The Approach to Macroeconomic Management: How It Has Evolved

Lord George

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Foreword

In the first Per Jacobsson Foundation event of 2008, Lord (Eddie) George, former Governor of the Bank of England (1993–2003), delivered a lecture on “The Approach to Macroeconomic Management: How It Has Evolved.” The lecture was delivered on Sunday, June 29, in the Auditorium at the Headquarters of the Bank for International Settlements in Basel, Switzerland, in conjunction with the BIS’s Annual General Meeting. Following a welcome to those attending by the General Manager of the BIS, Malcolm D. Knight, Andrew D. Crockett, Chairman of the Per Jacobsson Foundation, presided over the event. The proceedings of the event are presented in this publication.

The Per Jacobsson Foundation was established in 1964 to commemorate the work of Per Jacobsson (1894–1963) as a statesman in international monetary affairs. Per Jacobsson was the third Managing Director of the IMF (1956–63), and earlier served as the Economic Adviser of the BIS (1931–56).

Opening Remarks

ANDREW CROCKETT

Governors, ladies and gentlemen, it is my great pleasure, on behalf of the Per Jacobsson Foundation, to welcome and introduce our lecturer, Lord George, who is, of course, well known to you all. Perhaps not very well known is that early in his career Eddie was seconded to the BIS from the Bank of England and made a distinguished contribution in a relatively junior position here before moving back to the Bank and carrying on his career there. At the Bank he served in many senior positions, including, as everybody knows, for two terms as Governor. These were a very eventful two years in the history of the Bank, particularly because it was the period during which the Bank secured operational independence and was tasked by the Government with achieving an inflation target, which I think I am right in saying was met in every month of Eddie's tenure. This is quite a remarkable achievement and something for which, I know from being an insider, Eddie personally deserves a tremendous amount of credit.

Nobody has a more compendious knowledge of central banking than Eddie and of monetary policy and economic policymaking more generally. So I know that we all look forward very much to hearing Eddie's reflections on the development of policymaking.

The Approach to Macroeconomic Management: How It Has Evolved

LORD GEORGE

I am greatly honored to have been summoned out of retirement to deliver this Per Jacobsson Lecture, and I am delighted to do so. Per Jacobsson was an outstanding international public servant. He joined the BIS from its beginning in 1931 as Head of the Monetary and Economic Department and played a massive role in laying the foundations of the outstanding international central banking organization that it is today. He went on to become Managing Director and Chairman of the Executive Board of the IMF from 1956 until his death in 1963. It is very appropriate that we should commemorate his great contribution to the international economic and financial system through this series of lectures.

I would like to begin my remarks this morning by reflecting upon my own experience of the truly fundamental changes that have occurred—in the United Kingdom, but from different starting points and to varying degrees around the world—in our whole approach to macroeconomic management over the course of my own forty-odd-year career at the Bank of England. Against that background I will go on to discuss the recent turbulence in global financial markets and offer some thoughts on the implications for financial regulation looking ahead.

So let me begin with some reflections on our change of approach to macroeconomic management, and I'll start with the change in approach to the supply side of the economy, which is crucially important because it is our supply-side capacity that essentially determines the rate of growth of output, and of employment, and of incomes, that we can hope to sustain over time.

I joined the Bank of England straight from Cambridge in the early 1960s. And quite soon afterwards, in 1964, I was sent to Moscow for the best part of a year to study the Soviet economic and financial system. I never knew what I had done to deserve such punishment, but in the event, it proved to be a seminal experience for me. It soon became apparent that the centrally planned and controlled Soviet system was not working very well. There was a disjunction between what the central planners decided should be produced and what consumers wanted to buy.

There was in fact a wonderful story making the rounds in Moscow while I was there, about a nail-producing factory. As the year-end approached, they were way behind their physical production target. So, in order to catch up, they produced a single, massive, and totally useless ten-ton nail! And they were even paid for producing that nail by Gosbank—the Soviet central bank—which, at that time, was more of an accounting organization than a financial institution.

Now that story was probably apocryphal. But you only had to go into GUM, the retail store alongside Red Square, and see row upon row of empty shelves, alongside row upon row of shelves packed with goods that no one wanted to buy overflowing into the aisles, to see that things were not working well.

