

J.F.

BANK OF ENGLAND

10th January 1963.

N/A
My dear Per,

I have just returned from a short holiday in Austria with my family and wanted to thank you for your two letters of the 19th and the 21st December. I am so sorry to hear that we shall not be seeing you and Violet in London next week but I can well understand that it would have been a tiring and very rushed trip. We very much look forward to seeing you on a rather longer visit when you can fit it in.

Our reduction in Bank Rate here I hope you will think timely. I was anxious to get over the turn of the year with the heavy debt repayments out of the way but thereafter there seemed to be no reason for further delay. The reactions in the Exchange Market have, in fact, been to our advantage. Meanwhile, at home there is quite considerable gloom about the economic position; the latest statistics which have appeared have done nothing to alleviate the depression. The general mood has not been improved either by the exceptionally cold winter we are experiencing. It is a difficult time for the Government but I still hold to my view that there is unlikely to be an upturn in business activity until a decision is reached one way or the other on our joining the Common Market. For this reason, as well as others, I hope that the decision may not be too long delayed.

With all good wishes to you both for 1963.

Yours ever
Rowley.

Mr. Per Jacobsson.

J-7

October 12, 1962

Dear Rowley:

I have been meaning to write to you for some time, but first we had the Annual Meeting and then a busy time after the meeting--mainly with various Latin American countries. But having just read your speech at the Bankers and Merchants of the City of London Dinner I want to warmly congratulate you on it. You made many important points, and you made them well. It was clearly and elegantly put, and I am sure it made an impression.

I am particularly glad that you emphasized so strongly that the restrictive attitude of mind which grew up in the postwar days is out of keeping with the world of today, with Britain's present position in that world and the desire of the nation for expansion. I am also glad that you took the view that the existence of sterling as an international currency provides Britain with a unique opportunity to increase its national earnings in ways over and above what industry earns by the sweat of its brow. There have been so many conflicting attitudes in the City that I think people do not fully realize the extent to which the existence of sterling as a key currency adds to the earning power and influence of Britain. It forces the country to be outward looking and contributes to the establishment of innumerable contacts with clients all over the world, so as to be better aware of other countries' needs and to be able to respond to them in the commercial field. It takes a good many years to overcome the effects of a devastating war in a country so deeply involved, as Britain was, but I think the years have passed without any great damage done, and there are now fresh opportunities to be grasped.

I expect that Parsons told you of some ideas I have in mind. I have been slipping in a word here and there about the possibility of deflation, largely in order to impress people psychologically of the need for concerted expansionary credit and fiscal policies in the coming year. After all, we know that President Kennedy is committed to tax cuts and an expansionist policy, and I take it that the British Government will also have to do something in next year's budget. Considering developments on the Continent--especially the decline in the stock exchange in Germany and elsewhere--I think the Continental European countries,

too, would rather welcome expansionist policies in the Anglo-Saxon countries. They themselves still have problems of sharp cost increases, but still seem to have a continuing boom. As long as these conditions persist, they will not prove any hindrance to expansionist policies elsewhere; furthermore, should conditions change in Germany and elsewhere on the Continent, so that a slackening of activity were to set in, the Europeans would, I am sure, be very keen to counteract the recession in their economies by participating in expansionary policies.

I think therefore that cooperation by the monetary authorities in different countries to examine these problems and see what common attitude can be adopted is more than ever required. I tried to prepare the ground a little for such concerted action during the September Meeting, and, in addition to Parsons, I talked to Blessing, van Lennep, Marjolin, and others about possible action along such lines. They seemed receptive, but my time was limited and I had no chance to discuss details of any kind, but there ought to be other opportunities to do so, and other institutions than the International Monetary Fund must necessarily be involved.

To my mind, the inauguration of monetary cooperation of this kind is now called for, and perhaps it is just as important or perhaps even more important than the pursuit of ideas for an improvement in our general monetary structure, which will necessarily be a somewhat protracted business. There is a natural tendency here in the United States and in your country and elsewhere to discuss fiscal and monetary policies on the basis of the conditions prevailing in each home country, and up to a point this is of course necessary. But it would be good if one could arrive in these matters to a more general understanding.

As regards Maudling's proposal, the staff here has set down its understanding of what it involves and given a copy to Pitblado for transmission to London. This gives you a chance to explain what is really meant. Although there have been many requests for the staff paper from Executive Directors and others, I thought it would not be proper to circulate anything that you had not seen and been able to comment upon. But I hope the delay will not be too protracted.

I hope to come over to Europe sometime during the autumn, partly in order to make a speech in Switzerland to tell them it is time they joined the Fund and the Bank, but also for other matters.

