

Central Banks as Regulators and Lenders of Last Resort in an International Context: A View from the United Kingdom

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The implications of national sovereignty constitute a characteristic, and evolving, twentieth century problem. The nation-state, developed over previous centuries, has proved capable of horrific abuse; but at its best it has produced a legal, administrative, economic and financial framework in which its citizens have been able to prosper as never before. A natural counterpart of these developments was the emergence of at least potential conflicts with the world outside; and it has been common for people, in attempting to reconcile these conflicts or solve the problems they pose, to draw on successful domestic national experience and suggest that this should be analogically extended beyond the frontier.

There have been various kinds of challenge posed this century to the competence of a single nation-state to solve its problems alone. First, political conflicts with other nation-states, of which the first and most spectacular example was the 1914-18 war. Secondly, economic conflicts with other nation-states — particularly virulent between the wars when many countries suffered the intended or unintended effects of other countries' tariff regimes, exchange-rate movements and fiscal and monetary policies. Thirdly, and especially in the last two decades, there has been the dramatic development of private institutions large enough to affect the economic sovereignty of even quite major countries — the multinational companies and banks.

It has been tempting to many people to meet these different demonstrations of the limitation of the power of the single state by trying to envisage and bring about the development of a sovereignty over and above that of individual nations. Many saw in the League of Nations idea the germ of world government; some, though probably fewer, initially held the same hopes of the United Nations. During the last war, and at the Bretton Woods talks towards its close, there were those who hoped to develop a genuine world central bank. Later, and on a less than fully international scale, the European Economic Community was founded with the

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intention of many that it would ultimately result in full pooling of political and economic sovereignty by its members.

Clearly, there has been little progress in any of these fields, if progress is to be measured against an ideal of the creation of truly supra-national institutions. Indeed in some areas, measured against this yardstick, we may be represented as having moved backward; the full membership of the International Monetary Fund (IMF) was unable in the early 1970s to produce anything nearly as systematic in the international monetary field as had been developed under an Anglo-American hegemony in 1944.

In my view, however, this is a misleading way to look at what has been happening. Progress there probably has been in most areas of international politics and economics; and in some it has been striking. But to perceive it, and indeed to further it, we must accept as a fact, now and for the foreseeable future, that nations are not going irrevocably to hand over power to an autonomous international institution. There is unlikely for a very long time to be anything which would be called a world government, a world department of trade, or a world central bank — as money creator, financial regulator or lender of last resort. Progress has been made in the rather different direction of mutual awareness, of a willingness to cooperate, agreement on rules of behaviour, developing and sharing information.

Thus, to come to the point of the present paper, it would be unwise to look for the development of a single uniform method of regulating banks and financial institutions, applying across all frontiers, or a single last-resort window with well-defined policies and the ability to carry them out. It would be equally unwise to be concerned simply because such institutions do not exist and to fear — on that ground — international monetary disaster. It seems preferable to start with the world as we have it — made up of countries with widely divergent laws, customs and procedures, and banks and other financial institutions based in one country but operating throughout the world to create a major international capital market; and then consider the contingencies it is necessary to guard against and the extent to which they are guarded against in practice. I am going to attempt to deal with my subject in this way, taking in turn actual or potential problems in international financial markets and saying something about how central banks are handling them.

Perhaps stretching my terms of reference — or the word “regulator” — a little, I shall first touch on two areas with broad economic policy implications before coming to the traditional lender-of-last-resort area of potential liquidity shortage and prudential control.

Regulation in the Interests of Broad Monetary and Economic Policy

It is sometimes suggested that the international markets constitute an unregulated autonomous source of at least potential inflationary or deflationary pressure on the world economy. For a number of reasons I think this view misleading and the fears exaggerated.

