

July 7, 1958

My dear Emminger:

Thank you for your telegram with reference to the statement of the British Chancellor of the Exchequer in the House of Commons on the 3rd of July. I have looked carefully at it, and the examination led to the introduction in our text of certain words about "price stability," which I think are important. Otherwise, the draft already made covers very much the same points as those set out by the Chancellor.

It was nice to have you here, and you certainly made a very useful contribution to our work. Now it seems certain that I shall come to Brussels for a meeting not on the 31st of July but on the first of August, since Ansiaux advises me that the latter date would suit him better.

With every good wish,

Yours ever,

Per Jacobsson

Dr. Otmar Emminger
Mitglied des Direktoriums
der Deutschen Bundesbank
Taunusanlage 4-6
Frankfurt (Main), Germany

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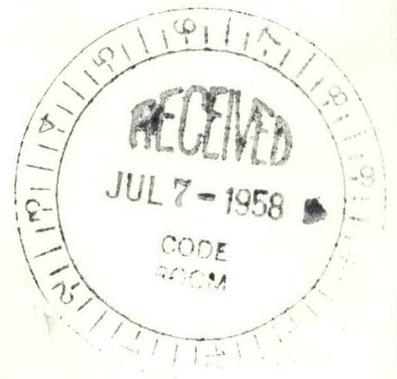
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MR. PER JACOBSSON, INTERFUND WASHINGTON D C =

RE: ANNUAL REPORT

REFERRING TO STATEMENT BY BRITISH CHANCELLOR OF
 EXCHEQUER IN HOUSE OF COMMONS ON JULY 3
 (FINANCIAL TIMES JULY 4, PAGE 10) I SUGGEST TO USE
 HIS STATEMENT ON THE BRITISH GOVERNMENT'S
 FUNDAMENTAL ECONOMIC OBJECTIVES (STRENGTH OF
 STERLING, SOUNDNESS OF INTERNATIONAL POSITION,
 PRICE STABILITY, AS FIRST GOALS) VERBATIM IN
 OUR ANNUAL REPORT CH. ROEM 1 P. 8 . =

EMMINGER +



NOT RECEIVED

DR. OTMAR EMMINGER

Mitglied des Direktoriums der Deutschen Bundesbank

FRANKFURT AM MAIN, January 6, 1958
Taunusanlage 4-6
Telefon 30682

Mr. Per Jacobsson
Managing Director
International Monetary Fund
1818 H Street NW
Washington 25, D.C.

Dear Mr. Jacobsson,

Thank you for your teletype of December 29 and your telegram of January 3. I hope to be able to be in Washington on the 13th or 14th of January.

1. We have had several meetings and discussions on the French credit operation, both in our house and in Bonn. The general feeling everywhere is uniformly that the French program is certainly not negligible but is not nearly so impressive or promising as to warrant, in its present form, an all-out-effort on the part of all the major international institutions, to be refinanced partly by Germany.

The general opinion (which has found its expression in provisional instructions) is that the program needs

(a) some further guarantees for its execution (progress reports and consultations with OEEC, French assurance to OEEC and IMF not to have recourse to the Central Bank for financing budget deficits in 1958, assurance to limit re-financing of medium term housing credits to the amount reached at the end of 1957).

(b) Some additions particularly in the field of credit policy in order to absorb the inflationary impact of past deficit financing by the Central Bank - which, by the

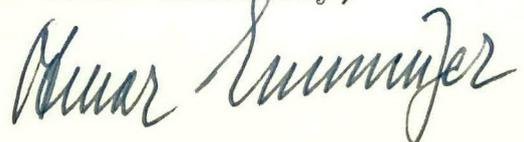
way, may continue moderately until March, when the first big public loans may be issued - and to break the dangerous inflationary psychosis which is prevalent in the country as a consequence of past inflation and of the present (unavoidable) waive of price adjustments. The main fields in which additional credit policy measures are thought to be necessary are *i*) measures to absorb excessive liquidity in the banking system and thus bring the reduced rediscount ceilings (which at the moment don't seem to be very effective because of the inflationary injections into the system) really into play; *ii*) interest rate measures including adjustments in the interest rate for public treasury bonds; *iii*) revision of the present more or less automatic financing by the Central Bank of medium term equipment loans to private and nationalised industries.

