WHY BANKS ARE UNPOPULAR

THE PER JACOBSSON

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Guido Carli
Milton Gilbert

THE PER JACOBSSON FOUNDATION

Saturday, June 12, 1976
Aula of the University, Basle, Switzerland

FOREWORD

The thirteenth lecture meeting in the series sponsored by The Per Jacobsson Foundation took place on Saturday, June 12, 1976, at the University of Basle in Switzerland. Marcus Wallenberg, Honorary Chairman, presided over the meeting.

The principal paper, on the subject "Why Banks Are Unpopular," was presented by Dr. Guido Carli, former Governor of the Bank of Italy. A commentary on the subject and on his paper was offered by Dr. Milton Gilbert, who had recently retired as Economic Adviser of the Bank for International Settlements.

This publication covers the proceedings of this meeting. It includes the text of the statements by the speakers, answers to questions asked by members of the audience, and brief biographies of the speakers. These proceedings are published by the Foundation in English, French, and Spanish and are available without charge from the Secretary of the Foundation. A list of available titles in this series appears elsewhere in this booklet.

TABLE OF CONTENTS

Welcoming Remarks

Lukas Burckhardt

Ladies and gentlemen: I take great pleasure in welcoming all of you who are attending this year's Per Jacobsson Foundation lecture here in the Basle University. It is a privilege for me as the present Chairman of the Basle Government to make these welcoming remarks. At the outset of this meeting I would like to say that I do hope you will take back favorable memories of our country and, more specifically, of this city of Basle.

I will not address myself now, one by one, to the outstanding personalities who are assembled here today to hear this year's lecture. I will only specifically welcome, in the name of my Government, the speaker of today--*un saluto speciale, molto cordiale a Guido Carli, ex-Governatore della Banca d'Italia, l'oratore d'oggi.*

Per Jacobsson, whose lifetime achievements we commemorate by this lecture, was, as you may know, a faithful friend of Switzerland and of Basle. Born in 1894 in Sweden, he may be called one of the outstanding personalities in monetary policy and certainly a pioneer in the field of convertibility of currencies. "Mr. Convertibility," as he was called at times, settled in Basle in 1931 and became the foremost economic adviser of the Bank for International Settlements for more than a quarter of a century. It was his ideas and his promotion that led to the founding of the Basel Forschungszentrum für Wirtschafts und Finanzfragen and its firm connection with our University.

Per Jacobsson then settled in Washington, D.C., where he was the Chairman of the Executive Board and Managing Director of the International Monetary Fund, and one can only guess as to the attitude he would take in the face of today's depressing and rather perturbed currency situation. Jacobsson was a man of fact and energy and also a man of good, although sometimes sarcastic, humor. He used to denounce the findings of the theoretical economists of his time by saying that they always talk about money but they never have any. Perhaps we could take this sentence as a prophecy of what happens today in this country. Ladies and gentlemen: Today we are commemorating with gratitude Per Jacobsson's work, and we are commemorating the first lecture of the Per Jacobsson Foundation, which also took place here in this city of Basle.

Opening Remarks

Marcus Wallenberg

Ladies and gentlemen: Randolph Burgess, who is the Chairman of the Per Jacobsson Foundation, was supposed to be here today. He had been looking forward to it, but unfortunately his doctors advised him not to travel at this time. I have known Randolph Burgess for decades, and I have learned to love him and admire him for his outstanding characteristics--a strong man with strong convictions--and I believe that one of the reasons that he has been a man of such conviction was that he started out in mature life to educate himself for a religious career, and I think that religious strain never left him when he took up different occupations in government service and in private banking. I know that you all agree that we should send him a greeting from this meeting.

Now, starting with the proceedings, first I must express our thanks to Basel-Stadt and Basel-Land, to the University, and to the Bank for International Settlements; we thank you for the very warm welcome that you have extended to our deliberations here. And I particularly would like to express our warm thanks to our hosts for the luncheon, the Swiss Bank Corporation. They have given us a wonderful start for this afternoon's work. And especially, I would like to address myself to Dr. Burckhardt for your very welcoming remarks and for the very complimentary things that you said not only about Dr. Carli--he can answer for himself--but about my compatriot, Dr. Per Jacobsson. Thank you very much.

The main paper is going to be given by Dr. Guido Carli. I think it is unnecessary in this gathering to introduce Dr. Carli. I think that it would be rather presumptuous. He is well known in the whole world for his vision, his wisdom, his knowledge, and his warm friendships, and he is a man of the world, not only of one country. I beg now to express our thanks to you, Dr. Carli, for giving us the privilege of hearing you today.

Why Banks Are Unpopular

Guido Carli

We are going through a period in which the banking community has increasingly come to be regarded with hostility; this is certainly the case in my own country. Antipathy toward bankers has old roots: it is said of Schopenhauer that, on visiting the gallery where the portraits of the Fugger were hung and observing their images, he exclaimed: "When I look at your faces I have to admit that God is not with you." I propose to examine the reasons for the resentment which is felt toward bankers and banks in some countries.

In earlier times banking failures stimulated interest in the banks' conduct of their affairs; this has also happened recently, but to a lesser degree. One of the reasons for the doubt and suspicion must, I feel, lie in the widening involvement of the financial intermediaries both in international settlements and in domestic payments transactions. The feeling of mistrust derives from a conviction that the commercial banks have appropriated too large a share of monetary sovereignty.

I have no wish to retrace the long road toward reform of the international monetary system, but let me just recall its final objectives. These were

- to restrict the use of the dollar as a reserve, intervention, and settlement currency;
- gradually to eliminate gold from the international monetary system and replace it with a reserve instrument created by the authorities; and
- to establish a new code of conduct for a system in which fixed and flexible rates exist side by side.

The attempt by the EEC countries to set up a monetary zone within which interventions on the foreign exchange market were carried out in currencies other than the dollar, and settlements between central banks were made using various currencies in proportions corresponding to the composition of the debtor country's reserves, lasted from April until June 1972. It was followed by the reinstatement of the dollar, both as an intervention currency and as an instrument for settling balances.

The resoluteness shown in pleading the need to exclude gold from the international monetary system reaped its reward. Without any fear of paradox it may be said that the result was more spectacular than expected: instead of a gradual displacement, what happened was tantamount to a total eradication by virtue of the freezing of gold held in official reserves. One exception was the mobilization of a small quantity of the metal in the crossed deposit operation between the Deutsche Bundesbank and the Banca d'Italia in September 1974.

The freezing of gold coincided with the emergence of greater disequilibria in payments balances in the wake of the increase in the price of oil: in only a few countries had the international liquidity previously created augmented the official reserves, while those more exposed to payments deficits held gold in their reserves; the shortage of international liquidity was made up by the banks, and in large measure by the American banks through their overseas branches.

