



BANK OF ENGLAND

# Speech

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## **Association of Business Community Dinner, Scotland**

Speech given by

The Rt Hon Sir Edward George, Governor of the Bank of England

14 January 2002

Mr Chairman, it gives me particular pleasure to be with you all this evening. I am honoured to join you in paying tribute to Mr Yaqub Ali and in celebrating the remarkable contribution that he has made to Scottish commercial and community life since he arrived here from Pakistan some 50 years ago.

It is a very poignant occasion, coming as it does when the terrorist attacks of 11<sup>th</sup> September in New York and Washington are still fresh in our minds. Those events sadly have been sometimes represented – or misrepresented – as having something to do with ethnic or religious differences.

But, as the universal condemnation of terrorism which followed the events of 11<sup>th</sup> September has shown, they had nothing to do with ethnic or religious differences; they were a reflection of a fanaticism which has no place in any civilised society. Nevertheless they have the capacity to accentuate perceived ethnic and religious differences, and to provoke unwanted tensions within our international, national and local communities.

The contrast between this concern and the example and experience of Mr Ali, which we celebrate this evening, could not be more pronounced. Whatever the difficulties he faced – of social disadvantage having arrived here after some time spent in refugee camps in Pakistan, and no doubt, too, of some degree of ethnic prejudice – Mr Ali overcame them. Beginning as a door-to-door salesman he moved on to build a series of substantial businesses – as you have heard – not simply to his own benefit but to the great benefit, in terms of both the goods and services, and the employment which he provided to the community which adopted him. But, beyond this impressive business achievement, he has made a great contribution in terms of community service and charitable involvement both here in the UK and in relation to Pakistan.

All of this says a great deal about Mr Ali – and Mr Ali, I join with others in saluting you, and congratulating you on your personal achievements. But your example conveys a wider message for all of us. It illustrates very vividly the great benefit that can accrue to our society as a whole from providing the opportunity to all the people in the UK, whatever their background, to realise their full potential and achieve all that they can in whatever field they choose. It underscores the importance of non-discrimination, whether ethnic or religious, sexual or social, to the material as well as the moral progress of our whole community. It is that which makes it such a particular pleasure to be here this evening.

Mr Ali's achievements are, as I say, an outstanding demonstration of the great contribution that ethnic minority business – given the proper opportunity and encouragement – can make to our economy. But I am very conscious, Mr Chairman, that Mr Ali is not the only example. The Bank of England's investigation some 18 months ago into the availability of finance to ethnic minority firms suggested that while the ethnic minorities represent some 5% of the UK population, they controlled some 7% of UK businesses and accounted for around 9% of new business start-ups. Those figures relate to 1997, so they are a little out of date; but they nevertheless make the point, which is underlined by the presence of so many business people here this evening. But I am very conscious, too, Mr Chairman, from the economic reports which I receive each month from our Agent here in Glasgow, Janet Bulloch, that many of you have for some time been facing a very tough economic environment. So perhaps I might take advantage of being here to say a few words about that.

If you look at the overall macro-economic situation in the UK as a whole we have much to be thankful for. We've had – over the past nearly 10 years now – the longest period of relatively steady quarter by quarter growth since quarterly records began in 1955; unemployment – though it has edged up recently – is still just about as low as it has been for 25 years, and we've enjoyed the longest period of consistently low inflation – and interest rates – that anyone can remember. And all of that is broadly true not just for the UK as a whole but for every individual region of the UK – including here in Scotland.

Our problem – and it is a real problem for us at the Bank, as it is for you – is that, once you look beneath the apparently benign surface of the economy as a whole, you find very substantial differences between many internationally-exposed businesses, particularly in manufacturing but including farming and some services businesses, which have been having a very tough time recently, and businesses serving the domestic market which have been doing relatively well. There are two main reasons for the pressure on the businesses exposed to international competition - the puzzlingly persistent weakness of the euro, not just against sterling but also against the US dollar; and the sharp slowdown in demand over the past year or so in all the major industrial economies.