So with every good wish to you and all my friends, I am

Yours ever,

The Earl of Cromer
Governor
Bank of England
London, E.C.2, England

g-f

August 1, 1962

PERSONAL AND CONFIDENTIAL

My dear Rowley:

Thank you so much for your letter of the 19th July, which I found most interesting and illuminating. Whatever may have been the political reasons for a change in the British Government, I felt as many others sorry for Selwyn Lloyd, since he was just deprived of the opportunity to see the record reflect the success of his policies. After all, the full repayment within a year of the amounts drawn from the Fund and the impressive increase in exports in July ("The Economist" said that it was "unexpectedly" good) constitute a success story which I hope will be duly noted. Results have indeed been better than even I dared to hope a year ago, although as you know I was never as pessimistic about the British situation as many others were. I sincerely hope that whatever change in policy will be made that it will not involve any slackening of the efforts to check the rise in government expenditure. Personally, I don't think that this autumn is the right time for a tax cut here in the United States, but I am glad that the agitation for a cut has begun, for I cannot help thinking that it will somewhat influence the drawing up of the next U.S. budget. I have no doubt that the proper basis for sustained economic growth in the United States, as in your country, is a policy of retrenchment of expenditure in the public sector.

I have been amused reading about "Jacobsson's Plans" in Parliamentary speeches and newspaper articles in your country. I think "plans" is a misnomer, for it is no longer a question of "plans" but of results. It has taken nearly two years to get accepted what was started at the Annual Meeting in 1960 and put as a statement to the Executive Board in February 1961; it is now becoming part of the international monetary structure. I am the last to pretend that this is the end of monetary evolution, but I think what has been agreed upon will certainly help to secure stability of exchange rates.

There is the other question of liquidity still to be considered--but even there I think that I begin to see some light. I don't know if you have read an article I wrote for the "Bulletin" of the National Bank of Belgium-- I am enclosing one copy in English and another in the French translation. In this article I have tried to indicate some of the possibilities for international cooperation in credit policy--possibilities which I think are within the range of practical politics.

We have recently had an extremely busy time here in the Fund, and it is not yet over but the pace is not quite as hectic as it was. I am looking forward to a few weeks' holiday, which I believe can be spent without any interruption by an exchange crisis this autumn.

With every good wish to you both,

Yours ever,

The Earl of Cromer
Governor
Bank of England
London, E.C.2, England

Enclosures (2)

BANK OF ENGLAND

19th July 1962.

My dear Peter,

Thank you so much for your letter of 13th July. It was good of you to write. I can well picture the events behind the Canadian operation and was neither surprised nor put out by the way they evolved. It is true that I had a hankering for a demonstration of international solidarity which I think might have been a good thing had it come about but, as far as solving the Canadian problem in itself in the short term is concerned, I certainly have no criticism to make. Indeed for the time being events on that front seem to have taken a turn for the better, judging by the exchange markets.

Thank you also for sending me the transcript of your television appearance on "Meet the Press" which I have read with considerable interest.

I thought that I might write to you to give an early appreciation of the political changes which have taken place here in the past week. They have been both drastic and sudden. I have had a good talk with Maudling, whom of course you know, and I am satisfied that he has no intention of immediately embarking upon any policies which are likely to rock the boat from the balance of payments' point of view. My belief is that he will feel his way slowly to start with. As you know also, he has a wider appreciation of the economic facts of life than many of our politicians and, personally, I feel well content to be working with him. There has been considerable sympathy expressed for Selwyn Lloyd, in which I fully share. "The Times" was, I believe, right in suggesting that it was his failure to explain to the public at large the rationale of his policy that has contributed largely to the change being made. I recall well your saying at The Ends of the Earth Dinner that his accomplishments were more widely recognised abroad than at home. The irony of life is that now he has gone his virtues have been more widely recognised at home.

I was also glad to learn that our proposed repayment to the Fund found favour in your eyes. It seems to us the right course to pursue in fulfilment of our belief that the Fund's resources actually do form, so to speak, a second line of reserves. There should in reality be less embarrassment in drawing on these resources and I would hope that our rapid repayment might tend to bring this about. If this philosophy

becomes more widely shared the practical contribution that the Fund can make will certainly be enhanced.

The gold market has been exceptionally heavy. From what has taken place it would seem that movement is predominantly out of U.S.dollars and not as yet out of currencies as a whole. If this tendency continues there is bound to be some spill-over effect on other currencies. I cannot help wondering whether our American friends are not tending to disregard market influences to too great an extent. Their growingly overt reluctance to lose gold is, in my belief, having the opposite result to that which they would wish. I must admit to some concern as to possible developments between now and the Fund Meeting, as it is a period of the year when conjecture becomes particularly rife. There are many clubs in the locker which can be played and one can only hope that they are selected in a timely manner and played with adroitness.

Yours ever
Rowley.

Mr. Per Jacobsson.

