

**Extract from a speech by**  
**THE GOVERNOR OF THE BANK OF ENGLAND**  
at the annual banquet of the Overseas Bankers Club at Guildhall  
on 7th February 1966

... However, I feel that tonight I should not confine myself exclusively to extolling the virtues of the Overseas Bankers Club but should take the opportunity of saying a few words about the international financial position of the United Kingdom. Our friends overseas, in backing the judgment that sterling was not overvalued, have enabled us to weather the vicissitudes of the recent long-drawn-out sterling crisis. It was in the confidence that the United Kingdom would continue to take all necessary steps to maintain the exchange value of sterling that their assistance was made available. It remains one of our principal responsibilities to justify in the future, as we have in the past, the continuance of this confidence.

Our overriding task in terms of economic responsibility to the world, and in order to maintain our own national integrity, is to achieve balance of payments equilibrium with the rest of the world by the end of 1966. It was with this intention in mind that the International Monetary Fund agreed to the United Kingdom's drawing a further \$1.4 billion in May last year, in addition to the sum of \$1 billion drawn in the previous December.

Simply to achieve balance of payments equilibrium in 1966 can only be an initial and interim objective for we have within reasonable time to provide for the repayment of these large debts we have incurred. We are making good progress in discharging our short-term commitments, which were in addition to our debt to the International Monetary Fund. But, as well as discharging our debts, we have, too, to rid ourselves of various measures to which

we have had to resort in order to meet our immediate needs but which would, if perpetuated, progressively impair our long-term prospects. These measures, in so far as they tend towards economic isolationism, deny us full participation in the world of economic and financial interdependence which is growing around us. Thus we in this country are faced with a pretty formidable task, the achievement of which can only be helped by the fuller understanding of the problems that we need to solve.

To understand the problems we face, a brief reference to the balance of payments is, I am afraid, unavoidable.

What is described as the balance of payments is the outcome of the whole complex of our industrial and trading economy and it is of course the whole of this complex that is our ultimate concern. But in the tangled skein that makes up the multifarious cords of financial and commercial relations between this country and the rest of the world certain strands are identifiable and in any study aimed at seeking a solution to our balance of payments problems need to be distinguished.

First there is the trade balance which represents the balance between our industrial and trading effort in world commerce on the one side and our demand on the rest of the world for consumption or trading on the other. This is fundamental. For largely historical reasons the United Kingdom has, rather exceptionally among nations, long been exempted from the yearly discipline to which most countries are subject—that of the necessity of achieving yearly either a surplus or at least

a rough balance in visible trade. It is a fact that may surprise visitors from abroad, as well as some people in this country, that only in two years in this century has the United Kingdom shown an excess of exports over imports.

That it has been possible to live on this basis is due to the very substantial sums accruing to this country from what the balance of payments tables call private invisibles. This expression describes the net earnings in balance of payments terms of such activities as banking, insurance, shipping, aviation, travel and, the most important of all because it is the largest single item in this category, income from our overseas investments. The total net earnings of the United Kingdom under this head of private invisibles increased from just over £500 million in 1957 to over £650 million in 1964; this large increase over the period is accounted for in the main by increase in investment income from overseas. The nation's income from this private invisibles balance has been sufficient to cover not just our adverse trade balance but also our new private net investment abroad and further, in some years to cover, and in others significantly to contribute towards, government expenditure overseas. Only in 1964, when all the expenditure items were abnormally adverse, has this failed to be the case.

In the strands which go to make up the totality of our foreign payments, that of government expenditure overseas has been steadily swelling over the years. Between 1957 and 1963 (which is the latest year for which a figure has been published on a comparable basis to the others I have been using) net governmental expenditure overseas on the same basis has increased from £194 million to £569 million. It can be claimed that 1957, which happens to be the date when this particular series of figures begins, was an unusually low year for government expenditure due to debt repayments received by the Government that year. But in my reckoning, in any general survey of our affairs, as opposed to statistical didactics, a claim on this score is more than offset by the further increases subsequent to 1963.

What are the principal deductions to be drawn from this brief essay into the balance of payments figures? First, because it is the one consistent credit item, I think we have to recognise the extent to which the British

standard of living is dependent today, as it has been throughout this century, on our invisible earnings, particularly on our investment income from overseas. The figures speak for themselves. The origin of our overseas investments, which served us as our financial mainstay in two world wars and which provide the foreign exchange income we need so badly today, lies of course in our history. Our forebears believed in saving and investing before spending—but we of our generation and times can claim considerable credit for the acumen with which these private investments have been managed and consequently vastly enhanced their value so that the nation's balance of payments profits from the growing income. Indeed it is interesting, where possible, to compare the performance of funds which have had the benefit of professional management and freedom to go in and out of the market at judgment with those, such as some trusts or others, which for some reason or another have not had the same freedom. The difference in result can be very striking. The balance of payments has certainly benefited from the skill that exists in this field in this country and North of the Border.

But last year such were the needs of the official reserves, and no one knows better than I the extent of those needs, a temporary measure was introduced, the detail of which need not concern us this evening, which in effect puts an impost on the management of foreign currency portfolio investments and also on certain changes in direct investments, the official reserves gaining thereby. The circumstances of last year were judged to be such that the short-term need outweighed the longer-term cost. The short-term need was indeed great but let us remember that the longer this temporary measure remains in force the greater will be the eventual cost in forgoing opportunities by skill in management for increasing capital and investment income for the nation.

Nonetheless, we still have this important source of foreign exchange income which we can continue to rely on to make its crucial contribution to our balance of payments as long as we never become so improvident in time of peace as actually to run down the investments now in private hands. If we were to do that, Mr. President, I would be driven to adapting Lewis Carroll to suggest that such a policy might provide jam today, but would inevitably

call in question the probability of any bread tomorrow.

