Confidential; not for publication.

Opening remarks at Political Economy Club discussion: "How Big a Setback was Vienna?", November 1, 1961.

Mr. Chairman, with your permission I should like to digress even before I begin and call the attention of members to an article in the American Economic Review of special interest to them. This is an article on a Political Economy Club founded in the United States in the early 'eighties and taking "the venerable Political Economy Club of London, founded in 1821" as its model. Founded, as I said, in the early 'eighties this American club expired some time in the 'nineties. It seems to have had not only a short life but also not a very happy one. After one meeting a member wrote: "I had a headache most all yesterday; perhaps it was on account of a dinner I went to at the Political Economy Club at Professor Newcomb's". Again, the writer of the article points out that in the American Economic Association "any inclinations towards dogmatism were inhibited by the conventions of scientific procedure and the etiquette of formal debate". One wonders, he comments, "whether the same restraints existed in the meetings of the Political Economy Club."

I trust that our guests will neither wake up tomorrow with a hangover nor feel that this evening I have overstepped the bounds of reasonable discussion. I feel a real difficulty here. For the case I propose to put is that Vienna was a major setback, and it is difficult to do this while remaining polite to absolutely everybody. Whether Vienna was a setback at all is open to argument. I have heard people for whose views I have hitherto had much respect describe it as a "victory for commonsense", and so on. What is beyond dispute is that Vienna showed that the immediate future of our present currency system lies in the hands of a group of industrial nations on the Continent. And the view that Vienna was a setback rests essentially on the belief that in some of these countries the climate of monetary opinion is such that they are far more likely to wreck any monetary régime than to salvage it.

From this point of view perhaps the most significant pronouncement at Vienna was a sentence tucked away in Per Jacobsson's opening remarks: "It is important to remember that the currency failures that occurred in the early 'thirties were caused not by inflation but by widespread deflation." I do not think that sentence got in by accident. I think it was a salutary and necessary reminder; but it is difficult to imagine that reminder being given in a speech by, for example, Dr. Baumgartner or Dr. Blessing.

Dr. Blessing, for example, suggests that both surplus and deficit countries "have to submit voluntarily to a monetary discipline similar to that inherent in the automatism of the old gold standard". Let us leave aside such minor issues as whether an automatic gold standard ever existed and whether an automatic standard of any kind would be a good thing. The point I want to make is that in the self-same speech Dr. Blessing himself showed that submitting to a discipline like that of the old gold standard is precisely what Germany has not been prepared to do. "As I explained to you last year," he says, "the boom conditions then prevailing in Germany called for restrictive measures and higher interest rates." In other words, he is arguing that domestic considerations must clearly take priority over external. That was no part of the philosophy of the gold standard; a country receiving gold was expected to expand credit and incomes, period. The rules of the game did not imply that stability of prices was a reasonable objective of policy in an individual surplus country. It seems to me that

Dr. Emminger's Committee shows a much more real understanding of the rules of the gold standard game when they take a view which implies that external considerations must be paramount and that domestic considerations are irrelevant. But Dr. Emminger's Committee, of course, was discussing the dollar deficit, not the Deutschemark surplus.

By happy contrast, our distinguished guest, Dr. Holtrop, is usually very careful to preserve symmetry in his statements of general principle. He opened his statement at Vienna with a reference to monetary authorities treading "the razor's edge" between inflation and deflation, and it is very reassuring to know that the possibility of deflation as a danger is present in the mind of a central banker. Yet even Dr. Holtrop, I would suggest, has his unguarded moments. For example, he says, " ... Feeding the excess reserves of the surplus countries back into the international circuit ... would only create the perfect machine for perpetual inflation." Now, analytically at any rate, this is not true. If there is a disequilibrium, its origin may lie in the policies of the surplus country, in the policies of the deficit country or in a combination of both. If it has its origin in the policies of the surplus country, then feeding back surpluses is <u>not</u> inflationary; it merely relieves the deficit country of a deflationary pressure to undertake an adjustment that ought properly to be made, and could more easily be made, by the surplus country. Yet Dr. Holtrop does not seem to think the surplus countries have been blameless, for only two sentences earlier he has said: "Surplus countries may have to ask themselves whether their wage standards perhaps still lag behind their productivity and whether, more generally, their internal monetary and budgetary policies tend to reduce, or rather to perpetuate, their surpluses.

However, Per Jacobsson's job as stage manager at

Vienna was to put the best face on things. He gives various reasons for thinking that we could not have another currency collapse, reasons which to me have a rather hollow ring. And he points with pride to our supposed achievements of recent years: "External convertibility has been established for a broad range of currencies and, with the better distribution of reserves, there is an increasing measure of freedom for capital movements." I suggest that we take a look at this "better distribution" of reserves and see what light is thrown on the genuineness of this vaunted convertibility.

Let us look first at the changes which took place in gold holdings between 1951 and the middle of 1961. World monetary gold stocks rose by about $\$5\frac{1}{4}$ billion and the U.S. monetary gold stock fell by about $\$5\frac{1}{4}$ billion; so that made available about $\$10\frac{1}{2}$ billions for other purposes. Of this, the I.M.F. took one and then there were only nine and a half. And it so happens that a group of countries which for years have failed to equilibrate their balance of payments by running a persistent surplus - the EEC group - increased their holdings by a little more than $\$9\frac{1}{2}$ billions; so that takes care of the rest of us. At more than $10 billions the combined gold holdings of the EEC countries are about half of the world total outside the United States. Obviously, this group of countries is very strongly gold-minded, especially when it is remembered that the motives which prompt key currency countries to hold their reserves in the form of gold have not hitherto applied to them.

