

REFLECTIONS FROM A CENTRAL BANKER - THE GOMES LECTURE 2004

It is a great honour to have been invited to deliver this year's Gomes Lecture, a great honour, and a very real pleasure.

As you will certainly know there are always three reasons for everything. I give you the example of the English banker (not, I hasten to add, a central banker) who attended a reception during a financial conference in Austria. Sadly when he arrived he'd already had too much to drink. Soon after this arrival he heard an orchestra start to play, and he turned to his neighbour and asked 'Madam, will you dance with me?'

'No, I won't' came the reply, 'for three reasons. In the first place you're drunk. Secondly, the music that you hear is the Austrian national anthem. And the third reason is that I am in fact the Archbishop of Vienna!'

I give you another example: of the Soviet Trade Delegation that visited the UK to promote the sale of Russian watches. They called upon the President of the Board of Trade who asked them why we should buy Russian rather than, say, Swiss watches. 'Well, comrade', they replied, 'there are three reasons. They are better designed than Swiss watches. They are cheaper than Swiss watches. And they go faster than Swiss watches'!

Well, I'm delighted to be here, for three reasons. In the first place it's always a pleasure to come back to Emma. I had enormous fun here as an undergraduate, and the time that I spent here, and the education they somehow managed to instil in me, were the gateway to the whole of the rest of my life.

Secondly, I have had the great privilege this afternoon of meeting Professor Peter Gomes, and the Rossano family which so generously endowed this occasion in Peter's honour. That I have to say was a great personal pleasure.

But, thirdly, I am thrilled to be able to contribute, in a very small way, to the continuation, and strengthening, of the unique ties that bind the College with Harvard University, and which have certainly contributed to the very special relationship that exists between this country and North America.

It is a remarkable fact that a high proportion of the university graduates who emigrated to the New England colonies in the 1630s were Emma men. Newtown, in Massachusetts, was renamed Cambridge as a

compliment to one of them, Thomas Shepherd, a distinguished preacher. And of course John Harvard, who graduated here in 1632, gave his name to the first American university. These links have been maintained through Harvard Scholarships, and now through the Gomes Lecture, which celebrates our very distinguished Honorary Fellow.

Master, I have chosen to reflect this evening on my 40-odd years at the Bank of England. People keep telling me these days that retrospection is a sign of old age, I can't imagine why! But it is certainly true that I have become increasingly conscious of the substantial changes that have occurred – in fits and starts, and with periodic reversals, but in the same general direction over time – in our broad approach to managing our economies, since I left Emma in 1962.

I begin with the change of approach on the supply side of our economies, which is fundamentally important because it is the supply side which determines the rate of growth (and all that that means in terms of the levels of employment and of income) that we can hope to sustain. And here, what we've seen around the world, from different starting points in different countries, and to varying degrees certainly, is a broadly-based shift, from centrally-administered economic and financial systems, to systems that are much more market-based.

The most dramatic example of this was, of course, the collapse of communism in the Soviet Union over a decade ago, and the related move away from the centrally-planned economy. That didn't happen overnight. It took me back to the mid-1960s when I was sent to Moscow for the best part of a year to study the Soviet system. Detailed decisions on resource allocation and production targets were made at that time by Gosplan. And there was a wonderful – though probably apocryphal – story going around about a nail-producing factory which only managed to meet its physical output target by producing a massive (and totally useless) two-ton nail at the end of the year, for which it was actually 'paid' by the monolithic banking system, which was in effect more of an accounting system – checking on plan fulfilment – than a means of allocating financial resources! Already then, attempts were being made to introduce the profit motive in an attempt to improve the efficiency of the predominantly state-owned and controlled productive sector. But it proved to be an experiment before its time, and no doubt contributed to President Khrushchev's downfall.

While the eventual shift away from central planning in former Communist countries provides the extreme example, there has been a not-dissimilar, gradual evolution in the direction of an increasingly market-

based approach pretty well everywhere, in both the developed industrial countries and in emerging markets around the world.

In our own case here in the UK, we began the post-war period of general scarcity with centralised, physical controls on resource allocation – extending, for example, to the rationing of a good deal of consumer expenditure. I remember as a child waiting impatiently for my next month's allocation of sweet coupons! My grandchildren these days just have to save up their pocket money!

