

INTERNATIONAL FINANCIAL CENTERS

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The basic concept of international cooperation in a global economy which was mentioned by Secretary Kissinger in the statement that David Rockefeller read yesterday is sound, and I rather deplore the fact that at the present time, although we all recognize that the world is more interdependent economically than it has ever been, there has been a tendency to return to nationalism. It should not be exaggerated, but I think this has been the tendency. It's certainly been true in the United States; I think it's true in Iran; I think it's true in most of the countries in the Western world and I happen to deplore that, although I think it is only a temporary phenomenon.

When we refer to an international financial center, we're talking about foreign activities with respect to savings, investment and the allocation of capital and of resources through foreign intermediaries as well as domestic intermediaries and this, of course, is the heart of the capital problem. The world today is facing a worldwide shortage of capital, and capital can only be developed through the savings and investment process. Too frequently, we have felt in recent years that we could print capital. I use that rather than printing money because we have all of us had a tendency to think that the central bank can print whatever money is needed and that this will provide capital formation. Capital formation doesn't come this way.

An international financial center has multinational corporations and their foreign subsidiaries, commercial banks with international relationships, any number of intermediaries that are dealing with foreign exchange, and direct intervention from time to time, or direct participation from time to time by treasuries and central banks. This all goes to make up an international financial center. Basically London owed its position to a long history of development, a long history of non-confiscation of assets, a recognition of the breadth of the world and also a currency, a pound, that people had respect for. Now gradually, the pound disappeared as a currency that everybody had respect for and the tendency turned toward the dollar; and the dollar was, up until 1971, the primary currency of the world--primary in the sense of saving and investment. Here, there is a basic point that needs to be remembered. If you do not have confidence in a currency as a store value as well as a medium of exchange, the saving and investment process is not achieving what we want and need in international financial centers. Since 1971 I don't believe that anybody has confidence in saving in anybody's currency the way they did before as a store value.

There is a quantitative element in saving and a qualitative element in saving. Absolute volume of savings is an important element in the process of capital formation. But the point that I want to emphasize here is that inflation needs to be seen as a part of the process. I still think that the biggest single problem that the world is wrestling with is inflation and what has brought about most of our difficulties in recent years has been our unwillingness to deal with inflation. I happen to be one who believes, as I know all of you do, in growth. I see no limit to the possibilities for growth in the world and in individual countries. I don't think we've even scratched the surface yet. But I think there's quite a difference between growth as a goal and the rate of growth. I think we've been going too fast and this has

been the principal element in inflation. That's the simple way of putting it--like the modern automobile which has more power than any of us can use. It's easier to step on the accelerator of the economy than to use the brake. What frequently happens is that curves appear in the road that we don't see and therefore we're forced to slow down faster than we would otherwise. It's never popular to suggest to somebody that you slow down, but the fact remains that sound sustainable growth, including international financial centers, comes from balanced growth, and the world today is wrestling with the problem as it has never wrestled with it before. Now I just wanted to emphasize this as a basic overall overview and relate it to the period that we're in. To put it in a phrase that I like: too much of tomorrow has been occurring today. And I think that that's ~~an~~ evidence of going too fast.

Iran has made remarkable progress. Certainly it's one of the outstanding achievements of the post-war world. But I think that there ^{have} ~~has~~ been signs of strain here as there have been in the rest of the world. And, it's evident in a good many directions--it's evident here in Tehran, just as it is in Sao Paulo, Brazil. There's not any dimming of the vitality and the opportunity of the future, but if balanced growth is the ^{good} ~~good~~; we have to keep things in a little different perspective than they've been in the past.

There are two truly international financial centers in the world today--New York and London. There are, in addition, some mini-financial centers around the world. Frankfurt is certainly one of them. I won't go through the various areas of the world, but there certainly are many financial centers that have developed. And in the turn-over and the development of capital, there have been obvious pressures on governments to do more in the way of printing capital than they've been faced with before. And, I think that, on the whole, we can take heart that the worldwide recession has not taken a larger toll than it has.

we can just pump things up in exactly the same way that we pumped them up before, or that we can ignore the forces of supply and demand and assume that it is perfectly acceptable to stimulate each individual economy without respect to what it may do to the overall balance of payments of other countries. This is, I think, what we were getting at in the Bretton Woods concept and we did not want to have a beggar-your-neighbor policy because we believed that the whole world could have a higher standard of living, individual countries along with it, if we took this broader perspective.

Now I feel very much encouraged by what I've witnessed on this visit, and the opportunities to visit with some of you here in a casual and informal way have been most instructive. In the sessions that we've had concerning the stock exchanges and capital allocation, what comes through are the differences that there are in various countries--and they're very real and wide ones today--are really at the heart of our hope for progress. Concerning Iran's strategy for growth, and particularly Tehran's role as an international financial center, it was encouraging to me to see in your budget much evidence of careful planning and an emphasis on balanced growth. It is encouraging to see that the policy calls for an end to uncontrolled acceleration of economic growth and expenditures experienced in the preceding five years. It proposes instead to maintain a steady rate of economic development with emphasis on achievement of greater economic efficiency and improvement in quality and production. Under the new budget the real GNP is projected to increase in the coming fiscal year by 16-17%, about the same as ~~it~~ is expected to be achieved in the current year. According to the new budget figures, the proposed economic retrenchment will not be as drastic as has been recently anticipated. The new budget carries the largest fiscal deficit of all time--\$2.7 billion--which is to be and can be financed mainly through domestic borrowing. Further acceleration and growth

are constrained by various infrastructure bottlenecks, especially in ports, transportation and skilled labor supply, and the plan recognizes these constraints. Under the existing conditions in Iran, any further acceleration in development will lead to a growing economic waste and declining efficiency. According to the new budget figures, the proposed economic retrenchment will not be severe, and it's really encouraging that the budget as presently proposed is not based on the decline in oil revenues as much as it is a recognition of this basic point that I'm making, to slow down and get a better balanced growth in your economy.

I would like to close by observing that this recognition of limits extends to the development of Tehran as an international financial center. It is within Iran's power to achieve this, if you think it's desirable, but there are, however, certain costs that go with becoming an international financial center. When the United States was in the position of having the dollar as anchor of the international monetary system, I was constantly confronted with this in the Bank for International Settlements meetings, where people would say "why do you want to continue to be a dollar standard?" Since we started to float we may have worked more toward a dollar standard than ever before. But, nevertheless, there were certain costs to it. There were costs to us in deflecting resources and skilled labor toward activities that were not directly of interest to the United States but were directly of interest to the outside world and there will certainly be costs to Iran if Iran decides that it wants to be an international financial center. These costs have to be weighed and I am not absolutely certain in my own mind as to whether it's worth it to go that route or not. I think that this is something that you have to judge but I close by saying that you have it within your power to do this if you want to do it.

Thank you very much.