Nikita Khruschev was in power when I arrived in Moscow and sought to introduce a form of profit motive to improve things. But he was removed from office soon after I arrived—though I had nothing to do with that, I promise you!

But it was when I returned to the United Kingdom that my Soviet experience really made an impact on me. I realized, for the first time, just how centrally controlled and managed we, too, were in the United Kingdom. I had grown up in the environment, and I suppose I had simply taken it for granted.

The role of the Bank of England at that time was largely to administer all kinds of direct controls over the financial system on behalf of the government. We really were the East End branch of the Treasury. We had foreign exchange controls. We had credit controls—telling the banks how much they could lend, the purposes for which they could lend, and even the form in which they could lend. And we rationed access to the capital market through the equity queue, and so on.

But it did not stop at the financial system. In the wider economy we had prices and incomes policies. We had state ownership of swathes of industry, with very powerful trade unions secure in the knowledge that their employer could not go bust. And we had marginal rates of income tax that at one point reached an unbelievable 98 percent on investment income.

Now virtually all of this has happily gone. Over the next thirty years or so we moved, very gradually, at times imperceptibly, to a much more market-based system. Yes, of course, we still have all kinds of rules and regulations—as we must have in some degree—for economic reasons: markets must be reasonably fair as well as free if they are to perform their function of allocating resources effectively. But we also need rules and regulations for social reasons. Regulation can, and no doubt does in some respects, go over the top: it is often not obvious, as a matter of degree, where the balance is most effectively struck. But the difference, it seems to me, is that for the most part, the rules and regulations we have today—at least in relation to the financial and economic system—do not dictate what we can and cannot do. Rather they tell us what criteria we must meet, and what standards we must observe, in doing whatever it is we *choose* to do. And that leaves much more room for competition between producers, nationally, and to a large extent, internationally, and much greater freedom of choice on the part of consumers. And that in turn engages the ideas and imagination, the energies and enthusiasms, of people at large within our society, rather than leaving everything to be determined at the center.

This evolution of the approach to management of the supply side of the economy was not, of course, unique to the United Kingdom. In fact, as I say, it has occurred, from different starting points (with the move away from communism the extreme case) and to varying degrees (depending upon the pace of development of markets, especially financial markets, and lingering protectionism in some cases), but the general direction has been much the same across the world. And there is no doubt, to my mind, that it has had a positive effect on the supply side of our economies, which is—as I said at the outset—fundamentally important in terms of our productive potential.

But there have been equally fundamental changes—again gradually over time—in our approach to management of the *demand* side of the economy.

For years in the United Kingdom, fiscal policy and monetary policy were operated substantially in tandem—often accompanied by direct controls—with the broad objective of managing what was seen to be a trade-off between growth and employment on the one hand and inflation and the balance of payments on the other. If growth slowed and unemployment started to rise, both the fiscal and monetary policy levers were pushed forward to "go" together, until inflation, or the balance of payments, threatened to get out of hand. At that point the levers were both pulled back to "stop." This go-stop approach to demand management tended to aggravate, rather than mitigate, the boom-bust economic cycle. And worse still, things were becoming explosive, with inflation tending to become progressively higher from one peak to the next and unemployment higher from trough to trough.

We gradually learned from that experience. We learned that there really is no trade-off between growth and inflation, except possibly in the short term, but not necessarily even then, given the short-termism in economic decision making that it engendered in the population at large.

We learned, too, that fiscal policy is in fact a cumbersome instrument for demand management, given the time it takes to put into effect; and we began to focus increasingly on the ratio of debt to GDP over the medium to longer term as a fiscal policy constraint.

And that left a more specific role for monetary policy—by now essentially the management of short-term interest rates—in our approach to overall demand management, with the objective not of managing the earlier perceived short-run trade-off between growth and inflation, but of keeping overall aggregate demand growing consistently over time broadly in line with our underlying supply-side capacity to meet that demand. We came to terms in fact with what has become the near-universal central bankers' mantra that "stability is a necessary condition for *sustainable* growth." I used to chant this out loud three times each night before going to bed! You may care to join me in chanting it out loud now! . . . Perhaps not!