The scale of intermediation by commercial banks in the financing of the oil importers' deficits and the oil exporters' surpluses is noted by some with satisfaction: market forces, they say, made up for the indolence of the authorities. Others see it as corroboration of the evil intentions of the authors of reform, maintaining that the eradication of gold from the system and the failure to replace it with official instruments confirm a malicious design to strengthen the dominant position of the American banks.

I do not subscribe to these interpretations; on the contrary, I believe that there was a lack of clear vision as to the consequences of the attitudes adopted. Clearly, like everyone else, I too maintain that the vision was lacking in others; I shall therefore quote myself.

On March 5, 1974, I wrote in the European pages of the four major European dailies: "It would be as well to take a closer look at other aspects of the growth of the Euro-dollar market. If it were to take the course described there would be an expansion, on the one hand, of the Euro-banks' sight liabilities and, on the other, of their claims in the form of lending to the oil importing countries at maturities in the range of seven to eight years. In these circumstances transfers of funds from one bank to another and from the banking sector as a whole to the market for government securities could produce a liquidity crisis which only the intervention of a lender of last resort would be able to resolve. Under a floating exchange rates regime, shifts of funds from the Euro-market to national markets and vice versa would be reflected in exchange rate fluctuations which, in the absence of coordinated intervention by the central banks, could assume such proportions as to disrupt international trade."

I do not feel it is wanting in respect toward my former fellow central bankers to say that there was an absence of coordinated central bank intervention. I believe that one of the reasons lies in the difficulty of reconciling the interests of countries whose exports are sensitive to exchange rate movements in varying degrees. Those whose exports are less sensitive tend, in formulating objectives, to give priority to shielding the domestic market from the liquidity repercussions of flows of funds from abroad; they are therefore more inclined to cushion the impact of these flows on exchange rate fluctuations.

The need for coordination was solemnly affirmed in November 1975 by heads of state, heads of government, and ministers meeting in a château near Paris. Inspired by the solemnity of the occasion, they discovered the potential of the telephone on three levels: talks between ministers, between central bank governors, and between foreign exchange dealers. The same needs were reaffirmed in the announcement in Jamaica of the new Articles of Agreement of the International Monetary Fund. Commenting on their significance, the former French Minister of Finance declared: "'It is a great presumption to attempt to institutionalize anarchy.' The drafters of the new IMF Articles have shown such presumption!" I find it difficult not to concur in this judgment.

I thought it relevant to recount these experiences because I wanted to underline the fact that the international monetary system has evolved along different paths from those mapped out by the reformers: the process of international liquidity creation has indeed been divorced from gold production or changes in the gold price, but it has become exclusively dependent on the supply of reserve currencies to the system and, in particular, that reserve currency which is its pivot: the U.S. dollar.

In the five years between 1970 and 1976 total international liquidity reserves soared from US$93 milliard to US$227 milliard--an increase of US$135 milliard. By far the largest component was made up of currency reserves, which rose by US$116 milliard. The major part of the increase consisted of claims in dollars: at the end of 1975 official dollar claims on the United States stood at US$80 milliard and claims in dollars and other currencies on the Euro-market stood at about the same amount.

The long-term and short-term foreign indebtedness of the United States jumped from US$47 milliard at the end of 1970 to US$126 milliard at the end of 1975, and its liabilities vis-à-vis official institutions from US$24 milliard to US$80 milliard, of which US$49 milliard was toward official institutions.

The banking system played a large part in this process, contributing to the creation of international liquidity through the expansion of credit. At the end of 1972, short-term lending by the American banks amounted to US$16 milliard, and at the end of 1975 to US$50 milliard. At the end of 1973, Euro-bank credits totaled US$132 milliard, and at the end of 1975 US$197 milliard. This lending represented the counterpart of deposits which flowed either into official reserves outside the United States, largely from the OPEC countries, or into the liquid asset holdings of commercial banks and individuals in the same countries.

The huge expansion of the Euro-dollar market occurred in the two-year period 1974-75 in conjunction with the accumulation of surpluses by the OPEC countries; reliable estimates put the surpluses accumulated during this period at US$101 milliard; the share flowing to official institutions was US$43 milliard and the currency portion was US$38 milliard. The remainder went to nonofficial institutions and was in part placed in financial, real, and direct investments and in part held in liquid form; at the end of 1975 the portion held in the form of deposits with banks in the United States was about US$9 milliard, the remainder being deposited, either in dollars or in other currencies, in the Euro-market, where foreign branches of American banks were operating on an increasing scale.

The process of expansion of international financial intermediation chiefly involved the American banks: between 1972 and 1975 the total assets and liabilities of the U.S. banks' foreign branches rose from US$78 milliard to US$176 milliard--an increase which exceeded the rise in M_1 and M_2 in the domestic U.S. economy over the same period. This development is plainly reflected in the balance sheets of the major banks: at December 31, 1975 total deposits in the books of the Bank of America stood at US$56 milliard; deposits at its foreign branches amounted to US$23 milliard. Some 41 per cent of earnings, against 29 per cent in the previous year, accrued from its international business activities. Total deposits in the books of Citibank amounted to US$45 milliard, and deposits at its foreign branches to US$25 milliard. The corresponding figures for Chase Manhattan were US$34 milliard and US$15 milliard, respectively. Morgan Guaranty announced that in December 1975 approximately one half of its outstanding loans were through its overseas branches.

The scale of the American banks' participation would be even more striking with the inclusion of nonresidents' deposits with these banks' domestic branches, figures for which are not published.

The figures recorded suggest that during this period the international monetary system shifted out of the domain of the official international institutions: the private banking system took over the functions proper to an official institution possessed of the power to finance balance of payments disequilibria through credit-granting and to create international liquidity. The realization that this had come about has provoked opposite reactions within and outside the United States. In a number of countries the growing internationalization of the big American banks serves to reinforce hostility toward multinational corporations. The presence of bank branches tied to decision-making centers in the United States rouses fears of a loss of sovereignty. Conversely, in the United States, there is growing alarm that the huge expansion of operations abroad might compromise the American banks' autonomy by exposing them to the risk of withdrawals by this or that foreign depositor and insolvencies among those countries which are major debtors.

The rating of credits according to the country of the borrower and their allocation according to the presumed degree of solvency has caused controversy in my country. The first news of this practice became public in September 1974; the rating given to Italy occasioned considerable alarm both in the country itself and abroad, and it cannot be ruled out that this added momentum to the wave of deposit withdrawals from Italian banks which broke out in the summer of that year. The Italian banks met these withdrawals by mobilizing foreign claims.

Fuller details on the rating of U.S. banks' foreign loans contained in the bank examiners' reports appeared in the press in January of this year. In Italy there were again outcries at the plot, and the American conspiracy was blamed as one of the causes of the monetary events of that month. But this should not give cause for wonder: have we not seen how in other times, in countries which had given birth to Immanuel Kant and Galileo Galilei, official explanations laid shortage, unemployment, and flights of capital at the door of the treasonous activities of the Jews?