Many of these controls – in fact most of them – had been dismantled before I joined the Bank. But the financial system, with which I then became involved, was still at that time governed by all manner of direct controls: including foreign exchange controls, quantitative ceilings on bank-lending coupled with directional guidance, the queuing or effective rationing of capital market fundraising, and restrictions on the type of business activity that different categories of financial institution were allowed to pursue, to take just a few examples. And there was continuing direct government intervention in the wider economy too, through prices and incomes controls or public ownership of large parts of industry and so on.

Much of that lasted through the first half of my career at the bank. It has now largely gone; and our experience in the UK is certainly not unique, or even unusual.

It has become increasingly accepted that freer market competition – for all its imperfections, which I will touch upon – is the best means we have so far discovered for directing resources (whether human, material or financial resources) into those activities in which they can be most productively employed. Profitability has increasingly come to be seen as providing a powerful incentive to increasing economic efficiency, helping towards the higher sustainable growth rate that we need to meet aspirations for higher employment and rising living standards, by encouraging the concentration of production on those activities, and in those businesses – or parts of the country – which have, or are able to develop, a comparative advantage in particular products or services. And this logic has been widely pursued not just at the national level, but on a global basis, reflected in the gradual, even if often difficult, evolution towards freer world trade and greater freedom of international capital movements.

Not everyone welcomes these trends.

The perceived benefits of greater competition apply to the overall economy, at the macro-economic level. Existing producers, whether individual business and their employees, or the regions (or even country) in which they operate, tend to think of competition and market-driven resource allocation as a zero-sum game, like a rugby match between England and Australia, where if one side wins the other necessarily loses. I make no comment on which side is which! It's hardly surprising that existing producers are tempted to resist the opening of their markets, and look for protection where they can.

But if we were to acquiesce in protection in an attempt to stem the tide, it would mean that we ignored the benefits that greater competition, and more innovative and efficient production, can bring to our community as a whole, including consumers as well as potentially more efficient producers and their prospective employees, wherever they are located. These potential beneficiaries may at times find it more difficult than existing producers and their employees to make their voice heard, but it is those potential benefits which make market competition a positive sum game at the level of the economy as a whole.

I don't at all underestimate the pressures on businesses and their employees, or on the communities in which they operate, that struggle to maintain their comparative advantage. But standing still is not the answer, and not a practical option in today's world. The challenge, at the micro-economic level, is to be able to respond to changing demands, and embrace new activities to replace those in which an existing comparative advantages becomes impossible to maintain. But that, of course, is easy to say. It's cold comfort to point out that commercially successful activities contribute not just their output, but also rechannel the income that they generate back into the economy, creating demand for other goods and services, whether at the national or international level. The prospect of on-going change is rarely comforting. But governments can do – and are seeking to do – what they can to help the process, with increasing emphasis on education and training, and on structural reforms in product, labour and financial markets, designed to promote greater flexibility within our economies and to encourage alternative activities to take the place of those facing structural decline. That, too, of course, is easier said than done.

Notwithstanding these pressures, many of those directly affected accept the case for greater competition, but make the entirely valid point that it can only work in practice if it is reasonably fair as well as relatively free. That's partly a matter of natural justice, a point that is often made by emerging and developing countries in the context of successive rounds of

world trade negotiations, where they feel, with some justification, that they are being asked to give more in terms of access to their markets than they are offered by their more powerful, developed, country neighbours. But it is a broader point at every level. Even technically greater competition cannot simply mean a free-for-all in the sense that market participants can do just whatever they like. It can only work well in practice under conditions which minimise distortions, that's to say which limit the resource misallocation that would otherwise arise. Markets need to be governed by fair and acceptable principles and standards of behaviour and of transparency if they are to function effectively.

In this context, too, of course, governments have a crucial role to play in setting and seeking to enforce appropriate standards, reflecting not just economic but also social priorities. Notwithstanding the evolution to freer competition, plenty of regulation remains, relating to competition itself, but also to consumers and environmental protection, employment conditions, health and safety standards and so on. Indeed government intervention has typically intensified in many of these areas. 'Red tape' is typically very high on the list of complaints in just about every survey of business opinion survey that I have seen! There's no question that regulation is necessary if markets are to be 'fair' as well as 'free', though there is endless scope for disagreement as to precisely what that means!

The difference from what went before, it seems to me, is that, for the most part, such regulation does not now dictate what form of activity we can and cannot undertake, rather it sets the criteria we must meet, and the standards we must observe, in doing whatever it is that we choose to do. It leaves more room for consumer and producer choice, and therefore more room for competition and innovation.