But even these countries, as a group, have taken part of the increase in their reserves in the form of foreign exchange (their total exchange reserves amount to $16 billions). But the proportion of the increase in reserves taken in gold varies very widely among them: Italy has taken one quarter in gold and three quarters in foreign exchange; for Germany it is about half and half; France has taken about three-quarters in gold; Belgium and the Netherlands: the lot. Let us consider the case of Germany alone. Her total exchange reserves stand at the monstrous level of nearly $7 billions - and I use the word monstrous with a full sense of its ambiguity. That reserve is equivalent to about eight months imports. To show the same ratio, the United Kingdom would need an extra $5 billions of reserves - and that still makes no allowance for the short-term liabilities which we have and from which Germany is free.

Let us now take a look at the position of the International Monetary Fund. This can show a balance sheet total of $13½ billions. This is very impressive, like so many balance sheets, until you examine the composition of the assets included in the total. The amount of gold is only $2½ billions, and Per Jacobsson has pointed out: "Gold holdings are not necessarily revolving and, once used for the replenishment of currency holdings, they may not readily be restored ... Therefore the Fund should generally be careful in the use of its gold." In other words, the United States is short of gold, the United Kingdom is short of gold and the I.M.F. is also short of gold; and this is the only asset it can use as money, as general purchasing power. Except when acquiring currencies for gold, Per Jacobsson, at the centre of our monetary regime, is rather in the position of a trader in some outpost of the frozen north carrying on a barter trade with the Eskimos. Of the Fund's total currency holdings of $11 billions, about half consist of dollars and sterling, with which, to employ a euphemism, the world is adequately supplied. The rest is a mixed bag which in future will include such delectable morsels as Nepalese rupees, Senegalese francs and

Laotian kips. Of the currencies in strong demand - those of the EEC group - the Fund holds in all about $\$\frac{1}{2}$ billion.

All this means that what we have is a very queer kind of convertibility. The I.M.F. is not in a position to extend a line of credit up to a given amount, leaving the borrowing country free to draw upon it in any form it chooses. The I.M.F. can only offer two apples, three pears and a couple of walnuts. It will be recalled that the U.K. drawing in May was taken in the form of nine different currencies - and moreover the I.M.F. had to bribe the lenders of those currencies by giving them the equivalent of one-third in gold. There are other symptoms that our type of convertibility is not as complete as it might be. One such symptom is the general condonation of tied lending by the United States. There is all the talk of a conflict between the requirements of the American internal situation and external policy, which is only another way of saying that American reserves are not sufficient to enable them to ride out a balance of payments deficit during a recession. For individuals, a good many currencies are convertible; but on a world plane the only currencies one can be quite certain of exchanging out of, as well as into, are those of the EEC group.

This brings us to Vienna. Basically, we must choose between two options. The first of these would be to wind up the present system: dismantle the dollar and sterling exchange standards and convert the short-term external debt of those countries into gold. Indeed, it means not only dismantling the dollar and sterling exchange standards but also discrediting both those currencies, because it would almost certainly entail a rise in the price of gold. This would be a terrific upheaval and I, for one, am opposed to it. But that is one possible course, to return to the old barbarous relic as our only form of exchange reserve.

The second option is to accept the dollar and sterling exchange standards as among the facts of life, however deplorable, and take steps to ensure that this system works satisfactorily. On the surface, that is what it was decided to do at Vienna.

Now, when one comes to consider means of making the present system work satisfactorily the range of possibilities is almost endless. One possibility would be for us to create a new kind of exchange reserve additional to gold, sterling and the dollar, to get into the habit of using some international obligation as part of our reserves. I myself feel no doubt that this is the next step in monetary evolution. But it had, of course, been known for months beforehand that this was not on. In this sense Vienna was not a setback but merely a missed opportunity.

Another possibility would be for the central banks to alleviate the shortage of gold (at its present price) by holding more of their reserves in the form of foreign exchange. I was very encouraged, in reading the report for 1960 of the Bank of Italy, to find Senator Carli saying:
"If the central banks of the leading countries were to co-operate more closely ... than they have done in the past, they could constitute a strong first line of defence. Concerted action of this kind would, of course, presuppose that the monetary institutions of some major countries, which in the past followed the practice of keeping all or very nearly all of their reserves in gold, should be willing to keep also other countries' currencies as reserve." As far as I know, this proposal was not on the agenda at Vienna.

Instead, the Continental countries were offered a relatively soft option: to adopt the Bernstein stopgap proposals. Per Jacobsson, seconded by Mr. Dillon, asked the industrial countries to enter into a firm commitment to lend their currencies to the I. M. F. up to a given amount if the Fund deemed this necessary to stop a speculative run. In support of this appeal Per Jacobsson very aptly quoted the Duke of Vienna in "Measure for Measure":

> "The satisfaction I would require is
> likewise your own benefit"

It seems to me that the answer he got could also be expressed in the words of the same character in the same play:

> "We have strict statutes and most biting laws,
> The needful bits and curbs for headstrong steeds,
> Which for these fourteen years we have let sleep".

Or, to use Dr. Baumgartner's actual words:

> "We [in France] do not intend, any more, I
> believe, than some other European countries,
> to commit ourselves or commit this
> institution [the I.M.F.] by way of an
> automatic and rigid solution ...
> Each country should remain judge of the
> advisability of the use of its own
> currency."