The assumption by the private banking system of the function of a clearing union, which according to Keynes ought to have been performed by the International Monetary Fund, inevitably brought it to the focus of the public authorities' attention. The international institutions which are appointed to finance growth and development generally adopt a country-by-country credit rating; the private banker tends to place greatest weight on the creditworthiness of the individual borrower. It is hardly surprising, therefore, if the government inspector insists that he apply a national reliability rating, particularly in a period in which there has tended to be a shift in lending from the economically stronger to the economically weaker countries.

Many of those present will recall the climate of anxiety in which the Committee of Twenty met in Rome in January 1974. This meeting took place only a few months after announcements in Nairobi of imminent success in the reform of the international monetary system. During the meeting, an authoritative voice spoke in warning that the situation created by the quadrupling of the oil price was unmanageable. In the event, the industrial countries succeeded in mastering it sooner than anticipated. But the problems of the economically weaker countries have grown.

The rapid improvement in the industrial countries' current account payments balance found its counterpart in a deterioration of the position of the developing countries. In the five-year period 1968-72 these countries' current account deficit had held steady at around US$6 milliard a year; in 1973 it rose to US$9 milliard, in 1974 to US$26 milliard, and in 1975 to US$35 milliard. In this last year the group of countries with an annual per capita income of under US$375 accounted for about 60 per cent of the developing countries' overall deficit. This confirms that, while preserving the oil exporters' surplus, the policies conducted by the stronger countries to reduce their deficit concentrated the negative effects on the weaker countries. It should be added that in 1975 the burden borne by these countries in servicing their foreign debt rose to some 12 per cent of the value of their exports; this total is distributed unevenly among individual countries, and for some the percentage is much higher.

With the improvement in their external position, the industrial countries have become less active as borrowers in the international capital market; to some extent their place has been taken by the developing countries. Between 1973 and 1975 the total amount of loans granted on the international capital market increased from US$6.3 milliard to US$13.2 milliard.

At the end of 1975, with the total of loans outstanding amounting to about US$120 milliard, the proportion accounted for by official borrowing was 56 per cent.

In 1976 it is estimated that the developing countries' deficit, including redemption and interest service on their external debt, will come to US$42.5 milliard. It should, however, be pointed out that this estimate is based on the assumption that restrictive measures will reduce the level of their imports; it probably also assumes an expansion of their exports, pulled along by the recovery of production in the major industrial countries, on a scale regarded by some experts as optimistic. If all IMF facilities were activated, international agencies would contribute up to US$28 milliard toward financing this deficit. Part of the remainder would be covered by export credits; but this would still leave a substantial amount to be met by the international banking system, and hence, chiefly by American banks.

From the situation just depicted certain conclusions may be drawn. The most important, I think, is that there is at present no international monetary system, that is, there is no official institution capable of supplying the international payments system with the liquidity required for the further expansion of trade. This function has been taken over by the private banking system, and primarily by the U.S. banks, through operations carried out by their branches at home and abroad. The private banks have shown a greater ability than the official institutions not only to create the necessary liquidity for the development of trade but also to organize its efficient distribution.

As a result, the IMF's ability to enforce observance of rules of conduct has diminished; it should be remembered that, as originally conceived, the Fund's prescriptive powers derived from its ability to exclude refractory countries from access to conditional credit. As almost all credit is now drawn from other than official sources, the Fund's ability to lay down conditions has been correspondingly reduced. And as the function of creating international liquidity has been transferred from official institutions to private ones, so the task of supervision has passed from international bodies to national ones, whose surveillance, though keener than in the past, has nonetheless never reached beyond the boundaries of national interests.

Furthermore, the achievement of total independence by countries which in the past only enjoyed limited sovereignty has resulted in a greater differentiation of economic structures. The area occupied by the market economy has been narrowed, and in some countries completely replaced by government intervention. The greater the recourse to government intervention, the more difficult it becomes to achieve coordination on the international level. The gold standard provided for only one type of intervention, purchases and sales of gold when the exchange rate level reached the gold points; this rule was observed by the majority of countries.

In the absence of a lender of last resort, the barrier to the private banking system taking over the function of a clearing union is the creditworthiness of the debtor countries. As I have already said, the burden of the economically weaker countries is tending to grow; but it is doubtful whether a system based on private institutions can support it. The ability of the system to expand is consequently nearing its limits. It is possible that as these limits are approached, balance of payments equilibrium may have to be sought at progressively lower levels of economic activity--and primarily at the expense of the weaker countries. The dimension of the problems calls for greater cooperation among central monetary institutions; recent decisions are encouraging.

It may be added that there is evidence in several quarters that American multinational companies have begun a slow movement of withdrawal. This may have been prompted by a number of factors--not least the narrowing of the gap between labor costs in some of the countries in which these companies have set up subsidiaries and those in the United States. Obviously, the transition to economic systems in which the state is extending its influence is restricting the area in which multinational companies can operate and inducing some of them to move out of areas where there is a greater degree of socialism to those where there is less. On the other hand, there has been a change of attitude toward multinational companies in some of those countries where opposition to them used to be greatest.

In Italy, for example, now that there are more obvious signs of the multinationals withdrawing from our market, the same political parties which not long ago regarded them with hostility are openly bewailing their departure and have even gone so far as to propose resisting it.

It is quite conceivable that the return of the multinationals within national boundaries may in time induce a reaction in banks which, for their part, had established branches abroad. A constraint would thus be set on the financing of imbalances in world trade not only by the limited credit-granting capacity of the existing institutions but also by the reduction in their number.

In short, the current withdrawal of American industrial and financial enterprises in response to hostility in countries in which nationalistic attitudes are re-emerging could further loosen the bonds which have held together the structure of the international economy in the last few years.

Evidence of the U.S. banks' waning enthusiasm for expansion abroad can be deduced from the growing interest shown in extending merchant banking operations. It may be, however, that this trend will increase the mistrust felt by those who fear the consequences of an excessive concentration of power in the banking system.

I have dwelt at length on the banks' role in the development of the international financial and monetary system because this role has given fresh motivation to the long-standing unpopularity of bankers. There is something schizophrenic in the fact that, while the international community proves to be incapable of governing monetary events through co-operation in international institutions, their substitution by private institutions is feared as a loss of control both by the countries of origin and by the host countries. The unpopularity of bankers stems from the growing hiatus between the size of the problems and the inadequacy of the institutions called upon to resolve them.

But the same difficulties and the same dissatisfaction are found in the role played by the banks within their own countries, where the problems and conflicts that have emerged in the last few years are no less great.