First, it is misleading to think of the international markets as if they were basically separate from domestic markets. Indeed, it is nearer the truth to think of them as simply an extension of domestic markets. Much international lending is in fact conducted in domestic currencies — particularly dollars, deutsche marks, and Swiss francs. Moreover, Eurocurrency lending proper is, of course, highly substitutable for domestic currency lending. The volume of such lending is, as we have seen over the past couple of years, closely (inversely) linked with the demand for credit in industrialized countries. Similarly, changes in domestic interest rates — primarily in the United States — are reflected fairly directly in coupons, yields and to some extent spreads, in the international markets.

Secondly, the Euromarkets themselves have acted largely as a transmission mechanism for the flow of international funds, rather than as an independent creator or source of monetary disturbance. Deposits underpinning the Euromarkets are held in the country of issue of the currency concerned — e.g., the Eurodollar market is backed by holdings of reserves in the form of dollar deposits with banks in the United States. The ability of Eurobanks to attract claims on U.S. banks will be dependent on monetary conditions in the U.S. domestic market. A tightening of domestic markets will cause a flow of funds into the United States from the Euromarkets and vice versa. The sensitivity of Eurodollar deposits to U.S. domestic rates means that Eurobanks carry substantial reserves (dollar deposits with U.S. banks), limiting the market's credit-creating ability.

Another feature of the Eurocurrency market indicating a much smaller credit multiplier than might be found in a domestic banking system is the large number of "leakages" from the Eurocurrency markets. These "leakages" might occur when, for instance, a final borrower from the Euromarket makes payments, using the proceeds of the loan, to the country of issue of the currency in question. A "leakage" may also occur if the proceeds of a Eurocurrency loan, say a dollar loan, are converted into the domestic currency of the borrower and the ultimate dollar holder chooses not to redeposit in the Eurodollar market. The scope for leakages is very much greater in a Euromarket context than in a domestic banking market; the multiplier will be correspondingly smaller as a result.

Furthermore, the close matching of assets and liabilities which is a feature of the Eurocurrency markets stands in sharp contrast to the situation typical of domestic markets, where a comparatively stable short-term deposit base permits a considerable lengthening of asset maturities. This close Eurocurrency matching is reflected in substantial inter-bank activity which gives rise to a "pyramiding" of deposits but a low degree of transformation.

All of the features I have just mentioned lead me to believe that the Eurocredit multiplier is quite small. What is more, whether Eurocurrency market growth constitutes a net addition to world credit will depend largely on the response of national authorities to the impact of Eurocurrency flows on domestic credit markets. Depending on whether national authorities act to offset changes in domestic bank liquidity in the

wake of an inflow or outflow of Eurocurrency, the credit extended through the Euromarkets would tend to be, at least in part, a substitute for domestic credit rather than a net addition to total world credit.

It is open to countries to limit very sharply the exposure of their monetary systems to strictly Eurocurrency movements. In the United Kingdom, as in many countries, the foreign-exchange operations of the banks are regulated quite tightly by means of limits on open positions. Because of these, the monetary consequences of shifts between switched-in and switched-out positions are marginal compared with those of total short-term flows. The problems caused by total external flows are of course quite a different matter, for which the presence or absence of any form of bank regulation is irrelevant.

For all these reasons there does not seem to me a case for attempting to construct any form of specifically international form of regulation of the volume of credit in the international markets through international reserve requirements, etc. And this is quite apart from the enormous practical difficulties that would be involved in doing so; and the likelihood that any move in this direction would be likely to drive the markets into unregulated areas with a consequential increase in prudential problems.

There has in fact been much less cry for international credit regulation of the Euromarkets in the past few years than there was earlier, perhaps because of the obviously important and indispensable role they have had to play in recycling the oil surpluses. However, as the international banking system has moved rather dramatically into the business of balance-of-payments financing, a new set of questions has begun to be asked. To what extent is the role of the IMF being usurped; and how far is the appropriate working of the international adjustment process being distorted or prevented? Should, for example, central banks seek to discourage banks for which they are responsible from lending too readily either to countries who would otherwise have to go to the IMF, or to countries which have already agreed on an adjustment programme with the Fund, but on the basis of specified amounts of private capital inflows? Conversely, should central banks seek actively to promote formal co-financing arrangements between the commercial banks and the IMF?