(c) Finally some general program or ideas as to the continuation of the stabilisation program until 1959 are thought to be necessary in order to show how in 1959 a general equilibrium can be brought about without recourse to import restrictions and other artificial props, and how exchange reserves can be started to increase again.

2. As to trade liberalisation this is, of course, held to be very important especially in view of France's clear obligations in OEEC (obligation to reliberalise up to 60 % in the middle of 1958) and the European Economic Community. Everybody is also agreed that liberalisation would be beneficial for the internal price situation in France. There is, on the other hand, a very strong feeling that trade liberalisation can be no substitute for an unsatisfactory stabilisation program, but must be the outcome of a successful internal effort, and without a successful program will be very quickly doomed to failure, and even will do more harm than good. The radiant optimism in the "US News" interview is, unfortunately, shared by hardly anybody.

I hope to be able to enlarge upon the above points when coming to Washington. With my very best regards,

Yours sincerely,



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OUTGOING MESSAGE

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 Night Letter Ordinary Code

SPECIAL INSTRUCTIONS

INTERNATIONAL MONETARY FUND

WASHINGTON 25 DC

To *Jul* → Emminger

Deutsche Bundesbank - Frankfurt

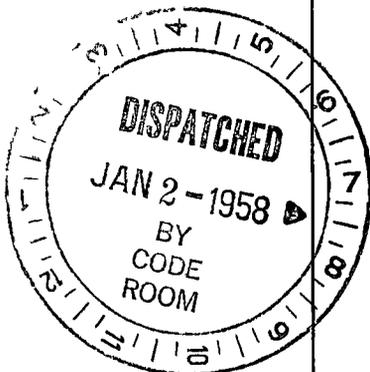
Your letter twentyninth December STOP

1. Budget STOP Guarantees in form of mandatory reports to Parliament incorporated in Budget Law go a very long way to ensure prompt action to correct unbalance whatever government may be in power STOP Moreover parliamentary initiative in budget matters suppressed for 1958 STOP Those safeguards not unimportant STOP

2. Budget/Central Bank STOP Of course not "absolutely satisfied" that deficit can be financed in noninflationary manner, but believe there is very good chance STOP It all depends on internal confidence in program, of which markets already show signs, e.g., parallel dollar rate, December EPU result and SNCF loan subscriptions in December STOP With returning confidence long-term market loan and increased savings banks deposits can cover full amount STOP

3. Central Bank Policy STOP Good progress on medium-term credits STOP Expect ceilings virtually preventing net new financing by Central Bank STOP Short-term credit policy increasingly effective STOP Discount rate already ten per cent for banks exceeding rediscount ceilings by more than ten per cent STOP Bank of France may declare that it will take further restrictive measures if the present measures prove insufficient STOP

4. Counterpart Funds STOP Allocation to special purpose dramatizes need to curtail expenditure or find other means of finance for 1959 ~~EMME~~ and further safeguard found in the Caisse de Consolidation et de Mobilisation STOP Important that allocation of counterpart will permit early fixing of medium-term credit ceilings in Bank of France STOP



Drafted By _____

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Date _____

AUTHORIZATION

Signature

Second Signature When Required

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INTERNATIONAL MONETARY FUND
WASHINGTON 25, D.C.

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SPECIAL INSTRUCTIONS

To: Emding, Bundesbank PAGE TWO

5. Addition re trade liberalization STOP Rapid progress with liberalization essential to prevent rising French prices and renewed unbalance STOP In U.S. News and World Report interview Gaillard stated desire to put into effect liberalization as soon as possible STOP

6. French situation developing with some good chances of success STOP Public opinion already fairly aroused STOP Suggest delay definite instructions until further explanations have been obtained from French Government representatives negotiating with Fund and EPU STOP Personally regard this as most serious attempt by France since the war STOP Greetings

Jacobsson
Interfund

Drafted By P. Jacobsson

Department M.D.