Concern at the concentration of power in the hands of the banks lies behind the appeal made by the political parties for more rigorous supervision and fuller information. One circumstance that has helped to shape this attitude is the fact that fiscal policy is formulated through the medium of parliamentary debates under the scrutiny of public opinion, whereas monetary policy is framed in secret and may in some cases come into conflict with fiscal policy. Nor does the fact that it is partly thanks to its autonomous and discreet nature that monetary policy contributes more effectively to the rare successes of economic policy render any more acceptable this element of secrecy which is still its distinguishing trait.

The power of the banks and the need to bring it within narrower bounds are topics of debate in my country within the political parties, the trade unions, and the universities. The head of the Communist party's planning department recently published a survey examining the causes of the increase in the economic power of the banks; he concluded by calling for the creation of a capital market where there could be more direct contact between enterprises and savers and where they would be offered a wider range of financial instruments.

In general the proposals for reform of the banking system put forward in Italy stem from the mistaken conviction that the changes that have occurred in Italy's financial structure are radically different from those that have taken place in other capitalist countries; there have been differences at times in the number of changes, but not in their nature. The proposals to which I have referred are based on the belief that the low ratio of shares to other financial instruments is a feature peculiar to my country. I have on more than one occasion drawn attention to the fact that in 1975 in the United States, of the US$208 milliard worth of funds raised on the capital markets, barely US$11 milliard was taken up in the form of shares.

Likewise, I have pointed out that of this total of US$208 milliard, the Government and the public sector (including the local authorities) absorbed approximately half, which is not very different from the proportion in Italy at the present time. But in Italy the public sector, besides drawing from the capital market, claims further portions of total financing both by direct recourse to bank credit and by deferring payment for goods and services purchased; moreover, being largely attributable to current expenditure, the Italian public sector's deficit is less flexible than the U.S. one.

Lastly, in the past decade all industrial countries have experienced falling profits, a declining propensity to invest, and an increase in financial intermediation. In a speech at a conference at Harvard University, Henry Wallich observed: "Corporations have financed this growth by shifting away from internal and toward external sources of funds, away from equity financing and toward debt, and from long-term debt to short-term debt. These trends in financing have produced financial structures that make additional financing difficult. It is useless to argue that if internal cash flow is inadequate, and if the stock market is not receptive to equity issues, business should just continue to borrow. This advice is like Queen Marie Antoinette's 'Let them eat cake.' Where there is not enough profit, there will be no equity financing, and where there is not enough equity, there will not be much debt money available. An adequate flow of profits is the basis for debt financing, equity financing, and, of course, internal financing."

In Italy the result of the decline in profits and the deficiency of risk capital has been the transfer of firms from the private sector to the public sector, and this has happened at a time when the public sector was progressively losing its ability to measure the efficiency of its resource utilization. Meanwhile, as in other industrial countries, there has been a growing tendency over the last decade for large groups to increase in size, partly by assimilating smaller firms, and this process, in turn, has helped to quicken the pace of expansion of the public sector: in the end it has become evident that it is not the state that rules the enterprises but the enterprises that rule the state. This is the reason why in Italy the Communist party has taken a stand against the excessive power of public enterprises. To the foreign observer it may appear paradoxical; but in a situation such as exists in Italy at present, a party whose aim is to strengthen the authority of the state must seek to encourage this by bringing the state back to the arena of its fundamental duties, and limiting the field of those which are sources of contamination.

In all countries the lack of continuity in the economic system has been an obstacle to the success of demand management policies at a time when changes in the terms of trade have been making them more necessary. Everywhere there has been a perceptible shift in the Phillips curve: the cost of maintaining a given level of employment is increasingly high rates of inflation; the cost of price stability is ever higher rates of unemployment. In these circumstances more is being required of the banking system as an organ of propagation of monetary policy, to the detriment, in some cases, of its distributive function, the importance of which, however, has been enhanced by the increasing rift between investment and saving. At the same time, enterprises' increased dependence on external financing has meant that they are more exposed to changes in the volume and cost of financing, and this has made the monetary authorities more reluctant to introduce restrictive measures, and sometimes more inclined to delay changes in their policy course, so that when these measures finally come their impact is more violent. Calls for the adoption of selective policies and, with them, of compulsory planning are being heard with increasing frequency.

Parallel to that of enterprises, the financial imbalance of the public sector has been aggravated by growing demand for action in the social field and by an economic theory which argues that in conditions of underemployment of resources, deficit spending expands income and creates the savings necessary to finance itself. The conflict which has arisen in more than one case between the public administration and enterprises with regard to the distribution of household savings has obliged the authorities to sift through the instruments available to them and search for means of reconciling the different objectives; this could not leave the banking system unscathed.

Thus, in recent years the public sector's financial deficit has in many countries had profound repercussions on the structure of the credit institutions. Not only have the monetary authorities had the control of the monetary base taken out of their hands, this having become increasingly dependent on treasury requirements, but they have been given the task of obliging the banking system to take up public securities, thereby changing the structure of the banks' balance sheets and restricting their ability to regulate flows of funds and interest rates. For their part, the banks, forced to operate as collectors of savings in order to channel them to the public sector, have lost something of their financial imagination; and this has led to an impoverishment of the productive system.

The scale of official intervention of this nature has shown that, when the authorities do not exercise coercion by making use of their power to levy taxes, they are forced to exercise it by putting pressure on the institutions that operate in the credit sector. The crowding out of enterprises may be brought about by different means. Auctions of public securities are one way; but this is a solution that only has the appearance of being a rejection of coercion when the authorities are prepared to pay any rate of interest whatsoever. "Underlying the problem of the banking system's ability to perform its role of distributing savings is the problem of the relation between the 'fiscal' element, or the element of coercion, and the 'credit' or 'market' element in the financing of the public sector" (M. Monti and T. Padoa-Schioppa, *Study on the Banking System*, Luigi Einaudi Institute for Monetary, Banking and Financial Research).

The changes that have occurred in the structures of industrial countries have meant that discontent, previously spread over various sectors, has come to be focused on the banking system. When growing expenditure is financed by increasing taxation, criticism is concentrated on the government; when, however, it is financed by channeling a greater amount of credit to the public sector at the expense of the private sector, the blame is directed at the banks, i.e., the institutions that have to turn down private demand.

Something similar happens when the contraction of profits obliges businesses to raise a larger volume of funds through long- and short-term credit.

According to the Marxist-Leninist theory, the financing of investment through capital accumulation by enterprises is a manifestation of oppression by the middle classes, which the working classes should oppose. However, the authors of the survey on the Italian banking system to which I referred earlier maintain that the greater dependence of enterprises on bank financing increases the latter's hegemony and raises problems of distribution of power similar to those raised by self-financing. Criticism is shifting from the excessive power of business to the excessive power of the banks.

