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

**Series/Subseries** Ivar Rooth Papers/sous-fonds/1951-1956  
----- OMD Correspondence/series/1951-1956

**Box number** A2531-001

**File number** 4

**ADLIB ref number** 6936

**File title & dates** Cobbold, Cameron F /file/1951-1956

**Doc title & dates** Personal and Confidential - May 11, 1956  
Letter to the Governor of the Bank of England



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<b>ADLIB ref number</b>	6936
<b>File title &amp; dates</b>	Cobbold, Cameron F /file/1951-1956
<b>Doc title &amp; dates</b>	Personal - February 23, 1956 Contains home address

Speech by

C.F. COBBOLD, ESQ.,

GOVERNOR OF THE BANK OF ENGLAND,

at a Dinner given by the Lord Mayor to the Bankers and Merchants  
of the City of London on the 4th October 1955

---

There is little to say this year about foreign exchange policy. We have made considerable further progress in removing and simplifying exchange controls. Sterling can now be used freely throughout the world for a great variety of purposes within a very narrow bracket of rates.

The Chancellor made a clear statement of future British policy at Stamboul. In present circumstances we must obviously concentrate our energies on the internal position before considering any changes in our exchange arrangements.

There has been much talk about sterling in recent months; but the most important point of all has often been overlooked. In 1949 sterling was overvalued. The devaluation in that year left sterling undervalued. Since then the margin of undervaluation has lessened. If in the future we were to be so foolish as to allow our costs to continue to rise disproportionately to those of our competitors, the relative value of sterling would again come into question. But to-day sterling is still undervalued rather than overvalued in relation to most of the principal currencies of the world.

I propose this evening to review briefly the operation of monetary policy during the past year and to suggest some conclusions. The post-war use of monetary controls is still experimental. This is not an exact science. Nobody can tell precisely what effect measures have had or precisely what would have happened if other measures had been adopted. Different opinions can reasonably be held and final conclusions will only be possible much later.

Since the late Autumn of last year monetary policy has been directed to steady and progressive tightening. By the turn of the year short-term rates had moved up sharply, the existing level of Bank Rate was effective, and the technical foundations had been laid for further monetary action. To carry the process a stage further and to give a warning signal, Bank Rate was raised in January. This warning was largely disregarded. In February a further rise was judged necessary: the Chancellor also announced measures to restrict hire purchase and to deal with the market in transferable sterling.

On the foreign exchange position the effect of these combined measures was immediate and decisive. The disturbing markets in cheap sterling which had been growing up over the previous four months disappeared almost overnight and have since given very little trouble. Sterling generally took on a more favourable look, which it retained until July, when bad trade figures came out, doubts were expressed about the effectiveness of our anti-inflationary measures, and rumours circulated about changes in our exchange arrangements.

At the same time the tightening of money, coupled with a similar but less pronounced tendency in the U.S.A., began to influence commodity prices, with a consequent improvement to our terms of trade.

Do you think that the effect is that balance?

It is less easy to gauge the effect of the February measures and the tight monetary policy of the succeeding months on the internal economy. The immediate results were disappointing: for a month or so the view persisted that tight conditions would not be maintained for long and need not be taken seriously. But, from April onwards, the measures were probably more effective than has been generally supposed. Without them there is little doubt that bank advances would have climbed much more steeply and the upsurge of hire purchase might have got out of hand. Against a general atmosphere of boom and expansion, the steady pressure of monetary policy through those months was gradually building up resistance to an exceptionally heavy demand for credit.

It became clear, however, during the Summer that the banks would not succeed in bringing advances down quickly enough and to the necessary extent without the support of a statement of Government policy. The statement made by the Chancellor of the Exchequer in July greatly reinforced the technical "squeeze" and, although the banks still find themselves up against difficult problems, the tide of advances has turned.

Experience since 1951 suggests certain conclusions about the use and effect of monetary policy in modern conditions: to some of these I have referred on this occasion in earlier years.

The proportion of the economy which is directly affected by credit policy through the banking system, both as to investment and as to consumption spending, is much smaller than it used to be. With the enormous growth of the public sector, monetary action to restrict the borrowing and spending of individuals, firms and companies can be outweighed by the action of Government, local authorities and the nationalised industries. Moreover, with the redistribution of income since before the war, the immediate impact of credit policy on consumption spending is outweighed by the level of earnings and by fiscal policy.

Secondly, with present high taxation levels, business people are less sensitive to an increase in the cost of bank borrowing. International capital movements are less free than before the war and also less sensitive, though by no means wholly insensitive, to interest rate changes.

Thus, in its direct impact, monetary policy works on a smaller field than it used to. But it still exercises a gradual and pervasive influence over a much wider field. Bank Rate movements are an integral part of monetary policy and still have their psychological effect.

The experience of these years shows that it would be most unwise not to make full use of these instruments: it would be equally unwise to blunt them by loading them with more responsibilities than they can effectively discharge.

In the past year the continuing high level of expenditure and borrowing on Government and other public account has hampered the effective working of a tight credit policy. Both psychologically and in technical management, it has made the task of the monetary authorities more difficult. Our friends and critics therefore greatly welcomed the definite statement made by the Chancellor of the Exchequer about public expenditure in his speech at Stamboul, and will be further heartened by his remarks this evening. People at home and abroad are now waiting eagerly for action by H.M. Government.

My Lord Mayor, we have made enormous strides in standard of living and in production since the end of the war. We are active and prosperous but we are trying to do too many things at the same time. Demand for goods and for labour is at a dangerously high level. We must slow consumption down and we

*to much  
to quickly*

must spread our investment plans, private and public, over a longer period.

We are not the only country faced with a situation of this sort. Nor need we be too gloomy about it, provided that we tackle it all along the line. Our monetary policy has got into its stride and we must hold to it firmly. If strong action is now taken by H.M. Government over the rest of the field and if we keep industrial costs steady, the task ahead of us should be well within our capacity.

My Lord Mayor, there is no fun for anybody in a prolonged period of severe credit restriction. It is distasteful to the monetary authorities, who have to impede activities and developments which are in themselves sound. It is very disagreeable to the banks, who naturally and properly want to lend money to their credit-worthy customers. It causes hardship and disappointment to individuals and businesses, who see their plans interfered with and their balance-sheets prejudiced.

Let us all be determined (and by all I mean capital, management and labour) to go quietly over the months ahead in our various demands on the country's resources. A good beginning has been made in the attack on inflation: let us work together and finish the job.

July 25, 1955

My dear Kim,

I have just received your cable reading as follows:

“Many thanks for your cable revised plans noted and accommodation Claridges extended to Wednesday morning Stamp will meet you London airport on Thursday when details for your visits to Bank and Knebworth can be fixed.”

I am very grateful for your help in fitting my plans into yours, and for the arrangements made.

