Volcker Correspondence -- 1969

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Federal Reserve Bank of St. Louis

JAN 6 1970

BANK OF CANADA Ottawa 4

December 30th, 1969

Mr. Paul A. Volcker,
The Under Secretary of the Treasury
for Monetary Affairs,
Washington, D. C. 20220

Dear Paul,

Given the peripatetic life you lead I especially appreciate the fact that you took time to write to me on the occasion of my move from the Bank of Canada to the Department of Finance.

Though I may not be in Paris so often in the future, I hope and expect that in my new job I shall have occasion to see you from time to time and share a good cigar together.

With the compliments of the season,

Sincerely yours,

Bill

Wm. C. Hood,
Adviser

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Federal Reserve Bank of St. Louis

December 22, 1969

Dear Bill:

Congratulations on your new appointment. Having once passed myself from the sanctity of central banking to the turmoil of a finance ministry, I can assure you chances for survival are good.

Best wishes.

Sincerely,

(Signed) Paul

Paul A. Volcker

Dr. William C. Hood
Adviser, Bank of Canada
234 Wellington Street
Ottawa 4, Canada

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Federal Reserve Bank of St. Louis

Mr. Volcker
NOV 20 1969

NOV 18 1969

Dear Mr. McClure:

I am glad to respond, on behalf of Secretary Kennedy, to your letter of November 5, in which you ask about the possibility of gold purchases from the United States by Japan and others.

The news stories you have read are, I am sure, in connection with the forthcoming increases in quotas of the members of the International Monetary Fund. Quotas in the IMF are payable 25 percent in gold and the balance in national currencies. Unless other arrangements are made, each member will therefore be required to pay some quantity of gold to the IMF in proportion to the increase in its drawing rights with that institution.

As the article you quote notes, many nations with substantial gold holdings, including the United States, will pay out of their existing gold reserves and receive in exchange an equivalent reserve asset in the form of the "gold tranche" drawing rights.

Other countries which do not hold sufficient gold, or as is the case with Japan, hold relatively small amounts in relation to their total reserves may seek to buy the gold they need to pay to the IMF from the United States or others.

The overall amount of the quota increase has not yet been finally determined but is expected to be somewhat above 30 percent. If this is the case, the 25 percent gold portion could be as high as $1.8 billion for all nations of which the secondary effect on the U. S. could well be above $500 million in the absence of special provisions to avoid such a drain on U. S. gold.

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In fact, however, it is fully expected that techniques will be adopted to avoid such a drain on the United States or other reserve countries. In my testimony last Friday before the Sub-committee on International Exchange and Payments of the Joint Economic Committee, I dealt with this subject. I am enclosing a copy of my statement and note that the question you raise is specifically discussed on pages 11-13.

I hope this information will clarify for you the references you have seen in the press as to possible Japanese gold purchases.

Sincerely,

(Signed) Paul A. Volcker

Paul A. Volcker

The Honorable
James A. McClure
House of Representatives
Washington, D. C. 20515

Enclosure

OASIA:TPNelson:EB 11/17/69

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October 31, 1969

THE SECRETARY

B. K. MacLaury

Attached Letter

At the suggestion of Congressional Liaison, I have prepared the attached letter for your signature to Bill Ayres, minority member of the House Veterans Affairs' Committee. He was instrumental in killing the suggestion for investment of trust funds in VA mortgages last spring, and we are asking him to try to do the same again. You may recall that John Ehrlichman feared that H.R. 9476, incorporating this proposal, would be cleared and easily pass the House. I have heard the same comment from other sources. I hope this letter helps.

Recommendation: That you sign this letter.

MacLaury Smith Ex.Sec.

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NOV 3 - 1969

Dear Mr. Ayres:

I am writing to you in regard to H.R. 9476, a bill "To increase the availability of guaranteed home loan financing for veterans and to increase the income of the national service life insurance fund."

I understand that the Committee on Veterans Affairs is reconsidering this bill despite its rejection as recently as May of this year. I believe that that earlier rejection was based on sound reasons, and that those reasons remain as strong or stronger today.

It seems to me that the fundamental issue posed by H.R. 9476 is whether the Congress is willing to face up to the hard choices that must be made among the many pressing needs for funds through the regular authorization-appropriations process, or whether instead it intends to increase Federal outlays, in this case in support of VA guaranteed mortgages, through the backdoor. Under the unified budget, as you know, trust fund acquisitions of VA guaranteed mortgages would constitute budget outlays, and I am convinced that this is the proper treatment if we are to have a measure of the over-all economic and financial thrust of the Federal budget. After all, there would be a one-for-one impact on the financial markets for each dollar shifted into such mortgages, since the Treasury would have to raise new funds to replace the special issues now held by the trust accounts.

In current circumstances, I feel strongly that if we are going to authorize additional budget spending in one area, we must find ways of reducing outlays even further in other areas. The President has stated on several occasions that he intends to adhere to a ceiling of $192.9 billion of expenditures in order to slow inflationary pressures in our economy. VA insurance reserves are not "free dollars"; they cannot be used to acquire VA guaranteed mortgages without at the same time requiring a dollar for dollar reduction in other programs. This is why I feel that the Congress should have the opportunity, through the regular appropriations procedure, to consider how Federal budget support of VA guaranteed mortgages fits into the over-all fiscal posture of the Federal Government this year.

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I am also concerned that if the Congress approves the use of trust fund monies for the acquisition of VA mortgages, it will be increasingly difficult to resist pressures to finance other, perhaps equally pressing, programs by the same, seemingly painless, means. This could quickly become an exercise in self-delusion.

Having stated my opposition to the use of trust fund assets to finance particular programs, however worthy, let me quickly add that I fully share the Committee's concern over the limited availability of mortgage funds in the present environment. For this reason, a number of specific steps have been taken to help support home construction. Operating directly to maintain a flow of money into housing, the Home Loan Banks have very substantially stepped up their volume of their advances to member savings and loan associations. In fact, total Home Loan Bank borrowings have increased by over $2 billion since June 30. Similarly, the Federal National Mortgage Association has been making new commitments at a rate of roughly $10 billion per year, or about three-fourths of the entire volume of FHA and VA mortgages originated. Last month, President Nixon announced a sharp cutback in Federal construction projects, which should also help to relieve pressures on construction resources. In addition, as you know, the Administration has proposed in the Tax Reform Bill a special tax credit that we believe can help stimulate institutional home mortgage lending and other socially desirable types of lending over the longer run. Finally, the Government National Mortgage Association is expected to commit some $650 million of special assistance funds to multi-family housing units in cooperation with the Federal National Mortgage Association in a so-called tandem plan.

While these measures are not all aimed specifically at providing mortgage funds to veterans, they are intended to provide strong support for the flow of mortgage credit generally, and thus help cushion the effects of tight money on home building. I must emphasize, however, that the only effective means of assuring an adequate flow of mortgage funds to veterans and others in need of housing finance is to continue to exercise the budgetary and monetary restraint necessary to assure that the economy returns to a path of stable growth.

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I have not stressed some of the other concerns which we have with H.R. 9476 because I feel that the budgetary concern is fundamental. But this legislation also raises a number of questions with regard to the over-all standards applying to the exercise of fiduciary responsibilities for the investment of these funds.

I shall appreciate your continuing assistance in making known to your colleagues the cogent reasons for rejecting this proposal.

Sincerely,

David M. Kennedy

The Honorable
William H. Ayres
House of Representatives
2367 House Office Building
Washington, D. C.

EPSnyder/
BKMacLaury:lm
10/31/69

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AUG 13 1969

THE DEPARTMENT OF THE TREASURY

DATE 8/13/69

TO Mr. Volcker

Phone Fellner

As requested.

How happy with $ standard

B.K.M.

How much do we want to be able to run deficits

Bruce K. MacLaury
Deputy Under Secretary
for Monetary Affairs

Room 3321 Ext. 5848

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SDR

DRAFT--BKMacLaury:lm:8/12/69

Letter to Mr. William Fellner at Yale for Mr. Volcker's signature

I have been mulling over your letter of July 22 before attempting a reply. First I want to thank you for setting your thoughts down on paper -- it is most helpful to have ideas on complex subjects in black and white.

The fact is that our advocacy of a sizable SDR activation was not based on the kinds of assumptions that you set forth. I am enclosing a copy of my statement ~~on~~ of August 6 before the House Subcommittee on International Finance, wherein I outlined on pages 7 through 10 the major ~~conditions~~ considerations that went into our recent negotiating position on SDR's. Some of the arithmetic that is only hinted at in that statement led me to the conclusion that there was in fact a strong case for a substantial start on reserve creation. Indeed, I believe that that arithmetic was more persuasive in overcoming the reluctance of our European partners to sizable activation than any other single factor. I think it is also true that SDR activation presented participants in the Group of Ten deliberations with the potential for positive joint action on which they could agree, at a time when market uncertainties called for such action.

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Turning to your specific assumptions, I see no reason to postulate the introduction of discriminatory measures against dollar inflows to justify the need for a substantial amount of SDR activation. The arithmetic to which I referred above indicates that (1) the growth of reserves was by no means keeping even approximate pace with the growth of trade and investment in recent years; (2) what growth had occurred in reserves was largely accounted for by crisis credits rather than permanent additions to reserves; and (3) it was unacceptable that the dollar continue to provide the bulk of reserve growth in the future. Clearly, if one rejects this last point, assuming instead that the world should be happy to thrive on the dollar standard, there is little rationale for SDR's. In my view this is not the case.

Your second assumption I find more arguable. It is of course possible that by creating a meaningful amount of SDR's, we shall have diminished the appetite of the world's monetary authorities for dollars. But frankly, I doubt that there will be a one-for-one offset of SDR's against potential dollar holdings. There are a number of other factors that are more lilely to curb our ability to finance deficits through increases in foreign official dollar holdings than the availability of SDR's as an alternative reserve asset. I assure you this belief is not

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founded on the subtle "swamping" theory that makes dollars look good by comparison with over-abundant SDR's.

I am sure there will be differences of opinion concerning the role and scope for SDR's in the international financial system. Nevertheless, I believe we have taken a significant further step forward through the agreement to implement this new mechanism for adding to international reserves.

With best regards,

Sincerely, ~~yours,~~

Paul A. Volcker

Mr. William Fellner
Sterling Professor of Economics
Department of Economics
37 Hillhouse Avenue
Box 1972 Yale Station
Yale University
New Haven, Connecticut

Enclosure

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Federal Reserve Bank of St. Louis

JUL 23 1969

Yale University New Haven, Connecticut

DEPARTMENT OF ECONOMICS
37 Hillhouse Avenue
Box 1972 Yale Station

WILLIAM FELLNER, Sterling Professor of Economics

July 22, 1969

The Honorable Paul A. Volcker
Under Secretary of the Treasury
for Monetary Affairs
Washington, D. C.

Dear Paul:

I take the liberty of writing to you in a matter that I discussed some time ago with Henry Wallich (who, I think, has some misgivings about my views in this regard), and which I discussed more recently with Milton Friedman (who had convictions similar to mine long before I talked to him). I concluded that it is more straightforward if I write to you also directly. Furthermore, an argument has better chances of receiving consideration if those advancing it accept the responsibility of putting it down in writing.

If what can be read in the American and European papers is not wholly misleading, the United States is currently making an effort to raise the coming SDR distributions beyond the level appearing desirable to some of the most important European countries. It seems to me that this is a position implying the following two assumptions, both of which would have to be simultaneously satisfied. I believe these assumptions to be unrealistic.

Assumption I. If the SDR distributions were not raised to the high level advocated by ourselves and probably by the United Kingdom, some of the major countries would introduce discriminatory measures of various sorts for reducing the dollar inflow into their economies. According to this assumption they would do so in view of the size of our presumptive dollar supply to the rest of the world; and they would do so either instead of, or in addition to, allowing the exchange rates of their currencies to rise in relation to the dollar. These discriminatory measures for keeping dollars out would therefore presumably apply to what one might call nontrade dollars.