In pursuit of that objective we tried a number of different approaches in the United Kingdom—a variety of different money supply targets, unfettered discretion, and exchange rate targeting—until, in 1992, market pressures forced us out of the European Exchange Rate Mechanism, at which point we adopted a low, stable, and symmetrical target for retail price inflation, set by the

Government, not simply as an end in itself, but as a measure—or a barometer if you like—of stability in the wider sense of the balance between aggregate demand and the underlying supply-side capacity of the economy to meet that demand that I mentioned a moment ago. Soon afterwards we moved to much greater transparency—and public accountability—of the monetary policy decision-making process, through the publication of the minutes of the meetings that I and my senior colleagues had with the Chancellor of the Exchequer, who still then took the decisions about interest rates. And that led on, some five years later, in the summer of 1997, to operational independence for the Bank of England in the setting of interest rates—and the creation of the Monetary Policy Committee. The Chancellor still sets the low, symmetrical inflation target, and the Bank remains publicly accountable for achieving it.

Now, the critically important thing to understand is that all of these really fundamental changes in approach to the management of both the supply and the demand side of the economy came about very gradually over time as a result of an emerging consensus across a broad part of the political spectrum in the United Kingdom. It was like a very complicated jigsaw puzzle gradually being put together. Operational independence for the Bank of England was for me the last piece of the jigsaw puzzle, and I would have been less comfortable if it had been introduced *before* the other pieces were in place because it would very probably have given rise to tensions between the Government and the Bank of England if the political consensus was incomplete.

And things worked out pretty well for us in the United Kingdom over the past fifteen years or so—with consistent quarter-by-quarter growth at an average annual rate of around 2¾ percent, with a consistent rise in employment to an all-time high and a fall in unemployment to a more than thirty-year low, and with inflation consistently low and relatively stable. And that is despite the Asia crisis in the 1990s and the mild recession in many other industrial countries in the early years of the present decade.

Only a year or so ago, the world economy as a whole was looking in pretty good shape. GDP growth—led by the United States, but also by some of the emerging markets, notably China and India, had recovered to around 5 percent a year—which was higher than it had been for over thirty years. Inflation was still reasonably low, though it had begun to pick up on the back of rising energy, food, and commodity prices. And while there were some other dark clouds on the horizon, as there invariably are—notably persistent global and domestic imbalances—they did not seem to be immediately particularly threatening.

But then, of course, we were hit by the sudden storm in global financial markets last summer, which has proved to be a very stark reminder that economic and financial stability go hand in hand: like love and marriage, you can't have one without the other.

With the benefit of hindsight, of course, we should all have seen the storm coming.

In the face of the economic slowdown in the industrial world in the early years of the decade—when inflation generally was under control—official interest rates more or less everywhere were reduced to abnormally low levels. Nominal rates were around zero for much of the time in Japan, and they troughed at 1 percent in the United States, 2 percent in the euro area, and 3½ percent in the United Kingdom—and that already gave rise to potential social, as well as economic, concerns in some countries relating to a rapid rise in household debt and escalating house prices. I know that we were very conscious of this internal imbalance in the United Kingdom at the time, and tried hard not to do more than we had to do to keep the economy moving forward even though inflation was somewhat below our symmetrical inflation target for some of that time. But what I think we failed to anticipate were the wider financial market consequences of what came to be called "the search for yield."

There were two sides to the equation. Those with money to invest—insurance companies, pension funds, hedge funds, and so on—showed an increasing appetite for marketable debt assets yielding higher returns. And that provided an incentive for other financial intermediaries—notably banks—to increase their earnings through origination fees on loans that might initially be held on their balance sheets—funded by borrowing in the wholesale money markets—but that were also sold down into the marketplace on a very large scale. And the banks were certainly not at all slow to respond to that incentive!

Over the past five years, since I retired, the intense competition and technical innovation in loan origination and distribution through marketable debt instruments has resulted in an entirely new—and predominantly acronymic—language! I was aware of "subprime" lending—though not the potential scale of it—before I left the Bank and familiar with some expressions like "cov-lite." I understood the principle of "securitization." But CDOs, CLOs, ABSs, ABCP, and SIVs, not to mention CDSs and "monoline insurance," were all still very much in their infancy. And I find it difficult to understand the highly sophisticated slicing of debt into different tranches of risk—or how they are related—particularly when they include market trigger points in addition to the default risk on the underlying assets. I do not understand how they are related—or even rated. I may not be alone in that!