Yours very sincerely

Ivar Rooth

C. F. Cobbold, Esq.  
Governor  
Bank of England  
London, E. C. 2

WESTERN UNION TELEGRAM  
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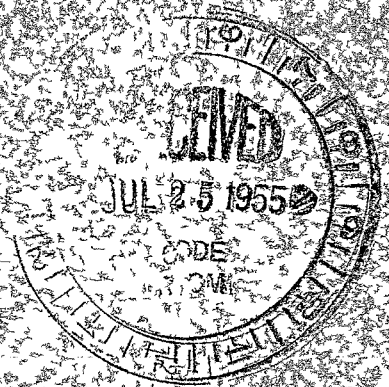
IVAR ROOTH INTERFUND

WASHDC

MANY THANKS FOR YOUR CABLE REVISED PLANS NOTED AND  
ACCOMMODATION CLARIDGE'S EXTENDED TO WEDNESDAY MORNING  
STAMP WILL MEET YOU LONDON AIRPORT ON THURSDAY WHEN  
DETAILS FOR YOUR VISITS TO BANK AND KNEBworth CAN BE  
FIXED

COBBOLD

804A JUL 25.



OFFICIAL

OUTGOING MESSAGE

OFFICIAL

INTERNATIONAL MONETARY FUND  
WASHINGTON 25, D.C.

FOR PREPARING OFFICER

Night Letter

Ordinary

Code

SPECIAL INSTRUCTIONS

To: GOVERNOR COBBOLD  
BANK OF ENGLAND LONDON

CC LORD HARCOURT

Baumgartner asked me come to Paris in July as he away afterwards. He informed me that you can see me Tuesday, August second stop Heard from Harcourt that Treasury group then not in London. Have therefore made following arrangements. Arriving as previously stated in London BOAC on Thursday, July twentyeight 10:30. Flying from London same day at noon to Paris. Back from Paris 20:55. Will see Treasury Friday, July 29 from eleven. Leaving London Wednesday morning August third for Geneva. Will telephone your secretary Friday morning to find out when you want us to Knebworth. If you want I can see you or someone else from Bank Friday morning before Treasury meeting. Please arrange that we may stay Claridges until Wednesday morning.

Drafted By Mr. Rooth  
Department Managing Director  
Date July 22, 1955

AUTHORIZATION

IVAR ROOTH

Signature

ROOTH



Second Signature When Required

FOR CODE ROOM PM

Time Received 4:47 PM

Time Dispatched 137

Number of Words 18125

Log Commercial

Route MW

Operator \_\_\_\_\_

DO NOT TYPE BELOW THIS LINE



June 27, 1955

My dear Kim,

Many thanks for your letter of June 17. I shall be happy to lunch with you at the Bank on Thursday, July 28, and stay afterwards to talk to some of you. I understand from Bill Harcourt the Treasury wants to see me on Friday, July 29.

Ingrid and I thank you most heartily for inviting us "to spend at least a bit of the weekend at Knebworth." We shall be glad to fix the details when I see you in London.

In a letter to Crick, I asked him to arrange for a hotel room for us.

Looking forward to seeing you soon, and with kind regards from family to family, I remain

Yours ever

Ivar Rooth

C. F. Cobbold, Esq.,  
Governor  
Bank of England  
London, E. C. 2.

Bank of England

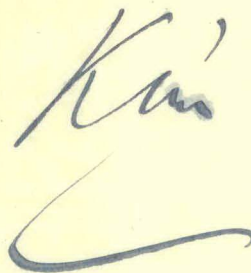
17th June 1955.

My dear Ivar,

Thank you for your letter of the 15th June. I am delighted to hear that you are proposing to visit London next month, and that Ingrid will be coming too. Perhaps you would care to lunch at the Bank on Thursday, 28th July, and to stay on a bit afterwards to have some talk with one or two others here. I gather that this would not clash with any arrangements the Treasury are making.

Hermione and I hope it will also be possible for you both to spend at least a bit of the weekend at Knebworth.

Yours ever,



Mr. Ivar Rooth.

June 15, 1955

My dear Kim,

It is my intention to fly from here on Wednesday, July 27, to arrive in London the following day. Ingrid will accompany me. I shall be very happy then to come and see you and some of your colleagues on the Thursday or Friday. I have informed Harcourt of this and he has promised to let Leslie Rowan know that I am coming. We plan to leave for Paris on Monday, August 1.

Looking forward to seeing you, I am

Yours ever

Ivar Rooth

C. F. Cobbold Esq.,  
Governor  
Bank of England  
London, E.C. 2.

OFFICIAL

OUTGOING MESSAGE

OFFICIAL

FOR PREPARING OFFICER

- Night Letter
- Ordinary
- Code

SPECIAL INSTRUCTIONS

INTERNATIONAL MONETARY FUND  
Washington 6, D. C.

To: COBOLD  
BANK OF ENGLAND          LONDON

No. 68

LOOK FORWARD TO RECEIVING YOU IN DECEMBER.  
ROOM LEAVING FOR SWEDEN TOMORROW AND PROBABLY  
NOT RETURNING BY TIME YOUR VISIT.

COCHRAN  
INTERFUND

Drafted By H. Merle Cochran

De ent \_\_\_\_\_

Date Oct. 21, 1954

AUTHORIZATION

/s/ H. Merle Cochran  
Signature

Second Signature When Required

FOR CODE ROOM

Time Received 12:45 PM  
 Time Dispatched 1:15 PM  
 Number of Words 30  
 Log 26872  
 Route WESTERN UNION  
 Operator ABT



October 19, 1954

My dear Kim,

Many thanks for your cable about the gold problem. I do hope that we will have no difficulties when the matter is brought up again at the beginning of November. It depends, as you know, entirely upon what our Australian friends have to say.

We were very glad to have George with us for a while. I am sure we will have very good cooperation from Bill Harcourt.

I end by mentioning that Ingrid and I will fly to Stockholm on Friday, for my operation. As I promised George, Ingrid will inform you of the results as soon as it is over.

With kindest regards to all the Cobbolds from the three of us, I am

Yours ever

C. F. Cobbold, Esq.  
Governor  
Bank of England  
London, E. C. 2

OCT 11 1954

Dear Mr. Governor:

I write with reference to the Fund's letter dated May 7, 1954 regarding the annual consultations of member countries with the Fund as to the further retention of any restrictions maintained under Article XIV, Section 2 of the Fund Agreement.

This letter is to confirm the understanding reached with you that these consultations may take place in London in November.

The Fund staff mission will be headed by Mr. Gabriel Ferras, Deputy Director of the Exchange Restrictions Department and will include Mr. Charles Merwin, Assistant Director of the European Department, Mr. Iain MacKinnon, economist, European Department, and Miss Eileen Slattery, Secretary. The Fund group expects to arrive in London in time to begin discussions with your representatives on November 8. We would appreciate it if you would inform the appropriate authorities of the Treasury.

Yours sincerely,



Ivar Rooth  
Managing Director

Mr. Cameron F. Cobbold  
Governor  
Bank of England  
London, E.C. 2,  
England

CC: Mg. Dir.  
Dep. Mg. Dir.  
Viscount Harcourt  
Mr. Portsmore  
FRD  
Euro. Dept.  
LEG  
RES  
UN Rep.  
SEC

CR:raf  
10/8/1954

*Chas. F.*

15A

July 7, 1954

My dear Kim,

This year, as in 1952 and 1953, I am planning to have a private luncheon for our European colleagues, to be followed by a discussion of problems of mutual interest. I intend to have this luncheon on Sunday, September 26th, at one o'clock, probably in the Bank's diningroom and then have the meeting in our Board room.