Extension of the banks' realm of influence, excessive power of the public enterprises, increasing exercise by the public authorities of their power of coercion in the financial sphere; but, on the other hand we can also say increasing subordination of the banks to the political authorities, of these to the large public enterprises, and of the latter to the banks. The main feature of this chain of dependence is that the sum of the losses of power is greater than that of the gains. It is the whole system that is progressively losing its capacity to control itself, to direct its own course of development and--ultimately--to govern its own future.

In most industrial countries there seems to be a consensus on the advantages of directing economic activity according to a basic plan. Even in the United States politicians from both parties in Congress have tabled a draft law to this effect. In Italy advocates of planning say that a selective credit policy is an essential prerequisite for putting it into effect; the banks in general are reproached for not having applied a selective credit policy; often the accusations come from those complaining that too much credit has been granted to the next man rather than to themselves. In this case the charges laid at the door of the banking system are basically due to the fact that it is required to do what is really the duty of others; it seems to me that the planning of economic activity, if it has to be, should be the responsibility of authorities who have to answer for their actions to democratically elected assemblies.

In international relations the banks of some countries are accused of promoting capital exports and those of others of doing the reverse. We are again faced with the consequences of the authorities' inability to pursue the desired goals of economic and monetary policy and an attempt to delegate the task to the banks. In periods of social and political unrest, if governments wish to continue giving priority to the objective of maintaining communication between their economies, they must accept that funds will move from countries considered to be less stable to those considered to be more stable. Compensatory intervention would certainly be possible, neutralizing the effects of inflows and outflows; guidelines to this effect have been issued within the European Economic Community. But the whole body of provisions aimed at curbing outflows and inflows of capital by means of restrictions--often tried, always without success--does not reflect the ideals on which the Community is based.

During the nineteenth century, banks carried out their activities surrounded by an aura of great respect. Even then, however, irreverent voices were raised, such as that of the author of "Alice in Wonderland," who portrays a banker's clerk thus: "He thought he saw a banker's clerk/ Descending from the bus:/ He looked again, and found it was/ A hippopotamus:/ 'If this should stay to dine,' he said,/ 'There won't be much for us.'"

Nonetheless, I think that nowadays it is possible to dine with a banker without fear of his taking it all. Our experience today at the luncheon kindly offered by the Swiss Bank Corporation is proof positive.

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MR. WALLENBERG: Thank you, Dr. Carli, for a remarkable paper on why banks are unpopular. I think that the way you have treated this subject has been remarkable in many respects. The angles from which you have been looking at this problem are very well listed. I think that you have also tried to be as balanced as possible, although I must say as an old private banker that perhaps you have not given all the reasons why the banks are unpopular. I think that I could add some, but they are of lesser importance than the ones that you have given because you have painted a picture here which has been created by and caused by these trends in an ever-changing world--as this gathering so well knows. We thank you very much. You have given all of us food for thought--public officials, private bankers, national and international.

Now I turn to Dr. Milton Gilbert, who is going to make some comments on Dr. Carli's speech. Dr. Gilbert, we are looking forward very much to your comments. For fifteen years you were an economic adviser in the Bank for International Settlements. You left last year. You are now, I understand, turning to writing a book. We are, of course, eagerly looking forward to that book. But just now we are looking forward to your comments, which we are sure will be most interesting.

Commentary

Milton Gilbert

I have considerable pride in being added to the list of outstanding speakers in the series of lectures of the Per Jacobsson Foundation, and I want Ambassador Burgess and the Directors of the Foundation to know that I greatly appreciate the honor. I had the pleasure of succeeding Per Jacobsson at the BIZ Bank, as it is called here in Basle, and I had many occasions to exchange views with him. The strongest impression that remains with me is the ability he had to stimulate one's thinking and to uncover for one the emerging monetary and economic problems. I never left a meeting with him without the feeling of having been intellectually recharged, and I feel indebted to him for it.

I have a special pleasure in finding myself today on the platform with Governor Guido Carli. As everyone recognizes, he was in the succession of the outstanding heads of the Bank of Italy, Luigi Einaudi and Donato Menichella, who braved the storm to provide their country with sound money and thereby lay the basis for Italy's spectacular economic development in the 1950s and 1960s. I have always appreciated Guido Carli also for his penetrating insight into the sociopolitical problems of our times. It is an axiom of central banking that a central bank must maintain a certain independence from the government; but under Governor Carli it was said in Italy that the government must maintain a certain independence from the central bank. That is a great tribute for a central bank governor!

Governor Carli has treated us today with a provocative discourse and it is my assignment to react to it. I do not want to react so much by disagreement, especially as Governor Carli has disavowed some of the views he sets forth, but rather by discussing other aspects of the questions raised.

The first question that strikes me relates to the title of his lecture, "Why Banks Are Unpopular." I confess that I have not been aware of any special unpopularity of banks in the countries with which I have been concerned. I have certainly not seen signs that American banks are unpopular in the United States or Swiss banks in Switzerland. But I accept Governor Carli's observation that banks are unpopular in Italy, and perhaps in some other countries. I do not put much weight in it, however, because I have the feeling that not much of what I believe about monetary stability is popular with the critics that Governor Carli is referring to.

But the real point is this: Whoever said that banks were supposed to be popular? What we demand from banks is not popularity but safety. Because I live somewhat internationally, I have accounts in banks in France, in the United States, and in Switzerland. I intend to show the list of these banks to Governor Carli. And if he tells me that any of them is popular with his circle of critics, the first thing I am going to do is take my money out. But I am quite sure I will not have to do so.

You all know that banking is by nature a conservative industry, which it must be because it works with other people's money; it operates on narrow margins of gain and it is unable to risk large losses. Now, we have been passing through a very difficult period of high inflation and the repercussions of the oil crisis, in which quite a few banks had somewhat higher loan losses than usual. But this was not because they had been trying to be popular; it was because circumstances arose that were not only unforeseen but unforeseeable. Of course, every day's earnings of interest count with banks because every day they incur interest and operating costs on the money they hold. So, they want to lend. But they want to lend safely. There is a book coming out later this month by the director of a consortium bank in London, Steven Davis, entitled *The Euro-Bank*, which I recommend to any of you interested in this sort of thing. Mr. Davis has training in economics, but he writes here from the practical standpoint of bank managers. You will see clearly the great efforts banks take to inform themselves about their borrowers, to set proper guidelines for the management of their asset and liability structure, and to make their operations profitable. There is not a word in the book about popularity.

I may relate a story that is relevant to this point which concerns the Chairman of the Federal Reserve Board, Arthur Burns. It happened in 1974, when monetary policy was very tight in the United States in an effort to curb inflation--an effort which turned out to be quite successful. It happened that the chairman and the president of a large bank came to see Chairman Burns. They said, "As you know, Mr. Burns, problems of bank liquidity are arising because of your very tight monetary policy, and we would like your assurance that, if our bank runs into liquidity difficulties, the Federal Reserve as the lender of last resort will give us full support." Mr. Burns said to them, "Gentlemen, your duty as the top officers of your bank is to protect the interests of your stockholders and the solvency of your institution. If you do that, you need have no concern about the Federal Reserve carrying out its duty. But, if you do not protect the bank's solvency, I will be happy to discuss any liquidity problem of your bank with your successors." Now, that is the right attitude for a central banker.