Full consideration of these important and topical questions would take us too far afield. I would simply say here that attractive as some of these ideas may seem in the occasional particular context, they bristle with difficulties. Such an activist role for bank supervisors would certainly run counter to the regulatory traditions in many countries, including my own. Quite apart from the serious political implications of such proposals, it would surely be wrong for official pressure on soundly run banks to lend or not to lend to particular borrowers seriously to limit the banks' freedom to make their own creditworthiness judgments (within, of course, the bounds of legal loan limits where they exist). The main thrust of official efforts in connection with the adjustment process ought thus, I think, to remain where it is, particularly if one makes the reasonable assumption that governmental efforts to give the IMF enough lendable resources will

be successful. For their part, the central banks should try to ensure that adequate information is available so that all the banks involved can make their loan judgments on the same basis. (I shall have more to say on this below.) It would be ironic if, after resisting domestic pressure for selective credit controls, the regulatory authorities of the G.10 countries¹ moved towards them in the international field. I would prefer to check any excesses by relying on the effect on commercial bank attitudes of continuing close general regulatory interest in their international lending.

Prudential Regulation

The prudential or lender-of-last-resort function of a central monetary authority, whether domestically or internationally, is to prevent the potentially very dangerous consequences which can flow from a sudden shortage or illiquidity, either localized or general. If the liquidity shortage actually arises, the classical remedy is, of course, to lend freely at a penal rate. In practice, however, the aim must be to prevent matters ever coming to that point: prevention is a great deal better than cure.

In the international context, as in the domestic, the development of preventative prudential control has had three aspects:

- (a) the supervision, regulation and monitoring of banks' positions to minimize the danger of individual default or imprudence;
- (b) the production and dissemination of information to improve the ability of banks to make appropriate judgments and decisions and guard as far as possible against surprise;
- (c) instillation of the *appropriate* degree of confidence in the private banking sector about the way in which the authorities concerned will act if a crisis should occur: appropriate, in the sense of promoting neither euphoria nor unease.

We may take these aspects in turn.

- (a) *Supervision*. The problem of supervision in the international context arises from differences in the laws, regulations and practices between countries. In principle, these variations could lead to conflicting decisions, misunderstanding or lacunae of regulation in cases where banks are operating directly, or through branches or subsidiaries, in several countries. It is clearly impossible to harmonize everyone's laws and regulations: and indeed it would be undesirable, a case of the tail wagging the dog, for the framework of law, administration

¹The G.10 countries are Belgium, Canada, France, Italy, Japan, the Netherlands, Sweden, the United Kingdom, the United States and West Germany.

and custom within which banks work in their own country is likely to be deeply related to the wider legal, social and economic framework and traditions of the countries concerned.

The approach that has been followed, therefore, has been one of co-operation and coordination between the national authorities concerned. This has been greatly stepped up in the past two or three years. The loss of confidence in international markets in the summer of 1974 led first to an increase in cooperation between the national authorities in the area of foreign-exchange trading. This developed into the establishment by the Central Bank Governors of the Group of Ten of the Standing Committee of Experts under the chairmanship of my colleague, George Blunden. Their remit was not to produce new, harmonized, sets of regulations; but, as the Governors put it, to learn from each other — both exactly how each other's systems worked in detail so as to become aware of potential areas of difficulty, and how individual arrangements in one country might be modified or improved in the light of ideas and experience in others. There is also another, informal, group of supervisors which concerns itself with day-to-day supervisory questions and specific individual problems.

