THE 1985 PER JACOBSSON LECTURE

KOREA FEDERATION OF BANKS

THE PER JACOBSSON FOUNDATION

Do We Know Where We're Going?

Sir Jeremy Morse

Sejong Cultural Center
Seoul, Korea
Sunday, October 6, 1985

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International Standard Serial Number: ISSN 0252-3108

Foreword

The 1985 Per Jacobsson Lecture, entitled "Do We Know Where We're Going?," was delivered by Sir Jeremy Morse, at the Sejong Cultural Center in Seoul, Republic of Korea, on Sunday, October 6, 1985. Sir Jeremy is Chairman of Lloyds Bank and President of the British Bankers' Association.

William McChesney Martin, Chairman of the Per Jacobsson Foundation, presided over the meeting, the proceedings of which are presented in this publication.

The Per Jacobsson lectures are sponsored by the Per Jacobsson Foundation and are held annually. The Foundation was established in 1964 in honor of Per Jacobsson, the third Managing Director of the International Monetary Fund, to promote informed international discussion of current problems in the field of monetary affairs. The 1985 Per Jacobsson Lecture was under the co-sponsorship of the Korea Federation of Banks.

The lectures are published in English, French, and Spanish and are distributed by the Foundation free of charge. Through the courtesy of other institutions, other language versions are also issued from time to time. Further information may be obtained from the Secretary of the Foundation.

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Opening Remarks

William McChesney Martin

Friends of the Per Jacobsson Foundation, it is my privilege as Chairman of the Board of the Foundation to call the 1985 lecture meeting of the Foundation to order. This is a very happy occasion. We have been doing this now for over 20 years, and the lecture has come to be a recognized institution. I consider it a privilege to be here today, and I am very happy that we have such a nice turnout.

I want to say one or two things about the Foundation before Governor Choi of the Bank of Korea, who really is going to open the meeting, makes the introductory remarks. This series of lectures developed out of the fact that a good many people working around the International Monetary Fund got to know Per Jacobsson quite well; he also was well known from his long connection with the Bank for International Settlements. Per was such a good-natured, jolly fellow that he attracted attention wherever he went. And when he died there was a void. So a number of people from all over the world got together and discussed what could be done to honor him. What would be a fitting thing to do that would be consistent with the kind of individual Per was? They decided, unanimously, to establish a small foundation and to have a lecture series that would commemorate his life, his times, and his general principles. And so this Foundation was born. It was not difficult to raise the money, and I am glad to report, as I do each year, that we are still solvent.

Per Jacobsson was a unique advocate of sound money. He believed in money. He believed it was important, and he believed that it should be not only a medium of exchange and a standard of value but that it ought to be especially a store of value. He came to me when I was on the Board of Governors of the U.S. Federal Reserve System and would tell me that what we had to do was to get the central banks more active in making money more sound. There is much talk now about the current President of the United States being the "Great Communicator." In his way Per Jacobsson was a great communicator in the field of fiscal and monetary policy, and he was on the right side of the issues most of the time.

As time has gone on, the Foundation has created a valuable series of commentaries on the course of global economic history. Those of you who have not done so ought sometime to go back and look through the 21 lectures that have been given. There is much there that will stimulate you.

With these remarks, we will start the meeting with Governor Choi, who is an enchanting fellow. Governor Choi has been the head of the Korean Development Bank and Vice Minister of the Economic Planning Board. Governor Choi and I have talked, and I told him that I thought the only problem that he was probably facing was what I describe as too much of tomorrow occurring today. We are always talking about economic miracles. I think the Korean economy and development of Seoul is a real miracle. The Korean economy is in good, trained hands, but it is going to have its problems, as all economies do.

I will now ask Governor Choi to deliver the introductory remarks, and the meeting will proceed from there.

Governor Choi.

Chang Nak Choi

Mr. Chairman, distinguished guests, ladies and gentlemen, I am greatly honored to have this opportunity to express my warm welcome to all of you at the twenty-second Per Jacobsson Foundation lecture meeting here in Seoul today.

I would like to begin with a few words about the Foundation. As we are well aware, the Foundation was established in 1964, in commemoration of the remarkable contributions to the international financial community of the late Per Jacobsson, the former Managing Director of the International Monetary Fund. The Foundation has sponsored annual lecture meetings in his name, frequently held concurrently with the Annual Meetings of the World Bank and the International Monetary Fund. For the past two decades the Per Jacobsson Lecture has provided valuable opportunities for economic policymakers, economists, and bankers to listen to the remarks of world-renowned authorities, as well as to exchange views and concerns on current international economic issues. Taking pride that the Republic of Korea is hosting this important lecture in association with the 40th Annual Meetings of the Bank and the Fund, I wish to express my deep appreciation to the Foundation and to the Korea Federation of Banks for making this wonderful opportunity possible here in Seoul.

Korea appears to be experiencing a period of great change. It faces many existing and potential sources of difficulties and disorder on the horizon.

The Bretton Woods international monetary system has been replaced by a new system, but it has created great uncertainties in the exchange and financial markets. Large trade and current account deficits are being incurred by some industrialized countries, as well as by the developing countries. Especially, most developing countries have faced economic difficulties more severe than those experienced by the industrial countries. This situation has been the result of the worsening export market environment caused by sluggishness and protectionist pressures in industrial countries, difficulties in obtaining access to the international financial market, and internal socioeconomic obstacles arising in the course of the implementation of structural adjustment policies. These are the factors that create skepticism about the world economic outlook for the years ahead.

Increased international exchanges and a technological revolution have led to closer economic interdependence among nations, and, therefore, it is obvious that economic problems are a global concern.

People everywhere are aware that our present economic situation is very difficult, yet there are no obvious solutions. Long-held notions of economic policy that worked so efficiently in the past now seem out of date. Yet people still have faith in the underlying strength of the economy to perform better than in the past. Improvement is exactly what will occur if the developed and developing countries coordinate their economic policies, recognize and fight together against the threat of protectionism, and adopt appropriate policies to enable the smooth transition from the turbulence of the past to a mutual and stable prosperity in the future.

This lecture meeting is a most appropriate occasion for notable figures in international financial circles to share their ideas on relevant matters. We are eager to hear the opinions of our eminent speaker, Sir Jeremy Morse, about the task at hand and the future evolution of the world economy.

So, it is a special welcome and appreciation that I extend to Sir Jeremy. I earnestly believe that today's meeting will be a great success, and that it will serve as a guide toward the mutual prosperity we all seek.

