

**Speech given at the Annual Dinner of the Charity Finance
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Mr Chairman, Ladies and Gentlemen: Thank you very much for inviting me to be guest speaker at the Annual Dinner of the Charity Finance Directors' Group.

Inviting a Dutchman, and an economist at that, to be one of your after-dinner speakers is a brave act. Some might say a charitable act. The Dutch, sometimes described unkindly as minor-league Germans, do not exactly have a global reputation for wit and verbal nimblefootedness. The only professions with a reputation for greater dullness than economists are accountants, actuaries and undertakers. So you have been warned.

Let me assure you that, even if I cannot be witty, I can be the next best thing: brief. It has been said that if all economists in the world were laid end to end, they would not reach a conclusion. I will therefore try to get straight to the point, or rather, I would, if I had one.

You may have heard the story of the two balloonists, high up in their gondola on some record-breaking attempt or other. Right over the middle of Iowa, they get caught in the world's biggest fog. They cannot see the ground. They cannot tell one end of the gondola from the other. They cannot see their own feet. Suddenly, after many hours in suspended inanimation, there is a clearing in the fog. They look down, trying to find their bearings and see that they are above

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the world's largest cornfield. Right in the middle of this cornfield stands a man. Our balloonist skilfully lower their balloon until it hovers just above the man in the cornfield. They lean out of their gondola and shout "*can you tell us where we are?*". The man in the cornfield looks up and shouts back: "*you are in a balloon, over a very large cornfield*". At that point the fog returns and our travellers are lost in the mist again. One turns to the other and reflects: "*Bet you the guy in the cornfield was an economist. His answer was both perfectly correct and absolutely useless*".

The charitable sector is an important and fascinating one, economically, socially and culturally. Every one of the world's great religions emphasizes the moral imperative of charitable giving. There is no code of ethics, whether religiously based or secular, that does not mandate the strong to look after the weak. In St. Paul's great 'ode', in 1 Corinthians, 13, *caritas*, or charity, is placed even above faith and hope.

My personal appreciation of the importance of charity comes from the Christian-socialist family background that shaped me. Its origin was the wartime encounter of a young, by most accounts rather brash, irreligious socialist young man, my father, and an even younger, deeply religious and not at all brash young woman, my mother. The mystery of marriage transformed this unlikely couple into my Christian-socialist parents. They taught me that there are no owners, only custodians; that from those to whom much has been given, much will be asked; that charity is a duty, not a whim or a personal indulgence.

What is perhaps surprising, but certainly encouraging, is that others arrive at the same conclusions from very different starting positions. The charitable imperative transcends the usual divisions and pigeon holes: left-centre-right, radical-conservative, Christian-Jew-Muslim-Buddhist-Hindu or secular Humanist. Perhaps there is a charitable gene or meme. It would make sense, since charity has great social survival value.

While the appreciation of the importance of charity and giving is universal, it isn't always easy. You may be familiar with the sad story of the final communist party membership examination of comrade Ivan Ivanov in the days of the former Soviet Union.

The final test involved giving the correct answer to three questions:

“Comrade Ivanov, if you had three yachts, what would you do?”

“Well, comrades, I would keep one and give two away, for the benefit of the proletariat and the greater glory of the Soviet Union”.

“Excellent. Now, comrade Ivanov, if you had three dachas, what would you do?”

“Well, comrades, I would keep one and give two away, for the benefit of the proletariat and the greater glory of the Soviet Union”.

“Twice excellent! Finally, comrade Ivanov, if you had three shirts, what would you do?”

“Well, comrades, I would keep all three!”

“But why, comrade Ivanov? You told us that if you had three yachts you would give two away, and that if you had three dachas you would give two away. Yet when we ask you what you would do if you had three shirts, you tell us you would keep them all. Why the difference?”

“Well, comrades. The difference is: I have three shirts”.

Whatever the difficulties, it is clear that the role of private charity and of private charities can only increase in the years and decades to come. The state is in full retreat everywhere as a provider of a social safety net. What is left often offends human dignity. Only private charity can fill the vacuum. We are therefore witnessing, and can expect to continue to witness, a growing role for private charity and, through that for private charities.

Charity cannot be left to the haphazard uncoordinated efforts of well-intentioned private individuals. It requires organisation, planning, coordination. It is both a vocation and a profession, a calling and a business, indeed a very competitive business. And I wish you the very

best in your future pursuits of your noble goals.