Assumption II. If the total SDR distribution became as large as we allegedly would like to have it, then the critical amount of dollar supply beyond which countries would adopt these discriminatory measures would either remain unchanged or would become reduced by very little, that is, by appreciably less than the equivalent of our SDR quota. So our SDR quota in a large total would give us a net gain, so to speak.

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As for Assumption I, it seems distinctly implausible to me that, given the size of our prospective dollar supply to the rest of the world, the discriminatory measures in question would be adopted. Indeed, I have a very hard time visualizing effective measures of this sort, I mean measures of significance which any of the countries under consideration could make effective for any length of time. While here and abroad I repeatedly asked informed people what in particular these measures would be, I invariably received evasive and incoherent answers, except when the person whom I asked answered that in his opinion there existed no feasible measures that would be "promising" in that sense.

Turning now to Assumption II -- i.e., to the second assumption given Assumption I, merely for the sake of argument -- this seems very unconvincing to me, unless SDR's will rather generally come to be considered unattractive assets. Unless this should prove to be the case, I would expect a significant lowering of the critical amount of dollar supply at which adopting the "defensive discriminatory measures" would become tempting to policy makers abroad (provided that effective measures along the lines of Assumption I were feasible at all).

The underscored unless in the preceding paragraph leaves a possibility open. This is the possibility that by a "swamping" of various foreign official institutions with SDRs (the obligatory acceptability of which by the surplus countries is of course limited), the desirability of the new instrument will be greatly reduced and the desirability of dollar reserves will be increased. Yet to insist on raising the SDR distributions with this possibility in mind would surely be an unnecessarily roundabout way of trying to strengthen the dollar, and I feel convinced that the American position is not based on these considerations.

I apologize once more for taking your time with this letter, but as I said, I feel that the argument, of which I am by no means the only advocate, deserves to be called to your attention.

I remain, with the expression of my regards,

Very sincerely yours,

Willy

/c William Fellner

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MR. PAUL. A. VOLCKER. UNDER SECRETARY FOR MONETARY AFFAIRS OF U.S. TREAURY.

10 AUG 1969

POOR POOR HELP FROM STATE OF NEW JERSEY STATE-GOVERNMENT NO HELP FROM STATE —
NO HELP AND NO FINANCIAL HELP FROM STATE-OF NEW JERSEY STATE ~~OF~~ GOVERNMENT -
I WRITTEN TO ALL AGENCYS FROM STATE OF -NEW JERSEY NO HELP FROM GOVERNMENT FOR N.J.

ME AND MY MOTHER POOR FINANCIAL HELP FROM UNITED-STATES GOVERNMENT PLEASE HELP ME I AM IN NEED OF HELP

THIS IS POOR MONEY FROM U.S. SOCIAL SECURITY BENEFIT -
$55 A MO FROM S.S. DISABILITY BENEFIT POOR POOR -
MONEY FOR DISABILITY BENEFIT FROM. S. S.

POOR HELP FROM ESSEX COUNTY WELFARE POOR HELP.

I HAVE NO HOME - NO.

I HAVE NO MONEY - NO.

FROM MR. MICHAEL PORCELLO. JR
P.O. BOX # 6113. NEWARK N.J. 07106
from. Michael Porcello Jr. RACE - WHITE.
ROMAN CATHOLIC - YES.

I AM A POOR WHITE AMERICAN CITIZEN IN POVERTY.
PLEASE PLEASE HELP HELP HELP HELP ME.
PLEASE HELP ME.

P.S. PLEASE WRITE BACK TO ME SOON.

POOR POOR FINANCIAL HELP FROM GOVERNMENT-
FROM FEDERAL GOVERNMENT AND STATE OF -
NEW JERSEY STATE GOVERNMENT NO HELP.

10 AUG 1969

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AUG 11 1969

MR. PAUL, A. VOLCKER. UNDER SECRETARY ~~FROM~~
FOR MONETARY AFFAIRS OF TREASURY.

9 AUG 1969

NO HELP FROM ESSEX COUNTY WELFARE POOR HELP.
SEEKING FOR FINANCIAL HELP.
I AM A HANDICAPPED AMERICAN CITIZEN - YES.
I HAVE NO MONEY - NO.
I HAVE NO EDUCATION - NO.
I HAVE NO INSURANCE - NO.
I HAVE NO HOME - NO.

POOR POOR HELP FROM STATE OF NEW JERSEY STATE - GOVERNMENT NO HELP FOR MY NEEDS — NO HELP NO HELP AND NO FINANCIAL HELP FROM - STATE OF NEW JERSEY STATE GOVERNMENT OF N.J.

FROM MR. MICHAEL PORCELLO. JR
P.O. BOX # 6113. NEWARK N.J. 07106.
from Michael Porcello Jr. RACE - WHITE.
ROMAN CATHOLIC - YES.

I AM A POOR WHITE AMERICAN CITIZEN IN POVERTY.
PLEASE PLEASE HELP HELP HELP HELP ME.
PLEASE HELP ME.
P.S. PLEASE WRITE BACK TO ME SOON.

9 AUG 1969

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MR. PAUL. A. VOLCKER. UNDER SECRETARY FOR MONETARY AFFAIRS OF U.S. TREASURY.

Enclosure retd 8/8/69

7 AUG 1969

MY SOCIAL SECURITY NO - [redacted]
MY WELFARE CASE NO - [redacted]
MY V.A. FILE NUMBER IDENTIFICATION - C - [redacted].
SEEKING FOR FINANCIAL HELP.
I AM A HANDICAPPED AMERICAN CITIZEN - YES.
I HAVE NO MONEY - NO.
I HAVE NO HOME - NO.

POOR POOR ASSISTANCE FROM STATE OF NEW JERSEY - STATE GOVERNMENT NO HELP FROM STATE — POOR ASSISTANCE AND POOR FINANCIAL HELP — POOR HELP FROM STATE OF N.J. STATE GOVERNMENT.

NO HELP NO HELP FROM ESSEX COUNTY WELFARE — FOR MY DISABILITY BENEFIT POOR MONEY FOR MY NEEDS - POOR ~~AD~~ ASSISTANCE AND POOR FINANCIAL HELP — POOR HELP AND POOR MONEY FROM ESSEX COUNTY — WELFARE THIS IS A POOR CITY OF NEWARK N.J. — FOR FINANCIAL HELP NO HELP IN POOR NEWARK N.J.

ME AND MY MOTHER POOR FINANCIAL HELP FROM — GOVERNMENT PLEASE HELP ME I AM IN NEED OF HELP.

THIS IS A POOR SOCIETY FOR POOR HANDICAPPED AMERICAN — CITIZEN FOR POOR PEOPLE IN POVERTY.

FROM MR. MICHAEL PORCELLO. JR
P.O. BOX #6113. NEWARK N.J. 07106
from Michael Porcello Jr. RACE - WHITE.
ROMAN CATHOLIC - YES.

I AM A POOR WHITE AMERICAN CITIZEN IN POVERTY.
P.S. PLEASE WRITE BACK TO ME SOON - 7 AUG 1969.

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MR. PAUL. A. VOLCKER. UNDER ~~SECR~~ SECRETARY -
MONETARY AFFAIRS OF U.S. TREASURY.

AUG 7 1969

enclosures
retd to Mr. Porcello
8/7/69

2 AUG 1969.

NO HELP NO HELP FROM ESSEX COUNTY WELFARE -
FOR FINANCIAL ASSISTANCE —
POOR FINANCIAL HELP AND POOR ASSISTANCE -
NO MONEY FOR MY NEEDS FROM WELFARE.

ME AND MY MOTHER POOR FINANCIAL HELP FROM -
GOVERNMENT POOR HELP FOR NEEDS.

NO HELP NO HELP STATE WELFARE —
IN TRENTON N.J. NO HELP.

POOR POOR HELP FROM ESSEX COUNTY WELFARE -
POOR ASSISTANCE AND POOR FINANCIAL HELP.
POOR POOR IN COME ME AND MY MOTHER FROM GOVERNMENT.

FROM MR. MICHAEL PORCELLO. JR
P.O. BOX # 6113. NEWARK N.J. 07106
from Michael Porcello Jr. RACE - WHITE.
ROMAN CATHOLIC - YES.

I AM A POOR WHITE AMERICAN CITIZEN IN POVERTY.
PLEASE PLEASE HELP HELP HELP HELP ME.
P.S. PLEASE WRITE BACK TO ME SOON.
2 AUG 1969.

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AUG. 7 1969

MR. PAUL. A. VOLCKER. UNDER SECRETARY FOR MONETARY AFFIAS OF U.S. TREASURY.

Enclosures retd to Mr Porcello 8/7/69

5 AUG 1969

SEEKING FOR FINANCIAL ASSISTANCE.

I AM A HANDICAPPED AMERICAN CITIZEN - YES.

I HAVE NO MONEY - NO.

I HAVE NO HOME - NO.

NO HELP NO HELP FROM ESSEX COUNTY WELFARE —

NO ASSISTANCE AND POOR POOR FINANCIAL HELP FROM - WELFARE IN THIS POOR CITY OF NEWARK N.J.

I CALL THE STATE SENATE PRESIDENT FOR N.J. — STATE SEN. FRANK. X. MC DERMOTT. (R) OF UNION - COUNTY HOME ADDRESS OF STATE SENATE — 312 MASSACHUSETTS ST. WESTFIELD N.J. 07090 — TELEPHOUSE NO- [redacted] - SEN. MC DERMOTT. HOME.

NO HELP NO HELP FROM STATE SENATORS OF ESSEX - COUNTY NO ASSISTANCE FROM STATE SENATORS.

NO HELP NO HELP FROM MY U.S. REPRESENTATIVE FROM — NEW JERSEY POOR HELP FROM MY U.S. REP — U.S. REP. JOSEPH. G. MINISH. (D) OF 11TH DISTRICT OF - 308 MAIN ST. ORANGE, N.J. —

NO HELP AND NO ASSISTANCE POOR HELP POOR HELP - FROM MY U.S. REPRESENTATIVE IN WASHINGTON. D.C.

FROM MR. MICHAEL PORCELLO JR

~~58~~ P.O. BOX # 6113. NEWARK N.J. 07106

from Michael Porcello Jr. RACE-WHITE.

ROMAN CATHOLIC - YES.

I AM A POOR WHITE AMERICAN CITIZEN - YES.

PLEASE PLEASE HELP HELP HELP ME.

P.S. PLEASE WRITE BACK TO ME SOON. 5 AUG 1969.

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August 6, 1969

Dear Mr. Porcello:

Thank you for your letter of August 1 with respect to your need for welfare assistance. As you know, I have asked Congressman Rodino, who is more familiar than I with the various forms of assistance that may be available to residents of Essex County, to make some inquiries on your behalf. I am sure you will be hearing either from him or from someone on his behalf in the near future.

In the meantime, I am returning the correspondence you enclosed with your letter of August 1, which you will want to keep for your own records. I am sure that you understand the Treasury Department is unable to provide assistance directly to you, and I can only suggest you follow your contacts with local welfare offices.

Sincerely yours,

(Signed) Paul A. Volcker

Paul A. Volcker

Mr. Michael Porcello, Jr.
P. O. Box 6113
Neward, New Jersey 07106

Enclosures

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MR. PAUL. A. VOLCKER. UNDER SECRETARY FOR MONETARY AFFAIRS OF U.S. TREASURY.

AUG 4 1969

1 AUG 1969

NO HELP NO HELP FROM ESSEX COUNTY WELFARE FOR MY-
DISABILITY BENEFIT 0 MONEY 0 —
POOR ASSISTANCE AND POOR FINANCIAL HELP —
$60 A MO ~~1 $40~~ THIS MONEY NOT GO TO ME —
FOR WELFARE — .
POOR ASSISTANCE FROM ESSEX COUNTY WELFARE FOR-
MY FINANCIAL HELP FOR MY NEEDS.
UNDER SOCIAL SECURITY DISABILITY BENEFIT - YES —
$55 A MO FROM SOCIAL SECURITY DISABILITY BENEFIT - YES.

UNDER ESSEX COUNTY WELFARE DISABILITY BENEFIT - YES.
POOR HELP FROM WELFARE .