In other words, at a time when world confidence in the dollar and in sterling had already been shaken, confidence in the I. M. F. has also been shaken. It seems to me that this was something like a public vote of no confidence in the management of the I. M. F; there was a refusal to delegate to the I. M. F. the lending function which the world has been quite happy to have the I. M. F. carry out so long as the dollar was the scarce currency. Moreover, the world has as yet no assurance that, if another speculative run occurs, the resources will be forthcoming to counter it. It is for this reason that I think Vienna has to be regarded as a setback: because it has left both the dollar and sterling under a cloud of uncertainty.

The prospect is that during 1962 the United States will have a balance of payments deficit of something in excess of $2 billions; that is, the U.S.A. will be losing gold, or incurring more short-term debt, or some combination of the two. Against this background there are bound to be questionings about whether the United States will have to place some restriction upon gold exports or will decide to make some change in the official price of gold. We must therefore expect, I would suggest, to see more speculative movements of funds. And the world is asked to have confidence that, if that situation occurs, we can rely upon the co-operation of the Continental central bankers to stem the tide and operate in the reverse direction to the speculators. It is in this context that I find Dr. Holtrop's "uncertainty" thesis so unnerving. He argues that it is uncertainty which helps to maintain a precarious equilibrium between holdings of gold and of dollars. If it were quite certain that there would be no change in the price of gold, central banks would hold only dollars, for the sake of the earnings. On the other hand, if it were quite certain that the price of gold would be raised, they would not be prepared to hold dollars at all and would go entirely for gold. This is very interesting but it is also hair-raising, because it implies that central bankers are actuated by precisely the same motives as the speculators we have to rely upon them to circumvent.

In short, I think we must assume that currency troubles lie ahead of us, unless the pattern of world payments should change abruptly, as is, I suppose, always possible. The general conclusion, I would suggest, is that if we are fortunate enough to hear of rapid rises in wages and prices on the Continent, those of us who really believe in monetary stability should not wag our heads gravely, as we normally would, but throw up our hats and cheer.

Remarks in winding up discussion:

I agree with everyone, in spite of the apparent contradictions through differences of emphasis. Everything that has been said seemed to me reasonable within its limitations. The case I was putting was, of course, a one-sided one and I am glad that it stimulated our distinguished guest, Dr. Holtrop, to give us so forceful and eloquent an exposition of the viewpoint of the surplus countries. All the same, I still think absolute truth lies somewhere between the case I put and Dr. Holtrop's reply.

We all profess to want both stable exchange parities and stable prices; the surplus countries have to ask themselves whether these objectives are compatible. It was not I but Dr. Blessing who suggested a return to the discipline of an automatic gold standard; my concern was merely to point out that Germany seems to have a very one-sided idea of the nature of that discipline. But there is this to be said: such a discipline is the only means we have ever had of maintaining fixed exchange parities. To maintain fixed parities there must be a <u>relative</u> rise in prices in the surplus countries; and if prices in the deficit countries are not to be forced down - which in the twentieth century is politically unrealistic - then there must be an <u>absolute</u> rise in prices in the surplus countries.

It was, of course, no part of my case to suggest that the deficit countries have been guiltless.* But I would like to make this point: if there is a deficit there must be surpluses elsewhere - that is a matter of arithmetic. If the fault lay wholly with the deficit countries, then the corresponding surpluses would be diffused over the system as a whole. In fact they are not so diffused; they are concentrated in one group of countries.

I would not wish to make the case for the deficit countries in terms of the U. K., because I think our policies have been stupid beyond belief, and not only in their external aspect. What I would say is that, if only we could secure the additional

*<u>Postscript</u>. The case argued is that the policies of the surplus countries alone are sufficient to threaten a breakdown of the system. If it is thought the policies of the deficit countries are also open to criticism, the likelihood of something snapping is increased.

1 per cent. or so of unemployment which would be the greatest boon this country could enjoy, then there is evidence that sterling is not, at this moment of time, overvalued. It is also true that both the deficit countries happen to be countries which have been facing up fully to their international responsibilities.

I would, however, be quite happy to make a case for the deficit countries in terms of the U. S. The Americans can urge that they have been carrying a disproportionate share of the common burden of defence and of aid and also, perhaps, of development lending. Part of the trouble, in my view, is not only the climate of monetary opinion in Continental countries: it is also the fact that the two really important capital markets are in New York and the City of London. We all know that Amsterdam has been in the business a long time, that the Bank of England was modelled on the Bank of Amsterdam; but it is a fact that today the capital market in Holland is on nothing like the same scale as that of the City of London. Moreover, it is unfortunate that, from the point of view of overseas lending, the two larger countries - France and Germany - have no worthwhile capital markets at all. But so far as American policies are concerned, the surplus countries should ask themselves how much more unemployment they think it would be reasonable to ask the United States to tolerate. It seems to me that there is almost no policy which any sane American Administration could follow at this stage of the business cycle that would satisfy people on the Continent. That is why I think we must expect for some time to have disturbed conditions in the currency markets.

April 9, 1963

Dear Manning:

As I feared, my travels will take me away from Washington--this time to Europe--over the period when you will be here at the end of the month, and I regret very much that I will not see you on 30th April as we had tentatively hoped.

However, by all means call in at the Fund. Frank Southard, the Deputy Managing Director, will be here and will be very glad to see you and Sir Jeremy and hopes that you will be able to lunch with him and perhaps a few others on that date. Perhaps you would be good enough to confirm to Mr. Southard that this is agreeable to you.

Yours ever,

Per Jacobsson

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CC Mr Southard

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In replying please address

THE ECONOMIC ADVISER

Air mail

20th March 1963

Dr. Per Jacobsson,
Managing Director,
International Monetary Fund,
Washington, D.C.,
U. S. A.