Among the consequences of all this was a dramatic increase in leverage on financial transactions more generally. And there was also a sharp and progressive narrowing of spreads between higher- and lower-risk debt instruments until last summer, in what can clearly now be seen as a widespread mispricing of risk.

Now I am not suggesting that the financial world went completely mad. The new instruments and techniques will no doubt have contributed to economic activity, at least in the short term. And in principle, the spreading of risk right across the financial system, nationally and internationally, ought to mean that while defaults on debt instruments will certainly continue to occur—and that is inherent in a market-based system—which could impose losses on, or even bring down, individual financial institutions, it ought to mean there is actually less risk of a systemic crisis. But that of course is not what we have seen since last summer.

An important part of the explanation, it seems to me, is that the scale and form of debt origination, and its distribution across the global financial services industry, have made it impossible for anyone—whether regulators or market participants—to quantify the aggregate amount of debt outstanding within the system or to know just where the debt is being held.

Now, many market commentators and regulators and central banks—including certainly the Financial Services Authority (FSA) and Bank of England, and also international organizations like the Bank for International Settlements and IMF—had expressed unease about "the search for yield" and narrowing of spreads for some time before last summer. But no one, anywhere, to my knowledge, ever anticipated the dramatic events that we saw last summer.

As it was, the surprising revelation of substantial U.S. subprime losses in two relatively small European banks prompted a frantic reconsideration—across the financial system everywhere—of the possible scale of outstanding debt and where it might be held. The almost instant reaction was a wholly unprecedented freezing-up of the markets in securitized debt instruments and in the wholesale money markets in the major industrial countries. Even banks that in fact had ample liquidity were reluctant to lend—certainly for more than a few days—because they did not know the extent of the exposure of potential borrowers or how much debt, which very often they themselves had originated, they themselves might have to retain or take back on to their own books. Many banks faced the prospect of massive write-downs in their financial accounts as the price of their holdings—not just of U.S. subprime debt but of marketable debt instruments more generally—plummeted, if indeed a market price could be identified at all.

Happily the major central banks have succeeded in calming things down somewhat in the wholesale markets—making very large amounts of liquidity available, to a wider range of counterparties, for longer periods, against a wider range of collateral, and at less penal interest rates. It is too soon to say that the systemic liquidity crisis is over—there may well be further alarums and excursions as we progress through the rest of the year. But as I see it, the central banks are very much on the job and have things under reasonable control.

Many banks and other institutions have, as I say, had to make massive provisions and to raise very large amounts of equity, which have had a very negative impact on their share prices. Some senior executives have lost their jobs. It has been a very tough time.

But the only real calamity in the United Kingdom has been the sad case of Northern Rock—which was an extreme case of reliance for liquidity on the wholesale debt and money markets.

The debate about Northern Rock will no doubt continue to rumble on. I find it ironic that retail depositors began to queue outside the Northern Rock branches wanting their money back only *after* the Bank of England had announced massive liquidity support, when the depositors' money was safer than it had been for weeks.

The FSA, some say, should have seen the problem looming, and the FSA itself has accepted that its supervision was not all that it might have been. But frankly, as I said earlier, I do not know of anyone who saw the sudden freezing-up of the wholesale markets coming as it did, and I do not see how one can expect a regulator to have foreseen what happened when the financial managers operating in the marketplace did not. Regulators set minimum standards to reduce the risk of financial institutions' getting into trouble. But they do not actually run the financial institutions or guarantee that they cannot fail. There is a real danger that the financial system would be throttled if that were what was expected of regulators.

Others say that the problem could have been avoided if the Bank of England had acted more promptly—and more discreetly—than it did in granting Northern Rock the liquidity facility it needed. But given the scale of support that was needed, that seems wholly unrealistic to me. And if the thought is that the Bank—or the Treasury—should have acted to save Northern Rock as an independent entity, rather than to limit the damage caused by its predicament to the financial system as a whole, that to my mind would have set a highly dangerous precedent, in terms of moral hazard. The "uncomfortable fact"—or what Al Gore might call the "inconvenient truth"—is that the buck stops essentially with management and shareholders. That may sound hard-hearted. But if we move away from that, we will revert to the days when the authorities were directly controlling the financial system as a whole—back to the days of direct controls—which would certainly not be in our overall economic interest.