ME AND MY MOTHER POOR BENEFITS FROM UNITED STATES GOVERNMENT PLEASE HELP ME I AM IN NEED OF HELP.

THIS IS A POOR SOCIETY FOR POOR HANDICAPPED AMERICAN-
CITIZEN FOR POOR PEOPLE IN POVERTY.

POOR HELP FROM GOVERNMENT FOR MY DISABILITY-
BENEFIT FOR MY NEEDS A GOOD BENEFIT .

FROM MR. MICHAEL PORCELLO. JR
P.O. BOX # 6113. NEWARK N. J. 07106
from Michael Porcello Jr. RACE - WHITE.
ROMAN CATHOLIC - YES,

I AM A POOR WHITE AMERICAN CITIZEN IN POVERTY.
PLEASE PLEASE HELP HELP HELP ME .
PLEASE HELP ME .
P.S. PLEASE WRITE BACK TO ME SOON. 1 AUG 1969

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MR. M. PORCELLO
P.O. BOX #6113
NEWARK N.J. 07106

UNITED STATES DEPARTMENT OF TREASURY
OFFICE OF THE UNDER SECRETARY OFFICE
MR. PAUL. A. VOLCKER UNDER SECRETARY FOR MONETARY
AFFAIRS OF U.S. TREASURY.
UNDER SECRETARY OFFICE. WASHINGTON. D.C. 20220

I AM A POOR WHITE AMERICAN CITIZEN IN POVERTY.

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Federal Reserve Bank of St. Louis

THE UNDER SECRETARY OF THE TREASURY
FOR MONETARY AFFAIRS
WASHINGTON, D.C. 20220

July 28, 1969

Dear Mr. Rodino:

I enclose another letter I have received from Mr. Michael Porcello, Jr., of Newark, New Jersey, who is seeking welfare assistance.

Sincerely,

Paul A. Volcker

The Honorable Peter W. Rodino, Jr.
U. S. House of Representatives
Washington, D. C. 20515

Enclosure

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Federal Reserve Bank of St. Louis

JUL 28 1969

MR. PAUL. A. VOLCKER, UNDER SECRETARY OF U.S. TREASURY.

28 JULY/1969

MY SOCIAL SECURITY NO - [redacted]
MY WELFARE CASE - [redacted].
MY V.A. FILE NUMBER IDENTIFICATION - [redacted]
SEEKING FOR FINANCIAL ASSISTANCE.
I AM A HANDICAPPED AMERICAN CITIZEN - YES.
I HAVE NO MONEY - NO.
I HAVE NO EDUCATION - NO.
I HAVE NO INSURANCE - NO.
I HAVE NO HOME - NO.
NO HELP NO HELP FROM ESSEX COUNTY WELFARE - FOR MY DISABILITY BENEFIT $16 A MO THIS IS POOR - POOR MONEY FROM GOVERNMENT FOR MY NEEDS. POOR ASSISTANCE AND POOR FINANCIAL ASSISTANCE - FROM ESSEX COUNTY WELFARE IN NEWARK N.J.

THIS IS A POOR SOCIETY FOR POOR HANDICAPPED AMERICAN - CITIZEN FOR POOR PEOPLE IN POVERTY.

ME AND MY MOTHER POOR BENEFITS FROM UNITED STATES - GOVERNMENT PLEASE HELP ME I AM IN NEED OF HELP.

FROM MR. MICHAEL PORCELLO. JR
P.O. BOX #6113, NEWARK N.J. 0710C
from Michael Porcello Jr. RACE - WHITE.
ROMAN CATHOLIC - YES.

I AM A POOR WHITE AMERICAN CITIZEN IN POVERTY.
PLEASE PLEASE HELP HELP HELP HELP ME.
PS PLEASE WRITE BACK TO ME SOON. 28 JULY/1969

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Federal Reserve Bank of St. Louis

MR. M. PORCELLO
P.O. BOX #6113
NEWARK N.J. 07106

ORANGE
JUL 26
PM
1969
N.J.

UNITED STATES DEPARTMENT OF TREASURY
OFFICE OF THE UNDER SECRETARY OFFICE
MR. PAUL. A. VOLCKER. UNDER SECRETARY FOR MONETARY AFFAIRS
OF U.S. TREASURY.
UNDER SECRETARY OFFICE. WASHINGTON. D.C. 20220

I AM A POOR WHITE AMERICAN CITIZEN IN POVERTY.

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Federal Reserve Bank of St. Louis

July 21, 1969

Dear Mr. Rodino:

A member of your staff indicated to a member of mine that you receive inquiries such as that in the enclosed letter from Michael Porcello, of Newark, and that your office might be able to direct him to a welfare agency that might be able to assist him in some way. I am unfortunately not sufficiently familiar with the various forms of welfare available in New Jersey to know where to direct Mr. Porcello, and I will appreciate anything that your office can do to help him.

I enjoyed talking with you the other day.

Sincerely,

(Signed) Paul

Paul A. Volcker

The Honorable Peter W. Rodino, Jr.
U. S. House of Representatives
Washington, D. C. 20515

Enclosure

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July 21, 1969

Dear Mr. Porcello:

I have your letter of July 15 and am sorry you and your Mother are having difficulty. I am not sufficiently familiar with the various agencies in New Jersey designed to give assistance in situations like yours to know where to direct you but have asked Congressman Rodino, of New Jersey, to see if his office can put you in touch with someone who might help you.

Sincerely yours,

(Signed) Paul A. Volcker

Paul A. Volcker

Mr. Michael Porcello, Jr.
P. O. Box 6113
Newark New Jersey 07106

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AUG 11 1969

UNIVERSITY OF Minnesota

DEPARTMENT OF ECONOMICS
1035 BUSINESS ADMINISTRATION BUILDING • MINNEAPOLIS, MINNESOTA 55455

August 8, 1969

The Honorable Paul Volcker
Under Secretary of the Treasury
for Monetary Affairs
Department of the Treasury
Washington, D.C. 20220

Dear Paul:

From September 6 to September 19, I will be making a quick economic survey tour in western Europe, spending a couple of days in London (where I already have a luncheon date with Roy Jenkins), then a couple in Paris (where I expect to see Giscard, among others), then Brussels, Bonn, Frankfurt, and possibly Switzerland or Rome. Given the uncertainties, fears, and expectations about the mark, franc, and pound, this should be a particularly interesting time for this kind of round-up.

If I can be helpful to the U.S. cause in any way -- as eyes, ears, or even cat's paw -- please let me know. Partisanship, after all, stops at the water's edge. But perhaps the Europeans don't know this, so I may be in a particularly favorable position to get some frank reactions and views on matters of international economic concern.

By the way, congratulations on the SDR's -- what you are getting exceeds even my optimistic-realistic expectations!

With warm regards,

Walter

Walter W. Heller

WWH:dg

Well, I see the French removed one uncertainty today -- and intensified others!

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Federal Reserve Bank of St. Louis

Volcker

AUG 6 1969

AUG 1 1969

Dear Senator Ellender:

In your letter of July 10, you asked for my comments on questions raised by Mr. Roger N. Winters with respect to increasing the price of monetary gold.

First of all, I would like to correct several misconceptions on which Mr. Winters bases his views. The liquid dollars held by foreign monetary authorities, the only institutions eligible to buy gold from the United States, amounted to $11.8 billion of which the International Monetary Fund held $1,031 million, compared to the total liquid liabilities of $35 million at the end of March. I am enclosing, for his information, a copy of a table which appears monthly in the Treasury Bulletin.

Also, it is not correct that most European governments are pressing for an increase in the price of gold and opposed to issuance of other than a very small amount of SDR. No European government has pressed the United States to revalue gold and the preliminary discussions to date indicate both a willingness and desire on their part to consider a meaningful issuance of SDR.

In this same connection it should be noted that it would be quite inconsistent for one to advocate a large increase in the price of gold, a tripling as Mr. Winters suggests, that would add some additional $80 billion of liquidity to international reserves at one stroke and yet be concerned over an orderly and controlled annual issuance of SDR.

The Administration's view with respect to an increase in the price of gold is, I am sure, well-known to you. Secretary Kennedy, with the approval of the President, has said that we see no need or reason for such action and will not seek an answer to our problems by a change in the monetary price of gold. I have also pointed out in my testimony before the Joint Economic Committee that we could not escape the basic problems that confront us of achieving a better adjustment process, an orderly growth of liquidity or sustaining confidence in the dollar by increasing the price of gold.

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We believe that early action to inaugurate use of SDR is the best way to meet the liquidity problem. This method allows not only an orderly increase in liquidity but an equitable distribution of the liquidity created. On the other hand, meeting liquidity needs through an increase in the gold price would result in a most inequitable distribution, benefiting the countries with large gold production and those that have bought and held a high ratio of gold to foreign exchange in their reserves, while penalizing those countries that have placed confidence in the dollar and held a high ratio of foreign exchange to gold.

Sincerely yours,

(Signed) Paul A. Volcker

Paul A. Volcker

The Honorable
Allen J. Ellender
United States Senate
Washington, D. C. 20510

Enclosure

OASIA:TPNelson:EB 7/23/69

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Table 2. - U.S. Liquid Liabilities to Foreigners

(In millions of dollars)

End of calendar year or month	Total liquid liabilities to all foreigners	Liabilities to International Monetary Fund arising from gold transactions			Liabilities to foreign countries							Liabilities to nonmonetary international and regional organizations 5/		
					Official institutions 3/				Banks and other foreigners					
		Total	Gold deposit 1/	Gold investment 2/	Total	Short-term liabilities reported by banks in U.S.	Marketable U.S. Gov't bonds and notes 4/	Non marketable convertible U.S. Treasury bonds and notes	Total	Short-term liabilities reported by banks in U.S.	Marketable U.S. Gov't bonds and notes 4/	Total	Short-term liabilities reported by banks in U.S. 6/	Marketable U.S. Gov't bonds and notes 4/
1957	15,825 7/	200	-	200	n.a.	7,917	n.a.	-	n.a.	5,724	n.a.	n.a.	542	n.a.
1958	16,845 7/	200	-	200	n.a.	8,665	n.a.	-	n.a.	5,950	n.a.	n.a.	552	n.a.
1959	19,428	500	-	500	10,120	9,154	966	-	7,618	7,077	541	1,190	530	660
1960 8/	20,994	800	-	800	11,078	10,212	866	-	7,591	7,048	543	1,525	750	775
	21,027	800	-	800	11,088	10,212	876	-	7,598	7,048	550	1,541	750	791
1961 8/	22,853	800	-	800	11,830	10,940	890	-	8,275	7,759	516	1,948	703	1,245
	22,936	800	-	800	11,830	10,940	890	-	8,357	7,841	516	1,949	704	1,245
1962 8/	24,068	800	-	800	12,748	11,997	751	-	8,359	7,911	448	2,161	1,250	911
	24,068	800	-	800	12,714	11,963	751	-	8,359	7,911	448	2,195	1,284	911
1963 8/	26,361	800	-	800	14,387	12,467	1,217	703	9,214	8,863	351	1,960	808	1,152
	26,322	800	-	800	14,353	12,467	1,183	703	9,204	8,863	341	1,965	808	1,157
1964 8/	28,951	800	-	800	15,428	13,224	1,125	1,079	11,001	10,625	376	1,722	818	904
	29,002	800	-	800	15,424	13,220	1,125	1,079	11,056	10,680	376	1,722	818	904
1965	29,115	834	34	800	15,372	13,066	1,105	1,201	11,478	11,006	472	1,431	679	752
1966 8/	29,904	1,011	211	800	13,600	12,484	860	256	14,387	13,859	528	906	581	325
	29,779	1,011	211	800	13,655	12,539	860	256	14,208	13,680	528	905	580	325
1967 8/	33,271	1,033	233	800	15,653	14,034	908	711	15,894	15,336	558	691	487	204
	33,119r	1,033	233	800	15,646	14,027	908	711	15,763r	15,205r	558	677r	473r	204
1968 8/	33,906r	1,030	230	800	12,549r	11,319r	529	701	19,587r	18,978r	609	740r	698r	42
	33,692r	1,030	230	800	12,482r	11,319r	462	701	19,443r	18,978r	465	737r	698r	39
1968-March	32,482r	1,041	241	800	14,280r	12,920r	549	811	16,405r	15,801r	604	756r	551r	205
April	32,988r	1,045	245	800	14,374r	13,014r	549	811	16,745r	16,133r	612	824r	619r	205
May	33,150r	1,047	247	800	13,615r	12,247r	557	811	17,867r	17,257r	610	621r	454r	167
June	32,574r	1,030	230	800	12,101r	10,733r	557	811	18,773r	18,160r	613	670r	504r	166
July	33,152r	1,030	230	800	12,608r	11,239r	557	812	18,755r	18,128r	627	759r	599r	160
August	33,603r	1,030	230	800	12,437r	11,155r	520	762	19,381r	18,745r	636	755r	595r	160
September	33,576r	1,030	230	800	12,063r	10,770r	531	762	19,794r	19,168r	626	689r	613r	76
October	33,973r	1,030	230	800	12,136r	10,843r	531	762	20,035r	19,415r	620	772r	704r	68
November	35,602r	1,030	230	800	13,688r	12,397r	529	762	20,116r	19,492r	624	768r	700r	68
December 8/	33,906r	1,030	230	800	12,549r	11,319r	529	701	19,587r	18,978r	609	740r	698r	42
	33,692r	1,030	230	800	12,482r	11,319r	462	701	19,443r	18,978r	465	737r	698r	39
1969-January	33,777r	1,031	231	800	10,728r	9,565r	462	701	21,331r	20,837r	494	687r	647r	40
February	34,405	1,031	231	800	10,779	9,644	459	676	21,941	21,439	502	654	616	38
March p	35,056	1,031	231	800	10,775	9,640	459	676	22,601	22,106	495	649	611	38