N/R

My dear Per,

It is most kind of you to ask Sir Jeremy and me to lunch with you on April 30 and we shall both be delighted to come. If your duties should call you elsewhere we shall be disappointed not to see you but fully understand.

With all good wishes,

Yours ever,

Manning.

March 13, 1963

Dear Manning:

I should of course be delighted to see you when you come to Washington at the end of April. I wonder if you and Sir Jeremy Raisman might be free to lunch with me on Tuesday, April 30th? If by any chance you are not free for lunch, some time that morning, say, 11·30 would suit me very well. If, as is unlikely at the moment, but just possible, I am abroad at that time there will certainly be people here who would like to talk to you, and I will see that you are looked after.

I must apologize for taking a rather long time to reply to your letter. These are busy days and I have been away from my office for some days recently.

With all best wishes,

Yours ever,

Per Jacobsson

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In replying please address
THE ECONOMIC ADVISER

Air mail

25th February 1963.

Dr. Per Jacobsson,
Managing Director,
International Monetary Fund,
1818 H Street,
Washington, D.C.,
U.S.A.

Lunch

My dear Per,

Sir Jeremy and I are planning to spend a couple of days in Washington after the International Chamber of Commerce meetings in Mexico and are wondering if there will be any possibility of a chat with you on either Monday, April 29 or Tuesday, April 30. We are to see Bob Roosa at 10 a.m. on April 29 but apart from that would be happy to fit in with anything you may be able to suggest.

I would mention that the only other calls we are hoping to make are to the Bank and Board, but I thought I would wait to see how you were placed before trying to make these other arrangements.

With warmest good wishes,

Yours ever,

Manning.

9-F

January 18, 1962

Dear Manning:

It is now two months since I received your letter and the enclosed copy of your opening remarks at the Political Economy Club discussion, entitled "How Big a Setback was Vienna?" I read it with interest and amusement, since you obviously had wanted to deal with these matters in a light vein--although expressing quite clearly your firm opinion on what was happening.

"Setback" is of course a relative term, and I suppose it was a setback to what many people had hoped for. It is always difficult to devise a plan which one expects can be negotiated and thus become reality. In this world with many contradictory desires and strong convictions--often of a conflicting nature--one has to be satisfied with something than can solve certain problems, in what one hopes to be a practical manner. Three years ago there was the enlargement of Fund resources, and now there is the borrowing arrangement. Taken together they have, I think, made the I.M.F. more effective. There will be further problems to be solved, but I think we have now sufficient resources to keep the main currencies in line with each other, provided that in each country appropriate policies are pursued. This should not lead to any deflation, but, I hope, to a continuation of fairly stable world market prices in the foreseeable future.

So, with every good wish, I am

Yours ever,

Per Jacobsson

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7/11/61

My dear Per,

It was a great shame you could not be with us at last week's Political Economy Club but I thought you would be interested in the enclosed note of my opening & closing remarks. This is purely for your information (or amusement). Please do not feel under any obligation to comment, though any

Observations would of course be most welcome.

Hope it will not be too long before you drop in on us again.

Yours ever,

Manning.

February 23, 1961

My dear Manning:

Thank you so much for your letter of the 10th February and for your comments on the liquidity situation. I do, of course, realize that there are dangers in the general use of particular currencies as part of exchange reserves. But the system has many advantages and it fits organically into the market structure. Therefore, if the system can be made to work tolerably efficiently--as I believe it can--with an intelligent use of the International Monetary Fund, I am not one of those who would lightly give it up in favor of a world central bank.

In any event, I believe that the possibility of an effective world central bank is an illusion for a good many years to come, and we have to make the best use of the present system for the time being. This does not mean that I am not interested in certain lines of evolution in the activities of the Fund, and I think it would be a pity if anything was said or done to prevent such evolution. What we should aim at is a more imaginative use of our existing provisions, and I believe that such imaginative use will go a long way towards solving current problems in this new world of convertible currencies which has with such great effort been established.

With every good wish and many thanks for the cartoon from "The Guardian" which I liked very much,

Yours ever,

Per Jacobsson

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THE ECONOMIC ADVISER

Air mail

10th February, 1961

Dr. Per Jacobsson,
Managing Director,
International Monetary Fund,
1818 H Street,
Washington, D.C.,
U.S.A.

My dear Per,

A letter from you is always welcome and I particularly appreciate your detailed comments on our chart and the considerations arising out of it.

First a word about the statistical basis. For the years 1953 to 1959 the figures of reserves we used correspond with those in your table except for 1956, where we took (from International Financial Statistics!) a figure of $20.7 bn. for gold and foreign exchange reserves. Our import figures are slightly lower throughout, as we excluded Yugoslavia and one or two other odd bits of Western Europe that do not sound particularly developed. Secondly, for 1960 we used faute de mieux June figures, whereas I imagine yours are end-year (or at any rate more up-to-date) ones, giving total reserves of only $30.5 millions, against your $33.3 millions.

Now for the argument. I will agree at once about the under-developed countries and the developed countries other than the U.K. and U.S. But it is, of course, the position of the key countries that we are really concerned about. For us, it is an old story that our reserves are equivalent to only about three months imports, a still smaller proportion of total trade financed in sterling and a fraction of our sterling liabilities. Nevertheless, though we have lived with this situation for some years it seems to me constantly precarious, especially as our short-term liabilities have recently been increased by several hundred millions of short-term funds that may well depart again this summer.

Thanks to this influx sterling was taken for granted last year and distrust focused entirely on the dollar. With regard to the U.S. loss of gold, therefore, I think one cannot just welcome it as a redistribution but recognise that it has in fact gone far enough to disturb confidence in the dollar, which would be accentuated by any further increase in U.S. short-term liabilities (a valuable source of international liquidity) unaccompanied by additions to the U.S. gold reserve (achievable only at the cost of deflationary pressures on the outside world).