Date January 2, 1958

AUTHORIZATION

Signed: Per Jacobsson

Signature

Second Signature When Required

FOR CODE ROOM

Time Received 7:00 PM

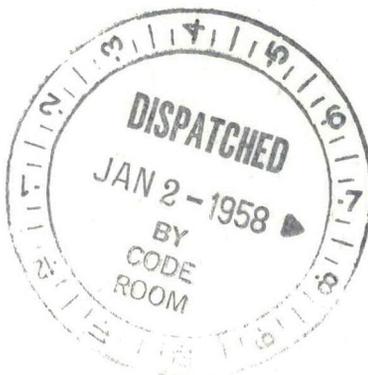
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INTERNATIONAL MONETARY FUND
WASHINGTON 25, D. C.

EXECUTIVE DIRECTOR

Frankfurt 29th Dec 47
CABLE ADDRESS
INTERFUND

Mr. Per Jacobson
Managing Director IMF
Washington 25. D. C.

Personal

Dear Mr. Jacobson,

it has turned out that the German view on the French credit requests will, at least in a preliminary way, have to be fixed during the next 6 days or so. We shall have a meeting in Bonn a week from now. And before that, our own Directorate will have to make up its mind (on the 3rd or, at the latest, on the 4th of January).

As concerns the adequacy of the French program, there are grave doubts in our midst. There will certainly be some suggestions to ask for additional ~~or complementary~~ actions; there will be suggestions not to vote for the whole 200-230 Mio \$ EPU aid but only for a portion of it, and to grant the rest (say the other half) only after some time when the program is proceeding allright.

As I shall have to carry the weight of the debate on the French program, I should be terribly interested in

hearing your views on some points:

1) Budget: Are there enough guarantees to ensure that quick action will be taken if the estimates turn out to be not quite fulfilled in actual practice?

2) Budget / Central Bank: Are you absolutely satisfied that the 600 Mld. frs (if they are kept to) can be financed in a non-inflationary way^x? Is the Central Bank in a position to defend itself against future demands by the Treasury?

3) Central Bank Policy: Are you satisfied with the arrangements concerning ^{the} non-inflationary financing of house-building and other investment?

Is the present credit policy adequate and sufficient to mop up entirely the inflationary liquidity from the past and present budget gap?

Wouldn't it be necessary to raise the discount rate to 7% as the British did?

4) Are you really (as you seemed to be in Basel) satisfied with the use of the Counterpart Finance for housebuilding loans? Won't that be an incentive for the French to use up the drawing quickly and entirely in order to get the frs-counterpart?

5) Does the present program give the economy enough of a shock to reverse the present tendencies?

If you don't feel able to answer me by teletype, I shall call you by phone on the 3rd of January between 9 and 10 Washington time.

^x and how?

With my warmest personal wishes for the New Year
Yours Openly
Llewellyn

November 21, 1957

Dear Otmar:

Thank you so much for your letter, and thank you once again for the considerable contribution you made in the course of September when you wrote home to your country and managed to influence the Bundesbank to lower the official discount rate. I am sure that it was greatly appreciated abroad, and I can only say that it has been a healthy step as far as Germany itself is concerned. You were indeed the first to move downwards in the recession that now everybody here admits has set in.

I am writing to tell you that tomorrow I shall leave for a visit to Europe. I have been in contact with people in Paris who are anxious that I should come, but my visit is to be regarded as an attempt to get more acquainted with the European thinking again in this uncertain period. Likely I shall be in Paris around the 29th of November, and will then hope to see you for a good long talk. If you want to write me my address will be Hotel Meurice, 228 rue de Rivoli, Paris.