These committees have made a great deal of progress. Probably all the countries concerned can now point to improvements introduced, directly or indirectly as a result of their discussions. All would testify to an improvement in the capacity for rapid consultation and the devising of appropriate internationally agreed action, if problems should arise. Some detail of the progress that has been made can be found in a speech given by Mr. Blunden to the International Banking Summer School in June this year and reproduced in the Bank of England Quarterly Bulletin for September 1977. Much, of course, remains to be done; and Mr. Blunden suggests that perhaps the most intractable problems his Committee has faced have arisen from differences in the ways that responsibility is delegated between regulators in different countries.

In terms of specific regulation and monitoring procedures, many countries have tightened and improved their regulations over the permitted foreign-exchange operations and positions of their banks since the exchange losses of Herstatt and other banks in 1974. The Bank of England has for a number of years now run (and published) a quarterly maturity analysis of the Eurocurrency operations of all banks operating in London. While we do not lay down any forms of liquidity ratios, we look very closely at the degree of maturity matching for every bank. Any unusual figures, or changes from quarter to quarter, are discussed individually with the bank concerned.

(b) *Information.* It is a commonplace that competition can only function soundly and efficiently on the basis of adequate, publicly shared, information. Over recent years we have taken a number of steps to improve the information available to the banks about the international markets. I have just mentioned the Eurocurrency maturity analysis. In addition there has been much development of the

figures on bank lending to individual countries. The Bank for International Settlements publishes a quarterly series of aggregate lending by banks in the Group of Ten and Switzerland to a hundred odd individual countries. These are now being improved by the inclusion of a maturity analysis of total bank lending and a coverage of the lending by off-shore centres.

A further and rather different step is under active consideration. The Group of Ten Central Bank Governors could decide to sponsor a checklist of questions on a country's external asset/liability position. The idea would be that banks might take advantage of the existence of such a checklist to ask prospective borrowers to fill it in before loans were agreed upon. This could lead in due course not merely to a greater dissemination of existing relevant information, but also to the collection of information which at present is not available at all. There are many difficulties in the idea and many questions to be solved about the way it might be carried out. But it could prove a useful additional stabilizing influence.

- (c) *Confidence*. When it appears that a generalized shortage of liquidity may be imminent, because of a sharp decline in market confidence, it will be preferable if the authorities can work to reduce the demand for liquidity — by lengthening the time-preference of asset-holders — rather than, or before, actually acting to increase the supply. This was what was in fact successfully done in 1974, during the most severe crisis through which the international markets have passed in recent times. Consideration of this leads us to the last and, to many, the major point of criticism of the regulation and stability of the international markets, the absence of a clearly defined lender of last resort.

Lender of Last Resort

Taken literally, it is perhaps true that there is no clearly defined international lender of last-resort. Certainly the IMF does not fulfill this function. As far as lending to governments is concerned its functions are perhaps somewhat analagous to those of last-resort lending — though the analogy could not be pushed far. But it does not, of course, make funds available to the private banking sector; and it would have to be transformed unrecognizably — and, in my view, inappropriately — if it were to do so.

The question, however, is whether the absence of a lender of last resort, on a precise analogy with the classical model, constitutes the weakness that taken literally it would seem to do. This question can, I believe, be answered firmly in the negative.

In the real — and complicated — world, close coordination and co-operation among the central banks most concerned with the security of the international banking markets is essential. By the same token, however, it is not possible for them to define in advance with any precision the circumstances in which last-resort finance would be forthcoming. Indeed, if they tried to do so, banks might be tempted to sail too close to

the wind with the presumption that support would automatically be forthcoming if they got into difficulties. The primary purpose of agreement among central banks on the provision of last-resort finance is to safeguard the international banking system as a whole and the domestic banking systems on which that is founded; the provision of such a safeguard does not — indeed cannot — entail the automatic provision of support to any bank facing difficulties regardless of the particular circumstances.

It was with these considerations in mind that in September 1974 the Governors of the Central Banks of the Group of Ten countries and Switzerland announced that, after discussing the problem of lender of last resort in the Euromarkets, "They recognized that it would not be practical to lay down in advance detailed rules and procedures for the provision of temporary liquidity. But they were satisfied that means are available for that purpose and will be used if and when necessary."