At one point in his lecture Governor Carli mentions that official surveillance of banks has never reached beyond the boundaries of national interests. I am sure that he did not intend that statement to be misunderstood, but I want to be sure that it is not. Bank surveillance is not aimed at national interests but at the interests of anyone who has put his trust in the institution. When the Herstatt Bank or the Franklin National went broke, the losses were not only felt by German or American nationals; there were plenty of foreign nationals who lost money as well. And we expect the surveillance authorities to do their best to protect them. This is all the more necessary when the large banks of many countries have considerable operations outside their own countries.

I want to comment now on two aspects of monetary reform. You see that Governor Carli is not happy about how the reform has turned out. Well, neither am I. But I think that we are unhappy about somewhat different things. As he says, the final objectives of the reform were to restrict the use of the dollar as a reserve, intervention, and settlement currency; to eliminate gold from the system; and to substitute a reserve instrument, SDRs, created by the authorities. Of course, it was easy enough to eliminate gold by decree so that neither the IMF nor the U.S. Treasury would be buyers of last resort.

To restrict the dollar, however, is quite another thing. The dollar did not become the reserve and intervention currency of the system because the United States willed it to be so or because it was so arranged in the IMF Articles of Agreement. Not at all. Rather, the position of the dollar developed naturally because of its enormous convenience to both central banks and the private economy. This convenience derived from the fact that the short-term dollar market is a free and open market and from the huge size of the dollar foreign exchange market, which can readily absorb large central bank transactions. The whole idea that this convenience could be nullified by the reformers of the system merely by writing down the objective of restriction in the new IMF Articles shows that their conception of the system was a fantasy. As Governor Carli said, the Common Market countries attempted to institute an intervention and settlement system in which the use of the dollar was restricted. The United States raised no objections, but the system lasted only a few months until the dollar was reinstated because it was convenient to the Common Market countries themselves.

I may mention that I suggested to the United States at one point that it limit the placement of dollars by some central banks in the New York market so as to facilitate the adjustment of the disequilibrium in international payments. This would obviously have benefited the United States because foreign holdings of U.S. Treasury bills and interest payments to abroad would have been lower. I was never told why this obvious device was not resorted to, even though its use was sanctioned by the practice of other monetary authorities. I feel sure, however, that it was not because of narrow national interests; most likely the temporary advantage was waived in the interest of avoiding controversy and avoiding a posture of putting pressure on our trading partners.

Another aspect of the use of the dollar as the reserve currency is this: Where else can the reserves go? Central banks are obviously not interested in placing their foreign assets in weak currencies or in countries subject to political disturbance. And as for the strong currencies, central bank holdings of them are severely restricted by their monetary authorities. This is the case, for example, with the deutsche mark, the Netherlands guilder, and the Swiss franc--and for the very good reason that the foreign exchange markets in those currencies are too narrow to handle the huge volume of central bank inflows that would surely come about if there were no restrictions. All of you in Switzerland know this problem very well; free central bank access to the Zürich market would push the Swiss franc through the roof, to the great detriment of Swiss industry. And central banks are just as smart as private individuals; they do not want to pay a high penalty to keep funds in Swiss banks when they can get a reasonable rate of interest by holding the funds in dollars.

Well, of course, there was the other possibility, mentioned by Governor Carli, of SDRs created by the authorities. The answer to that is quite simple: it was tried and it did not work. The surplus countries just did not rush forward to fill in their balance sheets with SDRs to the extent that they have done with dollars. And who can blame them when what stands behind the SDR is just not equal to the financial strength and good faith of the United States, which stands behind the dollar?

I believe that the SDR, properly constituted, was a good idea and could have become a useful monetary facility. But it was not properly constituted when it was trumpeted as a fiduciary reserve asset which did not need a corresponding reserve liability. Of course, sovereign states could do it--without going to jail--but it was not the way to get confidence in the SDR.

There were, however, two other circumstances that worked against the solid establishment of the SDR. The first was that the facility was activated in 1970 when there was a major disequilibrium in international payments and in the structure of exchange rates. It was obvious that a break was coming and I cautioned the Group of Ten Deputies to hold off with the SDR until the adjustment had been brought about because activation under the existing imbalance would risk discrediting the SDR. But I suppose that to convince the market that the authorities were in charge of the situation, the deal was made. The only trouble was that the authorities were not in charge of the situation; market forces took over, and the SDR suffered in consequence.

The second condition that worked against the SDR was the political pressure to turn it into a kind of gift certificate. That is one of those nicely printed pieces of paper you might get for your birthday which allows you to choose anything you want at the department store up to its declared amount of, say, 100 francs. Of course, the department store takes the precaution of collecting cash money in advance, while a country which receives an SDR for its exports collects what? A gift certificate. There is here the old dichotomy between reserves to spend and reserves to hold, a favorite distinction which was always made by a former President of the BIS, Dr. Holtrop. A gift certificate is quite acceptable as a reserve to spend, but it just happens to have certain shortcomings as a reserve to hold.

All this leads us to the difficult problems that arose from the large increase in the price of oil that was imposed at the start of 1974. I remember the meetings of Working Party No. 3 of the OECD and elsewhere that discussed those problems, and two important conclusions were drawn. The first was that, apart from trying to save on the use of energy and of getting rid of non-oil deficits, countries should not attempt an abrupt adjustment of their oil-induced deficits in external payments. They should avoid controls on non-oil imports and any adjustment by competitive devaluation, because such policies would lead to a downward spiral of world economic activity and of employment.

It followed from this that the oil deficits would have to be financed, perhaps partly from reserves, but mostly by borrowing. And so the second question was: Who would do the lending? Well, the majority view was that for the largest share it should be the private financial system because, you see, that was where the OPEC countries were placing the bulk of their surplus funds. And that is the main explanation for all the billions of this and billions of that which Governor Carli cited for us. He says that the mistrust of the commercial banks derives from the feeling that they have appropriated too large a share of monetary sovereignty, and I agree with him in not subscribing to that interpretation. The fact is that the commercial banks have no monetary sovereignty, which is an attribute of the central bank and the government which stands behind it.

You may remember that the Chancellor of the Exchequer, Denis Healey, proposed an IMF oil facility of SDR 30 billion, but the idea was stillborn because the OPEC countries did not want to put up anything like that amount. Even with the more modest oil facilities negotiated by Mr. Witteveen, about a quarter of the money came from non-OPEC countries: Canada, Belgium, the Federal Republic of Germany, the Netherlands, Switzerland, Norway, and Austria. All in all, there has been quite a lot of financing from official sources, of which the recent facilities to Italy and Great Britain are only the latest examples.

