly stated. We started to announce quantitative targets for the growth of the money supply in 1976, under the previous, Labour, administration. In 1980 the present Government made the innovation of projecting the money supply targets for several years ahead, as the central element of a medium-term financial strategy. The increase of the money supply was projected at declining rates of growth to emphasise the permanence and consistency of its counter-inflationary purpose.

Unlike some other countries we have always thought primarily in terms of a broad definition of money. While this choice of definition may not be critical—and indeed has had disadvantages of its own—it has the particular merit of being capable of analysis in terms of the counterpart sources of monetary growth, which include the public sector borrowing requirement. This has helped considerably to focus attention on the vital need for consistency between fiscal and monetary policy. The same link between fiscal and monetary policy is made in the Government's medium-term financial strategy. This sets out, alongside the monetary targets, an illustrative path for public sector borrowing in future years— also on a declining scale. Thus we have attached particular importance to the need for budgetary restraint which is essential if monetary control is to be effective without undue reliance on interest rates. For big changes in interest rates have serious economic effects of their own, for instance on exchange rates or on the viability of businesses, that are too important to ignore.

Our experience, like that of others operating this form of monetary policy, has not been without difficulty. Whatever can be said about the stability of relationships between monetary growth and nominal income over the medium term, it is plain that there can be substantial variations in that relationship over shorter periods. These problems have been made worse in recent years—in North America as well as in my own country—by the speed of innovation, which is changing the characteristics of the various financial assets and the boundaries between them. While, therefore, particular measures of the money supply may be the best available individual indicators of monetary conditions, it would be naive to think that, on their own, they can be relied upon to capture at any moment the full measure of the pressure which policy is exerting on the economy.

This presents the operator of policy with a dilemma. Too rigid or mechanical adherence to the monetary targets can impose a traumatic pressure working through financial markets on the real economy, and in particular on the private industrial sector. On the other hand, allowing the targets to be overshot—particularly in the early years—can damage the credibility of the policy and harmfully weaken its effect upon inflationary expectations.

This situation, I am convinced, can only be met through the exercise of judgement and discretion in operating monetary policy. The monetary targets have to be continually

interpreted in the light of the range of available supplementary evidence bearing on the prospect for inflation, including the behaviour of the exchange rate. And the outward form of monetary targets may itself have to be adapted from time to time to meet changing circumstances as we ourselves have found most recently a year or so ago. More than its form, what matters—indeed is of vital importance—is that the substance of policy should be resolutely adhered to, and its aims pursued continuously and consistently. And it is this that we have endeavoured to achieve.

The process of squeezing out entrenched inflation is painful and slow—more painful and slower than it would have been had our economy been less rigid, and had expectations been readier to adapt than they have been. But the only sure way to change attitudes built up over a long period of years is to demonstrate consistency of purpose—equally over a sustained period. This approach is now beginning to show the first signs of success. These signs are to be seen in our continued progress against inflation, to which I referred earlier. But they are to be seen too in improved productivity, in turn reflecting the beginnings of more flexible working practices in the labour force and greater determination on the part of management. If persisted in, this will reduce the rigidities of the supply side of the economy.

Exchange rate instability

I want now, if I may, to turn to another important linkage between monetary policy and inflation—the exchange rate. A country's exchange rate is the link between its own economy and that of other countries; and is a matter of importance to all of us. It can hardly be questioned that present international arrangements for exchange rates do not function as well as could be desired.

The prosperity of the decades following the war developed within the framework created by the Bretton Woods agreement. In reaction to the disorderly conditions before the war, this provided fixed but adjustable exchange rates, and commercial arrangements designed to reduce protection and encourage free trade.

Ten or fifteen years ago we had all become very aware of this system's failings. It revealed its defects when the time came for adjustments, which were not always orderly. The remedy seen was to take decisions away from governments and to leave them to market forces; but things have not worked out as many people then hoped they would. The striking feature of exchange rates in the last ten years has been their instability. In the case of my own country, our exchange rate calculated on a trade-weighted basis fell nearly 30 per cent between 1973 and 1977; rose nearly 20 per cent in the next three years; fell 5 per cent between 1980 and 1982; and in the last six months has fallen by over 10 per cent. The zigzags in the US dollar, the deutschemark and the yen have been equally striking.

It is probably the case that the last ten years would in any event have been more turbulent than earlier decades. Inflation was not only more rapid but more volatile; interest rates thus also moved more; and international capital flows have vastly increased. But one must suspect that markets have displayed a persistent tendency to overshoot, and have produced greater volatility than justified by underlying conditions.

The present system is not, of course, one of universal floating rates. Indeed, the vast majority of the members of the IMF have independently pegged their currencies to that of a major trading partner or to a currency basket, sometimes making use of the so-called crawling peg mechanism. And, as an island of what must still be regarded as relative stability in an uncertain world, there is the European Monetary System. I am well aware that for Italy membership of the EMS provides much more than a greater degree of exchange rate stability. It symbolises the European idea. And in addition it gives a fixed point, a financial anchor, around which domestic financial policies must be conducted.