George Bolton has been present at these meetings in 1952 and 1953. I do not know if it is your intention to come to the meeting this year or if you are sending George. In case you should come yourself, would you please reserve that luncheon and some hours afterward for this meeting? If you are not coming, will you then ask George to come to the luncheon and meeting? I am writing a letter at the same time to the Chancellor.

With kindest regards,

Yours ever

Ivar Rooth

Cameron F. Cobbold, Esq.,  
Governor  
Bank of England  
London, E. C. 2.

June 4, 1954

Dear Kim,

Thank you for your letter of May 14th, 1954 enclosing a confidential memorandum on the U.K. commodity markets. It is very gratifying to see that virtually all the important commodity markets are now functioning again. You may have noticed from my statement before the Randall Commission last November that we in the Fund regard the reopening of these markets as important practical steps towards convertibility. I am, therefore, most grateful for your note on the detailed operation and significance of the various commodity market schemes and, particularly, their relationship to the U.K. exchange control system.

Sincerely yours,

Ivar Rooth  
Managing Director

Cameron F. Cobbold Esq.,  
Governor  
Bank of England  
London, E.C. 2.

cc: Mg. Dir.  
Dep. Mg. Dir.  
Euro. Dept.  
SEC

IM:dlr  
June 4 1954

INFORMATION COPY



May 17, 1954

Dear Leslie,

I was happy to receive your letter of May 13 and to learn that you and the Governor will be at the airport when I arrive on the 26th.

Thank you for your invitation to dinner. I understand, however, that dinner will be served on the "Monarch", so rather than make you rush through dinner it will probably be better if I have mine on the 'plane. But I hope that you will be able to spare the time to stay with me until I leave.

Looking forward to seeing you, I am

Sincerely yours,

Ivar Rooth

Mr. L.F. Crick  
Bank of England  
London, E.C.  
England.

Bank of England

13th May 1954.

Dear Ivar,

We are delighted to know from your letter of 5th May that we shall have an opportunity of seeing you soon. The Governor and I will see you at the Airport around 5 p.m. on the 26th May and though he has to return to town I shall stay on and see you off. I hope you will have dinner with me.

With kind regards,

Yours sincerely,

*Rishi Ketch*

Mr. Ivar Rooth.

May 16, 1954

My dear Kim,

I have to thank you for two letters and several greetings through Max Stamp and others.

As you know, we are working on those things that interest both of us. Owing to pressing work on Latin America and some other problems we have not yet produced as much as we had hoped. However, when I am back in Washington on May 27, some preparations will be made and I hope then to give H.P. something a few days later.

I heard from Portsmouth that you had the intention of coming to the airport on Wednesday, May 26, at about five o'clock, when I ought to be there and have gone through the formalities. I am leaving on the BEA Flight No. 251 from Geneva, and I am continuing with the "Monarch" at eight o'clock for New York.

Ingrid and Ellen join me in kindest regards from family to family.

Yours ever

Ivar Rooth

C. F. Cobbold Esq.,  
Governor  
Bank of England  
London, E.C.

Reply 4/6

R

Bank of England

14th May 1954.

Dear Mr. Rooth,

We have recently completed a brief review of the progress made in re-establishing the Commodity Markets in this country which were closed down during the early days of the war, and as I think you may be interested I enclose a copy of a memorandum on the subject.

Yours sincerely,



Mr. Ivar Rooth.

R

Bank of England

23rd April 1954.

Dear Mr.Rooth,

I write to acknowledge your letter of April 16th and to say that we shall welcome the visit of Mr.Merle Cochran from June 2nd to June 5th. I shall be writing direct to Mr.Cochran about arrangements for his stay in London.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'R. Rooth', with a long horizontal flourish underneath.

Mr.Ivar Rooth.



Bank of England. R

London. E.C.2.

11th February 1953.

My dear Ivar,

My 24-25  
I write to let you know privately that, whilst the Bank will not be formally represented in the Chancellor's party coming to Washington, I have arranged for Parsons to pay a visit to the Federal Reserve Bank of New York and then to the Federal Reserve Board, Washington, arriving about March 2nd, so that he will be available if the Chancellor needs technical help. He will get into touch with you and I am sure you will like to have a talk with him. I have reminded the Chancellor that Parsons has had much experience of I.M.F. and that he may be useful if any technical points about your affairs crop up during the week in Washington.

Things here continue to go pretty well for the moment, sterling remaining definitely firm. As you will know, there has been some rather rough water in Europe on the question whether the U.K./U.S. talks ought not to have been preceded by more discussion with the Europeans. My own feeling is that this will blow over and that, certainly so far as most of our central banking friends are concerned, they really agree that we cannot sensibly start to discuss any detailed ideas with them until we have some idea of the likely U.S. reaction to the general line of thought emerging from Commonwealth Conference. I am very glad that the Chancellor's visit has been fixed up and I am certain that this is the only practical way of seeing if, how and when these ideas can be carried a stage further.

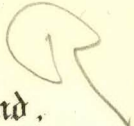
I hope you are well and not too overburdened. It is very tiresome for you that the business about a Deputy seems to have gone astray for the moment.

Yours sincerely,



Mr. Ivar Rooth.

PERSONAL & CONFIDENTIAL

Bank of England, 

*London, E.C.2.*

27th February 1953.

My dear Ivar,

Thank you for your letter of February 19th. I was interested to hear of your talks with Burgess and Frère. I am also delighted to know that Merle Cochran's appointment is definite. As you know, he and I are old friends and I have a very high opinion of his abilities. I am sure that this appointment will make your life a lot easier and do a great deal to strengthen the I.M.F., particularly in your relations with U.S. Administration.

I had a long talk with the Chancellor just before he left last night. He is fully seized of the importance of keeping you personally in the picture and of working towards more Anglo-American agreement in I.M.F. matters than has existed in the past.

I am delighted to hear that you are going to get a short holiday which I am certain you badly need.

Yours ever,



Mr. Ivar Rooth.



April 9, 1953

Personal

My dear Kim,

I promised to be in Vienna for the meeting of the International Chamber of Commerce which will take place May 19-22 and I intend to be present at the meeting of the B.I.S. in Basle on Monday, June 8. Of course, I am coming to London and I am writing to you in order to find out if it would agreeable for you and the Chancellor to see me if I turn up in London on Monday, May 25 for a few days.

I want to try to go home to Sweden for a look at the children and grandchildren and I shall have to spend a few days in Paris after the B.I.S. meeting.

With love from family to family, I am

Yours very sincerely

Ivar Rooth

C. F. Cobbold, Esq.  
Governor of the Bank of England  
London, England

PERSONAL AND CONFIDENTIAL

February 19, 1953

My dear Kim,

Many thanks for your letter of February 11. I am very glad that Parsons is coming to Washington March 2, and I am looking forward to having a good talk with him. It might interest you to hear that Graham Towers will arrive in Washington on March 1 and stay here for a few days.