As to the private financing, Governor Carli seems surprised by the large share that came through U.S. banks and their foreign branches. But where else could the funds come from? Foreign lending by the Swiss market has been enormous in relation to the size of the country, but Switzerland is a small country. German and Dutch banks have also been active foreign lenders; but again they cannot measure up to the size of the U.S. banks' resources--which have been fed not only by American money but by money from around the world. I do not hesitate to criticize the United States when the facts warrant it; in this matter, however, I must say that the action of the U.S. banks, taken at their own risk, has given support to the international economy through a very difficult period.

In the latter part of his lecture, Governor Carli has touched on some of the problems of Italy. It is quite à la mode nowadays to divide countries into developed countries and developing countries, and I fully recognize the utility of that division for certain vital problems--such as economic assistance and raw material prices. For what concerns us here, however, it is of equal importance to divide countries into those who struggle for monetary stability and those whose efforts are less conspicuous in that respect. You find many developing countries in the first group, having strong currencies, as you find some developed countries in the second group, without sufficient cohesion and discipline to make a high grade in the test of monetary stability.

And, unfortunately, in the last few years we find Italy in that group. Our beloved Italy! Most everyone in this audience, I am sure, has felt the great historical contribution of Italy to our civilization and the happiness of holidays in its heart-warming atmosphere. Fettucini Alfredo and an espresso on the Via Veneto! Where is this great country today? I completely agree with Governor Carli when he cites Governor Wallich as to the need for enterprises to show an adequate profit margin if they are to progress and be able to raise the capital to provide jobs. And I agree with him also about the evil of obliging the banking system to finance any and all deficits of the public sector. Experience has certainly demonstrated in many countries that when the central bank is obliged to cover the government's deficit it loses its power to be a check on inflationary financing.

I can understand that Governor Carli was reluctant to elaborate all of Italy's present problems. There is a lack of discipline that goes much beyond monetary discipline. Political uncertainties, disruptive labor relations, administrative inefficiency, huge deficits in the public sector and the balance of payments, with the Bank of Italy struggling almost alone to get a grip on the situation. But it takes more than the Bank of Italy's monetary powers to solve the country's problems. Otherwise, Governor Carli would have solved them--or Governor Baffi would solve them today.

Governor Carli diplomatically refrained from drawing for us the full lessons of recent Italian experience. But I may close by telling you in simple words what that lesson is: Do not do it!

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MR. WALLENBERG: Thank you, Dr. Gilbert, for your contribution to this very interesting subject. You certainly have taken the opportunity to widen it and make it still more interesting. We are grateful for that.

Questions and Answers

Following the formal presentations and a short intermission, Dr. Carli answered written questions from the audience.

GUIDO CARLI: I have several questions, each of which requires a speech. I have not the time to prepare a speech for each question, and I do not believe that you are prepared to listen to any more speeches. I have organized the questions according to the matters they refer to. I will begin by answering the first group of questions concerning *the function which has been performed by the private banking system.*

First, my view is that, in the absence of concerted action by the authorities in recent times, the banking system has taken over an area of the financial system of both the public and the private sectors which, in the past, was occupied by long-term markets and official institutions. When I described the evolution I did not intend to criticize the behavior of the private banks. I had no intention of criticizing anybody; I was merely describing facts. If I had intended to criticize anybody, it was more the public sector than the private sector--in other words, the sector to which I belonged for many years. When I mentioned the position occupied by the dollar in the international monetary system, I did not imply that it was either good or bad. You may remember, Milton, that one evening many years ago, possibly when Dr. Holtrop was our Chairman, we were discussing the problem of what kind of monetary system we had. I answered that I, myself, am on a dollar standard. Therefore, in this respect, I have not been much surprised by what has happened. I do believe that at that time many of our colleagues thought that it was still possible to move from the dollar standard to some other standard. I did not; I thought that the dollar standard was a necessity. If it was good or bad, I do not know, but I think that what happened was an acceleration of the transition of the monetary system toward a dollar standard. This happened after a year during which, to differing extents, most of us preached of the necessity of liberating the international monetary system from the domination of reserve currencies.

Second, I believe that the intervention in the banking system was a necessity and I believe--answering a long question by Dr. Emminger--that it is the function of the banking system to finance the expansion of international trade. It seems to me that what has happened in recent years is that the banking system has not only financed international trade but has also financed the transfer of real resources from certain countries to other countries. And, it seems to me, that perhaps that is the function of capital markets. In this respect I believe that the banking system has extended itself to an area which is not the proper domain of commercial banks.

What I intended to say is that the evolution that has taken place recently has made the international monetary system more vulnerable. The quantity of liquid funds has grown, as a consequence of the means by which structural imbalances have been financed: in this respect it seems that the system has become more vulnerable.

Here the problem arises of the consequences of movements of funds in a system in which the quantity of liquid funds has increased as a counterpart of the financing of the transfer of real resources. To what extent have the consequences of movements of funds been absorbed by fluctuations of rates of exchange, and to what extent do they have to be absorbed? To what extent do they have to be financed by the intervention of the authorities? Here I believe that the positions of countries whose exports are less sensitive to variations in exchange rates are different from those of countries whose exports are more sensitive. It seems to me that the experience of the joint float shows that, not only because of divergences in the rate of inflation in various countries, but also because some countries participating in that experiment have exports which are more sensitive and others have exports which are less sensitive to variations in the rates of foreign exchange, the system could not last. The experience of the French franc in the joint float--going out, going in again, and then going out again--I think demonstrates that in Europe there are countries which are in different positions, and I believe that Dr. Emminger's question is influenced by the strength of the German economy and by the strength of its exports.

Then there are questions concerning the influence of the extension of the credit to the public sector at the expense of credit to the productive sector extended by commercial banks. My view, which is certainly influenced by the Italian experience, is that, first, if the deficit of the public sector goes beyond certain limits, the central bank is confronted by the dramatic dilemma of whether to permit the financing of the deficit in the market--and thereby let interest rates soar without limits and crowd out the amount of credit available to the private sector--or to finance portions of the deficit by expanding the monetary base. But when the central bank allows the financing of the deficit by expanding the monetary base, it loses control of the creation of it; and therefore, in the end, it is not the central bank that loses control--it is the state, it is the government, it is the community that loses its sovereignty, because the establishment of the quantity of money which during centuries was an expression of sovereignty no longer remains so. And if the amount of the deficit of the public sector goes out of control, what it means is that the process of creation of money gets out of control. And ultimately, it is the community that loses its sovereignty.