The second point that emerges from this glimpse of the balance of payments figures is that the growth over recent years of the level of government expenditure overseas has introduced a significant new factor by virtue of its size in our balance of payments picture. It is a truism to point out that overseas government expenditure, like all other overseas expenditure, can only come out of what the nation as a whole either earns or borrows abroad; an individual government cannot create additional spending power in foreign exchange. My concern over this factor in the balance of payments is not primarily because it is government expenditure as such, but rather concern that if we curtail our commercial, financial and investment activities—on the growth of which we are dependent for future foreign exchange earnings—in order to give priority to other forms of expenditure, which in their nature do not contribute to our future financial benefit, then this can only lead to further progressive deterioration of our balance of payments, diminishing freedom of action in our policies and a decline of our influence in the world. To our friends from overseas, this evening I think it is a fair comment to make that, in so far as our government expenditure overseas increased by some £375 million between 1957 and 1963 and has increased substantially further since that date—a period during which it is hard to discern a comparable growth in the United Kingdom's international responsibilities—it may suggest that other countries may not be carrying their fair financial share in world affairs. We have a difficult task which is to identify our priorities—it is no longer sufficient to assume as we used to be able in the past that we could afford the financial cost whatever our international policy.

But the most intransigent of all our problems is that which basically we have been struggling with for many years now and which nearly every industrial country has to face—the adjustment of domestic demand to a level that is compatible with our balance of payments goals. There is nothing new in such a situation. Indeed, one of the objectives of the I.M.F. was to assist members in achieving just this. But membership of the I.M.F., as well as giving access to assistance, imposes certain obligations. Amongst the obligations which we have

assumed under the Articles of the I.M.F., which we played a leading role in drawing up, is inhibition from imposing restrictions on current payments for goods or services which include imports and travel. Any restriction in these fields would be a grave affront to the principles of the institution which has given us massive tangible support and also to its members, many of whom have assisted us, and indeed would be contrary to the trends throughout Europe. Similarly, our obligations to G.A.T.T. and our own self-interest preclude resort to further protectionism.

The more rapid growth of our imports over recent years than the growth in our exports has created a serious deficit in our trade balance. To correct this deficit we have both to improve our productivity substantially beyond the standards we have so far achieved, we have to ensure that our costs remain competitive, and we have to contain our overall demand to equate with our foreign exchange earnings. This will not be easy to accomplish as long as industry, behind protection of varying degrees, can achieve a sufficiency of profit in the home market, as long as income increases are too often in excess of productivity, and as long as public sector demand relies to the extent that it has in the past on the creation of money. Indeed the Government recognise these problems and are acting strenuously in all these fields—we wait upon the results.

In this world that believes in the freedom of movement of goods and merchandise it is easier to exploit the expansion of exports than it is to limit imports and that of course is the intention. There is one aspect of export promotion of particular interest to international bankers which is worth mentioning before I sit down. There is, I am told, an argument raised in certain academic circles as to the merits of, and return to, a country of investment at home versus investment abroad. I certainly am not aware of any instances of British industry being deprived of capital because it has been invested abroad. But I have constantly been surprised that the aggregate new investment in industry in this country, which has been very substantial over recent years, has not produced more output. One does not hear this discussion in its abstract form in the practical world of business because British business, generally speaking, when free to do so invests abroad where it is necessary to do so to expand, or sometimes

protect, a market or source of supply. The purchase of a warehouse or the setting up of a sales and service organisation, an assembly plant or even local manufacture may, any one of them, be essential to maintain or expand our exports in some particular market—the return may not necessarily be very rapid but without them the long-term loss of a foreign market for good could be very heavy indeed. Likewise too, some of our overseas extractive enterprises can only fructify out of continuing investment in processing in the consumer countries. This direct investment overseas, for so it appears in the balance of payments tables, in many cases is at least in part in the form of exported British equipment and machinery. In the invisibles, as opposed to the trade field, an investor in a growing business overseas can only retain his position and his influence provided he can maintain his proportion of equity. It is sometimes suggested, generally by those who have never had personal occasion to engage in overseas trade or foreign business, that we cannot afford this private overseas investment—it is always amongst the first to feel the hand of restriction when our balance of payments causes concern. This suggestion, apart from disregarding history and the facts of business life, presupposes that all other forms of overseas expenditure command a higher priority and, in the famous words of the Duke of Wellington “if you believe that you will believe anything”.

Last year, in keeping with custom in such circumstances, we introduced further restrictions on new overseas investment direct as well as portfolio. But to suggest that we, the British, sporting though we may be, should want to give our foreign competitors in overseas ventures a start of some 18%, as is the current effect of existing measures, over our own countrymen a moment longer than necessary is entirely out of keeping with our national character. We in Britain have to use all our endeavours and give priority in the use of our resources to expanding our overseas earnings. We have an important contribution to make in participating in the new industries of Europe and throughout the world both for our own good and for what we can offer.

Mr. President, it was just after the turn of the century that David Lloyd George is quoted as saying “Britain is based on commerce”. Indeed Great Britain enjoys a rich heritage in resources and opportunity. Both in national wealth and in our reputation for integrity and skill in affairs of finance and commerce—for these are the aspects of particular concern to us this evening—we owe much to those who came before us. We in our time have the responsibility to manage our affairs so that the financial integrity of sterling is above doubt and so that future generations can succeed to a heritage enhanced by our stewardship—not depleted by a lack of sagacity. Let us be true to our history.