Note: Table is based on Treasury Department data and on data reported to the Treasury Department by banks and brokers in the United States. Data correspond to statistics following in this section and in the "Capital Movements" section, except for minor rounding differences. Table excludes International Monetary Fund "holdings of dollars," and holdings of U.S. Treasury letters of credit and nonnegotiable, non-interest-bearing special U.S. notes held by other international and regional organizations. The liabilities figures are used by the Department of Commerce in the statistics measuring the balance of international payments of the United States on the liquidity basis; however, the balance-of-payments statistics include certain adjustments to Treasury data prior to 1963 and some rounding differences, and may differ because of varying timing in incorporating revisions of Treasury data. The table does not include certain nonliquid liabilities to foreign official institutions which enter into the calculation of the official reserve transactions balance by the Department of Commerce.

1/ Represents liability on gold deposited by the International Monetary Fund to mitigate the impact on the U.S. gold stock of foreign purchases for the purpose of making gold subscriptions to the Fund under quota increases.

2/ U.S. Government obligations at cost value and funds awaiting investment obtained from proceeds of sales of gold by the International Monetary Fund to the United States to acquire income-earning assets. Upon termination of investment, the same quantity of gold can be reacquired by the International Monetary Fund.

3/ Includes Bank for International Settlements and European Fund.

4/ Derived by applying reported transactions to benchmark data; breakdown of transactions by type of holder estimated 1960-1963. Includes securities issued by corporations and other agencies of the United States Government, which are guaranteed by the United States.

5/ Principally the International Bank for Reconstruction and Development and the Inter-American Development Bank.

6/ Includes difference between cost value and face value of securities in IMF gold investment account. Liabilities data reported to the Treasury include the face value of these securities, but in this table the cost value of the securities is included under "Gold investment." The difference, which amounted to $34 million as of the end of 1968, is included in this column.

7/ Includes total foreign holdings of U.S. Government bonds and notes, for which breakdown by type of holder is not available.

8/ Data on the two lines shown for this date differ because of changes in reporting coverage. Figures on the first line are comparable in coverage to those shown for the preceding date; figures on the second line are comparable to those shown for the following date.

n.a. Not available.

p Preliminary. r Revised.

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JUL 31 1969

PETER W. RODINO, JR.
10TH DISTRICT, NEW JERSEY

DISTRICT OFFICE:
COMMERCE COURT BUILDING
10 COMMERCE COURT
NEWARK, NEW JERSEY 07102
TEL.: MARKET 3-7362

Congress of the United States
House of Representatives
Washington, D. C.

JUDICIARY COMMITTEE
SUBCOMMITTEES:
ANTITRUST
IMMIGRATION AND NATURALIZATION
JOINT COMMITTEE ON IMMIGRATION AND NATIONALITY POLICY
ASSISTANT MAJORITY WHIP
DELEGATE TO NORTH ATLANTIC ASSEMBLY

July 30, 1969

Honorable Paul A. Volcker
Under Secretary of the Treasury
for Monetary Affairs
Washington, D.C. 20220

Dear Paul:

Many thanks for forwarding correspondence from Mr. Michael Porcello.

I've taken the matter up with the appropriate officials and I appreciate your having brought it to my attention.

Warm regards.

Sincerely,

Pete

PETER W. RODINO, JR., M.C.

PWR:ljd

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AUG. 20

July 28, 1969

Dear Hans:

Thanks for the letter. I will make it if I possibly can. Had a good report from Dewey.

Sincerely,

(Signed) Paul

Paul A. Volcker

Mr. Hans A. Widenmann
Loeb, Rhoades & Company
42 Wall Street
New York, New York 10005

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JUL 22 1969

LOEB, RHOADES & CO.
FORTY TWO WALL STREET
NEW YORK, N.Y. 10005
TELEPHONE 530-4000

Dear Hans,
Thanks for the letter. I will make it if I possibly can. Had a good report from Dewey.

July 17, 1969

Mr. Paul A. Volcker, Jr.
Undersecretary for Monetary Affairs
United States Treasury Department
15th St. and Pennsylvania Ave. N.W.
Washington, D.C.

Dear Paul:

Not only I, but the entire Wednesday Luncheon Group, was sorry that you couldn't join us at Mantoloking yesterday. We had a delightful day and a lively off-the-record discussion of the many problems confronting the country. As I indicated previously, we will have a second one of these get togethers at the shore on August 20th and I very much hope that you will be able to join us at that time.

In addition to our New York regulars, I am again also inviting Dewey Daane and Ralph Young. Paul McCracken unfortunately is already committed. You don't have to decide now. Come at the last minute if you can manage it.

With warm regards.

Sincerely,

Hans

haw/is

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AIR MAIL

July 7, 1969

Dear Bob:

I like the economics, glib or not. But from the vantage point of a fight on the surtax, the practical possibilities seem to me dim to say the least. Use of the social security system implies regressivity that would send my liberal Democratic friends even further up the wall.

Sincerely,

(Signed) Paul

Paul A. Volcker

Mr. Bob Wuliger
Hessenkolleg
62 Wiesbaden, Germany
Welfenstrasse 10

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JUN 26 1969

21 June 1969
Hessenkolleg
62 Wiesbaden, Germany
Welfenstrasse 10

Dear Paul,

I hope you won't mind my throwing just one more idea at you. It is forced savings.

I am sure you can't sell the American people forced savings as such, but perhaps they can be forced to save indirectly. I think of manipulation of the social security system. If payments could be increased and the resulting increase frozen -- say into some sort of amortization of the total fund, or into a sterilized sinking fund against future outlay, or some other such method of keeping the purchasing power out of circulation -- then there would be a quantity of purchasing power removed from the scene. This quantity could be held against, say, a period of deflation, when it could be released into increased social security outlay. Such an outlay would give the recipients a relative purchasing advantage, as well as provide some anti-deflationary stimulus to the economy. A provision could be made for frozen funds to be released to next-of-kin, in cases where the recipients died before their share was able to be released as, say, an anti-deflationary measure.

Of course, my idea is very "Keynesian," that is, glib and superficial and doctrinaire, and I would be ashamed to offer it except that we are living in a "Keynesian" myth, and I suppose that as much as one may dislike the terms of the myth, he is obligated to recognize it.

Back in 1936-37, the conservative economists were already pointing out that the trouble with the "Keynesian" game was that it inflated much more willingly than it would deflate. Perhaps the broad use of some variation of an idea such as I suggest would make it possible to apply a little reverse elasticity to the "Keynesian" rubber-band.

Of course, I am assuming a willingness and good sense in politicians, to allow measures like mine, which, if it existed in the first place, would make such measures unnecessary.

But maybe there is something here which you can use.

Lots of luck and thanks for your letter.

Sincerely,

Bob. W.

Bob Wuliger

Return address on envelope

Wrank Strauss, Civn
Cashier's Office
American Arms Hotel
APO NY NY 09633

Dear Bob:

I like the economics, glib or not. But from the vantage point of a fight on the ~~[illegible]~~ outside, the practical possibilities seem to me dim to say the least. Use of the social security system implies surpluses that would send my liberal Democratic friends even further up the wall.

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JUN 30 1969

[redacted]
June 25, 1969

The Honorable
Under Secretary for Monetary Affairs
Paul A. Volcker
U.S. Department of the Treasury
Washington, D.C.

Dear Mr. Volcker,

I am 17 years old and I collect autographs of famous men. May I please have the honor of adding your personally signed picture, on which you have written a brief greeting especially for me, to my collection? I realize how busy you are, so I would be extremely grateful to you if you could just write something like "Best Wishes to Jim Havel" on your signed picture and send it to me. I would always treasure such an inscribed item from you.

Thank you very much for your time and your kindness in answering my request.

Sincerely,

Jim Havel

James Havel

Sent 7/2/69
pjt

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Federal Reserve Bank of St. Louis

June 24, 1969

Dear Mr. Broyhill:

Thank you for your letter of June 19, endorsing Russell H. Dorr for appointment to the post of U. S. Executive Director for the International Bank for Reconstruction and Development. I shall see that your letter is brought to Secretary Kennedy's attention, since it will be helpful to him, in reaching a decision, to know of your endorsement of Mr. Dorr.

Sincerely,

(Signed) Paul A. Volcker

Paul A. Volcker

The Honorable Joel T. Broyhill
U. S. House of Representatives
Washington, D. C. 20515

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Federal Reserve Bank of St. Louis

Mr. Volcker

JUN 19 1969

JUN 16 1969

Dear Mr. Mech:

In your paper of May 30, entitled "Interest on Gold" you deal with two problems that are of interest to us. One is an increase in monetary reserves to provide a means of meeting the growing needs for international liquidity and the other an element of limited flexibility in exchange rates.

We have explored the question of international liquidity in great depth with other members of the international financial community and, as a result, the plan for the issuance of Special Drawing Rights is now in process of ratification and adoption is expected in the near future. We consider this plan for orderly growth and equitable distribution of reserves highly preferable to any increase in the monetary price of gold. Having already moved to separate monetary from commodity gold through the introduction of the two-tier gold arrangement, we believe it would be a retrograde step to reintroduce any link between the two.

The second issue, that of exchange rate flexibility in the form of a crawling peg (which would also result from your proposal), has so far been studied primarily in academic circles. We and others have, however, expressed our willingness to explore such proposals in order to evaluate the possible contribution they might make toward improvement in the monetary system.

I might note that most of the proposals in this area envisage a constant gold and dollar relationship with other currencies moving about this center, whereas your proposal would provide for movement of the dollar as well. Since we have taken no position with respect to such proposals in general, it would be premature to attempt to be precise about details of the various possible mechanisms. This aspect does, however, raise some doubts in my mind as does the proposal that the degree and direction of the crawl should be determined by interest rate disparities among countries. There may be a prima facie basis for assuming that high interest rate countries will be those

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whose currencies should depreciate while low interest rate countries should appreciate, or at least depreciate less, but in practice there may be a number of factors affecting a country's interest rate which would make it an inappropriate criterion for automatic exchange-rate movement.