The recent movements are, of course, far more dramatic if one does not look simply at the total gold stock but takes into account also the growth of U.S. short-term liabilities and compares them with the one-third of the gold stock at present available for rational use in international settlements. I was, naturally,especially interested in the President's reference to this matter (scarcely reported at all in the British press), but should have been happier still if he had actually suspended the currency-backing regulations instead of warning all the hostile faces in Congress to mobilise against such a move.

All in all, these considerations leave me in much the same frame of mind as that deployed in the first article of today's Economist, with which I should go a long way. At least I hope we can all agree that (1) the quantitative aspect of international liquidity should not be overlooked and (2) it would be a great step forward if we could stop using as international reserves national currencies which are bound to come under suspicion from time to time. More power to the I.M.F! I certainly agree about the lack of symmetry in budgetary policies between boom and slump and in fact went on record a few days before our last Budget as saying that the situation clearly called for an extra £100-200 millions of taxation. (See also my Chairman's recent annual Statement).

I shall be attending an I.C.C. meeting in Paris next week about all this and, if I survive, will send you a first-hand account of the battle.

Yours ever,

Manning

February 6, 1961

Dear Manning:

More than a month has passed since I received your letter of the 29th December, for which I thank you very much. I was very interested in the chart on the world international liquidity situation, but I have a few words of comment:

In your chart you show the exchange reserves of all the developed countries, together with their increased drawing rights in the Fund, as a percentage of the imports of these countries, and you make no distinction between the United States, on the one hand, and the other developed countries, on the other. This seems to me to disguise the important fact that in 1956 the United States gold reserves, which covered over ~~eighteen~~ months' imports, 18 were undoubtedly on the high side, especially for so pronounced a creditor country. As you know, we all wanted to see some redistribution of reserves, and this has been achieved by the outflow of U.S. gold, by the increase in other countries' dollar holdings, and, moreover, by the increase in Fund resources. While U.S. international liquidity has declined to a level which nearer is ~~nearly~~ what it ought to be, the liquidity of other developed countries has been quite well maintained. Our Research Department has produced some figures on this and they are enclosed. Although these figures may not be exactly comparable to yours--I believe they had some difficulty in reconciling their statistics with some of the points on your chart--they do show the general trend. You will see that for developed countries other than the United States, the percentage of reserves to imports in 1960 was higher than in any year from 1953 to 1957, and only a little lower than in 1958 and 1959, so that there has certainly been no deterioration.

During the last three years, the over-all U.S. balance of payments deficit has totalled some \$10 to \$11 billion. In addition, \$1.5 billion has probably been added to international liquidity from current gold production, and Fund quotas have been increased by \$5 billion. Most of the liquidity has accrued to developed industrial countries, and, looking at these figures, I cannot see how they can complain about the lack of international liquidity. I think one should bear in mind, too, that besides the addition to official reserves, commercial banks now hold much larger dollar balances than they did three years ago. To ignore this change gives, I think, a rather mistaken picture.

As far as the underdeveloped countries are concerned, their need is not so much liquidity as genuine savings from abroad, which is an entirely different question, that is not solved merely by additions to world liquidity.

I said in my speech at the Annual Meeting last September that the majority of the larger industrial countries now had adequate or very nearly adequate reserves, and I think that holds true notwithstanding the expansion of world trade. I confess I cannot understand all this concern about international liquidity. The countries that experience difficulties in their balance of payments do so not because of any shortage of international liquidity or stagnation of world trade, but because of their internal situation. One hears a lot about fiscal policies being used to mitigate booms and recessions and about increasing budget expenditure to achieve recovery. But there seems to be remarkably little willingness to follow policies of restraint during a boom!

I have not been in Europe for six months, and I am therefore somewhat out of touch with thinking on the other side of the Atlantic. I should therefore particularly welcome a letter from you, if you have time, telling me what you think about my observations in this letter and about monetary matters generally. And I hope it may not be too long before we can meet again and have a good talk about many things.

With every good wish, I am

Yours ever,

Per Jacobsson

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Enclosure
Fund Research Dept. Figures

International Liquidity of the Developed Countries
(excluding the United States)

	(in billions of dollars)							
	1953	1954	1955	1956	1957	1958	1959	1960 (Provisional)
A. Gold & Foreign Exchange Reserves	17.7	19.4	19.9	22.8	21.5	25.7	26.1	29.8
Second - Line Reserves in IMF 1/	1.3	1.4	1.7	2.0	1.5	1.7	2.9	3.5
B. Total Reserves	19.0	20.8	21.6	24.8	23.0	27.4	29.0	33.3
Imports (CIF)	43.3	46.2	52.5	58.3	63.9	59.1	62.6	73.2
	%							
Reserves (A) as proportion of Imports	40.9	42.0	37.9	39.0	33.6	43.5	41.7	40.7
Reserves (B) as proportion of Imports	43.9	45.0	41.1	42.5	36.0	46.4	46.3	45.5

1/ Size of drawing which would bring Fund's holding of member currency up to 125% of quota, or total drawing rights under stand-by--whichever is greater. If Fund holds more than 125% of quota and there is no stand-by, figure is taken as zero.

