

Address given by James Callaghan (London, 26 October 1967)

Caption: On 26 October 1967, at a dinner given by the Lord Mayor of London for the City's bankers and businessmen, James Callaghan, Chancellor of the Exchequer, outlines the role of the pound sterling in international trade.

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Address given by the Rt. Hon. James Callaghan, M.P. (London, 26 October 1967)

[...]

I have seen the views expressed that European suggestions relating to the question of sterling may have been raised in a negative spirit.

Some may think that these arguments are being advanced not with the intention of promoting a solution of any problems that may exist, but as a method of delaying progress in other fields. On the other hand, I prefer to act on the belief that they are being advanced in a constructive spirit, with the purpose of seeking to promote the more effective integration of the economies of Europe.

Therefore I propose that we deal with these points in good faith, and this seems to be an appropriate occasion to put the issue in its correct perspective.

Opportunities for Statesmanship

It is clear that sterling is a great world currency whose links extend to every continent. Many nations both inside and outside Europe use it for their own purposes and advantage and it is therefore obvious that Britain's application to enter into the E.E.C. does bring up the question of how best this great world currency can be fitted into the monetary and economic pattern of Europe.

But is this a question that Europeans should approach timorously or fearfully? On the contrary. In my view the existence of this currency coupled with the expertise of the City of London presents Europe with new opportunities for financial and commercial expansion.

With Britain in the Common Market, fuller use could be made of this instrument at the service of Europe, and with constructive and imaginative statesmanship we could prepare for a new stage in the evolution of the world monetary system.

Evolution of the System

Let me glance at how far that evolution has come during the present century.

There has been a marked development. We began with a situation in which gold and sterling were the two main assets held in the reserves of many countries. Then came a period in which the dollar was held to an increasing extent. Until now it has far surpassed sterling as a reserve asset. But the use of gold and sterling has not been replaced by dollars — all three assets are now widely held.

I hope shortly that we will move into a further phase, namely, the creation of a new asset in the form of the Special Drawing Rights of the I.M.F., a scheme for which was agreed recently at Rio de Janeiro. Once this scheme is activated, the Special Drawing Rights will take their place alongside gold, dollars and sterling, and reserve assets will become four-fold.

Discussions on the Next Stages

This process of evolution is bound to continue and I have often made clear that I am ready to enter into constructive discussion about the next stages of development.

At this stage there are, I submit, two conclusions to be drawn. First, history shows that the main question has always been how to supplement existing reserve assets rather than how to supersede them. Second, that the international monetary system will continue to evolve whether Britain is a member of the E.E.C. or not.

The question now is whether Europe would wish to take advantage of Britain's application for entry to propel the evolution in a particular direction and so gain greater influence for the Community as a whole.

If so, we are ready to discuss such an evolution. We will sit down with our partners for serious negotiation, assuming as we do that their propositions are put forward in a spirit of constructive questioning.

First, it will be necessary to agree on the topics to be covered. The Government has always made it clear that a primary objective of our policy must be a strong balance of payments. Our policies are directed to that end, and we are confident that we shall be successful within the time-span that will in any case elapse before we can enter the Common Market.

The other main question — that of the sterling balances — looms larger now during this period of reconstruction than it will do when we are seen to be in a strong balance of payments position. Nevertheless, let us look now at this question of sterling as a reserve currency.

Topics to be Included

Let me list the topics that must be included.

First, it would be necessary to reach agreement that we are not seeking to attack or weaken any national currency. On the contrary, the objective would be to strengthen the international monetary system as a whole, with any necessary adaptation or development of the roles played by particular currencies; in fact to pursue policies designed to build up world monetary reserves and confidence in them. This would be an essential objective in order that a rising level of world trade can be financed.

Secondly, it would be necessary to reach agreement on the main facts about sterling as a reserve currency. Sterling exists as an international currency not because the British Government willed it, but because the world as a whole, governments, bankers, traders and investors choose to use sterling. Nobody planned or created the Sterling Area. It developed like other market institutions by an impersonal process, with the growth of world trade and the ever more intricate network of financial relationships. Even if the present official holders of sterling were to decide that they wished to hold less sterling in their reserves, it would not necessarily follow that sterling would be any the less important as a trading currency than it is now.

The Sterling Balances

Assuming that we reached a consensus on the realities of the situation, we should then need to move to the third item.

If there were to be a general agreement among all interested parties — and I want to emphasise that they are at present very far from reaching this point — that there should be some reduction in the use of sterling as a reserve currency, we would then need to discuss with whom we would share our present role of banker.

There are various possibilities. For instance, should the dollar area be extended to take over sterling's role? Or should the I.M.F. take over some sterling balances if they were willing to do so, in return for claims on the Fund? Or, in the context of our entry into the Common Market, should there be some development in which the Community played an enlarged role?

Fourth, extending through the consideration of all the three topics that I have mentioned, it would be necessary to consult the interests of present holders of sterling and to safeguard their rights.

Agreement on Objectives

Having proposed an agenda, it is not for me to try and answer these questions tonight. But I permit myself the observation that in the context of our application to join the Common Market the sterling balance question has been greatly exaggerated.

It is not a problem that needs to be settled before we enter the Common Market. The new Special Drawing

Rights scheme took four years to work out and, even now, it is not in its final form. Against that background is it likely that a further evolution of the monetary system affecting sterling will take place any more quickly?

Nevertheless, if my view is not shared by some of our friends in Europe, we are prepared to take part in constructive discussions whenever they like, provided, of course, that such discussions are not intended to delay negotiations on entry into the E.E.C. It is clear from what I have said that the evolution of the monetary system cannot be settled by one nation in isolation. It needs painstaking examination at expert level and in a quiet atmosphere.

But, as I have emphasised, for such a discussion to be worth while there must be agreement on our objective, and that involves agreeing on the topics to be covered. Indeed, it is most important that we should do so if we and the E.E.C. are to seize the opportunity which is now open to us to approach these problems in a constructive and European spirit.

The question of a European common currency is another matter, and would be a much longer-term one, since it could come about only if members of the Community, including ourselves, had achieved a much greater degree of economic integration than at present. But our application to join the E.E.C. does present an opportunity for bringing our thinking and, we hope, in due course our policies, much closer together.

Press Office,
H.M. Treasury, S.W.1.
01-930 1234