But governments can't do everything themselves. The system would become impossibly rule-bound if they tried. Effective market capitalism depends critically, too, on the standards of professional competence and conduct of the private sector participants themselves. That's not just a matter of our collective interest in the market system as a whole: it's very much in the individual and corporate interest of the private sector participants themselves. We've recently seen a number of striking examples of the damage – in terms of finance and reputational, as well as legal, impact – to those directly involved, and to the functioning of markets more generally, when behaviour falls short of expected standards, resulting in a loss of trust on the part of investors, counterparties and customers. Without responsible professional conduct, the trend in favour of greater market competition will erode and lead to increasing government intervention.

And this does not stop at just professional responsibility.

Alongside the growing recognition of the benefits of the market economy for society as a whole, there has been an increasing awareness, too, that for a host of different reasons particular communities, or groups of individuals within communities, can be left out in the cold.

Internationally many people – including many of the more thoughtful, non-violent, anti-globalisation protestors – besides pointing to protectionist constraints on some of the poorer countries' exports (notably agricultural exports) make the equally valid point that many of those countries can't, without external assistance, even begin to share in the potential benefits of freer international trade and open capital markets. And essentially the same point is made at the national level by those who draw attention to the persistence, in the most highly developed countries, of deprived or disadvantaged communities living cheek by jowl with some of the most affluent.

Here again, of course, primary responsibility falls on governments. And I have to say that my impression is that there is a growing commitment – nationally in many countries, including our own, but also internationally – to help people to help themselves to become engaged in the mainstream economy. But in this context, too, it's not something that can sensibly be left to governments alone. The causes, and the nature, of the obstacles are too complex, and too diverse, to be capable of being addressed by blanket, across-the-board, centralised solutions.

So here, too, the private sector, through targeted charitable activity and through direct involvement in the communities in which they operate – has an important role to play. And I'm happy to say that in my experience, this responsibility is increasingly accepted, certainly here in the UK, but strikingly also in the US, again in the self-interest of the companies and their employees involved, as well as in the interest of our society as a whole.

Master, I've spoken, at some length, about the supply side of the economy. It is, as I say, hugely important because it determines the rate of growth we can hope to sustain. The shift towards greater market competition, which I've attempted to describe, is not the only factor determining supply-side capacity, which depends upon a whole raft of other factors, including the availability of natural resources, the skills of both management and the labour force (and the relationship between them), and the impact of almost every aspect of government policy. But greater market competition is an important factor, and despite its many

imperfections, I think one can at least argue that it is a more positive approach than the more centrally-directed and controlled alternative. What we all need to try to do is to make it work better.

But let me now turn to the demand side of the economy where we've also seen major changes in our general approach.

For much of the first half of my Bank career, aggregate demand management – macroeconomic policy in the jargon – focussed heavily on the short term, not just in the UK, but certainly including in the UK. It paid too little attention to the underlying supply-side capacity of the economy to meet that demand over the medium and longer term.

I was fascinated recently at the conference organised to celebrate the centenary of the University's Economics Faculty to see a reconstituted Phillips machine, which during my undergraduate days had been used as a teaching instrument to explain to us the effect of varying levels of demand in the economy on output, prices and the balance of payments. And what I hadn't realised then, but struck me very forcibly when I saw the machine again last year, was that it included no supply-side constraints at all! I don't say that it was that alone which explains our neglect of supply-side issues in the management of macro-economic policy during the 1960s and 1970s, but it did just cause me to wonder!

But it was during that period, when faced with slow growth and rising unemployment, both overall fiscal policy (the balance between government spending and taxation) and monetary policy were used in combination to pump up demand, until accelerating inflation and a worsening balance of payments threatened to get out of hand, notwithstanding efforts to constrain these symptoms through the use of direct controls. Then the fiscal and monetary brakes were slammed on and everything went into reverse. The aim at that time was to manage a perceived trade-off between growth and employment on the one hand, and inflation and the balance of payments position on the other. The unfortunate effect was that this go-stop policy cycle served to aggravate the familiar boom-bust economic cycle.

Over time this experience induced a pervasive short-termism in economic decision-making as businesses and investors and consumers, and employees in pay negotiations, sought to make hay while the sun shone. And that increasing short-termism, in turn, led to the increasing amplitude of the economic cycle, so that inflation rose progressively from economic peak to peak, while unemployment rose progressively from trough to trough.