Sincerely yours,

(Signed) Paul A. Volcker

Paul A. Volcker

Mr. James J. Mech
[redacted]

OASIA:TPNelson:EB 6/12/69

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Federal Reserve Bank of St. Louis

MEMORANDUM TO THE SECRETARY

June 10, 1969

Paul A. Volcker

Attached is a suggested reply for your signature to Henry Reuss' inquiry about the IMF study on the "Mechanism of Exchange Rate Adjustment," saying you have asked Bill Dale to look into it and reply to Mr. Reuss directly. I have discussed this with Bill and he is prepared to handle the matter, without sending Mr. Reuss a privileged report.

PAVolcker

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Dear Mr. Reuss:

I have your letter of June 9th, inquiring about a reference in the press to a study by the IMF entitled "Mechanism of Exchange Rate Adjustment." I have asked Mr. William Dale, the U. S. Executive Director, to look into this matter and to reply to you directly.

Sincerely yours,

The Honorable Henry S. Reuss
Chairman, Joint Subcommittee
on International Exchange and Payments
and
Chairman, House International Finance Subcommittee
U. S. House of Representatives
Washington, D. C. 20515

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Federal Reserve Bank of St. Louis

May 27, 1969

Dear Bob:

Many thanks for your thought provoking letter. I wish I could do more about it -- in addition to making use of your thoughts with a few others.

Sincerely,

(Signed) Paul

Paul A. Volcker

Dr. R. Wuliger
62 Wiesbaden
Hessenkolleg
Welfenstrasse 10
Germany

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Federal Reserve Bank of St. Louis

MAY 15 1969

62 Wiesbaden, Germany
Hessenkolleg
Welfenstrasse 10
10 May 1969

Dear Paul,

The trouble with getting ahead in the world is that one carries barnacles on his hull, such as whimsical old schoolfellows who fancy that they can offer useful advice to the expert.

My instinct is to eschew such company, but there is a quarrel between my instinct and my experience; with age, my faith in expertise, like my hair, is growing thin.

So I shall presume to make some comments upon the massive problem of inflation. Since I have no access to either primary materials or the personalities-cum-politics quantum, what I have to say must be loose and general. I hope that it may be useful.

I am going to suggest that the idea of steering the economy by manipulating "aggregate demand" is limited by a static and rather doctrinaire interpretation of what "aggregate demand" means. That is, "aggregate demand" tends to be a shibboleth - a statistical abstraction not sufficiently in harmony with the world it is supposed to represent.

I am unable to support my feelings with a full study, and I can only offer evidence taken at random, and hope that it is significant. For instance, in the Thirties, the New Deal pumped up "aggregate demand" to bring on the brief "prosperity" of 1937, which disappeared by 1938. "Aggregate demand" enthusiasts will say that the difficulty was in either insufficient demand or in abandoning it when the going got rough. I am going to suggest that the difficulty lay in abstracting "aggregate demand" from its psychological bases and concomitants.

Popular economic mythology has observed that "war is good for business." It will be observed that the "aggregate demand" tactics which failed in the Thirties succeeded in the Forties and are still succeeding -- to the point of the dangerous inflation. We have been living in war psychoses of one sort or another since 1940. I say "psychoses" because my point is that it is not "aggregate demand" alone which stimulates the economy, but it is aggregate demand in a context of eschatology; it is a common observation that people who see no secure future will overstrain the present - emotionally, economically, politically, and sexually. What we have had for more than two decades is a general super-charging, and not an orderly

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economic growth, statistics to the contrary notwithstanding, because the statistics do not measure the emotional counterpoint.

There is a credo among economists that inflation can be managed to be a straight-line trend, in little, orderly stimulations of, say, 4% a year. I disagree, because inflation is ultimately a function of the aggregate mind, and when a critical point is reached, the aggregate mind will panic, all safeguards notwithstanding. I submit that the Western World is somewhere near that panic-point now. Just look at the chronic currency crises, the rush of the little man into coins (gold US $5 and $10 coins reached $95 here last week), and the general failure of confidence in government promises to pay. The history of inflations for the last few hundred years inclines me to skepticism of neo-Keynesian hopes.

The idea of using various tools such as the rediscount rate, higher taxes, etc., etc. to cool off the economy by reducing "aggregate demand" does not appear to me to recognize, among other factors, structural imbalances and deficiencies that are not going to be harmonized by across-the-board macroeconomics or macrostatistics.

I submit that the real inflationary impulses today are (1) the fear of war and atomic annihilation, and (2) the belief that the governments of the west, but especially the U.S. government, are irrevocably committed to supporting a constantly expanding price level, especially in the form of the market for company shares. There is, I believe, a widespread conviction that the western countries are afraid to let prices seek a natural level, because of political consequences vis-a-vis the East Bloc. In short, U.S. economic policy is the function of Communist political strength (or bluff). That, I think, is the belief.

There are technical factors, too, and I should not even mention them, because you, and not I, are the expert. One is the fact that institutions such as insurance companies, pension trust funds, etc. are now legally permitted to invest in common stocks; (I believe that this is a fairly recent development, is it not?); the second factor, if I be correctly informed, is that the Roosevelt securities and exchange regulations created an imbalance in shares trading, in favor of the bull side, by hindering short-selling, so that the hedging function is now rather weak. For THOSE economists and others such as brokerage houses, speculators, fast-profits people, etc., who associate the paper prosperity of stock markets with the real prosperity of a society, this imbalance has been a great favor. As to my first point, the big institutions are a considerable factor in the market,

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the market is a considerable factor in the inflationary mentality, this mentality goes back into the market and into spending, and the dog keeps chasing his tail. If institutions were obligated by law to invest all or most of their funds in fixed-interest obligations, there would be simultaneously a considerable reduction of the speculative fever and a better market for long-term borrowing.

If what I think be true, then the East has the West over a barrel. The Russians can push us into inflation through both the waste of resources on useless armaments and standing military forces, and agitation among workers to have higher wages. I doubt if an external enemy is really necessary for the latter activity, for democratic politics seems to be able to supply enough of its own gravediggers.

I suppose that any "practical administrator" who would read my ideas would exclaim: "So what should I do or what can I do besides raise taxes, elevate interest rates, hike the rediscount rate, sell govt. bonds, etc.?"

I can make only the rather lame answers of the amateur theorist, who thinks in longer terms than may be allowed the practical politician. I would say (1) Get out of the Viet-nam war and take lesser losses now in preference to huge losses later; (2) Try to work out a détente in general with the East (I wonder if even the experts would dare say it is possible); (3) Think hard about revamping the laws relating to institutional stock-purchases and to short-selling and to other such imbalancing factors; (4) Begin a massive public-relations program, supported by positive economic measures, to convince the public that prices are expected to go down and not up, and that the world is not coming to an end, and that the business of a rational economy is to produce and exchange, not to "make money" by manipulating pieces of paper.

Well, Paul, I hope that you have borne up under this, I hope that I have had something to say that is worth your time, and, if I have not, I hope that the Washington weather (physical and social) ~~xxxx~~ has not yet eroded your humor and <u>bonhomie</u>. Good luck.

Sincerely,

Bob Wuliger

Dr. R. Wuliger

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Frank Strauss, Civn
Cashier's Office
American Arms Hotel
APO NY, NY 09633

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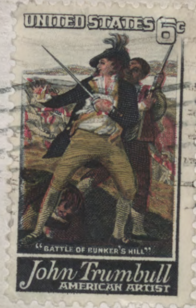

Mr. Paul Volcker

Undersecretary of the Treasury for
Monetary Affairs

The U.S. Treasury Department

WASHINGTON

D.C. 20220

PERSONAL

(Please forward, if
necessary)

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Federal Reserve Bank of St. Louis

May 20, 1969

The Secretary

Paul A. Volcker

Attached for your signature are identical letters to Congressman Henry S. Reuss and Congressman William B. Widnall in reply to their letter of April 23, 1969, with respect to the recent South African drawing on the International Monetary Fund.

PAVolcker

Exec.Sec.

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May 26, 1969

Dear Mr. Widnall:

I both understand and greatly appreciate the concern you and Congressman Reuss expressed with respect to the recent South African drawing on the International Monetary Fund in your letter of April 23. I also welcome your strong support of the two-tier gold system and your interest in its effective functioning.

The drawing by South Africa on the IMF will not, in my opinion, undermine present arrangements in the gold market, and I am glad you agree that the United States should not have objected to this drawing in the gold tranche. We have long supported the concept that gold tranche drawings be virtually automatic, and we continue to believe that no doubt should be cast on the ability of a country to mobilize these funds promptly should it deem a need exists. I am convinced that should experience show that the privilege is being abused by repeated drawings and repayments unrelated to the basic objectives of the IMF, adequate means exist to effectively halt such practices.

It is true, with respect to the $50 million portion of the recent drawing representing South Africa's gold tranche, that South Africa may, under certain provisions of the Articles of Agreement of the IMF, be able to repay a substantial portion in gold. Indeed, it appears likely that, under the mandatory repayment provision of the Articles, it will be compelled to do so. It is our understanding that the Finance Minister of South Africa, in presenting their IMF transaction to his Parliament, described the mandatory repayment provision of the Articles as the expected means of repayment.

Operations under this provision could be undertaken but once a year for a maximum of $50 million of repayment in gold. While the need of South Africa for this drawing

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at a time when its gold stock has been rising steadily is not apparent, the amount of gold involved and the potential frequency of the operation do not involve any danger to the two-tier system. Moreover, to the extent South Africa may have merely wished to test and confirm the automaticity of the gold tranche drawing right, that purpose will have been achieved and the drawing need not imply repetition in the future.

Other provisions in the Articles of the IMF would obligate the IMF to accept gold in repayment only against drawings in the credit tranches. Such a drawing, as you know, is not involved in the present transaction, nor would such a drawing be automatically available.

Except for the annual mandatory repayment provision, it is not incumbent upon the IMF to accept repayment in gold for a gold tranche drawing. In a statement made by the Treasury at the time of the South African drawing, we noted that the United States will be observing further developments, not only with respect to this particular drawing but with respect to the consistency of possible further transactions with the broader objectives of the IMF.

As this implies, we shall certainly be alert to any possible future abuses of IMF procedures in an attempt to undermine the effective operation of the two-tier system gold market. We welcome your support in this regard, but see no need for any further statement or action on our part at this time.

Sincerely,

/s/ David M. Kennedy

The Honorable
William B. Widnall
House of Representatives
Washington, D. C. 20515

Copy to: Messrs. Petty, J. Smith, Willis, MacLaury,
Nelson and Dale

PAVolcker; TPNelson:WBDale:pjb:5/20/69

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The Honorable
Henry S. Reuss
House of Representatives
Washington, D. C. 20515

Copy to: Messrs. Petty, J. Smith, Willis, MacLaury,
Nelson and Dale

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EXECUTIVE DIRECTOR

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JAMES W. KNOWLES,
DIRECTOR OF RESEARCH

01121

April 23, 1969

~~0119~~ (1-29

Honorable David M. Kennedy
Secretary of the Treasury
U.S. Treasury Department
Washington, D. C. 20220

Dear Mr. Secretary:

On April 15 the International Monetary Fund announced that South Africa had drawn its gold tranche, which totaled the equivalent of $66 million and was taken largely in dollars.

As you may know, in its recent annual report, both the Democratic and Republican members of the Joint Economic Committee strongly endorsed the existing two-tier price system for gold and urged its preservation. The majority observed "The two-tier price system for gold should be maintained in its present form." Similarly, the Republican minority stated, "We . . . endorse the two-tier gold price system and urge that all appropriate measures be taken to preserve it."

Because we feel that the South African drawing endangers the functioning of the two-tier price system and potentially threatens the gold-exchange standard that is the foundation of the international monetary system, we would like to draw your attention to this danger and suggest an appropriate response by the U.S. Executive Director to the International Monetary Fund.

Since the two-tier system was instituted slightly over a year ago, the free market price of gold has risen to a current level of about $43 per ounce. This level is far below the dire predictions broadcast early in 1968 by speculators and some gold dealers. The events of the last year have demonstrated that the two-tier system can work, and that a free market price somewhat above the official level need not endanger the position of the dollar or threaten the international monetary system.

