

Karachi.

CABLES: "METRO" KARACHI
PHONES: 52051 (9 LINES)
KHURO ROAD, KARACHI
PAKISTAN

HOTEL METROPOLE 4.2.59

Dear Mr Jacobsson,

before leaving Karachi I am
sending you - separately - my Report,
confidentially of course.

I attach here a letter (copy) which
I addressed to you. Radio concerning
the rather unfortunate "vouchers". You
may see all out of it.

Best wishes for your birthday
and best regards for Mr Jacobsson,

Sincerely yours

John

Dr. Wilhelm Vocke, c/o

HOTEL METROPOLE

3.2.59

Mr. Q u a d i r
Governor of the State Bank
of Pakistan - Karachi.

Dear Mr. Governor,

referring to the letter of Mr. Jacobsson which we discussed this morning, I have partly to amend the judgement I gave this morning, having just found out that the regulations which the Government issued January 15, indeed introduce "vouchers" of a nominal money amount, say 500 Rs. or a multiple. I have to point out that these regulations were never given to me and include some changes of the Scheme as suggested by me.

These, in my view superfluous, vouchers can indeed give the impression of introducing a new kind of Rupee certificates of a more or less currency character and of Dollar value. Their price is being looked upon ^{by} Mr. Jacobsson as a multiple exchange rate.

If it would be the practice of the authorities to give the exporter who delivers his foreign earnings to the State Bank 60% in cash and 40% in vouchers (or 80% in cash and 20% in vouchers respectively) - then I would say that Jacobsson is right. Then there would be two kinds of Rupees!

However, as I hear, this is not the case. The exporter gets 100% in cash (Rupees) and in addition a "Bonus entitlement voucher" entitling him for a corresponding general import licence.

I am afraid that the introduction of these vouchers bearing a face value of 500 Rs or a multiple, which I have never recommended, are apt to give a misleading and unfavourable impression. In fact, the vouchers do not mean money but licences. If a price is being paid for these vouchers, this price does not mean a different rate, i.e. different from the official parity, but a price for quite an other thing, namely a licence. Of course, this price includes the fact that the holder of the licence gets Dollars at par, but this is the case with all licences. However, there are other factors, too, which command the forces of supply and demand thus contributing to the price formation, particularly the fact, that the holder of the voucher gets a licence which, otherwise, he either would not have got at all or not for those goods required by him. The buyer buys this privilege as a whole, without calculating how much of the price he pays is due to getting the foreign exchange at par value and how much to the fact that he is getting rid of burocratical diffi-

culties and obstacles.

In this respect, I may mention that in this country there is no notion of a "black" dollar rate playing any role in daily transactions, as it happens to be the case in other oriental countries.

Therefore, it is my considered view that the price of the voucher does not reflect a "black" dollar rate at all nor any kind of a multiple exchange rate system.

Nevertheless, I see in the introduction of these vouchers with their misleading nominal values no improvement of the Scheme proposed by me, but a superfluous complication which I would recommend to abolish, in order to avoid misunderstandings.

Yours sincerely

(signed) WOCKE.

April 24, 1957

Confidential

Dear Dr. Vocke:

You asked me in your letter of the 13th of April what my personal views are with regard to two statements (on pages 17 and 27) in the memorandum entitled "Developments in the World's Payment Situation," produced by the Research and Statistics Department of the Fund.

In these passages a somewhat vague reference is made to the possibility of a revaluation of the German mark as one of the measures which might conceivably be taken in the present German situation. There are, as I understand it, certain differences in views among the economists of the staff of the Fund in that some have been influenced by (say) a recent article of Professor Röpke.

I myself feel that revaluation would not be a proper solution, in that it would introduce an element of uncertainty in the monetary structure which would soon be found to be harmful not only to Germany but also to Europe as a whole. I do not believe that countries which manage their own monetary affairs in a reasonable way actually suffer from the existence of the present German surplus. Moreover, with the changes to be expected in the public finances of Germany and generally in the country's consumptive capacity and propensity to invest, I shouldn't be astonished if we didn't have a reversal of the trend in the German balance of payments before long. I am less worried with regard to the future than some other people seem to be.

The Bank deutscher Laender is, however, faced with a dilemma for it is, on the one hand, necessary to withstand speculative excesses and, on the other, desirable to avoid attracting much capital from abroad. While a certain credit restraint seems unavoidable, it is useful to make advance payments to England and some other countries. By certain remedial steps of that kind it should be possible to lessen the tension in the foreign exchange markets until a more fundamental balance has been reached.

I hope to be in Europe in four weeks' time, planning to be present at the B. I. S. annual meeting and I hope to see you there. In the meantime, with best wishes, I am

Yours sincerely

Dr. W. Vocke
Der Präsident des Direktoriums
Bank deutscher Laender
Frankfurt-am-Main
Germany

Per Jacobsson



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