We gradually learned from this experience, perhaps more slowly in this country than in some others, that there really is no trade-off between growth and stability in anything other than the short term, and arguably, as things progressed, not even then. We also came to recognise that fiscal policy, because it is somewhat cumbersome and takes time to implement, is not normally well-suited to the task of short-term demand management and needed to be constrained within prudent limits reflected today in the Chancellor's golden fiscal rules, if public debt levels were to be sustainable over the longer term.

And this left a distinctive role for monetary policy as the primary instrument for maintaining a broad balance, consistently over time, between aggregate demand in the economy and the underlying, sustainable, supply-side capacity of the economy to meet that demand. It now recognised that monetary policy could do very little itself directly to improve our supply-side performance, but that, to the extent that it was successful in maintaining overall stability in this broad sense consistently, moderating rather than aggravating the economic cycle, the short-termism in economic decision-making would diminish, which in turn would help indirectly to improve the supply side of the economy.

Through the 1980s we tried various technical approaches with that objective, including a variety of broad and different money supply targets, explicit and implicit exchange rate targets, and unconstrained discretion, with varying degrees of success, until finally, in 1992, after we had been driven out of the Exchange Rate Mechanism by market forces, we adopted an inflation target. And in 1997, responsibility for achieving and maintaining a precise, symmetrical target for retail price inflation, set by the Government, was formally delegated to the Bank of England, through the newly-created Monetary Policy Committee. This step was accompanied by extensive provision for transparency and accountability to the Government, Parliament and the British public at large.

I would emphasise that consistently low inflation under these arrangements is not seen simply as an end in itself. It is essentially a measure (as a barometer if you like) of the balance between demand and potential supply capacity in the economy, a measure of stability in that broader sense, as I mentioned a moment ago. It reflects the conviction that stability, in this broader sense, is a necessary, though not in itself a sufficient, condition for the sustainable growth of output in the economy for the high levels of employment and the rising living standards, which are, of course, more fundamentally the things that we all want to see.

‘Stability is a necessary condition for sustainable growth’ has in fact become the universal central bankers’ credo – and one which I still repeat out loud three times every morning when I wake up! You should all try it!

The objective of monetary policy these days could hardly be clearer. Actually achieving the objective of keeping close to the inflation target is not perhaps as easy as it sounds, largely because there is not a simple or direct link between short-term interest rates, which are our essential policy instrument, and the rate of inflation.

Our problem is compounded by the fact that we don’t know with any great confidence exactly what is happening on the supply side of our economies, that is to say, we don’t know at all precisely what rate of growth we can hope to sustain. We don’t know precisely either what is currently happening, or what is likely to happen over the next couple of years or so, to overall, aggregate demand, which includes demand from overseas (external demand) as well as domestic demand here in the UK. Nor do we know precisely what the full impact of a change in interest rates will be on aggregate demand, or how long it will take before the full impact is felt.

Ours is not a precise science, more of an art than a science, though we naturally try to bring as much economic and statistical science as we can to bear. We know only too well that our analysis, and our forecasts, and indeed our policy judgements, are subject to a significant range of error.

I sometimes used to think of Frank Bruno, the boxer, who was interviewed by Harry Carpenter before a fight. Harry Carpenter put it to him that his opponent was reputed to be invincible. And Frank Bruno thought for a moment, then said, ‘Oh dear, Harry. What am I going to do? If I can’t see him, how am I going to be able to hit him’!

Master, with that, let me now turn from this more philosophical background to the practicalities of recent economic developments.

It has to be said that the world economy has been through some pretty turbulent times over the past few years. In the second half of the 1990s we had the Asia crisis, which in fact spread well beyond the Asian continent. It could all too easily have resulted in global economic recession but for sustained strong demand growth in the United States. That expansion in the US was only made possible by a remarkable acceleration of productivity growth, associated with innovation in the information and communications technology sectors and its increasing application throughout the US economy as a whole, which meant that the

sustainable growth rate in the US was substantially higher than it had been up to the mid-1990s. These developments implied higher prospective corporate earnings growth which pushed up equity prices, and which also attracted capital inflows from the rest of the world, over-financing the burgeoning US external trade deficit and producing the strong US dollar at that time.