Now with the best will in the world there is not much that either we at the Bank or the UK Government can do to address the causes of these pressures. That's obvious where we are talking about demand in the US or Japan or the Euro-zone: we can urge their respective authorities to stimulate their economies at international meetings, but we can't do anything about it directly ourselves. It's less obvious in the case of the exchange rate – people think that we could influence that quite simply by cutting our interest rate relative to interest rates in the Euro-zone. But I would point out to you that it's not in fact as easy as that. The US has reduced its interest rate far more aggressively than the ECB over the past year but the dollar is stronger against the Euro than it was to begin with; and the same is true, to a lesser degree, of us here in the UK, with sterling also stronger against the euro than it was a year ago.

So, for the time being, external demand remains weak, and there is nothing much – as I say – that we can do about that. What we can do, given that inflation remains under control, is to try to compensate for that weakness by stimulating domestic demand here in the UK. The Bank has done this by cutting interest rates to buoy up consumer spending. And the Government has stepped up its own spending, which is actually helpful in the present environment. Although we have not been able to avoid an overall slowdown altogether, we have in this way, so far, managed to keep the UK economy as a whole moving forward, even though we could not avoid recession in some of the internationally-exposed sectors. And that has meant a particularly tough time for those parts of the UK in which these sectors are most heavily concentrated, including parts of Scotland.

We would all have felt a good deal more comfortable if we could have done more to sustain demand in the internationally-exposed sectors. But as I say that option was not available to us. Stimulating domestic demand to offset the external weakness was the only effective option we had – and while it was very much a second-best course of action, and not without its own risks, it has seemed to us better than not responding at all. That would have meant a much sharper slowdown, and probably recession, in the economy as a whole. And given that inflation was already modestly below our target, it would have meant a quite unnecessary loss of overall output – and income and employment. So in effect we have taken the view that unbalanced growth in our present situation is better than no growth – or as some commentators have put it, a two speed economy is better than a no-speed economy.

At some point the world economy will begin to recover – indeed there are some tentative signs that the US and Eurozone economies are now beginning to bottom out, and that they could begin to pick up from the summer, perhaps to around trend by the end of the year. And the euro, which has, as I say, been puzzlingly weak since soon after its introduction 3 years ago, still seems likely to strengthen eventually. When we reach that point – when it becomes clearer that the international environment really is improving, and that external demand really is picking up - then we can look forward to better balanced growth in our economy. That will in due course mean that domestic demand growth – and consumer demand growth in particular – will need to moderate if we are to avoid a build up of inflationary pressure. But let me be quite clear – that's not a warning, still less is it a threat. It is really a matter of arithmetic! It is quite possible that the necessary moderation – and I emphasise the word moderation – of consumer demand will come about of its own accord, given the gradual increase in unemployment we are currently seeing and the build-up of household debt

that would be the best possible outcome. But if consumer spending were not to moderate of its own accord, we would clearly need at some point to consider raising interest rates, to bring about that moderation. I do not suggest that the timing of any such move is imminent - that would obviously depend upon the timing and the strength of the pick up in external demand.

So, Mr Chairman, the past year or so has been a difficult time for the world economy which has made life increasingly difficult for the internationally-exposed sectors of our own economy. And that situation may persist for the next few months. But it won't last forever. I am reasonably optimistic that the overseas environment will improve as we move through the New Year, and that by this time next year we here in the UK will have seen a return to somewhat stronger and better balanced growth with unemployment not too far above its historic lows and continuing low inflation. If that is how things turn out we will have weathered the storm as well as we could reasonably have expected.

Let me conclude, Mr Chairman, by once more congratulating you Mr Ali on your outstanding example, and by inviting you, on behalf of the Association of Business Community to accept this vase as a token of the high esteem in which you are held by us all.

ENDS