Because of the differences in national legislation and codes of banking practice to which I referred earlier, the precise way in which this supporting framework will operate will vary from case to case. The activities of a branch are without question the responsibility of the bank of which it is an integral part. More difficult questions arise in connection with wholly and partly owned banking subsidiaries abroad and it is here that this principle of parental responsibility — which is basic to the whole supporting framework — comes into play. The parent bank or banks are thus to be regarded as having a responsibility for subsidiaries, while the central banks of the countries in which the parent banks are established in turn have responsibility for them. At the same time the central bank in the host country is responsible for supervising and regulating — according to its own practices — foreign-owned subsidiaries operating there. That central bank in turn accepts a reciprocal responsibility for parent banks established in its own country which are held responsible for their subsidiaries overseas.

It was to establish beyond question the primacy of this fundamental principle that the Governor of the Bank of England sought from shareholders in the consortium banks in London and from the overseas parents of banking subsidiaries in London acknowledgments that they accepted a moral responsibility for their offspring in London that went beyond the narrow limits laid down by laws of limited liability and that extended in particular to the protection of depositors with those banks. It is for us a cause for some satisfaction that such assurances were forthcoming in every case. Of course, the coordination and cooperation — both formal and informal — which exist between the central banks and other regulatory agencies concerned lead us to hope that these assurances will not need to be implemented. So far as U.S.-owned subsidiaries in London are concerned, this hope is strengthened by three factors in combination: the parent banks tend to be very large and strong in absolute terms; the subsidiaries all tend to be small in relation to the parents; and the subsidiaries are all very amply capitalized.

Conclusions

In principle the motives of bank regulators in their actions in an international context are the same as in their actions in the domestic context. In practice, for a number of reasons, their motives in acting on the international scene are often rather different from their motives when acting on the domestic scene.

In the first place, whereas in acting domestically regulators are concerned with the broad national perspective, when acting in the international context they frequently do not have an international perspective — for obvious reasons they are partisan, primarily concerned with the protection of their own country, which is a small part of the world economy. There is, therefore, a potential for disharmony and conflict in the actions of regulators in the international markets that is largely absent domestically. Secondly, the power and influence of regulators in the international context is very much more limited, and for that reason their aims are usually less in terms of exerting control than of trying to influence. Thirdly, the international markets have a rather different character from domestic ones; notably they are more fluid and competitive forces are probably more quickly felt. This means that they are much less easily regimented and the principals in the market will tend to gravitate to where there is most freedom from regulation and, of course, fiscal burden.

What all this means is not that the roles of regulators and lenders of last resort are impossible to play on an international stage. It does, however, mean that the dialogue has to be complex and that the actors have to be highly sensitive to their colleagues' problems — and occasionally to pay heed to noises offstage. A successful production of this play without a director depends on the willingness of the actors to cooperate; that willingness in turn depends on a common perception of the dangers of an unsuccessful production. I believe — to return to real life outside the theatre — that there is a plenty of evidence of such a common perception and of a willingness to cooperate among the central banks and other regulators. This encourages me to believe that, even though it may not be possible to create a neat and tidy regulatory and lender of last-resort framework in an international context, the framework which we have will continue to work effectively.