In closing, please allow me also to extend again my warmest welcome to all of you, and my hope that you will enjoy our beautiful scenery and cultural inheritance.

Now, I am happy to introduce to you Sir Jeremy Morse, Chairman of Lloyds Bank in London.

Do We Know Where We're Going?

Sir Jeremy Morse

I am honoured to give the 1985 Per Jacobsson lecture. If Keynes and White were the founders of the Bretton Woods system, Jacobsson was its emperor. He would be pleased as well as amused that we look back on its heyday as something of a golden age. Since his death in 1963 we have seen that system (though not its institutions) disintegrate, leading to a period of intense economic disturbance. In 1971 came the Nixon-shock, the abandonment of dollar convertibility, from which the system never recovered; then a series of conjunctural shocks, the two inflationary oil-shocks of 1973–74 and 1979–80 and the disinflationary debt-shock of 1982, all weakening world growth; and now, following a political landslide towards deregulation and the freeing of market forces, a financial revolution in banking and capital markets. In such a period some of the minor shocks and shifts can be foreseen and partly prepared for, like the current reversal of the dollar or next year's "big bang" in the London stock markets. But generally the financial and economic world has had to live from shock to shock, and crisis management or fire-fighting has been the order of the day in both the public and the private sector.

It was in another such period of shocks, the 1930s, that Jacobsson spent his formative years at the League of Nations and the Bank for International Settlements. For me they make the most interesting chapters in his daughter's biography of him. That series of shocks followed the disintegration of the gold standard system, and it culminated in a world war, during which Jacobsson (a Swede living in Switzerland) kept in touch with both sides, and at the end of which he tried unsuccessfully to prevent the dropping of the atomic bomb. This lecture is not to be about the past, but about present change and future uncertainty. To limit the scope of it, I will assume that, with the balance of power in the world and an evident shrinking from the use of far more deadly modern weapons, there is not going to be a third world war.

Not that local wars may not have major effects. In the 1970s Middle Eastern conflicts affected the world economy through the oil price, and destroyed Beirut as an international financial centre. In the 1960s the Vietnam War, because its economic costs were not fully acknowledged, contributed to the acceleration of U.S. and world inflation. In the 1950s, Jacobsson's last decade, Korea where we now are was the scene of a war with political and economic reverberations around the world.

This country has not merely recovered from that war. It has developed a vigorous economy, and maintained its momentum through all the shocks I have listed, not without pain and difficulty, but to a degree that has won widespread admiration. Like other countries in this Eastern part of the world, it has managed to combine a central strategic drive with an orientation towards exports and the private sector, a capacity to adapt and adjust quickly to economic changes, and a work ethic that puts many Western countries to shame. These common threads, running through a group of countries well diversified in size, resources and development, have made this Asian Pacific region the prime growth area of the world. It adds to my sense of the honour of this lectureship to be undertaking it in Korea.

To the outsider Korea has seemed in recent years to know where it is going. The same cannot be said of the world at large. Hence my title, "Do We Know Where We're Going?" But though the question might be asked at any time, I chose it as being specially apposite to the second half of the 1980s. When things are set fair, most people have a good idea of their general direction, and a choice of routes to get there. In times of crisis, there are usually only two roads ahead, one leading on to disaster and the other a narrow path to safety. (That was the case in 1982, since when we have on the whole found the narrow path, combining a U.S.-led non-inflationary recovery in the developed countries with responsible management of the debt problem by developing countries, creditor governments and banks.) Now we may be approaching a third kind of time. If, as I suspect, the main force of the great inflation in the major countries is spent, then we may be coming towards the end of the series of shocks. In that case we should be preparing for a period in which the possibilities will be, if less dramatic, more various and more uncertain; and, as we become less preoccupied with crisis management, forward thinking and planning will become at the same time more possible and more necessary.

My expectations may strike some of you as too optimistic, remote and even insensitive. There are, after all, enough problems in the world needing urgent attention. There is famine in Africa; economic hardship in the indebted countries; instability in the Middle East; low growth and unemployment in Europe; frightening deficits in the U.S.A. And even if the great inflation has declined, it could still produce a severe and damaging aftershock. Just because we have come for a week to the sunny side of the world, you may say, no reason to think our crises are over. Rather than pursue the argument at this general level, I would like to make my case by looking more closely at current changes and future prospects in the markets, in the world economy and in the international community.

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I put the markets first because I work in them; because since the collapse of the Bretton Woods system their influence on the course of economic affairs has increased as that of governments has diminished; and because they are in a phase not only of intensified competition but also of major change.

One external force for change is the advance of technology, particularly in the collection, storing and communication of information. Computers, reducing in size and cost as they increase in power and capability, have become personal tools; and we have come to think of them less as a means of processing transactions and more as a means of handling information in a way that will give competitive advantage. Just as the new internationalism of the post-war years was shaped by the jet and the telex, so will the increasingly confident use of computers shape life and business up to the millennium. The automation of industrial and office work is one of the causes of present unemployment, and politicians and economists dispute whether or not it will in the longer run create more jobs than it destroys. But whatever the answer to that question, and painful though the transition is bound to be, it does promise a beneficial change in the *pattern* of work, a move away from the repetitive drudgery dictated by the machines of the industrial revolution which has had such deleterious effects on working life.

Even in retail banking, historically one of the slower changing scenes of commercial life, technology is having big effects. The computerisation of ledgers and statements has made a number of traditional clerical skills obsolete, and cash dispensers are changing the role of tellers. Before the end of the century many shoppers will be using cards at the point of sale to make immediate settlement from their bank accounts, and others will be doing it all without leaving their houses by what is called "home banking". Keyboard and screen will largely replace pen and paper. Indeed some of the specialized machines already to be found on bank counters are educational toys to prepare the over-40s for these coming developments. And there will be institutional change, too, as the money transmission business, hitherto the preserve of big banks in many countries, is brought within reach of new competitors. Here, as elsewhere, technology is becoming a vehicle of competition instead of a barrier to it.

Technological advance is also having an obvious impact on corporate banking. Among its recent products are international clearing systems, round-the-world cash management and round-the-clock exchange dealing. But this aspect of change is less important in corporate banking than two others, the shift of weight from banks to customers and all that goes under the head of "securitisation".