When the March 17, 1968, Washington accord was reached, it was presumed that South Africa would continue to sell gold in the free market. These supplies would tend to reduce the differential between the private market price of gold and the official value.

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As the differential increases, the temptation mounts for central bankers to realize a profit by selling their gold in the private market. Such bankers might even attempt to evade the provisions of the March agreement and purchase gold from the United States to replace that which they had previously sold. Repetition of this process, unless detected and halted, could denude the United States of its gold reserves.

The existence of a substantial differential between the private market price and the official value of gold also threatens to split the international monetary system in another way not prohibited under the March accord. If the differential grew to sufficient size, central bankers holding significant amounts of dollars might lose confidence in the U.S. currency and rush to exchange their dollars for gold. But however the United States might lose its gold reserves, the outcome would probably be a freely fluctuating exchange rate for the dollar or formation of a dollar bloc. I am sure you would agree that either development would be highly undesirable.

Contrary to expectations, South Africa has withheld gold from the market in an effort to maximize the differential between the private and official prices. Through this tactic, it has attempted to force an increase in the official value of gold and to undermine the role of the dollar in international transactions. Such behavior threatens, rather than promotes, international monetary stability.

Despite South Africa's best efforts to force the rest of the industrialized world to its knees and impose a monopolistically engineered increase in the official price of gold, the free market price has risen far less than the speculators predicted. The failure of the free market price to rise more than it has, even when virtually no new supplies have been offered, suggests that gold is overvalued. South Africa's reluctance to sell its gold in the free market offers striking evidence of its unwillingness to reveal how little the current gold output would be worth to private interests now that all official price supports have been removed.

As a reflection of its recent disruptive tactics, South African reserves have increased at an extraordinary rate. From the equivalent of $778 million at the end of 1967, total reserves nearly doubled to $1,471 million on December 31, 1968, and have continued increasing in 1969. That nation's reserves are now at an apparent all-time peak.

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This most recent card -- the IMF drawing -- has apparently been played to see whether South Africa can permanently avoid sales in the free market and so avoid revealing the extent to which gold is overvalued.

If this drawing is repaid in gold, as is permissible under the IMF Articles of Agreement, then the combined effect of the drawing and repayment will be to leave the size of South Africa's reserves unchanged, but to alter their composition. Repetition of this procedure would permit South Africa to sell whatever quantity of gold it so desired at the official price, and continue to stay out of the free market. Thus, the artificial disparity between the free market and official price would be maintained, or even increased.

We agree that gold tranche drawings from the IMF should be virtually automatic, and do not object to the action of the U.S. Executive Director in not raising any objection -- at the time -- to the South African move. We also commend you for continuing former Secretary Fowler's good work in resisting South Africa's efforts to sabotage the international monetary system and to force an increase in the official price of gold on the rest of the world. Let us now clearly recognize South Africa's intentions and resolve not to accept passively this latest ploy.

Article V, Section 5, of the IMF Articles of Agreement states:

> Whenever the Fund is of the opinion that any member is using the resources of the Fund in a manner contrary to the purposes of the Fund, it shall present to the member a report setting forth the views of the Fund and prescribing a suitable time for reply. After presenting such a report to a member, the Fund may limit the use of its resources by the member. If no reply to the report is received from the member within the prescribed time, or if the reply received is unsatisfactory, the Fund may continue to limit the member's use of the Fund's resources or may, after giving reasonable notice to the member, declare it ineligible to use the resources of the Fund.

We feel that the South African drawing clearly is contrary to exchange rate stability and successful evolution of the international monetary system. We urge that you instruct the U.S. Executive Director to cite Article V, Section 5, as the basis for preventing further South African drawings that are not consistent with international monetary stability.

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In arguing its case, we suggest that the United States emphasize a principle customarily observed by Fund members and explicitly recognized in the text of the pending Special Drawing Rights amendment -- that neither use of the SDR facility nor any other transaction with the Fund should be permitted for the sole purpose of altering the composition of a nation's reserves.

We suggest the following action by the U.S. Executive Director:

1. At the next meeting of the Board of Executive Directors, Mr. Dale shold raise the question of whether South Africa's drawing -- in view of the persistent payments surpluses of that nation and its unprecedented level of reserves -- was not in fact for the purpose of altering reserve composition rather than size.

2. If the South African drawing is repaid in gold, he should point to this action as prima facie evidence that the intent of the drawing was in fact to alter reserve composition.

3. He should propose that through a decision by the Executive Directors, the principle elucidated under the SDR amendment be extended to the use of all Fund resources -- that such resources are to be used only for financing legitimate and demonstrated payments deficits or for meeting anticipated exchange crises, but not merely to alter the composition of reserves.

4. If South Africa repays in gold, he should argue that the drawing was used "in a manner contrary to the purposes of the Fund" under Article V, Section 5, and that South Africa be prohibited from making any further drawing of any type until a legitimate balance-of-payments need is demonstrated. Such a need can be demonstrated only after South Africa has sold on the free market all gold produced since March 17, 1968.

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In conclusion, we favor an amendment to the Articles of Agreement making gold tranche drawings fully automatic when a legitimate balance-of-payments need is demonstrated.

Sincerely,

H. S. Reuss

Henry S. Reuss, M.C.

William B. Widnall

William B. Widnall, M.C.

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THE SECRETARY OF THE TREASURY
WASHINGTON

in your letter of April 23.

Dear Mr. Reuss:

I ~~very much~~ both understand and greatly appreciate the concern your and Congressman Widnall~~'s~~ expressed ~~concern~~ with respect to the recent South African drawing on the International Monetary Fund. I also welcome your strong support of the two-tier gold system and your interest in its effective functioning.

The drawing by South present Africa on the IMF will not, in my opinion, undermine ~~recent~~ arrangements in the gold market, and I am glad you agree that the United States should not have objected to ~~their~~ this drawing in the gold tranche. We have long supported the concept that ~~such~~ gold tranche drawings be virtually automatic, and we continue to believe that no doubt should be cast on the ability of a country to mobilize these funds promptly should the demand need exist. I am convinced that should experience show that any ~~repeated abuse of~~ the privilege ~~can be effectively halted without calling into question that automaticity~~ is being abused by repeated drawings and repayments calculated to the basic objectives of the IMF, adequate means exist to effectively halt such practices.

It is true, with respect to the $50 million portion of the most drawing representing South Africa's gold tranche, that South Africa may, under certain provisions of the Articles of Agreement of the IMF, be able to repay a substantial portion in gold. Indeed, it appears likely that, under the mandatory repayment provision of the Articles, it will be compelled to do so. It is our understanding that the Finance Minister of South Africa, in presenting their IMF transaction to his Parliament, described the mandatory repayment provision of the Articles as the expected means of repayment.

¶ Operations under this provision could be undertaken but once a year for a maximum of $50 million of repayment in gold. While the need of South Africa for this drawing at a time when its gold stock has been rising steadily is not apparent, the amount of gold involved and the potential frequency of the operation do not involve any danger to the two-tier system. Moreover, to the extent South Africa may have ~~merely~~ wished to ~~confirm~~ test and confirm the automaticity of the gold tranche drawing rights, that purpose ~~would~~ will have been achieved and the drawing need not imply repetitions in the future.

Other provisions in the Articles of the IMF would obligate the IMF to accept gold in repayment only against drawings in the credit tranches. Such a drawing, as you know, is not involved in the present transaction, nor would such a drawing be automatically available.

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Except for the annual mandatory repayment provision, it is not incumbent upon the IMF to accept repayment in gold for a gold tranche drawing. In a statement made by the Treasury at the time of the South African drawing, we ~~stated~~ noted that the United States will be observing further developments, not only with respect to this particular drawing but with respect to the consistency of possible further transactions, with the broader objectives of the IMF. As this implies, we shall certainly be alert to any possible future abuses of IMF procedures in an attempt to undermine the effective operation of the two-tier ~~system~~ gold market. We welcome your support in this regard, but see no need for any further statement or action on our part at this time.

Sincerely,

The Honorable Henry S. Reuss
U. S. House of Representatives
Washington, D. C. 20515

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TREASURY DEPARTMENT
OFFICE OF THE ASSISTANT SECRETARY
FOR INTERNATIONAL AFFAIRS

Date 5/2/69.

To: Mr. Volcker

From: T. P. Nelson

Attached is a redraft of the proposed response to the Reuss/Widnall letter on South Africa, as you requested.

It is a greatly shortened version from that of Mr. Dale although I have tried to cover most of the same points.

TPN

cc: Messrs. MacLaury, Dale and Willis

T. P. Nelson, Director
Office of International Gold
and Foreign Exchange Operations
Room 5221 Ext. 2884

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Federal Reserve Bank of St. Louis

DRAFT:5/2/69
TPNelson:EB

provisions can be effectively limited without calling into question their automaticity.

Dear Mr. Reuss: (Widnall)

I very much understand and appreciate your and Congressman Widnall's ~~interest~~ ~~and~~ concern with respect to the recent South African ~~transactions in~~ drawing on the International Monetary Fund. ~~and the two-tier gold system.~~ I also welcome Your strong support of the two-tier gold system and your ~~concern~~ interest in its effective functioning ~~is most welcome~~.

The ~~recen~~t drawing by South Africa on the IMF ~~does~~ will not, ~~however~~, in my opinion, ~~damage the system~~ undermine present arrangements, and I am glad that you agree that the U. S. should not have objected to ~~a~~ this drawing in the gold tranche. We have long supported the concept ~~It is highly desirable~~ that such drawings be ~~as~~ virtually automatic ~~as possible~~. and ~~that concept~~ ~~should be protected except in the case of clear and repeated~~ I am convinced that any abuse of the repeated

It is true, with respect to the $50 million portion of the drawing representing South Africa's gold tranche, that South Africa may, under ~~the~~ certain provisions of the Articles of Agreement of the IMF, be able to repay a substantial portion in gold. Indeed, it appears likely that under the mandatory repayment provision of the Articles that it will be compelled to do so. ~~However,~~ Operations under this provision could~~, however~~, be undertaken but once a year ~~and~~ for a maximum of $50 million of repayment in gold. ~~and this~~ While the need of South Africa for this drawing ~~is not self evident~~ at a time when its gold stock has been rising steadily is not apparent, ~~the~~ ~~and not~~ the amount of gold involved and the potential frequency of the operation do not involve any danger to ~~the~~ the two-tier system.

Other provisions in the Articles of the IMF would obligate the IMF to accept gold in repayment only against drawings in the credit tranches, ~~which are~~ such a drawing, as you know, is not involved in the present transaction, ~~and which~~, nor ~~as you know are not, as the gold tranche,~~ would such a drawing be automatically available. It is our understanding that the Finance Minister of South Africa, in presenting ~~their~~ this IMF transaction to ~~the~~ his Parliament, described the mandatory repayment provision of the Articles as the expected means of repayment.

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Sincerely,

THE SECRETARY OF THE TREASURY
WASHINGTON

Dear Mr. Reuss:

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House of Representatives
Washington, D. C. 20515

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I both understand and greatly appreciate the concern you and Congressman Widnall expressed with respect to the recent South African drawing on the International Monetary Fund in your letter of April 23. I also welcome your strong support of the two-tier gold system and your interest in its effective functioning.

The drawing by South Africa on the IMF will not, in my opinion, undermine present arrangements in the gold market, and I am glad you agree that the United States should not have objected to this drawing in the gold tranche. We have long supported the concept that gold tranche drawings be virtually automatic, and we continue to believe that no doubt should be cast on the ability of a country to mobilize these funds promptly should it deem a need exists. I am convinced that should experience show that the privilege is being abused by repeated drawings and repayments unrelated to the basic objectives of the IMF, adequate means exist to effectively halt such practices.

It is true, with respect to the $50 million portion of the recent drawing representing South Africa's gold tranche, that South Africa may, under certain provisions of the Articles of Agreement of the IMF, be able to repay a substantial portion in gold. Indeed, it appears likely that, under the mandatory repayment provision of the Articles, it will be compelled to do so. It is our understanding that the Finance Minister of South Africa, in presenting their IMF transaction to his Parliament, described the mandatory repayment provision of the Articles as the expected means of repayment.