But I see no point in the "blame game." There are, certainly, important *lessons* to be learned from all of this. As far as the authorities—nationally and across the wider international financial community—are concerned, I have already touched upon the need for greater transparency in our increasingly sophisticated and integrated financial system. That may well involve greater coordination between regulators of different parts of the financial services industry in some countries, and greater cross-border coordination and exchange of information between them. The approach to liquidity risk management, in particular, clearly also needs to be reconsidered. Regulators do, of course, already set minimum liquidity standards, typically requiring banks to hold sufficient liquidity to meet potential liabilities for a period ahead. But in measuring that liquidity, so-called marketable assets are often regarded as immediately available cash, the assumption being that cash would always be available to banks wishing to sell or borrow against those assets. That clearly needs to be reconsidered. The depositor protection regime also needs to be reviewed. There may well be a case—on social as well as financial stability grounds—for increasing the size of the deposits protected, and perhaps also for accelerating the compensation process. But there would be a point at which depositors would simply place their deposits with whoever offered the highest rate of interest—with more prudent depositors effectively left to pick up the tab in the event of a failure elsewhere.

The debate on all of these issues—and others—thrown up by the crisis is already under way, both at the national level and within the relevant international organizations. In the United Kingdom we have had consultation documents from both the FSA and the Treasury inviting comments from markets, and I gather that the Basel Committee is discussing liquidity standards, for example. It will be important that we do not rush to overhasty conclusions on all of this, because there is no doubt that the financial world itself out there will be changing.

I will always remember the very different—and also very sad—case of Barings, brought down by a rogue trader in Singapore. I recall, in particular, that for months afterwards senior bankers from around the world said to me "Eddie, there but for the grace of God go I." And they had sent off auditors and inspectors to their branches and subsidiaries to ensure that they had effective controls in place, and that the controls were being properly observed, so that they could rely upon the figures reported to them, whether profits or losses. It did more good, in terms of the financial system as a whole—at least for a time—than anything the authorities could themselves have done. And ugly and painful as events since last summer have been—and may well continue to be for a while—I have no doubt that the market itself will be looking at the lessons to be learned for their own businesses.

The big question now, of course, is, what impact will the financial turbulence have upon the future evolution of the macroeconomy? What will be the knock-on effects?

I do not pretend to know the answer to that question with any great confidence—and to be honest I sometimes wonder whether people who think they *do* know the answer really understand the question!

There is no doubt the financial developments I have discussed—which are clearly producing a pronounced, and necessary, repricing of risk, with a tightening of credit, notably to the household sector, but also more generally in terms of leverage—will contribute to a slowdown in the rate of growth of demand. Up to a point that is not necessarily a bad thing, in that it should contribute to reducing the external and domestic imbalances we have lived with for some time. The question, as always, is a question of degree. Will it mean an absolute decline in demand—and negative growth at least for a while in some countries—or will the slowdown be more modest?

Perhaps it is because I am retired, but I am reasonably hopeful that with the central banks now more on top of the liquidity problem, and with repricing of risk clearly now under way, and with many of the banks most severely affected by losses and writedowns having moved aggressively—and very successfully in many cases—to raise new equity, the financial storm will gradually blow itself out. But it will probably take a while before markets generally accept that this is in fact happening.

In the meantime the major industrial countries face a macroeconomic policy dilemma. The slowdown in demand associated with financial turbulence is currently being compounded by the increase in inflation stemming from the rise in world oil and energy, food and commodity prices. As demand growth slows, so too should these inflationary pressures, but that clearly will take time. We need to hold on to the fact that it is the pace of change in the level of prices that determines the rate of inflation. Even so the slowdown in inflation will clearly take time. Meanwhile, inflation is likely to remain well above target in the United Kingdom and the euro area, and higher than I am sure they would wish to see in the United States. And that carries the risk that inflationary expectations, which have generally been subdued in recent years, may escalate, affecting economic behavior.