I had a talk with Burgess a couple of days ago and found him, as I guess is true of the other members of the new administration, very busy getting men for a lot of the unfilled posts. I do not think that the administration will have been able to have a policy formulated when the Chancellor comes. However, I think it will be useful that he comes in contact with them. I do hope that the Americans this time will not try to have Anglo-American talks on a bilateral plan as was the case when the Belgians were here last year for negotiations. Then everything was decided without our having any chance to give the Americans our view. We had talks with the Belgians and I think they would have agreed on an arrangement that had been better for them and for us. However, it was impossible to do anything. I do hope that as Burgess is there and as he has been very willing to cooperate and quite interested in having the Fund more active, we may count on a better cooperation. When I saw him last time, I stressed very strongly the importance for the Fund of a much closer Anglo-American cooperation in the Fund than we have had so far. I got the impression that he was aware of the importance of it.

Frère is here and he told me yesterday that he had no objections at all to your talks and hoped that you would be able to arrive at some sort of convertibility.

I take it for granted that you have heard through Crick of Merle Cochran's coming on March 16. It goes without saying that I am very happy. I am tired and hope to be able to get ten days' holiday at the end of March and beginning of April when Ellen has Easter holidays. We intend to go to a little place near St. Petersburg, Florida.

Yours ever

Ivar Rooth

C. F. Cobbold, Esq.,  
Governor of the Bank of England  
London, England

JAN 14 1953

My dear Governor:

I refer to my letter of January 13 concerning the participation of the United Kingdom in the forthcoming annual audit of the Fund.

I am happy to inform you that Sir Edmund Hall-Patch has advised me that the services of Mr. W.S.J. Thornington, Deputy Director of Audit in the Comptroller and Auditor General's Office, will be made available for this work.

On administrative and other arrangements in connection with this assignment it is my intention to deal directly through Sir Edmund. Many thanks for your cooperation.

Yours sincerely,

13/

Ivar Rooth  
Chairman of the Executive Board  
and Managing Director

Mr. Cameron F. Cobbold  
Governor  
Bank of England  
London, E.C.2  
England.

Cc: Ex. Dir.  
Trea  
Internal Auditor  
Sec.  
Central Files

GPA/RLH/bm:1/14/53

INFORMATION COPY

JAN 13 1953

Dear Mr. Cobbold:

Many thanks for your letter of January 6th advising me that Mr. Basil Sanderson will be visiting this country towards the end of February. I am glad you suggested to Mr. Sanderson that he look me up while he is over here. Needless to say I shall be delighted to meet him.

Yours sincerely,

13/  
Ivar Rooth

Mr. Cameron F. Cobbold  
Governor  
Bank of England  
London, E.C. 2, England

ACFrost:tas  
1/13/53  
INFORMATION COPY

PERSONAL

Bank of England

18th December 1952

My dear Ivar,

Thank you for your letter of 11th December about Stamp's appointment as Director of the European and North American Department. I am glad you feel, as I do, that Stamp will make a useful contribution on your Staff. We have been glad to make it possible that he should take this on for a year, both because we recognise the importance of the position and because we are anxious to give you what support we can.

Yours sincerely,

A handwritten signature in dark ink, appearing to read 'R. Stodd'. The signature is written in a cursive style with a long, sweeping underline that extends to the right.

Mr. Ivar Rooth.

December 15, 1952

Confidential

My dear Kim,

I have to thank you for your secret cable of December 10 and for the cable about parts of the statement which Bolton telephoned me about and with which I was in full agreement.

We expect to see shortly the full statement in the British papers and we shall, of course, study it thoroughly. One of the things that interests me is what you really mean by your idea of modifying the Articles of Agreement of the Fund. You need not answer this question as I am going to ask Stamp to give me that answer.

I had previously mentioned that I was going to take a holiday. However, with the possibility of further discussions in the McCarran Committee and with pending discussions with Merle Cochran, and with the possibility of our hearing something on the U.K.-U.S. Canadian loan, I have discontinued my plans and will stay in town.

You might have heard that Snyder and the State Department are now backing Cochran and that we are only awaiting an answer from the new administration. Snyder wanted to discuss the matter with Humphrey. As Snyder left for Europe yesterday, he cannot meet Humphrey before December 22. I have been in contact with Burgess and I know also that Dulles is in favour of having Merle as Deputy Managing Director.

With all best holiday greetings for you and your family,  
I am

Yours very sincerely

Ivar Rooth

C. F. Cobbold, Esq.  
Governor of the Bank of England  
London

December 15, 1952

Confidential

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With all best holiday greetings for you and your family,  
I am

Yours very sincerely

Ivar Rooth

C. F. Cobbold, Esq.  
Governor of the Bank of England  
London

Dec 11, 1952

My dear Kim,

Today I formally advised the Executive Board of my intention to appoint Max Stamp as Director of the European and North American Department. Most of the Directors have already been talked to informally, but the formal proposal is necessary according to our Rules and Regulations.

I am proposing that Stamp have a salary of \$15,000. This salary is net of income tax. You will remember that we talked about a salary of \$15,000 but with the idea that I would think over the possibility of \$16,000. I have thought the matter over and I am sorry to say that it will have to be \$15,000. Paying more than this would raise a number of questions about the salaries of other top officers of the Fund - department directors and advisors - and might very well lead to discussion in the Executive Board of the salaries of top staff. From the point of view of the Executive Board this is not a good time to have such a discussion; and since I am so busy it is not a good time for me either.

I am looking forward very much to having Stamp on the staff. I know that he will be of great service. Thank you again for making it possible for us to have him.

With best regards,

Sincerely yours,



Ivar Rooth  
Managing Director

C.F. Cobbold, Esq.,  
Governor,  
Bank of England,  
LONDON, England.

INFORMATION COPY



SECRET

INCOMING MESSAGE

SECRET

INTERNATIONAL MONETARY FUND  
WASHINGTON, 25, D.C.

TO: ROOTH INTERFUND

FROM: COBBOLD LONDON

014486

FILING TIME: 2:30 PM October 24, 1952

VIA: Commercial

Number: 52

PRIVATE

I AM TRYING TO FIT IN MY USUAL ANNUAL VISIT TO CANADA AND UNITED STATES IN THE SECOND HALF OF NOVEMBER. SHOULD I BE ABLE TO SEE YOU IN WASHINGTON 20TH NOVEMBER AND 21ST NOVEMBER

595

COBBOLD

Vol 1 20  
20 21

Test number checks

Approved: *AEB*

Received in Code Room: 9:45 AM October 24, 1952

October 17, 1952

Private and Personal

My dear Kim,

I have just received your private and personal letter of October 14 and thank you for the information. I shall keep the letter to myself. I understand that you are coming over sometime in November and am very much looking forward to seeing you.

Before getting the letter, I had asked Max Stamp, when he goes to London, to try to find out whether you think there is any reason for me to go to London and western Europe, sometime in the beginning of December. I shall be glad if you would pass on your reply either through Max or tell me what you think about it when you come here.