As His Holiness the Pope has recently reminded us, there are no rights, including property rights, without matching responsibilities. Private property is always encumbered with the mortgage of social obligation.

Since I have managed, with some effort, to work this speech around to mortgages, I finally landed myself on familiar terrain. For many among the British public, the MPC is the body that sets their mortgage rates. The response to this activity is rather asymmetric. When we lower rates, the response is “about time too”. When we raise rates, the response is often unrepeatable in polite company. I know about this, being the proud owner of a sizeable, variable rate mortgage myself. Since the last rate increase, I have been sleeping in the coal cellar.

There is a paradox here. Interest rate changes represent, at the point of impact, a straight redistribution between lenders and borrowers, between creditors and debtors. However, the amount of flak we get when we raise rates is well in excess of what we experience when we cut rates. Mortgage holders appear to be rather better represented in the press and among the professional lobbyists than the widows and orphans who benefit from a higher interest rate.

Monetary policy, however, is about more than mortgages and saving accounts. The new monetary arrangements of the UK recognize what monetary policy can and must do, and what it cannot do and therefore should not attempt to do.

The Monetary Policy Committee is a collection of technical experts, not a selection of sectoral, industrial or regional representatives. It pursues a set of government-mandated objectives. Our primary objective is a symmetric inflation target. We are to achieve a 2.5 percent annual inflation rate on the RPIX index. There should not be any bias towards undershooting or overshooting this target (we have done both). Subject to the inflation target, we are to support the government’s other objectives, two of which are specifically mentioned in the Bank of England

Act: growth and employment.

Note that we must pursue this single, UK-wide inflation target, and the support of UK-wide growth and employment, with a single, UK-wide instrument, our short-term interest rate. We set about our mandate without regional, sectoral or industrial fear or favour. Divergent regional, sector and industrial developments matter for our policy decision if and to the extent that they inform our pursuit of the nationwide targets.

It is essential that we be clear about what monetary policy can and cannot do.

Monetary policy can provide the public good of macroeconomic stability: sustained low inflation and moderate economic fluctuations.

There is a view that a policy of sustained, systematic depreciation of the *nominal* exchange rate can produce a sustained weakening of the *real* exchange rate, a lasting improvement in international competitiveness and a permanently lower rate of unemployment or even a permanent increase in the growth rate of real GDP. I regret to say that this is a delusion, and a dangerous form of macroeconomic infantilism. Nominal exchange rate depreciations engineered by expansionary policy have a temporary effect on international competitiveness. These transitory real effects are eroded by higher domestic cost and price inflation. Any real effects are smaller and shorter-lived when the use of the exchange rate as an instrument in the pursuit of international competitive advantage becomes systematic and predictable.

Any temporary effects from expansionary monetary policy on the real exchange rate are desirable and welcome, when they correct an existing overvaluation. Under these circumstances they expedite and facilitate a necessary correction of international relative costs and prices that would otherwise have to occur through differential rates of price and cost inflation between the UK and its overseas competitors. They are undesirable and unwelcome when they cause a departure from a balanced international price and cost configuration, and *a fortiori* when they

reinforce an existing undervaluation.

To recognize that expansionary monetary policy does have an effect, albeit transitory, on international competitiveness, is not the same as arguing that monetary policy can be used to fine tune the international competitive position and eliminate the business cycle altogether. For that to be the case, we not only have to know the sign of these effects, but also their timing and magnitude. It is one of the oldest shibboleths of macroeconomics, that the lags in the transmission of monetary policy are long, variable and uncertain. Unfortunately, this shibboleth is true. This irreducible uncertainty about the magnitude and the timing of the effects of monetary policy on the real economy, including competitiveness, output and employment, means that monetary policy has but a very limited role as an instrument for dampening the national business cycle.

My colleague on the MPC, Mervyn King, has said that monetary policy, properly executed, should be boring. What he meant is that monetary policy decisions, that is, interest rate decisions, should be predictable and without surprises. This fits rather well with Keynes's expressed hope that, one day, economists should be thought of as humble, competent professionals - dentists rather than magicians or high priests of some mysterious cult. The analogy between dentistry and monetary policy actually goes quite far.

Prevention is better than cure.

This is bound to hurt a little in the short run, but will make you feel better in the long run.

You spend a long time waiting before anything happens.

My colleague argued that monetary policy should be boring, not that monetary policy makers should be boring. You will be the judge of that. Thank you.