Maintaining stability—in the broad sense of balance between overall demand and supply-side capacity to meet that demand—will not be easy over the next year or two. But I am reasonably optimistic—which is strong language for a central banker, even a retired central banker—that it will be achieved looking further ahead. And I say that because I am convinced that the broad political consensus on the overall approach to macroeconomic management that I described at the beginning of my remarks remains very much intact.

It is in that context that I have no doubt that the authorities will pay very close attention to all the emerging economic and financial evidence and that their policy decisions will be both measured and carefully considered.

We will, in my view, get back on track over the next two or three years, but it will not be an easy ride.

Thank you for your attention.

Questions and Answers

Following the formal presentation, Lord George took questions from the audience.

ANDREW CROCKETT: Well, we have just a few minutes for questions and I suggest maybe the best would be to take two or three observations or questions, collect them and then ask Eddie to answer all of them or pick which ones he would like to answer.

Let me ask mine while others are thinking of theirs. You referred to the alphabet soup of securitized instruments. What, if anything, do you think regulation can do in a very dynamic and innovative marketplace to ensure that the creation of new instruments does not get ahead of the capacity of markets to manage them?

LORD GEORGE: I think from my perspective the thing is that we need greater transparency, and I emphasized this in what I said. It is not so much the form of the instrument that is important, but greater transparency of the scale and of the nature of the risk and of where that risk applies. I think actually, given the shock that financial market participants themselves have recently gone through, that will come about. I have no question at all that they will all need and want that sort of information, and I think that is actually the most important thing that needs to happen. I think something like 200 hedge funds have gone out of business in the last three to six months or so, and I think that has sent a message to people who have been an important part of the marketplace for these new instruments, that they really do need to have a better understanding of the risks which they are incurring. I mean, it is unbelievable how spreads narrowed compared with a genuine secure investment in government bonds or their equivalent.

So I am a great believer in the markets themselves finding their end solutions.

I think you are absolutely right that the authorities, nationally but also through the international organizations, should also consider this question. But I think if they came to quick conclusions as to what you could do to remove this risk, there might be a real risk of unintended consequences. Either the controls could be unnecessarily severe because the authorities really were nervous or subject to criticism if they did not actually take action, or we might even revert to a much more controlled—unnecessarily controlled—financial system.

The financial system has been a real dynamo for the global economy. So I just think we have got to be careful.

Questioner: I recall that some years ago the subject of discussion in this room was the overburdening of monetary policy: the theme was that faced with very large fiscal imbalances, monetary authorities had become overburdened, having to raise interest rates beyond what they otherwise would have done. The focus was on reducing the burden by fiscal consolidation. This was done and the benefits came immediately.

Do we have today another form of overburdened monetary policy in which because of this financial turmoil and focus on financial stability, monetary policy has to end up with interest rates which may be somewhat lower than they otherwise would have been?

If that's the case, what is the means of removing this overburdening? Whereas with fiscal policy it was very well defined, with very quick benefits, here it looks like a much longer process if that is the source of the overburdening, which means that we may end up being in a much longer period of overburdening.

This brings us to the question of whether we are about to face greater political pressures that may bring into question the very foundations of central bank independence and the like.

ANDREW CROCKETT: We'll take one more question and then ask Eddie to wrap up.

Questioner: I wanted to ask your personal view about the food and energy crisis all around the world and your prediction, your personal assessment and prediction in this regard, if there is any.

ANDREW CROCKETT: Eddie, you can pick which of those questions you would like to answer.

LORD GEORGE: Well, I will take them all, but I will take the first two together because I think they do interact.

One question was: Are we now confused between financial stability and economic objectives? I am not involved anymore, so I cannot speak with any great authority: you would have to ask the current participants. But I do not think so. I think there is an understanding that there is a dilemma, and that you have to try to balance these things, and there is also a real recognition that it is terribly difficult to forecast.

I think that currently, in tackling the financial stability question, we are perhaps two-thirds of the way there. The liquidity question has not gone away, but it is under control. I think that with regard to the mispricing-of-risk issue, which was really at the heart of the problem, rapid adjustment is being made. Of course, that is reflected in a tightening of credit and all of that.