Discussion

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Last spring when I contracted to comment on Mr. McMahon's presentation, I happened to be reading Walter Bagehot, the originator of the theory of the lender of last resort, and came across a description of directors of the Bank of England. I told Mr. McMahon by letter that I would share it with you today, if only to convince the pessimists and to encourage the meliorists. Mr. Bagehot wrote:

If we refer to history, and examine what in fact has been the conduct of the Bank directors, we find that they have acted exactly as persons of their type, character and position might have been expected to act. They are a board of plain, sensible, prosperous English merchants; and they have both done and left undone what such a board might have been expected to do and not to do. Nobody could expect great attainments in economical science from such a board; laborious study is for the most part foreign to the habits of English merchants. . . . Unluckily, in the management of the Bank reserve, the directors of the Bank of England were neither acquainted with the right principles, nor were they protected by a judicious routine. They could not be expected themselves to discover such principles. The abstract thinking of the world is never to be expected from persons in high places: the administration of first-rate current transactions is a most engrossing business, and those charged with them are usually but little inclined to think on points of theory, even when such thinking most nearly concerns such transactions. No doubt when men's own fortunes are at stake, the instinct of the trade does somehow anticipate the conclusions of the closet. . . .¹

Mr. McMahon politely replied that I sounded to him very much like the occasional modern Russian who criticizes Britain, and cites Charles Dickens as a source.

¹Walter Bagehot, *Lombard Street, A Description of the Money Market* (London: John Murray, 1872), New edition, 1917, pp. 165-66, 169.

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Today, I think it clear that we can "expect great attainments in economical science" from the Board of the Bank of England, and "abstract thinking of the world from people in high places." Mr. McMahon has given us an optimistic picture of the international money and capital market with which on the whole I agree. The duty of a commentator, however, is to sharpen issues, not to shovel out unstinted praise. I therefore comment on three points: 1) the mistakes of 1971-72, which perhaps Mr. McMahon was too polite to draw attention to; 2) a difference of opinion as to the money multipliers on the Euro-currency market; and 3) the problems of the lender of last resort.

Most observers blame the "distress" of the present international monetary position — and I use "distress" as a technical term to mean a position in which it is possible for a rational person to contemplate untoward outcomes — as owing to the oil price hike of OPEC in 1973. This is too simple. Our problem started with the attempt of the United States in 1971-72 to achieve low interest rates, when Germany was striving to restrict inflation through tight money policies. Money poured out of the United States into the Euro-currency market, and out of the Euro-currency market into Germany and other countries. The Euro-currency market swelled up like a frog in the mating season, and started lending to developing countries in ways reminiscent of the 1820s, 1860s, 1880s, 1910-1913, and the 1920s. "John Bull can stand many things but he can't stand 2 percent." The lending that resulted in the collapse of 1825 went back to the debt conversion of 1822 and 1823. The Baring crisis of 1890 had its roots in the Goshen conversion of 1888. Low interest rates set bankers off looking for borrowers, and when they find them they sometimes (always?) overdo it.

Moreover, I am persuaded that the coordination of monetary and fiscal policy we failed to achieve in 1971-72 is needed more than ever today. Summit meetings provide very little of it. Basle meetings of central bankers help. But more thorough-going coordination is needed of the sort that Working Party # 3 of the OECD was set up to furnish.

Secondly, I recognize the argument of Mr. McMahon that money multipliers in the Euro-currency market are lower than those in domestic markets, because of greater leakages. Samuel Katz used to say that they were more akin to those of U.S. savings and loan associations than they were of U.S. commercial banks. Such was not the case of course when central banks acquiring Euro-currencies as a result of inflows from that market recycled them back to it, as in 1971-72. But even when it was agreed that such added reserves would be held in the home country — dollars for the most part in the United States rather than in the Euro-dollar market —, increased perfection of the world money market made the distinction one of no difference. A dollar deposited in New York, under increasingly perfect market conditions, would spill back to London and enlarge the multiplier.

Finally, let me deal with the lender-of-last-resort function. Mr. McMahon's paper stresses the difficulty of the role, and I concur that it is

an awkward one — despite the fact that this judgment mildly contradicts the overall optimism of his paper, and his high confidence in cooperation.