Operations under this provision could be undertaken but once a year for a maximum of $50 million of repayment in gold. While the need of South Africa for this drawing

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at a time when its gold stock has been rising steadily is not apparent, the amount of gold involved and the potential frequency of the operation do not involve any danger to the two-tier system. Moreover, to the extent South Africa may have merely wished to test and confirm the automaticity of the gold tranche drawing right, that purpose will have been achieved and the drawing need not imply repetition in the future.

Other provisions in the Articles of the IMF would obligate the IMF to accept gold in repayment only against drawings in the credit tranches. Such a drawing, as you know, is not involved in the present transaction, nor would such a drawing be automatically available.

Except for the annual mandatory repayment provision, it is not incumbent upon the IMF to accept repayment in gold for a gold tranche drawing. In a statement made by the Treasury at the time of the South African drawing, we noted that the United States will be observing further developments, not only with respect to this particular drawing but with respect to the consistency of possible further transactions with the broader objectives of the IMF.

As this implies, we shall certainly be alert to any possible future abuses of IMF procedures in an attempt to undermine the effective operation of the two-tier system gold market. We welcome your support in this regard, but see no need for any further statement or action on our part at this time.

Sincerely,

The Honorable
Henry S. Reuss
House of Representatives
Washington, D. C. 20515

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THE SECRETARY OF THE TREASURY
WASHINGTON

Dear Mr. Reuss:

I both understand and greatly appreciate the concern you and Congressman Widnall expressed with respect to the recent South African drawing on the International Monetary Fund in your letter of April 23. I also welcome your strong support of the two-tier gold system and your interest in its effective functioning.

The drawing by South Africa on the IMF will not, in my opinion, undermine present arrangements in the gold market, and I am glad you agree that the United States should not have objected to this drawing in the gold tranche. We have long supported the concept that gold tranche drawings be virtually automatic, and we continue to believe that no doubt should be cast on the ability of a country to mobilize these funds promptly should it deem a need exists. I am convinced that should experience show that the privilege is being abused by repeated drawings and repayments unrelated to the basic objectives of the IMF, adequate means exist to effectively halt such practices.

It is true, with respect to the $50 million portion of the recent drawing representing South Africa's gold tranche, that South Africa may, under certain provisions of the Articles of Agreement of the IMF, be able to repay a substantial portion in gold. Indeed, it appears likely that, under the mandatory repayment provision of the Articles, it will be compelled to do so. It is our understanding that the Finance Minister of South Africa, in presenting their IMF transaction to his Parliament, described the mandatory repayment provision of the Articles as the expected means of repayment.

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Sincerely,

The Honorable
Henry S. Reuss
House of Representatives
Washington, D. C. 20515

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May 13, 1969

Dear Mr. Gampell:

Many thanks for the recent copies of the Economic X-Ray -- even though I miss the sunshine.

I appreciate your good wishes as we try to work through our inheritance.

Sincerely,

(Signed) Paul A. Volcker

Paul A. Volcker

Mr. Sydney Gampell
Reuters Limited
85 Fleet Street
London EC4, England

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REUTERS

MAY 9 1969

From the Financial Editor

May 7 1969

Mr. Paul A. Volcker,
Under Secretary for Monetary Affairs,
United States Treasury,
Washington D.C.

Dear Mr. Volcker,

As promised by Mike Nelson when he dined with you on Friday, enclosed are the recent issues of the weekly Economic X-Ray which has been my baby since 1935. Fred Deming and your other predecessors, and also some of your former banking colleagues in various places, have claimed to be diligent readers of it, either direct or in the (New York) Weekly Bond Buyer.

As it nowadays contains little sunshine and less flattery, here is a bit of draft which my secretary typed out yesterday, when I had no idea that I would be writing to you; its context was your inheritance.

> "The present U.S. Treasury Secretary, Mr. David M. Kennedy, is a serious man tackling serious problems. He is highly regarded by bankers as well as officials in Europe as well as the Americas, and some of them have an idea that he is leading the best official financial team (in New York as well as Washington) that the U.S. has had since Alexander Hamilton was its first Treasury Secretary."

That view is held by distinguished persons. It is the best earnest for your success - whereon my warmest personal good wishes - in your unenviable heritage.

Sincerely,

S S Gampell

Dear Mr —

Many thanks for the recent copies of the Economic X-Ray — even though I miss the sunshine.

I appreciate your good wishes as we try to work through our inheritance.

Sincerely.

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Citation Information

Document Type: Newspaper articles

Number of Pages Removed: 9

Citations: Reuters. "The Economic X-ray." May 5, 1969.

Reuters. "The Economic X-ray." April 28, 1969.

Reuters. "The Economic X-ray." April 21, 1969.

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M. Volcker

MAR 20 1969

MAR 7 - 1969

Dear Mr. Widnall:

I very much appreciate your letter of March 5 calling my attention to a problem that might arise on the floor of the House concerning H.R. 33, the bill for replenishment of International Development Association's resources.

I have carefully reviewed the proviso that you mentioned which would have limited the yearly U. S. contribution to the same amount as the World Bank transferred to IDA from its reserves or net earnings. I understand that last year Secretary Fowler urged against the adoption of such a proviso. I share his view. I am concerned, as he undoubtedly was, that the material change this would require in the IDA Resolutions would negate any favorable Congressional action on H.R. 33, and would have very serious consequences because it would undoubtedly frustrate the replenishment agreement from coming into effect. Enactment of restrictions on the U. S. share in this replenishment would require reopening of the negotiations which preceded the present agreement. Through arduous negotiations the U. S. alone was able to obtain balance-of-payments safeguards, and we also obtained a reduction in our percentage share of the total replenishment. These advantageous provisions could be lost in renewed and, most likely, prolonged if not impossible negotiations. It is my opinion that we have obtained the most advantageous agreement possible and that further demands from the United States would serve only to alienate the contributing countries that supported our position last year. It would also be a serious blow to future worthwhile multilateral cooperation in other fields.

While I cannot agree with this type of proviso I share the point of its concern, namely assuring substantial transfers of World Bank earnings to IDA. Accordingly, it is my intention to support World Bank contributions from its net earnings to

Hand delivered
on Mon. 3/10
by Mr. Brown
(Congr. Relations - Treasury)

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IDA during this replenishment at least in the same proportion as last year when the World Bank transferred $75 million out of its $147 million of net earnings. Based on the present outlook, I do not foresee during this replenishment a decline in transfers such as occurred in 1967, and as conditions permit, I would certainly support increases over the 1968 level of transfers from net earnings. I am assured by the President of the World Bank that he is prepared to support this objective before his governing Boards.

While I do not want to comment directly on the newspaper account you referred to, I am enclosing for your information a copy of a letter sent last year by Secretary Fowler to the Acting Chairman of the Senate Foreign Relations Committee, Senator Sparkman, which dealt with this issue. This, I understand, was the final position of the previous Administration on the matter.

I want you to know of my great appreciation for your firm support of prompt and favorable congressional action on H.R. 33.

Sincerely yours,

/s/ David M. Kennedy

The Honorable
William B. Widnall
Committee on Banking and Currency
House of Representatives
Washington, D. C. 20515

Mr. [illegible]
[illegible] Copy (3/10)

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March 3, 1969

Dear Marchant:

Thank you for inviting Barbara and me to attend the reception and dinner the visiting group of Virginia Bankers are planning to have at the Carlton on March 24th.

My family has not yet moved down from New Jersey and it is doubtful that Barbara will be in Washington then. In any event, I will be happy to join you.

Sincerely,

(Signed) Paul

Paul A. Volcker

Mr. Marchant D. Wornom
Executive Vice President
Virginia Bankers Association
Richmond, Virginia

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FEB 27 1969

Virginia Bankers Association

Richmond, Virginia

Marchant D. Wornom
Executive Vice President

February 26, 1969

Dear Paul:

The Officers and certain committeemen of the Virginia Bankers Association are planning to be in Washington March 24 and 25, 1969, for the purpose of visiting with our Congressional delegation and the heads of the various banking supervisory authorities and other governmental agencies.

On Monday evening, March 24, at six o'clock we are having a reception and dinner in the North Lounge and Chandelier Rooms of the Sheraton Carlton Hotel honoring the Virginia members of Congress and their wives. We extend to you and Mrs. Volcker a cordial invitation to join us on this occasion and look forward to an early acceptance of our invitation.

CAL. CLEAR-
ACCEPT FOR
YOU +
REGRET
FOR MRS. VOLCKER?

YES ~~X~~

NO ___

Cordially yours,

Marchant

Honorable Paul A. Volcker
Under Secretary for Monetary Affairs
United States Treasury Department
15th Street and Pennsylvania Avenue, N. W.
Washington, D. C. 20220

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February 25, 1969

Dear John:

I was sorry to miss you, but glad to hear the news of Bob Riley. Things remain a bit hectic, but I assume I will survive.

Sincerely,

(Signed) Paul

Paul A. Volcker

Mr. John D. Wilson
Senior Vice President
The Chase Manhattan Bank
1 Chase Manhattan Plaza
New York, New York 10015

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FEB 24 REC'D

THE CHASE MANHATTAN BANK

National Association

1 Chase Manhattan Plaza, New York, New York 10015

JOHN D. WILSON *Senior Vice President*

February 21, 1969

The Honorable Paul A. Volcker
Under Secretary of the Treasury
for Monetary Affairs
The Treasury Department
Washington D. C.

Dear Paul:

I was in Washington on Tuesday and Wednesday and among other things called on the Comptroller to talk about legislation on One-Bank Holding Companies. I stopped by to say hello to you but found you were on the Hill.

We have heard very good reports from Western Europe on the fine impression you made in your recent visit there. I thought the publicity in the U. S. also was generally favorable, so you are off to an excellent start. However, I know there are bound to be some bumps in the road ahead!

I thought you would like to hear that Bob Riley was promoted to Vice President this last week. Among other matters, he is heading up a special task force which will study our information needs within the Bank and how best to meet them in the next few years. Of course he continues to head up Market Research. Lee Loree was finally persuaded of the merits and desirability of the promotion.

All the best,

John

John D. Wilson

Dear John,
I was sorry to miss you, but glad to hear the news of Bob Riley. Things remain a bit hectic, but I assume I will survive!

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With my very best wishes for success in your important and difficult new job!

DR. OTMAR EMMINGER

MITGLIED DES DIREKTORIUMS

DEUTSCHE BUNDESBANK

Mr. Volcker

FRANKFURT AM MAIN

FEB 3

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Citation Information

Document Type: Speech

Number of Pages Removed: 9

Citations: Emminger, Otmar. "The Monetary Scene Today." Board of Governors, January 24, 1969, Deutsche Bundesbank, Frankfurt (Main).

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January 24, 1969

take to Europe

The Monetary Scene Today

Excerpts from an address by Otmar Emminger, Board of Governors, Deutsche Bundesbank, Frankfurt (Main), on January 24, 1969

I. Recent developments

1. Domestic . . . . .

2. International:

In the area of international monetary developments 1968 can be called the year of false prognostications: ~~forecasts gone wrong~~: The sterling devaluation of November 1967 did not lead - contrary to all expectations and calculations - to a final restoration of the British balance of payments in the second half of 1968, although a slow improvement can now be discerned. The two-tier gold market, established in March 1968, was viewed by many experts including even some of the central bank governors involved, as only a temporary expedient; meanwhile it has proven to be an important step in the direction of stabilizing the international monetary system and it may well be maintained in one form or another for quite some time. As concerns the US dollar, all expectations and forecasts have also gone wrong, both to the bad and the good side. The equilibrating of the American budget in June 1968 by raising taxes and cutting expenditures which was expected to bring about a quick dampening of excess demand and improvement in the trade balance had not brought any of the expected results by the end of last year. On the contrary, the US trade balance is still in a deplorable state. Nevertheless, the overall balance of payments of the US unexpectedly showed a surplus

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in 1968 for the first time in 11 years even on the liquidity basis, i. e. not counting the inflow of short-term bank funds as capital imports. It is, of course, true that some of the longer-term capital inflows that brought about this reversal may well prove to be volatile; but still, this unexpected balance-of-payments result marks the height of last year's forecasting mistakes; for a number of experts had predicted (as late as spring 1968) a deficit for 1968 of 4 to 5 billion dollars.