I think we are now in the really tough situation where there is a dilemma between inflation and demand management. I just think it is something which just has to be done pragmatically.

But the thing I hold on to is that I think there is a real understanding, certainly in central banks, though not just in central banks but also in the wider political community, that you cannot go back to the old days and say, "We will forget about fiscal sustainability in the medium and long term." Yes, there may be a little cheating with reporting and data and that kind of thing. I suppose we are all guilty of that in some way or another. But the basic commitment, I think, is real. I think it is because they see the damage done in the past.

I certainly think that there is a recognition that on the supply side, wage pressures could emerge. The commitments by governments, I think, are actually very clear that the governments are going to resist these pressures. Of course, there are some companies in the private sector that seem less inclined to do that, but that is inevitably going to be the case, and I very much doubt whether it is going to spread. I do not see the situation actually getting out of hand.

The puzzle for me—perhaps it is because I am not close to it that I do not really understand what is driving it—is these global price pressures on oil and food. It is not just that the numbers have increased. Some important prices have more than doubled in a year. It is the speed with which that has occurred. I cannot honestly believe that it is reflecting a sudden change in the capacity of supply to meet demand. Demand has been growing for a very long time, as you know. The global economy has been growing by close to 5 percent a year over the last five years, and yet it is really only in the last 18 months or so that these price pressures have suddenly erupted. You know better than I do what lies behind that. I am reasonably optimistic that the slowdown in demand growth will attenuate the upward price pressures, that even if these prices continue to rise, they will not be rising at the sort of pace that they have in the recent period.

In fact, I think some people in the market are quite worried that perhaps these prices have reached a peak. When that feeling gets more widespread, then I think we might actually see some reduction. You can tell that I am an optimist.

ANDREW CROCKETT: Thank you very much, Eddie. Let's join together in thanking Eddie for a wonderful talk. (Applause)

Lord George

Lord George joined the Bank of England in 1962 straight from Cambridge University, where he had read Economics. In his early career he was seconded to Moscow (1964–65), to the Bank for International Settlements (BIS) (1966–69), and to the IMF, as Assistant to Sir Jeremy Morse, Chairman of the Deputies of the Committee of Twenty (1972–74). He was appointed the Bank's Executive Director for Domestic Policy in 1982, its Deputy Governor in 1990, and its Governor in 1993, when he also became a director of the BIS and subsequently Chairman of the Committee of G-10 central banks. He retired from the Bank of England in 2003, but remains a director of the BIS.

The Per Jacobsson Lectures

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2001 No lecture took place due to the cancellation of the Annual Meetings of the IMF and the World Bank.

2000 *Ten Years On—Some Lessons from the Transition*. Lecture by Josef Tošovský (Prague).

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1999 *The Past and Future of European Integration—A Central Banker's View*. Lecture by Willem F. Duisenberg.

1998 *Managing the International Economy in the Age of Globalization*. Lecture by Peter D. Sutherland.

1997 *Asian Monetary Cooperation,* Lecture by Joseph C.K. Yam, CBE, JP (Hong Kong).

1996 *Financing Development in a World of Private Capital Flows: The Challenge for International Financial Institutions in Working with the Private Sector*. Lecture by Jacques de Larosière.

1995 *Economic Transformation: The Tasks Still Ahead*. Symposium panelists: Jan Svejnar, Oleh Havrylyshyn, and Sergei K. Dubinin.

1994 *Central Banking in Transition*. Lecture by Baron Alexandre Lamfalussy (London).

Capital Flows to Emerging Countries: Are They Sustainable? Lecture by Guillermo de la Dehesa (Madrid).

1993 *Latin America: Economic and Social Transition to the Twenty-First Century*. Lecture by Enrique V. Iglesias.

1992 *A New Monetary Order for Europe*. Lecture by Karl Otto Pöhl.

1991 *The Road to European Monetary Union: Lessons from the Bretton Woods Regime*. Lecture by Alexander K. Swoboda (Basel).

Privatization: Financial Choices and Opportunities. Lecture by Amnuay Viravan (Bangkok).

1990 *The Triumph of Central Banking?* Lecture by Paul A. Volcker.