In its domestic manifestation, the role of the lender of last resort was fraught with close decisions that were accused of including, and sometimes did, elements of “bankers’ quarrels.” The central bank had to choose which banks to save, and which to let sink, and the criteria for decision were not always objective. The Bank of France, for example, was accused of failing to come to the rescue of the Union Generale in 1882 because Eugene Bontoux was Catholic while the Regents of the Bank were Protestant and Jewish. It saved the Comptoir d’Escompte in 1888 either because their bank was allied with the 200 families, as it was accused of doing, or because, as it said, two major bank failures in seven years would be unsettling.

The international lender-of-last-resort role has a political dimension. France was unwilling to aid Austria on the second go-round in June 1931 unless certain political conditions were met. The refusal to participate in a \$1 billion loan to Germany was also political (that in the United States was owing to “no great attainments in economical science.”) To come more nearly up-to-date, the French in September 1965 in “a shocking repudiation of the central bank free masonry” abstained from a swap arrangement to come to the aid of Britain.² The lender-of-last-resort principle presupposes a closed group, fully understanding one another, where action is taken rapidly, and the consequences sorted out more leisurely later on, much like the spirit of Lend Lease during the war. It is assumed that the whole world is in the same boat in the necessity to provide world monetary stability. Speed counts, which is why the I.M.F. won’t do, as Mr. McMahon emphasizes. There is a question today, as in the past, whether the cohesion needed for the role to be properly discharged is available in sufficient abundance.

The I.M.F. works with conditionality. When swaps and the I.M.F. combine as in the highly successful December 1976 \$3.9 billion credit for Britain, conditionality is called for, and may be helpful to the authorities in the country needing the funds in affecting its policy choices. In a world liquidity panic, however, there is not time.

Finally, the paper brings up the perennial question of the impact of rescue work on incentive. McMahon states that if central banks define in advance when they will aid the last resort, “banks might be tempted to sail too close to the wind.” The phrase carries a familiar echo. One director of the Bank of England, Mr. Hankey, called the entire doctrine of having a lender of last resort “the most mischievous doctrine ever broached in the monetary or banking world.”³ Federal deposit insurance, indeed, was attacked through 1933 on the ground that it would weaken

² Quoted from G. L. Weil and Ian Davidson: *The Gold War*, London, 1970, by Susan Strange, *International Monetary Relations*, Volume 2 of Andrew Shonfield, ed., *International Economic Relations of the Western World, 1959-1971* (London: Oxford University Press, 1976) p. 136.

³ Bagehot, *op. cit.*, 161-162.

the self-reliance of banks in this country. The point is general. Welfare, in the eyes of the conservatives, destroys the incentive to work, etc. There is value in having it somewhat ambiguous whether there will be a lender of last resort, and whom it will aid, but the ambiguity should be limited to the public, and not to the authorities. A certain amount of dissembling is tolerable, if awkward for honorable men, but when the chips are down, and the panic is on, there must be none. If Chairman Burns of the Board of Governors, and Henry Reuss of the House Banking and Currency Committee are dissembling to keep banks guessing, I am happy to have them insist that the Fund should be the lender of last resort, and not the United States through the swap network. If they are serious, however, it strikes me as dangerous, since I agree so fully with McMahan that the Fund is not equipped for the role.

As Bagehot noted, instinct is important in these matters as well as in economical science. It was instinct to which President Harry Truman reacted in June 1950 at Korea. I trust a similar instinctive sense of responsibility will guide central bankers and monetary authorities in future financial crises. Perhaps as a text it is difficult to improve on the letter of Sir Robert Peel of June 4, 1844, addressed to the House of Commons when it was debating the Bank Act of that year:

My confidence is unshaken that we have taken all the Precautions which Legislation can Prudently take against a Recurrence of a Pecuniary Crisis. It may occur in spite of our Precautions; and if it does, and if it be necessary to accept a grave Responsibility, I dare say Men will be found willing to assume such a Responsibility.⁴

⁴Report of the Secret Committee, House of Lords, Parliamentary Papers, *Monetary Policy, Commercial Distress*, Vol. III, 1848 (Dublin: Irish University Press, 1969) p. xxix.