Of course, it is a pity that you will not come here to Washington, but I understand that it is difficult for you to leave the European situation at the moment, but now I look forward to seeing you in Paris or elsewhere.

It is good to hear you tell us that you think that the September meeting of the Fund has played a role in the European situation. At least we tried to face up to the problem as it affects the world in the monetary sphere, but let us talk more about this and other things when we meet.

With every good wish,

Yours ever sincerely,

Per Jacobsson

Dr. Otmar Emminger
Deutschen Bundesbank
Frankfurt am Main, Germany

DR OTMAR EMMINGER

Mitglied des Direktoriums der Deutschen Bundesbank

FRANKFURT AM MAIN November 18, 1957
Taunusanlage 4 6
Telefon 30682

Mr Per Jacobsson
Managing Director,
International Monetary Fund
1818 H Street NW
Washington 25, D C.

Dear Mr. Jacobsson,

Looking back over the last 6 weeks, I think we all may be gratified at the result of our efforts at the Annual Meeting (and before and after) to restore confidence in the existing international exchange rate structure.

It is remarkable how quickly both in the United Kingdom and in the Netherlands the payments situation has been reversed, although I would, in the results achieved up to now, see no more than a beginning of a real consolidation. You know probably what has happened in our own case. In October, the Bundesbank had a foreign exchange surplus of only DM 75 mio, as against DM 1 104 mio (= \$ 263 mio) in September and DM 1 459 mio (= \$ 347 mio) in August. Our EPU surplus in October was only \$ 26 mio (in September \$ 237 mio, in August \$ 281 mio). A considerable part of this "normalisation" was, it is true, due to a partial outflow of the DM-balances that had been built up by foreign banks in the months before as a cover for forward transactions etc. Our total balance of payments, including movements in the foreign exchange position of the commercial banks, still showed a considerable surplus in October, amounting to about DM 325 mio (= \$ 77 mio). It is very likely that our "true" surplus of current transactions, including normal capital transactions,

will in the near future also still be in the range of $\text{DM } 50 - 70 \text{ mio.}$ This would be less than in 1956, but still too high in every respect.

There are, however, some forces at work which

(a) will reduce our visible surplus very considerably also in the months to come;

(b) will probably also work towards a slow further diminution of our "genuine" current surplus.

The short-term factors at work in the near future will include a further reduction of the abnormal foreign DM-balances built up during the summer months. They will also include the impact of a short term credit given by the Deutsche Bank, our leading commercial bank, to the Netherlands Government against 1 year's treasury notes. This credit amounted to 200 mio hfl. or a little over 50 mio DM ; one half of it has already been transferred in the middle of November, the next half will be transferred in the middle of December. It is particularly interesting because it shows that our German interest rates are now fully competitive in the short term field. The Dutch notes have been issued at $5\frac{1}{8} \%$ discount, while similar German Government notes at the present time are issued at $4\frac{1}{8} \%$ discount for 1 year-, at $4\frac{3}{4} \%$ for 2 year-maturities. There may be further outward flows of short term funds, partly in the form of rebuilding the very low foreign working balances of German banks, now that the interest rate differential has made that quite attractive. There may also be some minor debt repayment transactions before the end of the year.

Of more lasting importance will be a slow diminution of our current surplus of which there are some indications. Thus, new export orders from abroad have further fallen off, and are no longer higher than a year ago (although actual export deliveries in October were still 14 % up on the year). Imports are holding their rate of increase at 10 %^{p.a.} at least. There is, however, no doubt that our internal expansion has also been levelling off, inspite of sizable increases in

Government expenditure and in wages. It is more and more doubtful whether our long term rate of interest (which is between 7 1/2 and 8 %) is still appropriate with internal investment now having stagnated for over a year. Thus the goal is less a further reduction in short term rates than a diminution of the large discrepancy between long and short term rates, incl. the rediscount rate.