The customers I am talking of now are the large companies, many of them multinational, and governmental agencies, particularly in the developed countries. There is always a possibility that such bodies, as they grow in size and complexity, may undertake for themselves those services for which at an earlier stage they went to outside specialists, the more so if the techniques of the specialists are made known through the media. This is what is happening in financial services, particularly in the U.S.A., where for some time over-regulation of the banks has ensured that they are outgrown by their larger corporate customers, and it is twenty years since these customers began lending directly to each other through the commercial paper market. But the balance was until recently better maintained elsewhere.

Now two things have happened. The banks have had generally to slow down while they cope with and digest the debt problems thrown up by the disinflationary shock of 1982. They have embarked on a prolonged phase of consolidation and in some cases restructuring. Inevitably confidence in individual banks and in the banking system as a whole has been dinted, and the outside world has been reminded that their resources must be limited by their capital. At the same time corporate treasurers have grown in self-confidence and expertise. In a world of keen competition, evidenced by the low margins on corporate business, and enormous invention, to which I will come next, the corporate or governmental treasurer is wooed by many banks, each offering their own ideas, and thereby can come to know more than any one of the banks. The best way for the banks to respond must be to improve the development of ideas at all levels within their own organisations, not just at the top. But meanwhile the treasurer is constantly tempted to become his own banker, and the temptation can spread from his daily operations into the strategic thinking of his company.

So to securitisation, the process in which banking and securities come together, but not symmetrically, there being a greater shift from banking towards securities than vice versa. So the term is accurate, if ugly; and a good definition of it is Dennis Weatherstone's "making things marketable". Traditionally bank lending has been part of a continuing relationship with the customer, and as such it has not been marketable. Since the fruits of most lending take time to mature, this continuing relationship has had the virtue of directing the attention of both customer and banker to the former's long-term interest. But events have conspired in recent years to weaken this element in banking, and push it more towards the individual transactions that are the normal pattern in other service industries. At the retail end the sheer growth in volume has partly submerged the personal relationship, and competition between banks has encouraged the opening of a second or third account. Large corporate customers are now nearly all multi-banked, some to excess. Marketability fits more naturally with this modern trend. In the U.S.A. banks have for some time put together packages of their house mortgage loans and sold them on, retaining only a communicating role with the borrowers. More recently a market has developed in modest amounts of country risk, and now other forms of bank lending, for example export credit, are being switched into the paper market. And this securitisation further weakens the idea of a continuing relationship. Whereas the traditional banker, concerned with his customer's creditworthiness over a period, needed to consider the appropriateness of his loan over time, the arranger of an issue concentrates largely on fixing terms that will "get it away" in the market of the day.

The inflation of the 1970s, with its perturbation of interest rates nominal and real, inhibited bond markets and threw more lending on the banks (whence some of their present troubles). It was not difficult therefore to foresee that, once inflation had been brought back to 5% or less in the major countries, there would be a revival of bond markets vis-à-vis bank lending. What was less easy to foresee was that this would coincide with a prodigious burst of invention of new financing instruments and combinations, and that the whole process would be accelerated by deregulation removing many of the barriers that have hitherto protected national capital markets. The most striking spectacle is in London, where outside (including foreign) ownership of securities firms is being introduced, and minimum commissions and the historic separation of jobbers and brokers are being abolished, all at the same time. Among similar deregulatory steps elsewhere is the abolition or reduction of withholding taxes on foreign holdings of government or other securities. In the U.S.A. this has been more narrowly directed to the task of financing the huge current account deficit, but the purpose of it in other developed countries has been to stay in the game as the international capital market becomes one around the globe. So what we are witnessing is not only securitisation, but also the globalisation, and to some degree the Americanisation, of the securities market.

For the corporate or governmental treasurer who can manage it, all this makes financing easier. He can arrange facilities with multiple options ranging from traditional bank lending through intermediate forms like RUFs (revolving underwriting facilities) and NIFs (note issuance facilities) to more conventional securities. He can also switch terms, currencies and interest rates in mid-facility. Corporate borrowing is no longer a series of discrete, weighty board decisions, but a process of continuous adjustment by the financial team. The opportunities for hedging and arbitrage have been vastly enlarged, and the futures markets continue to expand.

But perhaps the most seminal of all the recent inventions is the modern "swap", which has contributed greatly to the current unification of financial markets. Short-term money market dealers have long used a form of swap as a way to generate cheaper funds in one currency by borrowing in another and then carrying out spot and forward exchange transactions to convert the funds and cover the exchange risk. The present day currency swap is an extension of this technique to longer-term and fixed-rate transactions. The fundamental innovation is that the interest-rate swap allows floating-rate debt to be converted into fixed-rate debt and vice versa. So a strong borrower borrows in the currency or on the interest terms that he can command, and the loan is then transformed through one or more intermediaries, often banks, so that at the end of the chain another, often weaker, borrower can raise money in the form he wants and more cheaply than he could have done directly. All parties take their cut from the difference between the first and second company's cost of borrowing.

This seems to be one of those rare advances in instrumentality which are not just technical improvements but are powerful enough to change the whole character of the market. Let us compare it with the start of the Euro-dollar market in London in the 1950s, the invention of George Bolton and others. At first his idea of dealing in dollar deposits outside the U.S.A. appeared to be little more than a useful gimmick to satisfy a few special situations, particularly the requirement of East European owners of dollars to hold and deal in them outside the U.S.A. As it grew, it was perceived to be more significant, but it was hard to analyse or evaluate. Conservative bankers mistrusted it; worried politicians blamed it for inflation. But it established itself over time as an efficient vehicle for capital flows and an essential mechanism of the new internationalism. In much the same way, the prototype of the currency swap, the back-to-back loan, was invented ten or more years ago to satisfy some special cases in which a company either could not borrow at all in the form it desired or could only do so very expensively. But the practice has spread and become sophisticated, and proves to be applicable to a wide variety of cases. So now we begin to see it for what it is, not a gimmick, not just a new way to hedge currency and interest rate risks and to arbitrage between different markets, but a general means to share (and so economise) creditworthiness. Just as companies have learnt to share and economise their taxable capacity, dividing the gains of doing so between them, so now with creditworthiness.

It is time to ask whether we know where we are going in the markets. We are clearly going into a new world, and the old one won't come back. Once the markets have learnt a good new trick, they never unlearn it. With the intermeshing of banking and securities, insurance (which is already linked with securities) is likely to be increasingly drawn in. But there are obviously risks in such a pace of change, and probably more risks than accompanied the development of the Euro-markets. The world economy was more soundly based in the 1960s than it is now; and the present changes not only involve banks and other financial institutions, but also big corporations and government agencies acting as banks, few of them with people trained to assess banking risks. The operators are inventing new instruments and devices; senior management is trying to keep up with the operators; and the regulators are still further behind. Again the swap affords a good example. A complex swap can involve four or more transformations, each perhaps bringing in a new intermediary, and no simple technique has yet been found for measuring and apportioning among the parties the various credit, currency and interest mismatch risks involved.