No one could know with any certainty just how far the acceleration of production growth could go, or how long it would last. And the exuberance, which was perhaps less irrational than Alan Greenspan had initially suspected as early as 1996, eventually over-reached itself. A cutback in US investment spending some three years ago caused a very sharp slowdown in overall demand in the US, where the economy in fact went briefly into mild recession, taking most other major industrial economies, and world stock markets, with it.

The period of weakness was then prolonged by a series of quite extraneous events, which had very little to do with the economy including, among others, the 9/11 terrorist attack on NY, the war on Iraq, the SARS outbreak in Asia, and a series of corporate governance and accounting failures in some large US and European corporations.

Through that period the US became heavily dependent on domestic consumer demand growth, encouraged by exceptionally low interest rates and discretionary fiscal stimulus, resulting in substantial imbalance between the different components of domestic demand, and continuing imbalance. This gave rise to concerns about how long this situation could be sustained and fears that it would result in an abrupt correction at some point. But without it, the overall weakness of the US economy would have been decidedly worse.

I'm fairly confident – which is strong language even for a retired central banker – that the US has now turned the corner. It is currently growing at a far healthier rate (of, say, 3 1/2% or more) and the US authorities can afford to maintain that rate for some time, given the spare capacity that exists after two years or so of sub-par growth, and given that the faster growth of productivity we saw in the second half of the 1990s appears, for the time being, to remain intact. There is no sign in the inflation data – or, as yet, in the labour market – that demand is currently close to outstripping underlying supply. That means that macro-economic policy can remain supportive going forward, though at some point, as investment demand continues to strengthen, and as external demand responds to the subsequent weakening of the dollar, policy will need to be tightened as the spare supply-side capacity is absorbed. It will need to be

sensitively handled to ensure a gradual moderation of household spending rather than a more abrupt slowdown.

Elsewhere in the major industrial countries we have not, sadly, seen the same improvement in supply-side performance. Indeed in Japan and Germany in particular, the sustainable growth rate seems to have fallen back over the past few years. In fact, in the Eurozone more widely, it is fairly generally accepted that supply-side reform (to increase the flexibility of markets) is critically needed to raise productive potential in most major countries. But there is also a demand-side problem in a number of these countries. At the aggregate level this is reflected in the persistence of painfully high unemployment, but within the overall aggregate some countries are too heavily dependent upon external demand, which may now be held back by the weakening of the dollar against the euro. This implies that even the gradual improvement in actual output growth, to around, say, 2%, which is now widely predicted over the next year or two, will require a sizeable recovery in domestic demand growth. That is hardly being helped by the tensions surrounding the rigidity of the Growth and Stability Pact, which, despite non-compliance, on a strict interpretation by the major Eurozone countries is inhibiting the degree of stimulus from fiscal policy. It is not being helped either by the related tensions between European Finance Ministers and the European Central Bank.

We will, I think, see gradual recovery continuing in the Eurozone but it seems likely to be fairly modest.

Now the UK economy clearly has not been, and could not be, immune from these external developments. For the past decade or more, since the recession of the early 1990s, our overall economic performance has in fact been quite encouraging.

Inflation over that period has been consistently surprisingly close to the government's successive targets for retail price inflation, averaging around 2 1/2% on the earlier RPIX target measure, and currently at 1.3% on the new European harmonised index of consumer prices, on which the current target is based. You can argue about whether that outcome reflects good luck or good judgement, I'm not concerned either way. What's important is that this outcome has not been achieved simply by ramping up short-term interest rates, as many people initially feared that it would be. In fact, nominal interest rates have fallen to the lowest level that anyone can remember, to just 3 1/2% for a time last year.

Nor, even more importantly, has it been achieved at the expense of output and employment growth. Overall output has, in fact, grown consistently, quarter by quarter, since 1992 at an average annual rate of around 23/4% or so, which is significantly above its long-term trend rate. And employment has increased fairly steadily over most of the same period from a low point of 25 1/2 million people (and we're talking about people here, not just dry statistics) to its current record level of over 28 million, while the rate of unemployment has fallen, on the claimant count measure, to the lowest it has been for almost 30 years.

All of that, at the level of the economy as a whole, lends considerable support to the central bankers' credo, which I hope you all might now repeat to yourselves in the morning when you wake up!

But if you look beneath this apparently calm surface, you find a much more turbulent picture over the past few years, originating in the strong conflicting currents prevailing offshore, and which I touched upon a moment ago.