I saw Susan a couple of days ago in the office and we shall get in touch with her fairly soon.

Ingrid joins me in our kindest regards to Hermione and yourself.

Yours ever

Ivar Rooth

C. F. Cobbold, Esq.  
Governor of the Bank of England  
London

*True copy.*

**DECLASSIFIED**

July 22, 1952

Secret

My dear Kim,

You told me it goes without saying that a return to a limited convertibility must not be a renewal of the experiment of 1947 but that - given peace - convertibility will be introduced as a definite measure. To be on the safe side, you will when taking such a step discuss the problem of additional reserves with friends in the U.S. and in Canada. Those of us who might be approached will have to be convinced that the steps already taken or contemplated will be effective. Not knowing enough of your situation to express a definite opinion we will mainly have to rely upon your appraisal of the situation. But you will understand that we will ask questions and that you will have to convince us that there are good chances for avoiding an experiment à la 1947.

I guess that after the introduction of convertibility, your problems will come:

- a) from the U.K. economy
- b) from the economy of the sterling area
- c) from the attitude of other countries having or obtaining

£ that may be converted.

Ad a) I have a feeling that even with the present restrictions on imports, from both dollar and other countries, the demand for hard currencies is almost too big. But that may be a temporary phenomenon. For an outsider it is of course impossible to know if the present restrictions will close the dollar gap after a while. But can you avoid liberalizing your imports somewhat say next year? And what will the effects be of such a liberalization? Both the U.S. and Canada will probably in the Fund (and the U.S. also in the N.A.C.) not insist but urge some liberalization also of dollar imports.

Ad b) I guess that for political reasons you will have to permit the sterling area countries or many of them to use part of their present holdings not only for sterling payments but also for buying hard currencies. I take it for granted that this permission will only be given to the central banks and corresponding authorities of these countries. But nevertheless, I wonder if there is not a risk of part of them being used for a flight from sterling.

Ad c) If you take on a substantial obligation on convertibility, much of the sterling held in accounts will, I presume, be either converted into

dollars as a precautionary move or offset by forward sales.

Apart from the American holdings of sterling, unusual demands for conversion may come from two other groups of countries. First, there are countries that need to convert a substantial part of their sterling into dollars to meet their dollar payments. Such countries include all the Scandinavian countries and Holland. Probably other countries with a sterling surplus will also convert most of their surplus sterling receipts into dollars to avoid risk. The quasi-speculative demand for dollars may therefore be great.

I feel that the demand will be substantially greater if each individual holder of sterling may convert into dollars than if only the central bank in the country should have this right either in the London or other markets. But it may be that there is a risk of broken cross-rates if any non-U.K. (and non-sterling area) holder of sterling should be prevented from turning them into dollars. There is of course already pressure on sterling through cheap sterling transactions and to this extent there will be no new demand for dollars. Indeed, it is possible that private cheap sterling transactions will fall off if central bank holdings of sterling are made convertible.

As I mentioned, my feeling is that the steps already taken to tighten the money market might be enough. But is not the strain on your real resources still too great? Is this not a reason for cutting down government and municipal investment? And considering the delay before new measures become effective, should that not be done in good time before introducing convertibility? I wonder, too, whether other expenditures of the Government will not have to be reduced very soon because the results of the last budget have been somewhat disappointing. And should not such measures be taken soon, for even here the time lag is probably not inconsiderable. You mentioned the necessity of cutting down or prolonging the defense program. Of course, I cannot have any idea of what can be done along those lines.

Appropriate measures on credit, investment and budget policy are even more urgent in most of the rest of the sterling area than in the United Kingdom. The difficulty of getting them to take such measures ~~is~~ <sup>might be</sup> even greater than it is for you. And yet the future of sterling may depend on what the rest of the sterling area is prepared to do to live within its means.

\* \* \*

Another side is a) the necessity for increased production and productivity combined with reduced costs, and increased exports in certain industries; and b) reduced time for deliveries in many export industries. It goes without saying that coal and heavy electrical machinery belong to this group.

One condition for increased production in all sterling area countries is, of course, the avoidance of strikes and lockouts. And this brings in the wage problem and the effect of possible increases in the cost of living on wages and the cost structure. As one example, the reluctance to increase railway fares is understandable. But can it be avoided?

Is there not a great need for educating the man in the street on the U.K.'s problems? Should it not be made quite clear in very simple words that the present unemployment in textiles is due to increased foreign competition and not to the new monetary measures; and that increased wages will increase the difficulty of selling textiles and other products, too.

I have just seen that the Prime Minister is going to discuss in Parliament the steps that have to be taken. If it were possible to secure the support, or at least the passive acquiescence of Attlee and those who follow him, it would probably be easier to get a more substantial help from this side.

If you contemplate some sort of convertibility, you will need to husband your resources and one way will be to invoke the waiver clause in your U.S. and Canadian loans. Our staff believes that prima facie, the 1951 payments justify a waiver. In any case, they are prepared to tell you what they find after a preliminary study and before any formal action is taken. To do this, our statistical work ought to start at the end of September to enable you to know how we feel before your decision has to be taken.

Yours very sincerely

Ivar Rooth

C. F. Cobbold, Esq.,  
Governor of the Bank of England  
London

July 18, 1952.

My dear Kim,

On my arrival yesterday from a week's vacation in Maine where we had a good time, I received your letter of July 14. I am glad to hear that the Wallenberg's island is at your disposal. I have informed my brother accordingly. You will hear from Ingrid or me about Mrs. Wijkander, as soon as Ingrid has got a reply. I shall send this letter to you c/o the Bank of Sweden so you will get it when you are back in Stockholm from Finland. I understand you are leaving London on the 28th.

When leaving the Wallenbergs, you can go either north or south of Lake Mälaren. I suggest that you drive on the south side. After having driven some 20 English miles, on the other side of Södertälje you will approach a little town called Mariefred. It is not a mile off your main route. Just before entering Mariefred, there is on your right, an old Swedish palace from the XVth century called "Gripsholm" which is worth your having a glance at. It is not necessary for you to go through the palace if you have no time but you ought to take the short time it will take to see the exterior. The palace is open to the public. The lady in charge called "Oldfru" is Mrs. Söderberg, whom I know well. She does not show the palace but in case you need some help, you can apply to her. She is a close friend of my first wife.

Passing through Örebro, you might stop a second and have a look at the outside of the palace of Örebro which is something of the same type as the Gripsholm but the Gripsholm is a museum while Örebro is used by the Governor of the province and the province's government. Details about Bofors will follow.

When over on the Norwegian side, the road follows the river from Kongsvinger almost straight west. After about an hour, you reach a big river going south. There are two roads to Oslo, one following the river closely, the other going more west of the river. The latter is newer and more interesting.

Another suggestion for Norway is that in case you intend to go to the mountains north of Lillehammer, it might be a good idea to drive north from Kongsvinger and see the Bank of Norway people only a couple of days before the boat leaves. But as I said, such a change depends entirely upon what you intend to see in Norway.

But take my suggestions about your Norwegian trip only if you have not a better proposal from Jahn.