No more pregnant sentence has been uttered by a Governor of the Bank of England than that in Robin Leigh-Pemberton's speech at the London Overseas Bankers club dinner last February, when he said, "The process of change is likely to involve some accidents, and it would be wrong to expect the authorities to convoy everyone safely through the uncharted waters ahead". The second half of the sentence was addressed to the assembled bankers, and was meant to remind us of our prime responsibility for avoiding accidents, whether they might arise through bad lending, too much off-balance-sheet risk, illiquidity, mismatching in the exchange or money markets, over-commitment in the securities markets, failure of computer systems, fraud, or any other of the manifold risks of modern banking. The rescue and "convoying to safety" of Continental Illinois or Johnson Matthey Bankers and similar recent cases in Ireland and Hong Kong, sticks in the gullet of many observers. Why, they ask, should banks that get into trouble be treated more generously than other companies in the market-place? Does this not carry the "moral hazard" that banks may run improper risks because they expect to be rescued? But the privilege implied—and it is a doubtful one since it is as likely to blunt the edge of efficiency as to encourage excess—stems from the unique dependence of banks and banking systems on confidence. Almost by definition no bank can pay out all its depositors on demand; and the way in which a contagious loss of confidence can spread has been demonstrated time and again, most recently at country level in Eastern Europe and Latin America and at banking level in the savings and loan sectors of several U.S. states. So the privilege is necessary, but it does not reduce by one jot the responsibility of banks to run their businesses safely as well as profitably in the interest of depositors and shareholders, and to stand behind their subsidiaries, including those engaged in securities or insurance.

The first half of the sentence, "the process of change is likely to involve some accidents", was addressed more to the public, politicians and press. In any market system, however responsible the participants and however governed by statute or self-regulation, there will be accidents. By a common and understandable human failing, it is often those that have been loudest in calling for a return to free markets who are most outraged by these accidents when they occur. So let me put it plainly: the good market is not one in which there are no failures but one in which the failures are few in relation to the economic gains, just as the good bank is not one with no bad debts but one with few in relation to its overall performance. Indeed I will go further and say that in a time like the present of vigorous innovation, not all of it understood, occasional accidents and failures are a necessary part of the process by which the market learns. As the proverb says, we learn by our mistakes. The small depositor, investor or policy-holder is entitled to some protection against the mistakes of financial companies or practitioners, but that is all.

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I have come to the authorities—governments, finance ministries and central banks—who, however free the markets, have a considerable say in the world economy. Do they know where they are going? Two trends are strongly in evidence at present, disinflation and deregulation, both already mentioned and both part of the landslide reaction against the previously prevailing trends. For throughout the Bretton Woods period, benign though it was, there was a tendency to inflation (well contained until the 1960s) and a tendency to increase the public sector's hold on the economy. Such trends move over a long cycle, and the points of change owe as much to fundamental shifts of view among electorates as to the arrival of individual politicians. The general public may not be greatly interested in deregulation as such, but it dislikes high taxes and is disillusioned with state monopoly. Equally clear is the deep resistance to inflation in mature economies with a large middle class, the main reason why the major countries have not slid, like Latin America, into hyperinflation.

The spread of the free-market gospel around the world has been remarkable. It has always been strong in much of the Far East and steady in Germany. In 1979–80 it gained two powerful new prophets in Mrs. Thatcher and President Reagan; and when President Mitterrand tried to break out on his own he was fairly soon compelled to rejoin the pack. Then we began to see in Europe and Australasia a number of incoming socialist administrations which, whatever the rest of their programme, deliberately adopted orthodox financial and economic policies from the outset. And now the three giants, China, India and the U.S.S.R., are all in their different ways trying to inject more private enterprise into their ponderous economies.

If my analysis is correct, this current trend in favour of the free market should have some way to go yet, since it does not depend on the political complexion of particular governments but reflects a more general turning away from the Keynesian belief in the efficacy of governmental intervention. In Europe, beset with unemployment, there is little feeling that a return to earlier policies would provide a cure. In Brazil, coming back to civilian rule amid harsh economic conditions, the state-owned sector is nonetheless felt to be inefficient and in need of reform. If there is any area where I could see the possibility of a relatively early swing back to regulation, it is a financial area. Over-expansion might produce a number of spectacular accidents. Alternatively, depressed conditions might revive the international debt crisis and require substantial official support for banks. In either case it might be desirable or politically convenient to reimpose controls. And it is not difficult, within a general philosophy that favours market forces, to construct a special case for controls on financial markets, whether on the ground that they are more inclined to carry freedom to excess, or that a stable financial system is necessary to allow market forces to work properly in the rest of the economy.

The outlook for disinflation is much less clear. The 1982 shock not only helped to halve the average rate of inflation in the OECD countries: this year it may well be below 5% for the first time since 1972. It also dealt a heavy blow to inflationary expectations in the developed world, so that thereafter, even in countries where double-digit inflation persisted like Italy and Spain and New Zealand, the level of wage demands declined. One can take two views about how the battle has gone since then. The optimist says that we have done well to engineer a moderate and much needed recovery without reigniting inflation; that this confirms that inflationary expectations are in retreat; that the three major economies, the U.S.A. (with its low level of wage demand), Japan and Germany are leading the way; and that given time and perseverance the developed world will arrive at a sufficient degree of price stability on which to build a new period of faster growth. The pessimist replies that U.S. inflation has been masked by the overvaluation of the dollar; that inflation is beginning to bubble again in some European countries, Britain among them; that it is rampant in the key countries of Latin America; and that governments have no game plan to reduce it further to the desired non-accelerative level.

This last is the pessimist's most telling point. If one accepts, as I do, that a further reduction in inflation is a prime objective for the future health of the world economy, what game plan should governments adopt, bearing in mind that there is already low growth and high unemployment in many parts of the world? Should they each have their own plan, or are there some general prescriptions? Jacques de Larosière has persistently pointed to the need to cut budget deficits in the U.S.A. and elsewhere. Should this be done by reducing spending or by increasing taxes or by a judicious mixture of both? In the monetary sphere, the establishment of a high real rate of interest proved to be a powerful engine of disinflation. Is this the vital tool we must continue to use, or is it time—and is it possible—to lay it aside? What about incomes policy, the alternative disinflationary device, which has been used with success by the present Australian government but which seems to belong to yesterday's world?