Second, in the course of financing the deficit of the public sector, the central bank, in order to protect the bond market, steps in with measures aimed at extending the obligation of commercial banks to take over in various forms--purchasing of bonds, *coèfficient de tresorie*--to the extent that the central bank steps in obliging commercial banks to finance larger portions of the public deficit at the expense of the private sector, the central bank loses the possibility of controlling the monetary flows through the system. But at the same time--and this justifies the title of my speech--this leads to a concentration of attacks on banks. This is the Italian experience: that commercial banks have been obliged recently, even last week, by decisions taken by the authorities, to concentrate higher and higher portions of their assets in the financing of the Treasury. The consequence has been that public opinion has turned against the banks, and there is the danger that such an attack might have the effect of aggravating the vicious circle: higher deficit in the public sector, higher financing by expansion of monetary base (in case such expansion has been restricted), greater intervention by the bond market (in case the bond market does not respond), and greater intervention by the banks. At the root of this problem--and I think it was beyond the limits of my speech--I have not analyzed the sources of the public deficit in the various countries. But to the extent that the deficit with respect to the gross national product grows more and more, and to the extent that it is generated by current account expenditure, this simply means that there is a destruction of savings. There is a greater and greater portion of savings which, instead of being transformed into various forms of investment, is transformed into expenditure--current expenditure. Therefore, there is no technical device that can solve this problem. The intervention of the monetary authorities might offer over time various solutions to making the impact less heavy, but in the end, if the public deficit on current account absorbs greater and greater quantities of savings, this simply means that the country where this happens is condemned to decadence. And I think that the financial intermediaries, whatever the devices they may use, cannot sustain such a process. As far as we are concerned, as far as Italy is concerned, this is the problem.

Another problem is that the destruction of savings does not permit investment. For a while it is possible to finance investment by importing savings from abroad. What it means is that a country in which savings are being destroyed replaces savings by importing savings from abroad. It means, to quote myself, that the country concerned, instead of imposing taxes on its own citizens, imposes taxes on the citizens of the neighboring countries.

Next, there is a question on the same subject. The question is: If governors of central banks were members of governments, what would happen? I think there are historical examples of a governor being at the same time a member of the government, but I do not believe that, based on our experiences, I would recommend it. There are at present countries in which governors are at the same time members of the government, but these are countries in which the economy is centrally planned and therefore the creation of money is kept within the limits of the plan established by the political authorities. My personal conclusion is that in a democratic, pluralistic system, the solution should not be on the side of bringing governors into government but on keeping governors as independent as possible from governments.

Finally, there is a question concerning the position of developing countries and the various possibilities of solving their financial problems. But here again I believe that it is not a question of financial devices--it is not a question of one or the other device for consolidating debts. It is the problem of the flow of real resources and the extent to which it can be organized. And again, I do believe that the various financial devices which may be expedient would not solve the problem. It is the problem of real resources, and it has to be recognized as such. Because I belong to a country that is developed and developing at the same time, I am, probably more than others, open to understanding the problems of developing countries. And I think that perhaps because in the various international institutions too little attention is being paid to this problem, the world today is more divided than it was before, and is threatened with being even more divided between a group of countries having prosperity within the country, having recovery which goes more than satisfactorily, and on the other side, countries which have no prosperity, no recovery, and which are obliged to take actions in the form of import restrictions, exchange controls, and in the end have to accept a rate of growth which may not be compatible with the maintenance of social and political stability. But again, I believe that is a problem which is outside the sphere of central banks. The great problems of today within our countries and in their mutual relations more than ever are in the purview of those who bear political responsibilities. Thank you.

Concluding Remarks

MR. WALLENBERG: Are there any more questions? If not, then I think that we have come to the end of the meeting. As you know, the Foundation is going to publish the addresses which we have heard today in English, French, and Spanish. Will those of you who are not on the Foundation's mailing list please give your names and addresses to the ushers. And may I then end by saying that we have had a most interesting afternoon. We have had some thoughtful suggestions and I must say that this has been a very good meeting. Before terminating, I would like to extend our thanks again to our hosts and to our speakers, and to all of you who have come here. Thank you very much.

Biographies

Guido Carli has, for most of his professional life, been involved in international monetary affairs.

As a member of the Ufficio Italiano dei Cambi, of which he later became Chairman, he was also a member of the first Board of Directors of the International Monetary Fund in 1947.

He served the Italian Government in 1957-58 as Foreign Trade Minister, and in 1959 became General Manager and, one year later, Governor of the Bank of Italy, a post he held until his retirement last year. He has also been Chairman of the Italian Public Works Credit Consortium and of the Public Utilities Credit Institute, Deputy Chairman of the Istituto Mobiliare Italiano, and member of both the Board of Directors of the Consiglio Nazionale delle Ricerche and the Managing Committee of the Association for the Development of Industries in Southern Italy.

Dr. Carli is well known in international financial circles, having been a member and later Chairman of the Managing Committee of the European Payments Union, member of the Managing Committee and later of the Board of Directors of the Bank for International Settlements, member of the Monetary Committee of the European Economic Community, member of the Committee of Governors of the Central Banks of the Member States of the EEC, and Governor of the International Bank for Reconstruction and Development, the International Monetary Fund, and the Asian Development Bank.

He has spoken and written widely on international monetary matters. Following his retirement in 1975, Dr. Carli became President of Impresit International and is also Special Consultant for International Finance for the First Boston Corporation.

Dr. Carli was born in Brescia in 1914 and obtained his doctorate in law from the University of Padua. He now lives in Rome.

Milton Gilbert was born in Philadelphia in 1909 and received his doctorate at the University of Pennsylvania. His doctoral thesis was entitled "Currency Depreciation and Monetary Policy" and dealt with the breakdown of exchange parities in the 1930s.

His first major position was in the U.S. Department of Commerce as Editor of the *Survey of Current Business*. He then became Chief of the National Income Division and earned an international reputation by his work establishing the National Income and Product Accounts System of the United States.

In 1950 he became a Director of the Organization for European Economic Cooperation to assist in developing national accounts data in Europe. Later he also became Economic Adviser of that organization. Besides being responsible for the Annual Reports of the OEEC, he produced the first scientific study of "International Comparisons of National Products and the Purchasing Power of Currencies" and was the principal author of an influential report on the "Problem of Rising Prices." This report dealt with the wage-price spiral which has become so important in recent years.

In 1960 Dr. Gilbert came to the Bank for International Settlements as Economic Adviser, being the successor of Per Jacobsson. He was in charge of producing the Annual Reports of the Bank, which have had a reputation for cogent economic and policy analysis. He assisted in the work of the Group of Ten on the problems of the international monetary system and produced two major essays on this subject: "The Gold-Dollar System: Conditions of Equilibrium and the Price of Gold" and "The Discipline of the Balance of Payments and the Design of the International Monetary System," which analyzed the relation of the gold price to the functioning of the system.

He retired from the BIS at the end of 1975.

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