[February 1961]

International Liquidity of the Developed Countries
(excluding the United States)

	(in billions of dollars)							
	1953	1954	1955	1956	1957	1958	1959	1960 (Provisional)
A. Gold & Foreign Exchange Reserves	17.7	19.4	19.9	22.8	21.5	25.7	26.1	29.8
Second - Line Reserves in IMF 1/	1.3	1.4	1.7	2.0	1.5	1.7	2.9	3.5
B. Total Reserves	19.0	20.8	21.6	24.8	23.0	27.4	29.0	33.3
Imports (CIF)	43.3	46.2	52.5	58.3	63.9	59.1	62.6	73.2
	%							
Reserves (A) as proportion of Imports	40.9	42.0	37.9	39.0	33.6	43.5	41.7	40.7
Reserves (B) as proportion of Imports	43.9	45.0	41.1	42.5	36.0	46.4	46.3	45.5

1/ Size of drawing which would bring Fund's holding of member currency up to 125% of quota, or total drawing rights under stand-by--whichever is greater. If Fund holds more than 125% of quota and there is no stand-by, figure is taken as zero.

[February 1961]

Lloyds Bank Limited

HEAD OFFICE

P. O. BOX 215 · 71 LOMBARD STREET, LONDON, E.C.3
Telegrams: Branchage Stock London · Telephone: Mansion House 1500

In replying please address
THE ECONOMIC ADVISER

29th December 1960

Air mail

Dr. Per Jacobsson,
Managing Director,
International Monetary Fund,
Washington, U.S.A.

My dear Per,

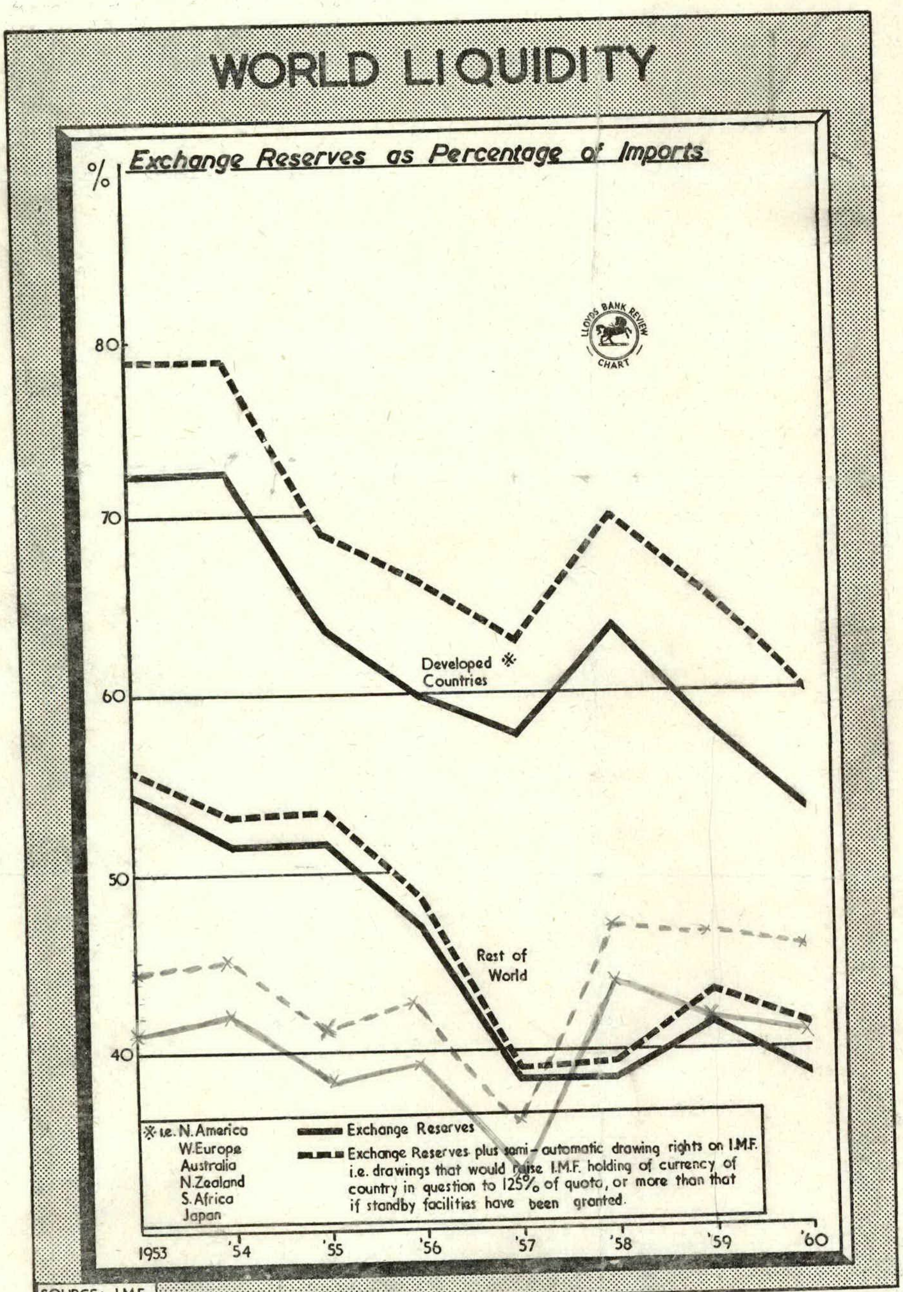
Thank you for your delightful Christmas card and for your very kind letter. I do hope that when you have read the book you will not feel that yet another reputation has been lost.