I ask all these questions because I don't know the answers and I suspect that the major governments don't either. Yet they will be answered—if not by design, then by events. There will be an actual figure for the average OECD rate of inflation in 1990 or in 2000, and its level will heavily influence the other economic conditions in both the developed and developing world. And it is not just a matter for governments and central banks. If we are to get back to what we all want, a reasonable blend of price stability, growth and employment, the private sector and the public sector will have to be working together for it. Two obvious areas for such cooperation are, on the negative side, wage restraint, and on the positive side, the creation of new jobs in depressed areas, particularly inner cities. There have certainly been some successes of this sort in various countries, but the overall picture is such that we cannot honestly say that we know where we are going. We have an objective, but we have no clear idea about how to get there.

That being so, what might an unengaged outside observer say about the prospect? First, a return to double-digit inflation in the major countries would be quite against the current trend and is hard to envisage after the experience of the 1970s. The attainment of price stability is more possible, but will not be easy to manage, even with an enlargement of the cooperation I have just described. We could also arrive at price stability after stumbling unintentionally into another recession as severe as 1982. This danger has been foreseen for some time, and it is not difficult to make up a recipe for it out of the ingredients of the present situation with liberal infusions of protection and debt default. This is the possible aftershock I spoke of earlier, and we will surely strain every effort to avoid it. So, with no desire to return to the fleshpots of high inflation, and no immediate way to the promised land of price stability, perhaps the most likely prospect is that we will have to journey for some years more in this present wilderness, where inflation can be held to around 5% but only by constant vigilance and at a considerable economic cost.

In which case, life in the wilderness will be more or less tolerable according to how well or badly the more immediate problems are handled. The most immediate is the long expected slow-down in U.S. growth and reversal of the dollar. So far this has gone reasonably well, in that the two main questions it raises—can growth be kept up in the rest of the developed world, and can U.S. interest rates be kept down—have been answered more in the affirmative than in the negative. This is particularly important for the indebted countries; and it is encouraging that, while some Far Eastern countries have suffered a setback in their specialised exports to the U.S.A., the current account of a broad-based economy like Brazil has held up better than expected. But we have recently been sharply reminded that we have not even begun on a bigger potential problem, the necessary correction of the huge U.S. current account deficit. Ideally this would take place over a period, and be reflected mainly in a corresponding reduction in the surpluses of Japan and other unindebted countries. But this will not happen of itself, and the handling of it may make significant demands on international cooperation in the near future.

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I have come to my third head, the international community and its prospects, and here again I don't think that we have a clear enough idea of where we are going. It is a commonplace that international economic cooperation has fallen away since the high days after the second world war. How does it stand now?

International cooperation can show itself in two main ways, in managing the existing system or in changing the system for the better, as was done in 1944. There has been much talk lately of a new Bretton Woods, but it seems to be more an expression of dissatisfaction with the present state of affairs than of any positive will to reform. The deputies of the Group of Ten countries were asked last year to consider the possibilities of reform, but their report, presented at the ministerial meeting in Tokyo in June 1985, came to nothing. It is my belief that not until inflation is fully mastered in the major countries will those countries have the time and the confidence to embark on a more structured system. And among those countries the U.S.A.'s views of its own and the world's interests will be crucial, because the dollar is still the biggest counter in both the exchange rate regime and the reserve system.

So what about cooperation in managing the existing system? When it comes to a crisis, like that of international debt, cooperation is still vigorous. The major indebted countries have taken the long view with courage and realism; the creditor governments have submerged their differences and worked through the IMF; and hundreds of banks have acted together in rescheduling and putting up new money. There has been a clear game plan here, and invention and energy to carry it through to the restoration of creditworthiness, as has been achieved in Eastern Europe. I would also argue that the engineering of the 1983 recovery, unbalanced though it has been, nevertheless owed as much to international as to national imperatives, and showed a collective instinct for cooperation on the brink of a world depression. But away from the pressure of crisis, the story has been much less encouraging. Take the obvious need to establish a new pattern of future capital flows to the developing world. Neither governments nor the markets have addressed themselves properly to this. Aid is given grudgingly; there is much talk about promoting more direct investment but little action; and the new instrumentation which the market has been developing has been for the developed world. So the debt problem, though much improved, has not been resolved before the current cyclical downturn, any more than the unemployment problem.

A distinguished Asian, I.G. Patel, currently Director of the London School of Economics, tackled this subject of cooperation in his L.S.E. Society lecture last May. He posed "the paradox of growing indifference towards international economic cooperation when the international economy has been under great strain". Conceding that conditions are not as bad as in the 1930s, and that the record of cooperation over the debt crisis "deserves at least one cheer", he nevertheless asked why at such a time the World Bank and other aid and development agencies should have been starved of funds; why the IMF, though applauded by the industrialised world as "a kind of international economic gendarme for the erring poor", should have been emasculated in its essential roles of reserve creation, supervision of exchange rates and policy surveillance; and why the spirit of the GATT should continue to be flouted, most recently by the invention of voluntary export restriction.

In Patel's view the most important reason for his paradox is "the renewed faith in the operation of market forces" which I have been discussing. As he puts it,

> When there is greater belief in what President Reagan once described as "the magic of the market place", there is bound to be greater opposition to any plea for deliberate cooperation which carries with it the suggestion of some intervention. And one cannot dismiss this position as entirely ideological either. There was enough in the experience of the sixties and seventies to demonstrate that intervention or cooperation has often failed to produce the desired results. It is not necessary to believe that markets perform superbly in order to decide that, by and large, they should be left alone. The evidence of ineffective or perverse intervention might be sufficient to establish that the medicine of cooperation must be taken only in small doses.

He goes on to remind us of the inherent difficulty of cooperation among unequals, particularly with no international law, code of conduct or even bill of rights to govern it. There are indeed few limited groups with more unequal members than the community of nations. Uganda and the U.S.A., Bangladesh and Switzerland, Chile and China are far more different than the proverbial apples and oranges. And the basic differences I have in mind are compounded by other notional distinctions, many of them with political overtones. A prime example is the crude distinction between developed and developing countries, which was beginning to be blurred a little by the successes of newly industrialised countries like

Korea and by the accession of wealth to the oil producing countries. Sadly, it has been reinforced by the market's response to the international debt crisis, in which no OECD country however indebted has lost creditworthiness, whereas a number of relatively soundly based developing countries have been caught up in the contagious loss of confidence. And within the developing world there is another important distinction between those countries which are participants in the market and those which are outside it and largely dependent on aid.