Extract

paras 1-4^d
for family

February 16, 1962

Dear Rowley:

I am late in thanking you for the very nice dinner that you and Esmé gave me at New Change. I enjoyed the whole of it, including the part when Esmé was not allowed to listen to the conversation.

I have just been reading the report in the Financial Times of your speech in Birmingham. I am glad you are keeping up the habit of letting the country know what is in your mind, particularly with regard to the income policy of the Government. It was good to read in the newspapers this morning that the railwaymen have accepted the proposal made to them which I think is significant from many points of view. It only remains to be seen if the Government itself, having set targets for their own action last summer, will take the medicine they prescribe to others.

I believe I told you that on Tuesday, 6th February, I had lunch with some top men in "The Economist." Having now come back to Washington, I have read an article which they wrote about budget policy which has inspired me to write a letter to them commenting upon it. I enclose a copy of this letter in case it might interest you. (I have also sent a copy to the Chancellor.)

So many people quote Keynes who do not realize the limitations, as he himself clearly indicated of his analysis in the General Theory. Nor do they seem to have grasped the essential lessons from the experiences of the most successful countries on the continent of Europe.

Today in the Board we examined the Canadian situation and their exchange policy. Lou Rasminsky made a very good introductory speech and those who followed him were rather more gentle to Canada than I had expected. But it was made clear that the objective of the Fund is the establishment of an effective par value for the Canadian dollar. My opinion is that the Canadian Exchange Fund will attempt to moderate fluctuations in the Canadian exchange rate and maybe in that way will arrive at a rate which will gradually come to be regarded as expressing the true and enduring value of the Canadian currency. The Canadians have to do a lot of re-thinking about many things in their system, but from all I hear, they have begun to do so.

With my best wishes and thanks to Esmé and yourself, I am

Yours ever,

Per Jacobsson

The Earl of Cromer
Governor
Bank of England
London, E. C. 2

(Enclosure)



CLOSED DOCUMENT
IN ACCORDANCE WITH THE POLICY ON ACCESS TO THE
IMF ARCHIVES

This document or file has been removed as it belongs to the following category

- Legal documents and records that are protected by attorney client privilege,
- Personnel files and medical or other records pertaining to individuals,
- Documents and proceedings of the Grievance Committee,
- Records furnished to the Fund by external parties, including members, with security marking confidential or above (declassification can be requested)
- Other sensitive

Department/Division/Collection Office of the Managing Directory Records/fonds/1946-2000

Series/Subseries Per Jacobsson Papers/sous-fonds/1956-1963
----OMD Correspondence/series/1956-1963

Box number A3051-005

File number 89

ADLIB ref number 6692

File title & dates Frere, Maurice/file/1957-1958

Doc title & dates 30 October 1962 - Bank of England - Strictly Personal

BANK OF ENGLAND

26th June 1962.

My dear Per,

I would like, if I may, to commend you on the speedy and effective operation of the Fund in the Canadian situation. It was indeed a most difficult time for Rasminsky and I know that it must have been a source of great strength to him to know that he had your advice and backing.

At this early stage it would seem as if the market aspect of the operation is working successfully and I hope that some of the bears will burn their fingers. I do not feel that we are through the wood yet and if the Canadian Government can work out an adequate programme I think that they will still need to look to the Fund for further support.

As far as the bilateral aid is concerned I would be less than honest if I did not tell you that we have missed an opportunity to further international financial co-operation. I think it can only look curious through European eyes that the sole source of bilateral assistance to the Canadians has come from the reserve currencies which, to the Europeans, do not appear to be in such an appropriate position for this type of operation as they are themselves. I would have liked to have seen a European package of \$250 million, of which the U.K. would have contributed \$100 million, and I have no doubt that this could have been achieved without difficulty in the time that was available. I was inhibited from going ahead by Rasminsky's very understandable reluctance at the thought that his Government's announcement might have had to be delayed to give time for the organisation of such a consortium. I cannot believe that you shared his misgivings.

There is one further aspect arising out of the manner in which the operation was carried out and that is that, as I see it, the Americans have had to create new dollars for the benefit of the Canadians. Had the Europeans been able to contribute to the extent of their contribution the creation of new dollars would not have been necessary. In other words the co-operation would not have been unhelpful to the position of the European countries themselves.

As it turned out, I am not sure whether Maurice Parsons's visit to Washington was strictly necessary but I felt that if complications were to arise, which happily they did not, it would be easier to have a senior representative available

for personal discussion rather than to rely on the Transatlantic telephone, admirable though that is.

Yours ever,
Rowley C.

Mr. Per Jacobsson.