I was quite astonished to find on my desk the enclosed cutting from Business Week of July 12 which you might have seen. It goes without saying that there is no link whatsoever between me and Business Week.

Ingrid joins me in hoping you have a wonderful trip in our part of the world.

Yours very sincerely

Ivar Rooth

C. F. Cobbold, Esq.,  
Governor of the Bank of England  
London

MALAREIN  
PERSONAL

✓ Södertälje  
- MARIEFRED  
- GRIPSHOLM.  
- ÖREBRO

Bank of England,

London, E.C.2.

14th July 1952.

OLDFRU  
Mrs Söderberg

KONGSVINGER  
LILLEHAMMER

My dear Ivar,

Many thanks for your letter of July 8th. I am so glad you were able to come over. It was very nice to see you both on personal and official grounds.

I have just heard from the Wallenbergs who say that their island is free when I shall be there and we have fixed up in principle to go out there. I will in any case give your brother a ring and hope to meet him.

It is kind of you to have got into touch with your sister-in-law. I am sorry that we shall miss Mrs. Wijkander but I will, as you suggest, get into touch with them and see whether some of the family would help us find a place to stay for the night.

It is very good of you to have taken so much trouble. I know we shall enjoy ourselves in Scandinavia and only hope that nothing happens to interrupt our trip.

Yours sincerely,



Mr. Ivar Rooth.



July 8, 1952.

Personal

My dear Kim,

Back after a good trip, I want to thank you and Lady Hermione, Susan, and all your friends at the Bank for the very kind reception you gave me and for all the information I got. I was also very happy to find that Mladek did not only get the same kind of reception but was also asked to come to London at least once a month. Of course, I had already told him that he should go to London as soon as possible. Previously, he had been so tied down by the work in Paris, partly the EPU and partly the French consul tations, that he had been prevented from doing it. I shall be glad if you would sometime, when he is there, find time to see him for a couple of minutes.

I have written a letter to my brother, Harald Rooth, Svenska Penninglotteriet, Stockholm (corner Riddergatan and Sibyllegatan). His telephone number in town is 670545. His farm is Tjulsta, Hölös. Harald is the brother who is the best skater in the family and knew your father-in-law and Irene Lawley at the Princess Skating Club. He is now running the lottery that was started by my father in 1896 and that was taken over by the government some fifteen years ago. Harald also has a farm at the above address which is just a mile off the main road from the south to Stockholm, not far after you have passed the royal palace, Tullgarn. If the Wallenbergs should not be able to lend you their island, I suggest that you get in touch with my brother as soon as you arrive in Stockholm from England. <sup>Or from Finland.</sup>

As soon as I hear anything more from my brother, I shall inform you if he will be in town when you are there or if one of his boys can take you out to an island and in such a case, which island would be the best.

Coming home, I learned that my sister-in-law, Mrs. Wijkander, will not be at home or at their summer place, Mosserud near Bofors, on the 17th of August when you are supposed to arrive. That is the day when Ellen will be confirmed and Mrs. Wijkander has promised to be present at the confirmation. Anyhow Ingrid has written to her and I take it for granted that they will be able to have some of her daughters to help you put up your tents

in a proper field if there is no room in the house.

I have been thinking of our mutual problems and I shall write you a letter as soon as I get a little more time.

Ingrid joins me in kindest regards to all of you.

Yours very sincerely

Ivar Rooth

C. F. Cobbold, Esq.  
Governor of the Bank of England  
London

Bank of England,

London, E.C.2.

12th May 1952.

My dear Ivar,

You may like to have a few private impressions of developments over the last two months.

I think we can now say confidently that the changes in credit policy, started in October and firmed up at Budget time, have fulfilled our expectations. It is never possible to quantify the results of credit policy but various things are clear. There is a distinctly different attitude to borrowing both on the part of lender and borrower; the banks have been frightened about liquidity percentages and being forced to sell investments at a loss, and self-interest has been a powerful support to their attempts to go slow on advances for public policy reasons. Borrowers have suddenly realised that it is not safe to base their expansion plans on the assumption that bank credit will always be available, and this is having even more effect than the cost of borrowing.

You know as much as I do about the improvement of sterling in foreign eyes. The atmosphere has certainly been better and the market has more or less looked after itself since Budget. Our net loss of gold and dollars for April was rather less than the E.P.U. settlement (this confidential of course) and in May so far it looks about the same.

There is still a substantial "bear" position on commercial account, though the more speculative element has mostly been covered.

The gilt-edged market has behaved well and has been fairly settled at the lower levels. We have not been supporting - in fact rather the other way. We were very glad to get the big electricity issue behind us, and now have nothing very troublesome to deal with in this market for some months ahead.

I will not attempt to prophesy what will happen next. One of the troubles is that, with the improvement in the exchange position, the public (and the Government) are less conscious of the dangers and inclined to forget the necessity of taking further steps to strengthen the currency. But I dare say the pendulum will swing again and further moves will again come under active discussion -

P.T.O.

To what extent due to bear covering?

my guess now is that this may be less likely before the Summer than in the Autumn, but you can never tell.

Another matter for your private ear. H.M.G. are still discussing successor to Rowe-Dutton, and if a good man is available (H.P. is the most likely) he would probably take the I.M.F. Executive Directorship too - with Stamp and later on a successor from B.of E. as alternate. G.F.B. would probably continue to come for Annual Meetings etc., probably as Alternate Governor. I think this would be a better arrangement. But it is still in the air and may not come about - so keep entirely to yourself please.

As usual, politics are the worst trouble - both internally with wage claims, etc., and externally with the German question becoming most preoccupying.

I hope you are both well and enjoying yourselves.

Yours ever,

*To what extent...*

Mr. Ivar Rooth.

February 29, 1952.

Personal and Confidential

My dear Kim,

I was very glad to receive your letter of February 14, with your picture of the developments in England. We also took much interest in the Commonwealth Conference, but so far we have not been able to get any information about the contemplated measures to attain convertibility and what you mean by convertibility. I need not tell you that we are extremely interested in any information on that point that you, either directly or through Stamp, can give us.

I fully agree with you that it is better that you do not approach us for assistance until your internal program is completed.

I am in close contact with Stamp and have told him of the changes in the U. S. attitude towards the use of the Fund's resources, as I see them. Although I guess that he has passed them on, I think that in this connection, I should mention the following:

One of the reasons for the changed U.S. attitude is no doubt the criticism of the inactivity of the Fund. The main reason, however, is, so I believe, that the U.S. administration wants to avoid, especially during this election year, as far as possible, all budget allocations for non-military purposes. Therefore, there seems to be much more willingness by the U.S. Treasury to permit drawings on the Fund. But at the same time, our American friends fear that too much might be drawn on the Fund and that therefore, a cautious policy should be followed. The U. S. is always stressing a view, which I share; namely, that the Fund should be revolving.

The ERP decision was taken only for a year and is no longer on the books. However, until lately, it has been in the mind of everybody. I am quite convinced that now drawings by several but not all West-European countries can be contemplated. I also believe that some sterling area countries can be discussed. Where the line should be drawn, I do not know and it will be impossible to have a view on it until we are approached by a country. En passant, I may mention that I am telling my central banking friends that they need not approach us officially but that they can get in touch with me in confidence in order to hear my reaction.