Thank you, too, for the copies of your two recent speeches. I was especially interested in the references to Keynes in the C.E.D. speech, and in the emphasis on the need for cost adjustments even in the absence of balance of payments difficulties. Your reference on page 8 to a rather difficult international situation prompts me to send you the enclosed proof of a chart which will appear in our Review to be published early in January. In spite of the valiant efforts of the Fund under your leadership, which I appreciate to the full, I must confess that I still feel some concern about the over-all level of international liquidity, particularly that of the developing countries. I have just been reading the O.E.E.C's admirable report on Germany, which I suppose must be about the swansong of O.E.E.C. in its old form. The recommendations are excellent; but are they likely to be followed? One of the things I regret, too, is that the principle of untied lending, to which you refer, seems for the time being to have gone by the board both in the U.S. and here.

With every good wish for the New Year, however difficult it may prove,

Yours ever,

Manning



Except in 1958, when world trade declined, the value of imports has been rising faster than have exchange reserves. The increase in International Monetary Fund quotas has not reversed this trend. For the developed countries, exchange reserves plus semi-automatic drawing right on the I.M.F. are no higher, in relation to imports, than exchange reserves alone were in 1956.

December 19, 1960

Dear Manning:

As you promised in your letter of the 29th of November, your new book has just arrived on my desk. How very kind of you to send me a copy--thank you so much. From a quick glance it seems to be written in your usual lucid and readable style; which also has the very great advantage of being rather shorter than most similar learned books, and I am looking forward to a pleasant and rewarding evening reading.

We have had a very busy autumn in the Fund, with consultations and transactions with many countries. One sometimes looks forward to a period of slightly less hectic activity, to give time for contemplation, but with sixty-eight member countries there always seems to be a crisis of some sort in at least one of them. I have also been making a number of speeches; you might be interested to read my latest one, and I am enclosing a copy.

With many thanks and my very best wishes for A Merry Christmas and A Happy New Year, I am

Yours ever,

Per Jacobsson

Mr. Manning Dacey
Lloyds Bank Limited
71, Lombard Street
London, E.C.3, England

Enclosure

Office Memorandum

TO : Mr. J. J. Polak

FROM : J. Peter Burman

SUBJECT : Reserves & Imports

DATE: January 6, 1961.

Following are the figures, comparable, so far as we can tell, with Manning Dacey's, but excluding the U.S. We could not identify his figures for some dates, but the statement at the foot of the table is certainly true.

Developed Countries (Excl. U.S.)	1953	1954	1955	1956	1957	1958	1959	1960 (Provisional)
	(in billions of dollars)							
A. Gold & Foreign Exchange Reserves	17.7	19.4	19.9	22.8	21.5	25.7	26.1	29.8
Second - Line Reserves in IMF 1/	1.3	1.4	1.7	2.0	1.5	1.7	2.9	3.5
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	%							
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1/ Size of drawing which would bring Fund's holding of member currency up to 125% of quota, or total drawing rights under stand-by - whichever is greater. If Fund holds more than 125% of quota & there is no stand-by, figure is taken as zero.

Lloyds Bank Limited,
71, Lombard Street,
London, E.C.3.

29th November 1960.

Dr. Per Jacobsson,
Managing Director,
International Monetary Fund,
1018 H Street,
Washington 25, D.C., U.S.A.

My dear Per,

This is just a short note to let you know that we have today posted to you by surface mail a copy of my new book "Money Under Review" which is due to be published on Monday next.

At the same time I should like to take this opportunity of sending you my very best wishes for Christmas and the New Year.

Yours ever.

Manning

August 15, 1958

Dear Manning:

Thank you for your interesting table, which of course confirmed that this year there has been a considerable improvement in the British reserve position, especially if account is taken of the reduction in sterling balances and the continued increase in stocks.

As far as the years 1956 and 1957 are concerned, I don't think you allow for the drawing on the International Monetary Fund amounting to $561 million in December 1956, and the drawing of $250 million on the Export-Import Bank in October 1957. If adjustments are made for these additions to the reserves, the results of thos two years will not appear so favorable, but in contrast the result for 1958 will seem more outstandingly good.

It was very nice to see you, and I hope you will continue to send me any other interesting tables you produce. All I can let you have is a copy of a speech of mine which I made in Brussels on the 1st of this month.

With kind personal regards, I am

Yours ever,

Per Jacobsson

Mr. Manning Dacey
Lloyds Bank Ltd.
P.O. Box 215
71, Lombard Street
London, E.C.3, England

1677

IN REPLYING PLEASE ADDRESS
ECONOMIC ADVISER.

Lloyds Bank Limited,

HEAD OFFICE,
LONDON, E.C.3.

POSTAL ADDRESS,
G.P.O. BOX 215,
71, LOMBARD STREET, E.C.3.

TELEGRAPHIC ADDRESS,
"BRANCHAGE, STOCK, LONDON,"

TELEPHONE Nº
MANSION HOUSE 1500.

Air mail

12th August 1958.

Dr. Per Jacobsson,
Chairman,
International Monetary Fund,
1818 H Street,
Washington 25, D.C.,
U. S. A.

Dear Per,

It was good to see you again and to hear your views. Arising out of our talk, you may like to have the enclosed table, showing the position if changes in the reserves are taken in conjunction with changes in sterling balances and in stocks. Of course, I fully realise the criticisms that could be made of adding the three items together; it implies that it is a matter of indifference whether we use a surplus to repay debt, accumulate stocks or add to the reserves, and I have a strong personal preference, in our situation, for golden apples. You will see, too, that on this basis the only really bad year appears to have been 1954, when we did not have a crisis - which, of course, suggests that perhaps one ought to bring in long-term overseas investment as well. However, for what they are worth, you may find the figures of some interest. Certainly, they justify the importance you attach to the fact that recently we have been able to add to the reserves while reducing the sterling balances.

Yours ever,

Manning.