July 13, 1962

PERSONAL AND CONFIDENTIAL

My dear Rowley:

I was very glad to receive your letter of 26th June, which I naturally have read with great attention. There was, as you know, for a day or two some American hesitation against the Canadian Government obtaining a package of credit from Central Banks in Europe, but I had several conversations with my American friends and they explained that they really had no objection to such credits being arranged. When I heard on the Friday afternoon from the French Executive Director's Alternate that the Bank of France was ready to extend a credit of \$50 million, I immediately telephoned Rasminsky. Though he expressed his gratitude for this move, he told me that it was too late to go back to the Cabinet and open up the whole question of further foreign credit. Mr. Plumptre, when he was here on Sunday, thanked the Alternate to the French Executive Director for the forthcoming attitude of the Bank of France, but again explained that the notification of the French willingness to extend such credit had arrived rather too late for action to be taken. You must realize that Rasminsky was awfully overworked, and that most of the persons concerned in Ottawa were rather jittery, so to add anything new at that stage posed more psychological than technical difficulties.

I fully agree with you that the Canadian Government has to work out an adequate program, for which I think they may well need to look to the Fund for further support. Rasminsky is coming to Washington at the end of next week and I will then know more about the intentions of the Canadian authorities.

As you say in your letter, Maurice Parsons' visit to Washington may not have been strictly necessary but it was in my opinion very useful, and gave me an occasion to go over a number of questions with him.

I am enclosing a transcript of a television appearance which I made here in Washington last Sunday, in case it would interest you. It is a queer thing that the Americans do not seem to object when I express myself rather freely on questions very near the center of U.S. internal politics. But this is perhaps not too surprising as the people here pressed me to appear on this program, and I had certainly not been seeking it.

With every good wish,

Yours ever,

The Earl of Cromer

Per Jacobsson

Governor

47413

WUB046 PA152

P CDU266 LDD81 WS14 RX 22 PD INTL FR SUBJECT TO CORRECTION 2ND TEXT

ZL WS LONDON VIA WUCABLES

26 1253P

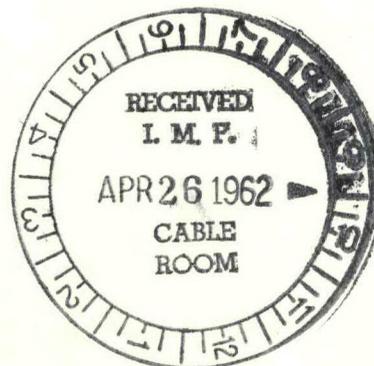
JACOBSSON

INTERFUND WASHDC

13 TODAY'S REDUCTION IN BANK RATE IS BASED ON THE SAME GENERAL
CONSIDERATIONS AS THE LAST REDUCTION

CROMER

13



Personal & Confidential.

Bank of England

1st August 1961.

My dear Per,

Maurice Parsons tells me that, thanks to all your arrangements, there was good opportunity to discuss in Washington the latest measures we are taking here to deal with our balance of payments problems. Parsons and Cairncross will have elaborated on the various measures so there is no cause for me to comment further. I would, however, just refer to the substantial increase in Bank Rate which is probably rather more than you anticipated. I was influenced by two factors particularly. First that we fairly recently had a 6% Bank Rate, when the situation was very different from what it is at present, and I think an increase at this stage of 1% would have created the wrong psychological impression here at home. Secondly an increase of 1% in Bank Rate would, I think, have created even more lack of confidence in the gilt-edged market where a further rise would almost certainly have been anticipated. As it is the market will be able to adjust itself on the basis of the accomplished fact, albeit at a lower level, thus leading the way to a restoration of confidence. Quite apart from these factors I have the traditional belief in Bank Rate as a means of discouraging speculative activities of various sorts which have of recent months been contributing substantially to the overall strain. I believe that the general effects of high Bank Rate and the increased call for Special Deposits will make their chief impact on stock accumulation, speculative operations of various kinds, on house building and on property development whilst not imposing excessive restraint on industrial capital investment.

I would not anticipate a massive inflow of funds at the present time but I would expect to see fairly widespread covering of short-term positions that have been taken up against sterling. Certainly if there were a large inflow of funds it would be most undesirable, and if this were to develop we would clearly need to re-examine the position.

I think we have taken appropriate action in the short term. The real test will occur when the Government has to show its resolution in facing up to wage demands. The Government

has made a determined effort to attack the level of Government expenditure but I would still hope that between now and next year's Budget something more impressive may be achieved. This will not be easy.

There is still a great deal that needs to be done in the immediate and longer term towards achieving the right atmosphere and there is, in my belief, a major education programme to be undertaken so that the country at large can be made to recognise the facts of life. In this connection the Fourth Report of what were originally called "The Three Wise Men" has now made its appearance and is, in my opinion, admirable. I am sending you a copy of this under separate cover.

I do not know your summer plans but, if you are going to be here on your way to or from Vienna, I do hope you will let me know as both Esmé and I would so enjoy the opportunity of entertaining you.

Yours ever
I. Rowley

Mr. Per Jacobsson.