II. Present monetary situation in Germany

Germany entered the year 1969 with the economy at full speed and with all the resources fully employed. Of late, the question has often been asked whether it is not time for the Bundesbank to tighten somewhat the reins of monetary policy. The Bundesbank has so far been pursueing a policy of wait and see. This policy is mainly based on two considerations:

We expect that the external measures taken last November, i. e. the 4 % special tax on exports and the 4 % tax rebate on imports, will significantly reduce the pressures on the German economy in the near future, and this in two ways: The expected stimulation of imports and slowdown in export growth will reduce demand on domestic resources. Moreover, through the lowering of the DMark prices of internationally traded goods, especially import goods, there will be a direct dampening effect on the internal price level. According to expert estimates this double effect could reduce the price rises otherwise to be expected by about 1 % in 1969. The "revaluation substitute" of 4 % can by no means be considered as a quantité négligeable, unless it would be nullified by even stronger inflation abroad.

In the near future, however, international developments seem more likely to strengthen rather than counteract the effectiveness of this revaluation substitute. The auspices for anti-inflationary policies abroad look better today than

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they were a year ago. The United States, in particular, appears to be determined to squeeze the inflation out of its economy. And as the fiscal restraints imposed last year have proved to be insufficient the American authorities have now tightened credit to an extent as to cause interest rates in some fields to rise to historic peaks. In the United Kingdom and in France, too, the budgetary restraints will now be supported by rather severe credit restrictions which in turn have produced corresponding effects on interest rates. Thus in the monetary sphere and especially in the sphere of interest rates, the much-needed balance-of-payments adjustment has finally come about. High interest rates in the deficit countries, UK, US and France, are now set against relatively easy money in the surplus countries Germany, Switzerland and Italy.

We cannot expect that the effects of both the German and foreign measures will be reflected in trade and other statistics already in a few weeks' time. In Germany, in particular, we shall have to wait for several months until we can get reliable statistical indications of the effects of the recent measures. The deadline of 23 December 1968 for the exemption of "old contracts" from the 4 % export tax, has lead to a massive bunching of export deliveries to an extent that not only trade but also production and other statistics for November and December have become grossly distorted.

A second development which has made it possible for the Bundesbank to continue its easy money policies has been the favourable evolution of <u>budgetary policy</u>. Contrary to the experience during the last boom (1964 - 66), this time budgetary policy has been in conformity with cyclical requirements ...

III.

As concerns the <u>German surplus position</u>, it has often been asked: Are the new tax measures, the "revaluation substitute" of 4 %, really able to provide a better equilibrium? Or will they only gain us some breathing space

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before inevitably leading to a "genuine" revaluation? It would be pointless to argue now, after the event, about whether a clear-cut revaluation would have been preferable to the tax substitute, or whether the date for the expiration of the tax measures, i. e. end of March 1970, has been well chosen.

Basing myself on the decisions taken, I come to the conclusion: It is not only possible but to some extent even likely that a viable external equilibrium of the German balance of payments will be attained within the present framework. And the expiration of the tax measures at the end of March 1970 is not inevitably a built-in "time-fuse", as has often been assumed, since there is the possibility of extending the tax measures beyond that date.

It would lead me too far to discuss here this year's probable developments in the German balance of payments. Let me say only this: The surplus on current account for 1969 can be roughly estimated at between 5 and 7 billion DMarks (= 1.2 to 1.7 billion Dollars); it could even turn out to be one or two billions less if we assume that the abnormal bunching of exports and export remittances during the closing months of 1968 (and especially in November and December due to the deadline of 23 December 1968 for the exemption of "old export contracts") will result in corresponding shortfalls in 1969. We should be able to compensate, or even over-compensate, a current surplus of this order of magnitude by long-term capital exports. Last year net long-term capital exports amounted to no less than 10 billion marks (= 2 1/2 billion Dollars). About half of that amount, however, was provided by the banking system, and we cannot count on the banks being as liquid this year as they were last year and thus being able to export a similar amount of capital.

Nevertheless, there is a likelihood <u>that in 1969 the basic balance, i. e. current account and long-term capital account, will be in deficit rather than in surplus</u>. If we shall be spared speculative foreign exchange inflows, the DMark could well come under pressure in the markets now and then. In recent weeks we already had a foretaste

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of that experience when the DMark slipped below its dollar parity. The reasons for the present DMark weakness do not lie in the substantial short-term money exports by German banks (as was said in newspaper reports), since such transactions generally are carried out by way of swaps with the Bundesbank and do not at all affect the foreign exchange markets. In addition to the money exports of the banks we have had genuine foreign exchange withdrawals in a considerable volume. The foreign funds deposited with German banks during the crisis just before the Bonn monetary conference are in the aggregate completely withdrawn by now. This of course means, that the emergency measures taken in November, namely the foreign exchange controls against speculative money inflows to the German banks and the 100 % minimum reserve requirement on the increase in bank liabilities towards non-residents, have for all practical purposes become redundant. As concerns the past foreign exchange inflows due to abnormal changes in "leads and lags", i. e. the timing of export and import payments, the story is different. Because of their very nature these flows can be unwound only over a somewhat longer period.of time, i. e. after the timing of payments for exports and imports has become normal again.

Druing the crisis, i. e. during the first three weeks of November 1968, the reserves of the Bundesbank had been swelled by almost 9 1/2 billion marks. Over the two months following the Bonn monetary conference the Bundesbank has lost foreign exchange to the amount of more than 11 billion marks (= 2 3/4 billion Dollars!) through both genuine withdrawals of foreign funds and short-term money exports by the German banks. Thus our reserves are now more than 1 1/2 billion marks lower than at the end of October 1968 when the latest speculative explosion began. If we count only gold reserves and <u>freely usable</u> foreign exchange assets, the total is now even smaller than it was a year ago. We can thus really speak of a <u>complete normalization in our foreign exchange situation.</u> The beneficiaries of the huge foreign exchange outflow have been, apart from the Euro-money market, primarily France and, since the beginning of January, also the United Kingdom.

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IV.

Taking the present situation and probable future tendencies together, there seems to be a good chance that in 1969 the German monetary and foreign exchange situation by itself will not cause any unrest or crisis. However, we do not live alone in this world. Nobody is able to predict whether developments in other countries will expose the international monetary system to new strains, with repercussions on other currencies including the mark. Events in France last year have demonstrated that unforeseeable political and social upheavals can quite suddenly affect currencies and cause great stresses and crises.

If we disregard for a moment the possibility of such outside disturbances, the present international monetary situation does not seem to be in such a confused and precarious situation as is frequently claimed. It is true that neither Sterling nor the French Franc have already overcome their difficulties. But in both these countries energetic monetary and fiscal measures were taken to correct the domestic and external disequilibria. I expect that Great Britain will achieve equilibrium in its balance on current account over the next few months, although it may still take some time until the indispensable surpluses in its balance of payments will show up. France will probably need more time to attain a balance in its external accounts; however, its efforts are backed by still very large reserves and foreign credit facilities - at present the official reserves amount to about 4 1/2 billion dollars and the unused credit facilities to approximately 2.7 billion dollars - which will enable it to bridge a longer transition period.

It has frequently been assumed that one or the other of these countries is only waiting for a chance to change its parity without loss of prestige in the framework of a multilateral adjustment of parities, a so-called "re-alignment". But if one watches the intense and often painful efforts undertaken by these countries to overcome internal and external disequilibria it is hardly conceivable that these countries should be willing voluntarily to throw away the gradually

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ripening fruits of their endeavours - which in the end should lead to better domestic cost and price stability - only to plunge into renewed uncertainties, disturbances and price increases. As far as there is speculation on a German participation in a general re-adjustment of parities, I only want to point out that for example the agricultural problems arising from an up-valuation would not disappear if the mark were up-valued in conjunction with other parity adjustments rather than unilaterally; and these agricultural problems were one of the main reasons for introducing border tax adjustmens instead of a straightforward revaluation. To state it very clearly: I do not believe in the likelihood of a multilateral re-adjustment of parities. It would even not be very useful in the longer run if the monetary, fiscal and incomes policies of the countries concerned were not directed towards establishing better equilibrium. The disappointingly small and slow effects of the British 14 % devaluation should have cured those who expect miracles merely from parity changes without accompanying domestic measures. I also do not expect anything from a big international monetary conference, either on a worldwide or a more restricted scale, to discuss either particular parity problems or a reform of the present exchange rate structure. Such a conference would only create renewed distrust in parities and create unrest in international payments and trade, without much prospect of practical achievement What we now need is a period of calm in order to let the measures recently taken by important surplus and deficit countries work themselves out.

V.

Only in a period of calm can discussion of possible improvements and reforms of the international monetary system be useful. The present system is by no means so deficient as the academic critics (and others with them) often have asserted. At the same time it does not function so well that it should not be further improved. The system has in fact undergone continuous change over the past 20 years. Last year again certain improvements were added which are designed to underpin its stability: With the introduction of the two-tier gold

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market the disturbing effects of private gold speculation on the international monetary system have been largely eliminated. The Basle Agreement on the U.K.'s external sterling liabilities of September 1968 has largely removed the potential dangers of this relic of the past. In 1969 further progress can be expected when the so-called SDR system will enter into force. This, however, will be a reform for the longer term, and we cannot expect from it any immediate relief for our acute problem of large payments imbalances.

The latest monetary crises have stimulated the zeal of monetary reformers. Proposals for reform abound. One of the new ideas suggests the setting-up of a so-called "monetary mechanism" by which foreign funds flowing into one country during a speculative crisis would be re-channeled to the country loosing reserves in a more or less automatic way. In my view such an automatism would not amount to a reform of our monetary system but would rather undermine it. It would further weaken the disciplinary effects of payments deficits and either foster general inflation or accentuate the differences between the evolution of prices and costs in the deficit countries on the one hand and the surplus countries on the other. The Bundesbank, therefore, has come out against all proposals providing for automatic re-cycling of foreign exchange losses without time-limit or ceiling on amounts.

Most current reform proposals aim at <u>greater flexibility in the present exchange rate system</u>. As is well known the discussion centres on two suggestions: The first would allow fluctuations of exchange rates within a wider "band" than the ± 1 % at present permitted under the Fund Agreement, and the second would permit <u>frequent parity adjustments in small steps</u> ("crawling peg"). I do not want to discuss all the technical questions involved, many of which have not been clarified so far. The main problem, in my opinion, is not that a system of wider margins would create more uncertainties for foreign trade and business in general; there is a lot of uncertainty also in the present system, for instance whenever there is distrust in the existing parities. But to introduce significantly greater flexibility into the exchange rates would amount

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to a fundamental decision for greater autonomy in national monetary and economic policy as against closer integration. For most countries increased monetary autonomy through exchange rate flexibility would amount to a lessening of balance-of-payments discipline and loosening the brakes against inflation.

For the member countries of the European Economic Community there is no choice anyway. A substantial widening of the margin for exchange rate fluctuations would clearly have disintegrating effects, and it could hardly be reconciled with the EEC regulations for the agricultural markets. The proponents of greater exchange rate flexibility have proposed to make the EEC currencies fluctuate uniformly as a kind of monetary bloc against the dollar and other non-EEC currencies. Such a harmonization of exchange rate fluctuations for the EEC countries would raise more technical difficulties and also problems of monetary policy than its proponents seem to be aware of, especially as the EEC group sometimes comprises extreme deficit as well as surplus countries.

We should have no illusions that any new mechanism could be a cure-all - and perhaps even a painless one - for tensions and crises in the international monetary system. To me it seems to be more urgent to continue working for the elimination of the existing imbalances between the major countries by applying the available instruments of economic and monetary policy. The international monetary system is at present in a state of convalescence. Let us try to give the patient enough rest so as to enable him to regain his full equilibrium and health.

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