Faced with this situation, and recognising the difficulties without being daunted by them, one can still draw up a shopping-list, modest or ambitious according to taste, of desirable actions to be taken in the management or reform of the system. Alternatively one can start at the other end, and ask oneself: if conditions are not yet right for a return to a more structured system, mainly because of the lingering uncertainty about inflation in the major countries; if current thinking has retreated somewhat from the post-war conviction in favour of internationalism and multilateralism; if in practice we can get together to smother a crisis but not to prevent one; then what would give us a reasonable chance of continuing to muddle through (recognising that even muddling through implies great hardship for some countries and many people)? The obvious answer is that there are danger signals in two interrelated areas, exchange rate volatility and protectionism, which if not addressed could lead to a more universal deterioration, and many would also see the need to define a new phase in the game plan for international debt.

The creep of protectionism is not a new phenomenon. It has been kept in partial check over the past twelve years because we still remember the painful lesson of the 1930s, that in the end everyone is worse off by it. In the modern jargon, it is a negative sum game—worse than beggar-my-neighbour. But now the creep threatens to turn into a canter, not least because of exchange rate developments. That governments should be driven to put restrictions on trade because of exchange rate distortions arising from free capital movements is, as Alexandre Lamfalussy has said, "Bretton Woods turned upside down". The ever-increasing volatility of exchange rates feeds on the huge amount of dollars put into the market by the U.S. current account deficit, and one shudders to think how it might increase further if the U.S.A. were to forfeit the confidence of dollar holders. It also stems from the need for banks, as I have already described, to go cautiously and consolidate, so that there is generally more aversion to risk in foreign exchange dealing rooms than there used to be. Nowadays, when an exchange rate starts to move, there is no longer that almost automatic response of corrective speculation which lubricated the market in steadier times. We see exchange rates responding not to trade transactions, not even to capital movements, but simply being marked up and down like stock prices on the basis of market news or rumours with little or no actual dealing. This must affect the real world of trade and business. Indeed, a senior British businessman said recently that exchange rates had become industry's number one problem, because of the damage done to particular sectors by prolonged overvaluations (as of the pound in the late 1970s and the dollar in the 1980s), and because uncertainty about exchange rates is inhibiting investment and, consequently, growth.

We need effective international cooperation in both these areas to prevent further deterioration and crisis. On exchange rates, given that conditions are not yet right for a worldwide return to a more structured system, what is called for is a number of modest but firm steps by the major countries which taken together could have a measurable impact on present and future volatility. Let us hope that the decisions taken two weeks ago in New York City by the Group of Five are a beginning of this process. The markets are not over-impressed by general statements of intent in official communiques, but they are quick to sense when governments really change their attitude to exchange rates and confirm it by fiscal and monetary action, as happened earlier this year with the pound sterling. On protectionism, a larger and more public effort should be mounted—the beginning of a new round of negotiations involving as many countries, including the developing countries, and as many issues, including agricultural protection, as possible, with a reaffirmation of the GATT principles of openness and multilateralism, a strengthening of the institutional machinery of the GATT, and—above all—a recognition of the interdependence of trade and money. Nothing has been more indicative of a lack of overall sense of direction in recent times than the spectacle of exchange rate distortions arising from free capital movements being counteracted by restrictions on trade or of trade ministers in developed countries raising barriers against indebted developing countries at the same time as their finance ministers were trying to help them.

Finally, even if another deflationary aftershock can be avoided by maintaining growth, curbing protection, steadying exchange rates and gradually correcting the major imbalances, the problem of indebtedness in Latin America and elsewhere will still be with us for some time ahead. The objective remains unchanged, the restoration of the indebted countries to creditworthiness, and each of them has to go through a first phase of emergency action and assistance and a second phase of stretching out their debt by a multi-year rescheduling agreement. But the task is not necessarily completed at that point: some of them may have to live through a further period in which neither internal nor external confidence is fully restored, and they hover on the edge of creditworthiness. What should be the components of such a third phase? First, self-help should place less emphasis on cutting imports and more on encouraging domestic savings, reducing inflation, wooing back flight capital (a big factor in most of these countries), encouraging inward investment and curbing their own protectionism. Secondly, the IMF's programme for immediate correction should be matched by a medium-term strategy for renewed development under the guidance of the IBRD, which would have the full moral and money backing of the creditor countries. Those countries should, as part of the package, refrain from protection against the debtor countries. Such an approach would of itself provide most of the flows of new money needed, and would be the essential background to any additional occasional infusions from creditor governments or banks. It would extend, in this important area, the cooperation and sense of direction that has been shown in the handling of the immediate crisis into a longer and better future.

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Our sense of direction, unlike that of birds, is not so much linked with space as with time and its one-way flow. Leaving faith aside, if we look to the future and say that we know where we are going, the phrase can carry very different degrees of assurance. There is the absolute certainty of death and sunrise. There is the practical certainty that we will return home from Seoul after this meeting. There is the reasonable assurance of carrying through the plans we make for ourselves and our businesses. But the longer the plan and the more people involved, the less the degree of assurance, so that when one comes to questions about the world economy, which involve not only the plans and aims of the authorities but also market forces, i.e. the aims of numberless individuals and institutions acting for themselves, there is no certainty or assurance, and one must work on trends and cycles and what one can perceive of secular change. It is on that basis that I have given my expectation that deregulation still has some way to run (with a small question mark over financial deregulation) and my guess is, the outlook being less clear than I would like, that there may be little change in inflation and internationalism. These are not academic questions for international bankers. Given the first requirement of professional and technical competence, thereafter the closer a bank gets, by luck or good judgment, to reading these big issues right, the more successful it will be. The same would surely be true of all the other institutions represented at this annual meeting, the IMF, the World Bank, governments, central banks, the financial press.

Some years ago I was asked by a well-known financial periodical to supply a favourite quotation with some relevance to my work in banking. I didn't send them the famous line from Shakespeare's *Hamlet*—

> Neither a borrower, nor a lender be

—which is good advice, but not for a banker to propagate. I sent them two lines from the opening of a long philosophic poem by Robert Bridges, written about the time that Per Jacobsson was starting on his career—

> Our stability is but balance, and conduct lies
> in masterful administration of the unforeseen.