The frustrating thing has been that there was very little that we in the UK could do to address the external problems confronting us over this period at their point of origin. That's self-evident where one is talking about demand overseas. It's perhaps less obvious where one is talking about sterling's exchange rate. There's a popular perception that exchange rates respond predictably to relative interest rates, but it's much more complicated than that in practice. And even if it were possible in principle to stabilise the exchange rate, repeated past attempts to do so suggest that it would be likely to be at the expense of the stability of the economy as a whole.

Certainly, if exchange rate stability were a free gift it would be widely welcomed: it would remove a major uncertainty for the internally-traded sectors and help towards the more effective functioning of the global market economy. But important though that is, and although policy-makers everywhere take very careful account of exchange rate changes, which have quite different implications for different sectors of the economy, it would be perverse, and certainly inconsistent with the Bank of England's mandate, to put exchange rate stability ahead of the stability of the economy as a whole as reflected in the inflation target, if that were the option open to us. The periodic tension between the exchange rate and overall macro-economic stability has been a recurring theme throughout my career at the Bank of England. The potential for such tension lies somewhere at the heart of the economic debate on UK membership of the euro, and it is an important background element, whether or not it is

directly addressed in wider international discussions, such as those in the G7. There are not simple answers; and much the same is true in the case of the volatility we periodically experience in other markets in financial assets.

In practice, while sterling has moved fairly dramatically against both the dollar and the euro in the past few years, our overall weighted-average, effective exchange rate has been relatively much more stable. It is currently less than 5% above its 1995 base level.

Given weakness in the global economy, and the effect of the relative strength of sterling for much of the time against the currencies of one or other of our two major trading partners, which together constrained external demand in the UK, the only option open to us was to try to compensate for that external demand weakness by stimulating domestic demand here at home. In a situation where business confidence and investment spending was also generally weak, reflecting the situation overseas, that meant in practice encouraging consumer demand, through monetary policy, and even – I think for the first time in my professional career – actually welcoming the increase in government spending. Though whatever you do, please don't tell the Chancellor that I said that!

This approach, which was somewhat similar in many respects to that adopted in the US, was not without risks. It meant a substantial increase in public sector borrowing, which some commentators suggest could threaten to breach the Government's self-imposed and prudent fiscal rules, which in our case (in contrast to the Growth and Stability Pact rules applying in the Eurozone) relate to the economic cycle as a whole. And it has meant a rapid build-up of household debt over the past few years, and a rapid rise in house prices, which some commentators see as a bubble that is about to burst. What all that means is that while it has been possible to sustain the growth of the overall economy through the global economic slowdown – and even that was a close run thing at times – we've only been able to do so at the expense of substantial imbalance within our economy. Essentially, the externally-exposed sectors have had a pretty rough ride, reflecting structural changes associated with globalisation as well as the cyclical weakness abroad, while the more domestically-oriented sectors have fared a good deal better. We certainly wouldn't have chosen to go down that path if we'd had a choice, but we took the view that unbalanced growth was better than no growth at all.

Now, as I say, I'm reasonably confident that we've turned the corner, in that growth in the US (but also, more modestly, elsewhere) is recovering and should remain more buoyant over the next year or two anyway. That

prospect is reflected both in the improvement in world stock markets and in the surveys of business sentiment here at home. On that basis we will have the opportunity to rebalance the economy gradually, involving the moderation of the growth in domestic household expenditure, as external demand growth and the growth of investment spending picks up. And we will need to take that opportunity, given that we are already operating close to supply-side capacity, if aggregate demand (taking external and domestic demand together) is not to put upward pressure on inflation further ahead. But I stress the words 'gradual' and 'moderation'. Too many commentators, to my mind, 'sex up' their reports of these things, if I may use what seems to be the current jargon, using the word 'hike' to characterise a modest 1/4% rise in interest rates, or 'crash' to describe a slowdown in the rate of growth, whether of house prices or of consumer spending!

The synchronisation of these movements in the different components of demand will not be easy to achieve, given the real-world uncertainties that I touched upon earlier. And I have to say that I am enjoying my retirement! But I have every confidence that my outstanding successor as Governor, Mervyn King, and the members and processes of the Monetary Policy Committee, backed up as they are by their first-rate team of statistical and economic analysts, will find the way through; and I look forward to continuing relatively steady growth and continuing macro-economic stability as far ahead as I can see. And that's not a bad prospect compared with what we've experienced in the past!

Lord George, Honorary Fellow