

PERSONAL

Bank of England

28th May, 1931.

Dear Mr.Governor,

If the meeting in Basle had served no other purpose than to bring me together with you and Mr.Rooth for a quiet half hour I should have been well content with its results. Our conversation had the additional advantage of leading to some practical conclusions of which, for my own purposes, I have had a record made in the Memorandum enclosed with this letter. The record is a good deal more detailed than I had meant it to be, and it may contain inaccuracies which I will not ask you to correct unless they affect the substance of our agreement. But unless I am advised by you to the contrary, I shall be proceeding on the assumption that we are at one in carrying out the policy described. I need not tell you what a great satisfaction it is to me that in a matter of some general importance we should have found it so easy to work together in harmony.

Believe me, dear Mr.Governor,

Yours most faithfully,

*Hirshman.*  

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Monsieur Risto Ryti.

Note of a conversation in Basle  
between the Governor and Mr. Rooth and Mr. Ryti;  
on the 20th May, 1931.

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1. Russian timber exports amounted last year to 900,000 standards, which is the same amount as was exported from the same area in 1913. It also happens that both Swedish and Finnish exports were the same last year as in 1913. The Russians' plan to export 1.8 million standards next year, which would leave only 6 or 700,000 standards apiece for Sweden and Finland. The cost, or at any rate the labour, of exporting Russian timber must increase, for the areas nearest to the rivers have now been cut. Normally, Swedish timber is the most expensive, and Finnish the cheapest; but the Russians are now underselling both Sweden and Finland. Prices appeared until recently to have reached a new equilibrium at about £10:10:- per standard, but they have recently fallen again to £9:15:- or £9:10:-. At this level, neither Finland nor Sweden can export profitably. Finland, which has no trade unions, has succeeded in adapting itself to new conditions and could hold its own with prices at 10 guineas. But Finland is about ten years behind Sweden in the reliance placed upon timber instead of pulp, so that an uneconomic price for timber would be fatal to the whole economy of Finland, whereas Sweden could survive it. Monsieur Ryti would be in favour of holding prices at the 10 guinea level, and does not wish to attempt to force them any higher.

2. Monsieur Ryti would favour a quota agreement between the three countries, and he would like to see it cover a longer period, say 3 or 4 years, rather than one year only. He does not share the fears of Monsieur Rooth that the longer the period the greater the risk of others coming into the market.

But

But he does share, to a great extent, Monsieur Rooth's general distrust of the Russians, and he agrees that it is at least doubtful whether any engagements entered into by them would be honestly observed. Both Governors appeared to regard Sweden, Finland and Russia as the only countries which need enter into the picture. It is true that Norway, Esthonia and Latvia are exporters, and that Austria, Czechoslovakia, Poland and Roumania are in the market - though with a rather different kind of timber from that of the northern countries. But Monsieur Ryti quoted the fact that Polish exports have suffered more than those of any other country under the pressure of falling prices, and to the Governor's general objection against all restriction schemes which are not inclusive he replied with the example of mechanical pulp which, he said - and Monsieur Rooth agreed -, has been successfully controlled for the past two or three years because prices were fixed so low that only the best organised companies can keep working at such a level.

3. Monsieur Ryti did not advocate direct price fixing, but he seemed not to reject the idea that a proportionate price relation might be agreed for the three countries, at the same time as the quota. A reasonable quota would be Russia 1 million, Sweden 1 million and Finland 900,000 standards, and the effect, in Monsieur Ryti's opinion, should be to stabilise prices about the 10 guinea level from which they have only recently fallen. Finland could then, without a doubt, compete successfully with Russia. Monsieur Rooth would like to have seen prices pushed up to a higher level than this, but he was inclined to agree that it would be impossible.

4. Market opinion appeared to be divided. But those who were in favour of pushing prices higher were also in favour of a credit to the Russians, as a means of doing so. Both Governors agreed emphatically that the questions of credit and quota should not be linked or negotiated together. Monsieur

Ryti

Ryti believed that the Russians would come to terms about a quota without a credit. Monsieur Rooth was, more radically, opposed to any kind of credit arrangement with them. He said that they have already approached Poland, and possibly Norway, and are hastily trying to get credits wherever they can. For the current year their timber credits in London were for only £3/400,000 and he hoped that even these would be discontinued.

5. The conversation therefore led to the following agreed conclusions:-

(i) if the trade chooses to go in for a quota scheme, and take the risks of its not being inclusive and of its not being honoured by the Russians, that is their business.

(ii) no credit scheme should be associated in any way with a quota arrangement.

(iii) the bankers would be well advised to continue their normal credit arrangements elsewhere, and not to put into effect any new arrangement which includes Russia.