

September 16, 1964.

Mr. Allan Sproul
P. O. Box 365
Kentfield, California

- see ltr: 9/10/64

Dear Mr. Sproul:

I can well understand your dismay at the growing complexity of the exchange operations reported in our last article. Sometimes I feel that we are trying to play half a dozen poker games at once, although I am consoled by the fact that so far we have not wound up pursuing any busted flushes. The main problem, of course, is the central role of the dollar in international finance with the consequence that we are involved not only in financing our own deficits, but also in adjusting to the flows of dollars between foreign countries. If money moves from Italy to Switzerland, the Bank of England and Bank of France couldn't care less, but we become automatically involved in a problem of what to do about the Swiss dollar surplus and the Italian dollar deficit. In the past, these shifts of funds between foreign countries were largely settled by gold transfers, but now we have reached the stage where the adjustment is often effected through debits and credits under our swap network, or similar credit operations. This is a highly useful economy of gold, of course, and in my view provides the best solution to the so-called international liquidity dilemma, although many academicians and British and French politicians would disagree. In any event, the New York Bank has now become virtually the balance wheel of the international financial machinery and I suspect that the complexity and magnitude of our operations will continue to grow.

international
currency

Robert
Sivoy

Another difficulty which besets me whenever I sit down to write these articles is the necessity of providing a complete official record. As a result, the text tends to get cluttered with a great deal of detail which obscures the main policy developments. I think, too, that the technical jargon in the foreign exchange field is not particularly precise, and as we go along we may well have to develop more specific language. The word "swap," for example, is employed for lack of any other to describe exchange

operations which may differ very considerably in their nature. For example, under the central bank swap network, swap drawings are essentially short-term official credits, whereas when executed in the market to forestall interest arbitrage they involve simply a spot purchase and forward sale of foreign exchange. Still a third type of swap appeared during the latest reporting period in the form of conversion into dollars of a French franc balance, originally drawn from the IMF, on the understanding that we could reconvert into francs at the same rate. We did so simply because the French could not provide us with a franc investment medium and so we moved back into dollars where we could earn interest until the francs were needed.

I was much interested in your suggestion that the articles might usefully be rounded out by bringing in the balance of payments accounts, more particularly, the liquid dollar claims. I think that this would be most helpful to the reader, but I may have to be careful about appearing to poach on the Commerce Department's private preserve. By introducing in the last two articles data on the gold pool and U. S. gold operations, I have already stretched the coverage of the articles quite a bit beyond their original scope, and perhaps I might let a decent interval pass before reaching out for new territory.

With all the best,

Sincerely,

Signed "Charlie"

C. A. Coombs

AIR MAIL
CAC:abr