

Alan Greenspan: Policy coordination

Speech by Mr Alan Greenspan, Chairman of the Board of Governors of the US Federal Reserve System, at the opening of the new HM Treasury Building, London, UK, 25 September 2002.

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Dedication speeches are by their nature forward looking, but lest we believe that in opening this building we should focus solely on future challenges, I feel the necessity of reminding us all that the future is not always new.

I myself was reminded of this by an item on the web site of Her Majesty's Treasury. "In 1711," the item notes, "the Treasury unveiled a scheme to secure government debt by authorising its subscription into the capital of the South Sea Company--government creditors received stock in the company. When the South Sea Bubble burst in 1720, however, thousands of investors were affected and the Chancellor of the Exchequer was sent to the Tower of London." Although the web site does not elaborate, that eighteenth century chancellor was guilty of dubious practices that appear eerily contemporary. Fortunately, modern chancellors, including the eminent incumbent, appear at the Tower these days in a more benign context.

In a more serious vein, I am daily reminded of the special relationship the Federal Reserve has had over the decades with decisionmakers from the British government. Literally twenty feet from my desk are plaques commemorating the numerous World War II meetings in our Board Room between the combined military chiefs of the United States and Great Britain that in the words on one plaque, "... set the pattern for allied collaboration and the successful prosecution of World War II."

But the Federal Reserve's association with Britain's monetary authorities goes back even further. The tie between the Bank of England and the Federal Reserve was cemented during the 1920s in that extraordinary relationship between Benjamin Strong, the President of the New York Federal Reserve Bank, and Montague Norman, the Governor of the Bank of England. Their correspondence yields quite fascinating insight into the way they interpreted events that are now important history. The ties developed then between the Federal Reserve and British monetary authorities endure to this day.

The mutual trust reached a point that in 1999 the Bank of England asked Donald Kohn, then head of our Monetary Affairs Division, and now a governor, to review key aspects of the Bank of England's monetary policy procedures and make recommendations for improvement. We were duly impressed because, to us at the Federal Reserve, the Bank of England projects a nearly mythical presence as the developer of much of the central banking we all practice today.

The Federal Reserve's close relationship with the Bank of England and other major central banks has been enhanced through periodic meetings at the Bank for International Settlements in Basel since 1963. But it has been over only the past quarter century, with the emergence of regular meetings of the finance ministers and central bankers of the Group of Five, and later the Group of Seven, that interactions between the Federal Reserve and the British Treasury and other major finance ministries have taken on special importance.

Of course, some of us meet under the auspices of the Organization for Economic Cooperation and Development, and we all participate in the deliberations of the International Monetary Fund and the World Bank. But the Group of Seven has surfaced as the most significant forum through which both finance ministers and central bankers from the major countries coordinate on economic issues.

International coordination has also been advanced with the creation of the Financial Stability Forum, an initiative of the G 7 that draws on the Secretariat of the Bank for International Settlements. And the Basel Committee on Banking Supervision that evolved out of initial explorations of the Federal Reserve and the Bank of England has broadened international bank supervisory coordination.

In recent years, both the G 7 and the BIS have reached out to expand our contact with ministers and governors of developing countries. A new group, the Group of Twenty, encompasses many industrial countries and a number of developing nations.

Today's remarkably sophisticated international financial system, that all these bodies oversee, took root several centuries ago within hailing distance of Her Majesty's Treasury. The rule of law and protection of property rights attracted transactions to the London market and--notwithstanding the one incident of questionable behavior in 1720 noted earlier--the British tradition of trust, integrity, and fair

dealing has been an important component of the City's success. London, and other British financial centers, had developed by World War I into the dominant lender to the world, accounting for half of the world's trade financing and, despite its loss of empire, London remains, with New York, at the top of the world's financial pyramid.

The City has a long tradition of leading the world in foreign exchange trading and currently conducts twice the volume of New York despite the fact that the U.S. dollar is the leading traded currency by far in foreign exchange transactions. London is the world's center for over the counter derivatives trading -again with double the share of the trading in similar instruments conducted in New York. Moreover, a substantial share of the world's securities trading is channeled through the City.

London has stayed on top in the provision of financial services despite the emergence of the euro, which some expected would divert a significant share of foreign exchange trading to a single center on the continent. Although financial sector activity in Frankfurt has increased substantially in the past few years, largely reflecting the growing importance of the euro, trading volumes there are still well below those of London and New York.

Another potential challenge to the City's prominence in the provision of financial services has been the telecommunications revolution, which presumably should diminish the need for physical proximity to conduct financial transactions. If traders can congregate almost anywhere electronically, we might expect traditional patterns of exchange to be dispersed. However, history, together with London's long, should I say sterling, reputation as a place to do business, seems to have spurred market participants to continue to trade through London.

In closing, let me emphasize what a privilege it has been for me to work with Chancellor Brown and Governor George, who represent the professional best in world finance and who are most worthy custodians of the financial legacy that Britain has bestowed on the rest of the world.