A country wanting to draw against its gold payment has now the overwhelming benefit of any doubt which is not quite automaticity but not very far from it. For every one wanting to draw, it is of course necessary that the drawing be of a temporary character and needed for foreign payments. It is also essential that a country has or is willing to put its house in order.

Drawings in cases where the country is willing to undertake the repurchase within 18 months will, I guess, be possible for various reasons, say the import of raw materials to be exported in manufactured form. However, it will not be the signing of the dotted line on an IOU that alone will turn the trick.

I do not rule out drawings by the U.K. or an arrangement with the Fund to draw in case of need during say a six or twelve months' period. The possibility of such an arrangement would, I believe, depend mainly on the effect of those decisions that were taken in November and December, and on the proposals that will be made in your new budget, and their acceptance by Parliament. But other problems will probably also have to be discussed; e.g., your stocks, the unrequited exports and your willingness to allow non-U.K. borrowing in London.

Your views as to the eventual repurchase of the amounts previously drawn on the Fund would no doubt be helpful.

I am worried that so far your Labour Party does not understand or seems not to be willing to understand your economic problems. The attitude of your trade unions, shown among other things in the strike in Wales against the health charges, is also preoccupying. This is not a criticism especially against the U.K. I am sorry to say that the Labour Party in Sweden has, before the last elections, been threatening with political strikes in case they should lose the majority. A willingness to follow the rules of the game of democracy seems sometimes to stop where you yourself are not the boss.

We follow the French developments as much as we can and with great concern. I regret that our direct contacts with France are too small. The assistance that I get from London in this respect is very much appreciated.

Ingrid and Ellen join me in love to you and your family.

Yours ever

Ivar Rooth

C. F. Cobbold, Esq.,  
Bank of England  
London.

U.S. Can  
loan

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Ingrid and Ellen join me in love to you and your family.

Yours ever

Ivar Rooth

C. F. Cobbold, Esq.,  
Bank of England  
London.

PERSONAL

Bank of England

20th February 1952.

My dear Ivar,

I am sending you a formal acknowledgment of your official letter of the 16th February on the recent decision on the use of the Fund's resources. May I add my personal congratulations on your success in achieving this step in your task of making the Fund more useful. We know full well the difficulties which you have faced.

Yours ever,

A large, stylized handwritten signature in blue ink, appearing to read 'R. Robb'. The signature is written in a cursive style with a prominent flourish at the end.

Mr. Ivar Rooth.



Bank of England,

London, E.C.2.

14th February 1952.

My dear Ivar,

I am afraid we have been rather remiss in not giving you a picture of developments since our last talk here, but things have been moving quickly and it is at the same time very difficult to form a clear picture. You may however care to have a view for your private information of how things look to me at the moment.

V On the internal front I think we are on the right road. The November measures in credit policy are working through the economy and having at least as much effect as was anticipated. It is difficult to see the result of the import cuts etc. announced in November and in January: there was certainly a general feeling of relief when the Chancellor announced his decision to bring the Budget forward to early March and it is to the Budget that everybody is looking. There are some signs that the "overload" is being taken off the economy - in fact there has been a rather sharp rise in unemployment figures, though not of course in the places where the "overload" is most felt.

what the  
one on  
low means

The Commonwealth Conference was, I thought, very useful, and (though the proof of the pudding must be in the eating) should lead to a good deal of action on the right lines throughout the Commonwealth.

But I cannot say that I feel entirely reassured about the position. The gold and dollar figures are still bad. We are spending an enormous sum on armament, which is at the root of a lot of our economic difficulties, and I must say that our American friends (who I know have their Congress and Election difficulties) are not being helpful.

As to any approach to I.M.F. for assistance my personal view is that we ought not to borrow more from anywhere until we have completed our internal programmes and definitely set our sails straight. But I can conceive it very possible that we should like to have a talk with you about possibilities when the Budget is over. The satisfying feature is a feeling of urgency in the Government and a unity through the Commonwealth that things have to be put straight and if unpleasant decisions have to be taken they should be taken in time - but there may be some!

I hope you are well and all enjoying yourselves. My love to the family.

Yours sincerely,



Mr. Ivar Rooth.

Bank of England

31st July 1951.

My dear Ivar,

Thank you for your letter of July 24th about the troublesome question of Executive Directors' pensions. I have had a private talk with the Chancellor in the light of your letter.

I do not think that the Chancellor has any desire to have an unnecessary row about it and he will have a word with you when he gets to Washington. I do not think it can be entirely blurred over, both because of the strong feelings we have on the subject and because of the Auditors' Report. I am sure, however, that the Chancellor will handle it with discretion.

I hope you are well and resisting the Washington Summer climate. I am going away for three weeks now and shall be back for a final word with the Chancellor and Bolton before they come to your party.

Yours sincerely,



Mr. Ivar Rooth.

July 24, 1951

PERSONAL & CONFIDENTIAL

My dear Kim,

Although still mainly working on the Iraq Report, I am now beginning to study the background of some of the various problems outstanding. One of the things that I am worried about is what is likely to be written in the press, when at the next Annual Meeting at the suggestion of the U.K., the Pension Plan for the Executive Directors is on the agenda for discussion. The matter is also referred to in Chapter VI of the Annual Report and has been mentioned by the Auditors. Even if the discussion is carried out in the Committee, I am afraid of a leakage to the press.

Articles will probably be written about an open disagreement between the U.K. and the U.S. Those elements who wish to make us trouble might also join in the publicity. All this cannot but hurt the prestige of the Fund and reduce its usefulness.

I would ask you to consider, therefore, if some way can be found to avoid unpleasant and harmful publicity.

Trying to find a way to avoid it, my first idea was to see if the Executive Board could be willing to propose to the Governors to approve the Pension Plan, if the U.K. should be agreeable to withdraw its resolution. However, this cannot be done as payments under the Plan already started in November. The members of the Board and the Alternates who have joined the Plan have made payments and acquired individual rights. Some people, who during their service with the Fund were under the Pension Plan, have even, in the meantime, left the Fund.

Now I should like to know if you think that the discussions could be carried out only in the Committee, and be confined to a statement by the U.K. Governor of the legal view, as you see it, and perhaps also saying that you did not like the procedure. I believe that if over and above that something should be said, or even implied, of the impropriety of the decision, there might be a very heated discussion. Saad will then probably

make it a major issue, and this may make it difficult for Southard to take the peaceful line which now seems to be his attitude.

You will understand that I do not feel at ease thinking of what might happen. I should, therefore, be glad if you would consider the problem. If you find it proper, do touch upon it with the Chancellor or someone else in the Treasury.

It is, of course, a minor matter compared with those problems that the Treasury nowadays is confronted with. But unfavourable publicity of this kind would, of course, increase the difficulties of improving the standing of the Fund, and should, therefore, if possible be avoided.