£m.	1948 I	1948 II	1949 I	1949 II	1950 I	1950 II	1951 I	1951 II	1952 I	1952 II	1953 I	1953 II	1954 I	1954 II	1955 I	1955 II	1956 I	1956 II	1957 I	1957 II	1958 Ist qtr.	1958 IInd qtr.
Change in Gold & $ Reserves	-39	-16	-51	+48*	+262	+313	+203	-547	-232	+57	+186	+54	+179	-92	-29	-200	+95	-90	+88	-38	+177	+109
Change in £ balances of non-sterling countries	-162	-89	-28	+37	-69	+16	+57	-50	-176	-88	-37	+55	-2	+86	-24	-58	-48	-84	+4	-1	+38	n.a.
Net change in above	+123	+73	-23	+11	+331	+297	+146	-497	-56	+145	+223	-1	+181	-178	-5	-142	+143	-6	+84	-37	+139	n.a.
Change in £ balances of sterling countries	+111	-43	-87	+75	+220	+161	+369	-312	-224	+112	+213	+39	+126	nil	+12	-57	+21	-44	+69	-226	-71	n.a.
Net change in reserves cum £ balances	+12	+116	+64	-64	+111	+136	-223	-185	+168	+33	+10	-40	+55	-178	-17	-85	+122	+38	+15	+189	+210	n.a.
	+128		nil		+247		-408		+201		-30		-123		-102		+160		+204			
Change in stocks & work in progress	+175		+65		-210		+575		+50		+125		+10	+40	+265	+35	+355	-80	+400	+50	+180	n.a.
Net change in reserves cum £ balances and stocks													+65	-138	+248	-50	+477	-42	+415	+239	+390	n.a.
	+303		+65		+37		+167		+251		+95		-73		+198		+435		+654			

* Sterling value of reserves rose by £197m., of which £149m. attributable to devaluation. Dollar value of reserves rose over this half-year by only $37m.

February 14, 1957

Dear Manning:

Thank you so much for the newspaper cuttings which you sent me and which I received this morning. I hadn't seen them before, and I think the pictures are extraordinarily good for photographs appearing in a paper.

I should also have written and thanked you for the reference made to me in Sir Oliver Franks' speech at the annual meeting of the Lloyds Bank. I hope I contributed something to the operation earlier in December, but it all went quite smoothly for there was a general feeling that the pound was a world-wide currency which has an important role to fulfill, and therefore cannot be allowed to fluctuate widely. It was taken for granted that if no assistance had been given at that time London would have adopted a floating rate before long. The Americans knew very well that that would not have been in their interest.

With best wishes to Sir Oliver Franks and Sir Jeremy Raisman, and other friends, I am

Yours ever,

Per Jacobsson
Managing Director

Mr. Manning Dacey
Lloyds Bank Ltd.
71 Lombard Street
London, E.C.3
England

Lloyds Bank Limited,
HEAD OFFICE,
LONDON, E.C.3.

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"BRANCHAGE, STOCK, LONDON."

TELEPHONE Nº
MANSION HOUSE 1500.

Air Mail. 28th December,1956 .

My dear Per,

It was very pleasant to hear from you. I quite agree that putting the whole of the thirteen hundred million dollars in the shop-window at once was the really statesmanlike method of scaring off the speculator and the best guarantee that the money would not be required to ward off speculative attacks. Lesser minds (some of them no doubt on this side of the water) would probably have been tempted to take several bites at the cherry and thereby have run the risk of seeing the dollars dribble away down a rathole.

It does seem to me that there are long-term tendencies at work likely to swing the distribution of our exports in the directions you suggest. For a time these may be overshadowed by expenditure out of sterling balances on the part of Middle East countries and the less developed parts of the Sterling Area (India has been running at a prodigious rate); but sooner or later a slackening of demand from these quarters - and, by the looks of it, the home market - should release more resources for export to the industrial countries and also improve our competitive position by shortening delivery dates. Over the past year, exports to the United States (as distinct from Canada) have been one of the more encouraging parts of the picture, and on the longer view British association with a common market in Europe ought to increase our mutual exchanges with that area. It so happens that the long-term trends are discussed in the latest Berliner Handels Gesellschaft bulletin, which I enclose in case you do not normally see it.

Work on clearing the Canal seems to be starting at long last but I shall be agreeably surprised if it goes through quickly. I would have expected the Egyptians to hang on to the blocking of the Canal as a bargaining counter for as long as possible. Their position will clearly be strong as long as the Americans keep up the game of courting the floating voter on a world scale. It is a pity my countrymen cannot be made to understand that the little boys Britain used to bully a century ago have grown up and it is now they who do the arm-twisting.

With all good wishes,

Yours sincerely,

Dr. Per Jacobsson,
International Monetary Fund,
Washington,
U.S.A.

December 17, 1956

Dear Manning:

Thank you for your letter with enclosures. I am glad you like Moyra's drawing on the Christmas card.

The thirteen hundred million dollars you regard, I suppose, as a necessity but isn't there a chance that very little need be used? The foreign trade figures for November were certainly encouraging. Isn't there a possibility of British trade being turned more to the rich countries in the two Americas and to the Continent of Europe instead of being so largely directed towards the sterling area? If so, even the temporary blocking of the Suez Canal will have some unexpected results.

I would very much like to hear your view on this matter.

With every good wish,

Yours ever

I am told that it is technically possible

Mr. Manning Dacey
Lloyds Bank Limited
71, Lombard Street
London, E. C. 3

Lloyds Bank Limited.
71, Lombard Street,
London, E.C.3.

12/12/56

My dear Per.

Thank you very much for your card with Moira's delightful drawing. Also for the thirteen hundred million dollars.

With all good wishes,

Manning.