Many in Europe have, I know, regretted that the United Kingdom has not joined the EMS exchange rate mechanism. Perhaps I may indicate some factors which help to explain this. We have had an alternative financial anchor in firm adherence to a policy of money supply targets. Furthermore, sterling is particularly exposed to fluctuating international pressures—especially those related to oil price movements and expectations which tend to push sterling in the opposite direction to other European currencies. Nevertheless, I hope that the time will come when conditions will be appropriate for us to join the EMS fully. The European Community is a concrete expression of European solidarity and co-operation and the United Kingdom should be a full participant in its institutions. I would therefore like to say a little more about my country's views on economic co-operation within the Community and with the world beyond.

Economic co-operation

To many of our partners it must seem that the apparently unending problem of the United Kingdom's contributions to the Community Budget, and the efforts to resolve it, have overshadowed my countrymen's other interests in Community affairs. In fact, we have played our part in many ways. Over the last decade, for instance, the expansion both of the Community's social policies, as expressed through the European Social Fund, and its regional policies, in which the European Regional Development Fund plays so signal a part, owe a great deal to British endeavours. It is also largely thanks to British initiatives that greater financial disciplines have been introduced into Community spending programmes which are now subject to the scrutiny of the Court of Auditors.

Co-operation between members of the Community, however, cannot be merely an inward-looking process. The Community remains the world's largest single trading unit, and its influence in international economic affairs is potentially very powerful. The Community's voice has in fact been a strong one in recent years in international

discussions in favour of attempting to achieve more stability among the world's exchange rates. These efforts may be beginning to bear fruit. The progress that has been made towards containing inflation should provide conditions for less variable exchange rates, and a setting in which intervention can play a modest but supporting role. A start to progress in this connexion was made at last year's summit meeting in Versailles, where a study on intervention and its uses was commissioned. I believe this has been an educative process which is likely to lead to a greater convergence of view on what intervention can and cannot achieve. Additionally, at Versailles the Seven undertook to strengthen their co-operation with the IMF in multilateral surveillance of exchange rates. It is to be hoped that the forthcoming Williamsburg Summit will build on the beginning made at Versailles and strengthen co-operation in this area.

One of my preoccupations as a central bank Governor has recently been the emerging problems of international debt. These problems, largely concentrated on some of the developing countries, have arisen as a combined effect of continued world recession, unexpectedly high interest rates and, in some instances, failure on the part of the developing countries themselves sufficiently to adjust their economic policies. These difficult problems have demanded for their solution a network of collaboration between governments, central banks, international agencies and the commercial banking system. We have had to look towards adjustment by the borrowing countries; the continued, though more moderate, extension of bank finance; and the expansion of the facilities available to the IMF. This last, provides another striking example of Community co-operation. The recent important decisions to increase the IMF quotas by nearly 50 per cent, and roughly to treble the IMF's General Arrangements to Borrow owed much to preliminary co-ordination of views among the EC countries, followed by successful negotiations in the Group of Ten ministerial deputies, chaired by the Director-General of the Banca d'Italia, the G10 ministers under the chairmanship of the French finance minister and the Interim Committee of the IMF presided over by the British Chancellor of the Exchequer.

Prospects

I have strayed rather far, you may think, from the shores of the United Kingdom in my discussion of its economic policy. I hope I may be forgiven for this if I have shown how centrally important for our economic policy makers the international dimension is. Nevertheless, in conclusion, you may expect me to say a word about how I see prospects for recovery in the United Kingdom. If I display a diffidence in doing so, it is because the world has become a more uncertain place and forecasts in recent years have so often been proved wrong. And once again it is impossible to separate United Kingdom prospects from those of the world at large. I will confine myself therefore to a few essential points.

I should say first that we do now expect a modest recovery in the United Kingdom and indeed can see some evidence—notably a revival of confidence among businessmen—that it has already begun. But output at present is below the levels of 1978–80, and only fractionally above the level of 1977. We do not expect growth to be fast enough to make inroads on unemployment for some time to come. Welcome though recovery will be, it is therefore only a beginning.

Part of the reason for this moderate optimism is that we also expect a modest recovery in the world economy. In the United States the first quarter's figures seem promising and the Administration has already raised its forecast for GNP growth for the year above that put forward when the Budget was introduced. In Germany, too, confidence is rising that growth prospects have improved since the beginning of the year.

But how strong and how sustained the recovery in the United States and in the world will be is bound to be influenced significantly by the course of United States interest rates which remain very high in real terms. One can, of course, point to many factors that may help to explain the persistence of high interest rates despite the present world recession. The size of the US budget deficit, present and prospective, is certainly a major influence. More generally, past volatility and disappointed expectations have induced scepticism and caution. It seems likely that present day investors are looking for greater risk premiums than used once to be the case. But these factors would tend to explain high long-term real interest rates. The persistently high level of shorter rates in real terms, in some ways just as damaging, is, I think, more difficult to understand. Whatever the true explanation there is no doubt that it would be helpful if real interest rates could be lower without risk to inflationary expectations. The level of US interest rates will bear on world recovery through its effect on the growth prospects of industrialised countries, but also, most importantly, through its effect on the tractability of the debt problems to which I have referred.

Conclusion

Mr President, I end with this observation. All my experience, especially over the past decade, has taught me how necessary a virtue patience is, and along with patience, unrelenting persistence. Inflation and structural rigidities have entrenched themselves in our economies over a very long time; it is hardly to be expected that they will quickly be removed. Mr President, Members of the Senate, perhaps I can say that we have all trodden a path *per una selva oscura che la diritta via era smarrita,* but with perseverance may hope to be able to say with Dante *e quindi uscimmo a riveder le stelle.*