That gives you, with poetic compression, the essence of the matter. The assertion that stability in human affairs is not standing on an immovable rock but achieving a balance, a trade-off, an equilibrium, is as true in business as it is in economic and political management. And there is a balance in the second phrase, too. The unforeseen will happen—shocks, crises, turning-points in cycles, shifts in trends—and when it happens we are not to be defeated by it or just ride with it but to manage it, and manage it masterfully. That word implies technical competence, but it also implies a sense of direction. So the balance is between sense of direction and adaptability, avoiding the extremes of overplanning on the one hand and opportunism and crisis management on the other. This again applies equally to running a business and to running a mixed economy whether at the national or international level. We must be ready for anything, but we ought to know where we are going.

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MR. MARTIN: The meeting is now open for questions.

Questions and Answers

Following the formal presentation, Sir Jeremy answered questions from the audience.

Can the problem of the dollar be solved without some deflation of demand in the U.S.A.?

Certainly I would accept the inverse of that proposition, that if you don't have a reasonable control of demand it is obviously impossible. The most obvious need is for some readjustment of the fiscal and monetary balance, some reduction in the fiscal deficit and a maintenance of reasonably low interest rates. Whether that adds up to a net deflation, I don't know. I think it would probably have to add up to some net deflationary impact, but it is a little difficult to say that about an economy that has been going so fast and has now come down temporarily to a level of growth of 2–3%. There has already, as it were, been a significant cutback in the rate of growth.

So I would repeat what I said in my lecture, that the G–5's very successful announcement of their desire to see a lower dollar has had an impact of 5, 10, 15 percent on various currencies around the world. What we will all, the market particularly, be looking for now will be fiscal and monetary policies consistent with that announcement. That might involve what I just said in the United States, but it doesn't only involve the United States, of course. It is very important that there should be consistent action by other members of the Group of Five.

One thinks particularly of the need to increase domestic growth in Japan and in Germany, and I have visited both those countries in the last two weeks. I found a heartening degree of confidence in Germany that there would be an increase in domestic consumption and domestic investment, which ought to be able to match any decline in exports as the U.S. corrects its position. On the other hand, although there is a general acknowledgement of the point in Japan, and a good deal of will towards it, there is also some doubt about how far it would be achieved.

Those countries are the main players, but my own country and many others also have their part to play. It is a cooperative exercise, but the main place where action has to be is in the States.

Can you say more about your possible aftershock?

Well, the aftershock that one could envisage, as I said, could be easily put together by taking the ingredients of the present situation, and throwing in liberal doses of protection and debt default. I should perhaps have added the recovery slowing down further, so that the whole thing would work together to a recessionary spiral, which I said might be as deep as in 1982. That was quite a widely predicted possibility which pessimists have predicted from some way back, that we would need two severe deflationary shocks in order to get inflation out of the system. And I think it is something that is before us as a possibility at the moment, and I am absolutely heartened to see some positive action, positive thinking appearing at the very time of this meeting, to avert this danger.

The immediate focus, of course, is the threat of protection in the United States, which is motivating this positive action. But whatever the motivation comes from, it is part of a broader problem, and it is very heartening to find the new Secretary of the Treasury of the United States taking a positive line on a number of these interrelated problems.

The choice before us, according to the metaphor commonly used, is between a soft and hard landing in a noninflationary world, at least for the major countries. The soft landing would carry on from where we are now, with inflation already down to 5%, and would get it lower, without any such further shock. The hard landing would involve such a shock, and the action which is needed to avoid it was the action I listed near the end of my lecture: maintaining growth (which includes the need for countries other than the U.S.A. to keep it up); curbing protection, with all its many facets; steadying exchange rates; and gradually correcting the major imbalances, late though it is, primarily the two in the U.S., the current account deficit and the underlying fiscal deficit.

I believe we can do it, but the aftershock remains a possibility if we muff it.

Your remarks seem to imply that the major powers should coordinate the rate of growth of their money supplies. Do you think this at all likely, especially from the United States?

Well, I don't think it is very likely that there will be close coordination. But if by this coordination of money supplies is meant more general coordination, so as to get inflationary conditions more equal in the world, I think that that has been happening one way or another. The achievement of getting inflation down from two double-digit peaks, actually both about 12 percent, to the current level shows that there is some ability to move together, but it hasn't been a total coordination, it has been quite ragged in places, and some have led, and some have followed.

Isn't unemployment a major problem?

Well, yes, I certainly agree, and if I only mentioned unemployment at various points briefly, I did include it in my list of the major problems we are facing, particularly in Europe, whose mature economies tend to low growth.

One must consider it first from the political angle, namely, is there likely to be a violent swing of opinion produced by this unemployment, which would lead us back towards double-digit inflation through a return to quite different kinds of policies. I think very few of us think that. Even within Europe that is not widely seen as a way of curbing unemployment. Also there is a widespread recognition that the technological changes I have described are going on at the same time, and that is part of the unemployment story; there is a sort of underlying optimism that at the end of these technological changes not only will work patterns be more comfortable, but there will somehow, in a way we can't foresee, be more jobs created. In the meantime, unemployment will be a drag on growth, just as in the meantime the problems of the indebted countries are a drag on growth. And I see, in a way, all that as part of working inflation out of the major countries' systems.

But, of course, if we get stuck in what I called the wilderness, the halfway house, where we don't quite get rid of the fear of inflation, where we get it down in most places but still have to pay what I called the economic cost of struggling against a reacceleration, then unemployment is bound to be part of that cost. And certainly there is a part of this generation that will be marked by this experience, as in Europe part of a generation was lost in the first world war, and that is unavoidable now, an unavoidable disaster of this period.

I myself feel, from what I see in Britain, that you have to start to tackle unemployment at the local and the small end. I referred to the cooperation of government and private sector, which certainly impresses and pleases me in Britain, in trying to get local enterprise agencies going. Ninety-five percent of politics and traditional barriers get swept away in this sort of effort, and where it is successful it is founded on local initiative. There is help from the center, whether the center is big business or government, in the form of people, time, and money, but it has to be a local effort.