1989 *Promoting Successful Adjustment: The Experience of Ghana*. Lecture by J.L.S. Abbey.

Economic Restructuring in New Zealand Since 1984. Lecture by David Caygill.

1988 *The International Monetary System: The Next Twenty-Five Years*. Symposium panelists: Sir Kit McMahon, Tommaso Padoa-Schioppa, and C. Fred Bergsten (Basel).

1987 *Interdependence: Vulnerability and Opportunity.* Lecture by Sylvia Ostry.

1986 *The Emergence of Global Finance.* Lecture by Yusuke Kashiwagi.

1985 *Do We Know Where We're Going?* Lecture by Sir Jeremy Morse (Seoul).

1984 *Economic Nationalism and International Interdependence: The Global Costs of National Choices.* Lecture by Peter G. Peterson.

1983 *Developing a New International Monetary System: A Long-Term View.* Lecture by H. Johannes Witteveen.

1982 *Monetary Policy: Finding a Place to Stand.* Lecture by Gerald K. Bouey (Toronto).

1981 *Central Banking with the Benefit of Hindsight.* Lecture by Jelle Zijlstra; commentary by Albert Adomakoh.

1980 *Reflections on the International Monetary System.* Lecture by Guillaume Guindey; commentary by Charles A. Coombs (Basel).

1979 *The Anguish of Central Banking.* Lecture by Arthur F. Burns; commentaries by Milutin Ćirović and Jacques J. Polak (Belgrade).

1978 *The International Capital Market and the International Monetary System.* Lecture by Gabriel Hauge and Erik Hoffmeyer; commentary by Lord Roll of Ipsden.

1977 *The International Monetary System in Operation.* Lectures by Wilfried Guth and Sir Arthur Lewis.

1976 *Why Banks Are Unpopular.* Lecture by Guido Carli; commentary by Milton Gilbert (Basel).

1975 *Emerging Arrangements in International Payments: Public and Private.* Lecture by Alfred Hayes; commentaries by Khodadad Farmanfarmaian, Carlos Massad, and Claudio Segré.

1974 *Steps to International Monetary Order.* Lectures by Conrad J. Oort and Puey Ungphakorn; commentaries by Saburo Okita and William McChesney Martin (Tokyo).

1973 *Inflation and the International Monetary System.* Lecture by Otmar Emminger; commentaries by Adolfo Diz and János Fekete (Basel).

1972 *The Monetary Crisis of 1971: The Lessons to Be Learned.* Lecture by Henry C. Wallich; commentaries by C.J. Morse and I.G. Patel.

1971 *International Capital Movements: Past, Present, Future.* Lecture by Sir Eric Roll; commentaries by Henry H. Fowler and Wilfried Guth.

1970 *Toward a World Central Bank?* Lecture by William McChesney Martin; commentaries by Karl Blessing, Alfredo Machado Gómez, and Harry G. Johnson (Basel).

1969 *The Role of Monetary Gold over the Next Ten Years.* Lecture by Alexandre Lamfalussy; commentaries by Wilfrid Baumgartner, Guido Carli, and L.K. Jha.

1968 *Central Banking and Economic Integration.* Lecture by M.W. Holtrop; commentary by Lord Cromer (Stockholm).

1967 *Economic Development: The Banking Aspects.* Lecture by David Rockefeller; commentaries by Felipe Herrera and Shigeo Horie (Rio de Janeiro).

1966 *The Role of the Central Banker Today.* Lecture by Louis Rasminsky; commentaries by Donato Menichella, Stefano Siglienti, Marcus Wallenberg, and Franz Aschinger (Rome).

1965 *The Balance Between Monetary Policy and Other Instruments of Economic Policy in a Modern Society.* Lectures by C.D. Deshmukh and Robert V. Roosa.

1964 *Economic Growth and Monetary Stability.* Lectures by Maurice Frère and Rodrigo Gómez (Basel).

The Per Jacobsson lectures are available on the Internet at www.perjacobsson.org, which also contains further information on the Foundation. Copies of the Per Jacobsson lectures may be acquired without charge from the Secretary. Unless otherwise indicated, the lectures were delivered in Washington, D.C.

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