Yours ever

Ivar Rooth

C.F. Cobbold, Esq.,  
Bank of England  
LONDON, E.C. 2

OFFICIAL

OUTGOING MESSAGE

OFFICIAL

FOR PREPARING OFFICER

- Night Letter
- Ordinary
- Code

SPECIAL INSTRUCTIONS

INTERNATIONAL MONETARY FUND  
Washington 6, D. C.

To: Governor Cobbold  
Bank of England

REFERRING MY LETTER HEAR TODAY THAT UN MEETING  
WILL BE HELD GENEVA MONDAY MAY TWENTY-FIVE  
THEREFORE I CANNOT BE IN LONDON BEFORE TUESDAY  
TWENTY ~~SEVEN~~ <sup>SIX</sup> AFTERNOON. MUST BE IN BASLE  
SUNDAY JUNE SEVEN. WILL HAVE DIFFICULTY IN COMING LON-  
DON AFTER BASLE MEETING

ROOTH

Drafted By Mr. Rooth  
Disponent Managing Director  
Date April 14, 1953

AUTHORIZATION



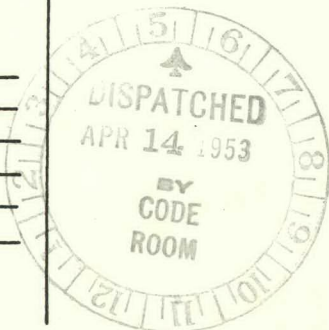
Signature

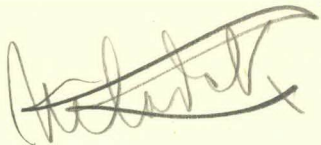
**Ivar Rooth**


Second Signature When Required

FOR CODE ROOM

Time Received 5:20 PM  
Time Dispatched 5:52 PM  
Number of Words 49  
L<sub>1</sub> 13254  
Route Commercial  
Operator GR



 Speech by v

C.F. COBBOLD, ESQ., 

GOVERNOR OF THE BANK OF ENGLAND,

at a Dinner given by the Lord Mayor to the Bankers and Merchants  
of the City of London on the 7th October 1952

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Speaking on this occasion a year ago I expressed the view that the economic barometer was veering towards stormy and that the stability of the currency should be given first priority. It would be idle to suggest that the barometer is now set fair, but the figures which the Chancellor has given show that the storm into which we were running last winter has considerably abated. We are now holding our own, if somewhat precariously, on overseas account.

I should like to dwell for a minute on the internal value of the currency. This is the key to the problem. For some years past, largely because of our vast war expenditure and its aftermath, people have been inclined to feel that money seems to get worth less all the time and is likely to buy less in one, five or ten years' time than now. Has that attitude begun to change? Are people beginning to say "Well it looks as if prices may come down a bit - our pound may be worth more in a year or two - we will save it instead of spending it now"? If we can reach and hold that point, than we shall have inflicted a defeat on inflation and won a victory for the currency.

I believe that material progress towards that point has been achieved. In the process several theories have been put to the test of experience. Nearly a year has passed since new monetary measures were introduced, and some conclusions can now be drawn. In the first place it has been demonstrated that, in very different conditions from those ruling before 1939, movements in Bank Rate and monetary policy generally can still have a very potent effect. Secondly some ghosts have been laid; it has been proved that, when conditions require it, a sharp rise in the Bank Rate is not inevitably followed by widespread unemployment or by a lack of money for essential purposes. Thirdly it has been proved that Bank Rate and monetary policy alone cannot work miracles but must be supported by Government fiscal and expenditure policy.

The comparative effect on the national economy of private borrowing and spending on the one hand and of public borrowing and spending on the other has completely changed since Bank Rate policy was used in earlier days. It follows that action through the credit system on the borrowing and spending of individuals, firms and companies can now be much more easily outweighed than formerly by the action of Government, local authorities and the nationalised industries.

In the domain of private borrowing and expenditure there has been a strong and healthy reaction to the measures taken; but much remains to be done in other directions. Recent statistics and banking figures show very clearly that results in the private sphere are in danger of being neutralised by heavy expenditure on official account and by the resultant necessity of heavy borrowings for Governmental needs.

It is generally held in the City that this is the most important question of the day for our further progress in strengthening the currency. I am sure that the Chancellor of the Exchequer has it in the forefront of his mind. The City will follow with eagerness and sympathy his progress, when framing his estimates and Budget proposals, in bringing public demands on the country's resources of labour, materials and money within the bounds of what we can afford.

There

There has been much discussion in recent months, in the City and elsewhere, about our future foreign exchange arrangements. I do not propose to go into the complicated technical arguments for and against different types of exchange system. I would just say this. The Bankers and Merchants for whom I am responding to-night firmly believe that a freer system of international payments, with currencies more freely exchangeable through the world, offers the best prospect for our trading and industrial future.

But, My Lord Mayor, Bankers and Merchants are realistic people. They appreciate that these exchange problems need to be carefully weighed and cannot be dealt with in isolation. Above all they appreciate that, whatever may be the pattern for the machinery of international payments, the fundamental problem remains the same. Under a full exchange control system or under a free exchange system, the value of the pound and with it our ability to buy our food and raw materials, must depend primarily on our internal policy and on our own efforts in the United Kingdom. Unless we can produce, and sell overseas on a competitive basis, enough goods and services to earn what we need from abroad, there is no exchange system nor any technical arrangement which will maintain our living standards.

The City was glad to learn of the arrangements for a Commonwealth Economic Conference. Here, where there are so many long-standing and day-to-day business links with every part of the Commonwealth, no emphasis is needed on the importance of joint study and co-operation with the other Commonwealth countries. To the other members of the sterling area in particular, the purchasing power of sterling is of vital interest and their policies in their turn have much influence on the strength of sterling. But let us remember that the first responsibility is ours in this country. Sterling is our currency. It is on our success in making ends meet and paying our way that the future of the pound will depend.

I referred earlier, My Lord Mayor, to the changes in monetary policy which have taken place in the past year. These changes, together with the restoration in December of a degree of freedom to the foreign exchange market and the reopening of some commodity markets, have called into use machinery that was a little rusty. They have given the City a chance of furbishing up the dealing techniques for which it has long been famed; they have helped to show that these techniques have not been forgotten, and that London has not lost its preeminence in financial skill and knowledge. Every day there is evidence of new ideas and enterprise, whether it is in forging new links for developing business with the Commonwealth, in tackling the complex problems of raising finance for industrial development, or in other fields at home and abroad. Difficulties are great and disappointments many, but much is being achieved and it is our hope that conditions will so develop as to give scope for ever greater achievement.

OFFICIAL

OUTGOING MESSAGE

OFFICIAL

FOR PREPARING OFFICER

- Night Letter
- Ordinary
- Code

SPECIAL INSTRUCTIONS

INTERNATIONAL MONETARY FUND  
Washington 6, D. C.

To: COBBOLD  
:BANK OF ENGLAND LONDON

DELIGHTED TO SEE YOU NOVEMBER TWENTIETH AND  
TWENTY-FIRST

ROOTH

Drafted By Mr. Rooth

Department Managing Director

Date Oct. 24, 1952

AUTHORIZATION



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