And then in all our countries we do have a remarkably flourishing gray economy, or black economy, which is difficult to measure. I am not a trained economist, and I used to share the view that somehow this was inferior production, and insofar as it involves deliberate evasion of tax it is morally inferior. But I don't think in other ways it is inferior, and somebody pointed out to me, sometime ago, the very evident point, which I should have thought about, that there is an enormous amount of work which goes on in the economy, mainly done in the home, which is never measured as productive work. So our measurements are rather artificial, and work in the gray economy is part of the answer to unemployment.

How is the enormous current account deficit of the United States going to be corrected without creating a depression?

Well, I agree with you about the enormity of the figures. They are very, very large. We are certainly going into a new situation, where before the deficit is corrected the U.S.A. is bound, even on the most optimistic scenario, to become a very large net debtor, so that it will no longer be a question of people holding dollars around the world against a large capital investment surplus of the United States. Having been left this long, the correction is already a very big task, and on top of that there is the problem of distributing its counterpart among other countries, as I have referred to in my lecture.

I don't quite see my way to the end of the thing, perhaps because we haven't been through this before, unless some economic historian could find a parallel further back. I was deeply engaged with the end of the sterling area, but then there was another greater reserve currency into which people could move out of sterling, and with the help of sterling agreements and various kinds of things we managed that relatively smoothly. But there is no such let-out at the moment with the dollar situation, and one doesn't have a very clear idea of what level of U.S. indebtedness is a tolerable level and what is not. All one knows is that at the moment it is going up too fast, and it has got to be turned down the other way.

You say that there is bound to be a depression out of it, and instinctively one agrees with you that any kind of loss of confidence in the dollar, with the uncertainty created around that kind of turmoil on that scale, is likely to damage world growth.

So my instincts are with you, but I couldn't possibly shape exactly the form of the correction, or the form of the disaster if it isn't tackled quickly enough. It is just as I described it, a very big problem that is only just beginning to be addressed. So I share your view, without being able to paint precisely the holocaust, or apocalypse, or whatever it is.

I think we should be drawing to an end in view of our desire for refreshment and relief. I will take one more question, if I may.

Yes, you, sir.

Thank you, a very good question. I will repeat it, in case some didn't hear. The questioner said that I made a comparison between the new swaps and the Euro-dollar market, which indeed I did, comparing them as innovations which seem to be gimmicks but prove to change the whole market, and he goes on to ask: *Will the new swaps increase the access of developing countries to the international market in the way in which the* *development of the Euro-dollar did, and will it more generally increase the flows of capital around the world in the way the Euro-dollar did?*

Well, as to the overall question, will it increase the flows, and the movements in the market, absolutely, without doubt it is already doing so. My point in my lecture was to say that along with that obviously went some risks, and I made some comment about operators inventing, and management trying to keep up with the operators and regulators coming a little behind, and so on. Well, the swap is a perfect example of that. In a complex swap, which might involve four or five transformations, I don't think anybody has yet worked out a simple arithmetic formula by which you can allot to all the different parties the various credit and mismatch risks that are involved in it.

So, like the Euro-dollar market, it will increase the volumes, but I think those using the market need to do their utmost to know what they are doing, and to keep a reasonable restraint on it while they are doing it.

The second question is more difficult. Will it provide a useful vehicle for developing countries? I did say in my lecture that at the moment it hasn't. I mean, at the moment these devices are being largely used within the developed world. That could be nothing to do with the nature of the instrumentation, but just the current aversion in the developed world to developing country risks. I rather suspect it is. I see absolutely no reason in principle why a good new instrument, which enables the market to be unified in a remarkable way, should not be available to developing countries.

Well, thank you very much. That brings me to the end of the questions and answers, and Mr. Kim, the Chairman of the Korea Federation of Banks, will close our proceedings.

Closing Remarks

Joon Sung Kim

Sir Jeremy, honored guests, ladies and gentlemen, it has been a profound honor for the Korea Federation of Banks to host the Per Jacobsson Lecture today, and for Korea to host the World Bank and International Monetary Fund meetings with which this lecture is associated.

Since 1964 the Per Jacobsson Lecture has lent solid scholarship to this annual gathering of the world's monetary and financial leaders, reminding us of the Korean *sirhak* philosophy—"to clarify the truth, seek evidence."

Today we have considered persuasive evidence casting light on the direction of the world economy, the outlook for the international monetary system, and prospects for worldwide capital finance and banking. For these vital insights, freely shared, representing substantial research and analysis, we should all be grateful.

Indeed, if I may indulge a particularly parochial perspective for a moment, from our vantage point in Korea, the future is fraught not only with opportunities inconceivable to us only a short time ago, but also with catastrophic risks of imprudent policies by those world leaders entrusted with ensuring prosperity. The benefits of free trade and industrialization can accrue only in the supportive environment of financial stability. The banks of Korea will do their part, however modest, to contribute to a healthy world monetary system.

So, welcome to Korea, and welcome to the Sejong Cultural Center today. We are all the wiser for the time you have taken to enlighten us.

Following this meeting, our Federation is hosting a reception in the Sejong Hall adjacent to this room. I hope that all of you will honor us with your attendance.

Thank you.

William McChesney Martin

We are all grateful to Sir Jeremy for his stimulating lecture; we have heard from Governor Choi of the Bank of Korea; and we have had a real benediction from Mr. Kim, who, as you know, has also held the positions of Deputy Prime Minister and Minister of Economic Planning.

I think we have covered the ground well, but I do not want to adjourn without expressing appreciation to our Korean hosts for having given us these wonderful facilities, and for having entered into our discussion so completely and so fully. We are very grateful to you, Governor, and very grateful to you, Mr. Kim.

Thank you all for being here. We can leave with much to think about.

Biography

Sir Jeremy Morse was born in London in 1928 and was educated in Winchester and New College, Oxford. On leaving Oxford in 1953 he joined Glyn, Mills & Co., where he was trained in banking and became a Director in 1964.

In October 1964 he moved to the Bank of England, where he was Executive Director on the home side from January 1965 until June 1966. From July 1966 until September 1972 he was Executive Director in charge of overseas affairs and Alternate Governor for the United Kingdom of the International Monetary Fund.

In September 1972 he was chosen to be Chairman of the Deputies of the Committee on Reform of the International Monetary System and Related Issues (Committee of Twenty) of the International Monetary Fund, a position that he held for two years until the Committee was disbanded in September 1974.

He joined Lloyds Bank in May 1975 as Deputy Chairman and became Chairman at the end of March 1977. In June 1984 he became President of the British Bankers' Association. He is also a Director of Legal and General Assurance Society, Ltd., Imperial Chemical Industries, and the City Arts Trust.

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