* * *

What worries us much more, at present, is the French situation and its international repercussions. I suppose that von Mangoldt has already informed you about the situation as it looks from Paris, or rather from the OEEC/EPU. One of the basic problems on the French side still seems to be the one you told us after your visit to Paris in June, viz. that French people are saying: "If this is a crisis, may it last forever". Everybody believes that the cure for inflation is more expansion. In this atmosphere it seems to be very difficult to arrive at the cuts in public consumption and investment which, at least temporarily, are absolutely indispensable for the elimination of inflation.

I trust you have already got the OEEC document C(57)230 of November 5th, which - although somewhat clumsily - tries to outline some recommendations on what has to be done before a special EPU credit can be given. During the discussion in the OEEC council, the chairman (Sir High Ellis-Rees) put it on record that the OEEC would have to look first into the French rehabilitation program before it could consider a loan request, and that there should be in this matter close coordination with the IMF. This latter point seems to me to be very important. For as matters stand now, the aid to France must be an all-out effort on all sides, not something that can be done in little bits here and there. It would be tragic, if the possible aid would be dissipated in half-hearted actions. The question of independent experts to evaluate the French situation and pro-

gram will now also come up with more urgency than seemed probable at the end of September. -

As concerns the exchange rate, I begin to wonder whether in such a case it would not be better to have, for a certain time, a freely fluctuating rate which would at least bring home to everybody the true cost of continuous overspending (while now this cost has been concealed over a long time by drawing on the exchange reserves in support of an artificial exchange rate).

* * *

I had planned to pay a visit to Washington from the end of November to the middle of December; not only in order to fulfil my promise of participating in the Fund's work on the spot four times a year, but because I have got the feeling that it would be very useful to coordinate afresh my own views with the thinking at the "seat of wisdom" in Washington. (In January it will be difficult for me to come over, with our new president here taking over somewhere in the first weeks of January). Now it looks as if I would have to stay here at least up to and including the 29th of November, when an unofficial EPU discussion on the French situation will take place. Maybe I will even have to stay on here into December, if there should arise great difficulties. After all, it's mainly us here in Frankfurt who will have the responsibility for putting up the money. But I still hope that I shall be able to visit you before Christmas.

With my best personal regards to you and Mrs. Jacobsson,

Yours truly,

A handwritten signature in blue ink, appearing to read 'A. Summerer', written in a cursive style.

Zürich, 4.6.57

Dear Mr. Jacobson,

On my way from Basle to the airport in Zürich I pondered over the tremendous job which is waiting for you during the next few days. I certainly admire the courage with which you approach such Herculean jobs.

It happened to read the outline of the incumbent Prime Minister's program in the Monde of June 4. This prompts me to suggest three considerations:

1°. It is encouraging to see that it is proposed to have a legal limit ^{also} fixed for expenditure ~~also~~ in 1958. This seems to be absolutely essential for a happy outcome of the whole action. However: how can such a limit be safeguarded from changes of mind by some later government or of parliament itself?

2°. To impose the same amount of economies and new taxes as the outgoing cabinet wanted to have, does not seem quite adequate. It would reduce the ~~the~~ budget deficit to the same order of magnitude as last year; but with less prospect of getting covered through loans and other less inflationary means than in 1956. Can the ^{French} economy and the foreign exchange reserves stand even a ^{more} continuation of the 1956 exchange deficit for very long?

3°. In my opinion, there should be an exchange rate adjustment as soon as possible, even if the program itself were only in the first stages of being carried through. Such things can only be done on the spur of a sharp crisis. If the proper moment - politically speaking - is missed, the situation might drag on interminably. Moreover, it would be very hard to ~~not~~ support an obviously wrong exchange rate with international credits.

(I know that on the point of the timing of an adjustment there were different opinions. I am ^{however} more strongly convinced of the need for quick drastic action than ever).

I hope fervently that you will come unscathed out of the lion's den. Wishing you the very best in your mission, and with the warmest personal regards to you and Mrs. Jacobson,

Yours truly
Rudolf Süssmeyer