

STRONG PAPERS, Norman to Strong, 1921

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Hermitage Hotel - Nice - France

5. Jan. 1921

Mr. [redacted] Strong

This is the day you sail + I am writing to wish you godspeed just as if I were seeing you off. When you have a moment to spare in N.Y. I want you to write me two lines + no more to say what report your Doctor gives when he sees you for the first time after 12 months. Dont forget; a postal will do.

I have been wondering whether your visit to London did you any good + on the whole I like to think that it was a wise stepping-stone between the heat of India + the cold of America. But I have no doubt that it did us in London a great deal of good - + if ever you should feel downhearted just you remember that, economically speaking, there is only hope through a community of interest + cooperation between all the Central Banks - + you have gone a long way to start it up, on the right lines by your visits to London.

The percentage decline in the Times index number for December is less than I was told to expect + leaves us just above the Armistice level. Therefore we are lagging behind N.Y. both as to degree + pace of deflation - so much so that pleadings for the pace to be slowed (by a reduction in rates) have less support + deserve less consideration than I supposed - when we were lately discussing the subject, with one another + certain Bankers. On the other hand your Mr. Jay just hit the nail on the head in his message.

This is a perfect place - bright sunshine clear air - where only man (+ woman) is vile! I am trying to stop the "machine" which of itself takes a week to do + meanwhile runs it such a pace - [especially when the rest of me would like to sleep -] as to heat all the bearings...!' + keep me wide awake!!

Goodbye my dear fellow + remember me surely to Mr. Jay + Mr. Case + dont think of writing to me before say the 27th + when I plan to start homewards.

Yrs gratefully

[signed] M Norman

Hermitage Hotel. Nice. France.

5. Jan. 1921

PA

JAN 27 1921

① My dear Strong

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to wish you Godspeed just as if I were seeing
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of interest & cooperation between all the Central Banks ~ & you have gone a long way to start it up, on the right lines ^{by} on your visits to London

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 which of itself takes a week to do + mean -
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 surely to Mr. Gay & Mr. Case & dont think
 of writing to me before say the 27th when I
 plan to start homeward.

Yn gratefully
W. W. C. man.

CONFIDENTIAL.

P.A.
MAR 21 1921

Bank of England

London, E.C. 2

17th February, 1921

My dear Strong,

It was a week ago that I received your letter of the 27th January, and as I was both busy and lazy and as it required no particular answer I have not written to you sooner. But I am still waiting to hear of the more particular report which according to your first paragraph was deferred.

Yesterday I received your letter of the 3rd February, most welcome you may be sure. To begin at the end, our confidential cable of the 4th told you briefly just what our position was and what (on re-reading it) our position appears to be to-day. There has been and is a real drive at us the whole time, but my own feeling is that the danger of having our hands forced is less to-day than a week ago. I think our opponents have overdone their case - they have protested too much. After a time reiteration and even ridicule lose their effect, and though one cannot see far ahead I can say nothing more on that score; but meanwhile owing to the collection of taxes money is dear and likely to

remain

remain so for another six weeks. The rate for all Bills up to 60 days is up to 7% and day by day we are making advances at $7\frac{1}{2}\%$. I notice also an increased demand for accommodation from outside customers, Railway and Manufacturing Companies, which would usually be supplied by the other Banks but which is beginning to come direct to us owing to this (normal) pressure of taxation.

We will keep you informed by cable if any definite change seems probable, but you will understand that the ground of attack among our banking friends here has somewhat changed since the end of December: then it was a question of cold feet, but they were cured when the liquidation at the end of the year had subsided; now it is more a question of increasing unemployment growing out of the shutting down of plants and therefore of the added stagnation of the frozen loans which the Bankers are already carrying. Our wholesale commodity index is now 115 or 120 above the pre-War level, and my idea is that we ought not properly to be asked for lower rates until the retail commodity index and likewise the cost of living have reached an equally low level - they are now 40 or 50 points higher. With things as they are the banking position is admitted to be sound and sounder than it was when you were here.

Bank may properly, or perhaps I should say may not undertake? I enclose a copy of my first attempt at an epitome on this subject and your comments both for and against will be welcomed.

Coming now to your first paragraph, I agree with you as to Mr. Kiddy's letter. On each side there have been allegations of a so-called money trust in the newspapers. It would be a thousand pities if our two Institutions were likewise accused of having laid their heads together in the same direction. Long habit of course makes it natural for Mr. Kiddy and those of his way of thinking to look upon money rates as international rather than insular, and we cannot therefore expect that your rate and our rate shall be altogether kept apart in peoples calculations; but my answer to those who have raised the question - I don't remember if Mr. Kiddy was one of them - was simply that if I were the Federal Reserve Board I should seek to get my loans repaid before I put my rates down! The expectation of your having lower rates and certain apparent reasons for them was, if I mistake not, a good deal ventilated by Ben Guinness when he was here a month or six weeks ago.

To return to a personal matter, why have

here. With the exception of the turpentine market I do not think there are any weak spots. The nitrate position which looked very ominous has been tied up and can be held together.

As regards dealings with Soviet Russia and hence with their gold, I can add nothing to what our cables have already told you, but I enclose (very confidentially) a copy of the paper on this subject which was officially handed to M. Krassin before he went away.

The list of borrowers who are awaiting the first opportunity to make a public issue of their Securities is continually growing. In addition to the continual output of Municipal Securities to carry out the Government's Housing Schemes, we know of pending industrial issues by Lever Bros., the Dunlop Company and Brunner Mond, while among foreigners I may mention San Paulo, Norway, Denmark, France and Belgium, to say nothing of the Australian and other Colonies and of India.

✓ The mention of India reminds me that the Imperial Bank of India is getting under way. We had some talk about it when you were here and to my disgust I find that they are bent on starting a Branch in London. I wonder if you can enumerate the operations which a Central

I heard nothing from Ben Junior? I was hoping to have seen him before this date.

Please receive and read this as a conversational letter and not as a study of financial conditions.

With kindest regards from all of us to Mr. Jay and Mr. Case as well as to yourself,

Yours most sincerely,

McComan.

Benjamin Strong, Esq.

Referred to in letter of
Norman's letter 7.7.21

COPY.

CONFIDENTIAL.

It will be understood that though there is a prohibition on the export of gold there is no prohibition on its import, and that the arrangements which can be made for dealing with Russian gold must depend upon the establishment of title in this Country, and the recognition of title elsewhere. Until this is done the gold must be subject to such orders as the Courts of the United Kingdom may pronounce in accordance with the usual judicial procedure. So far as this Country is concerned, the first step to securing this end is obviously to bring a small parcel of gold to this Country as a basis for a test action. Enquiry has been made as to what the British Government would be prepared to do in the event of this course being taken, and (a) of the title to the gold being definitely established in this Country and accepted elsewhere, or (b) in the event of a decision being given by a Court of First Instance only, in the United Kingdom, that the title of the Russian Soviet Government to the gold cannot be competently disputed. To these questions a specific reply can at once be given.

(a) In the event of such a final decision being given, and followed elsewhere, so as to allow of Russia obtaining a sale for her gold in the world market, the British Government would have no objection to the grant of re-export licences, without limit of time, in respect of Russian gold imported under the arrangement outlined below, subject always to the right of the Bank of England to purchase such gold at a mutually acceptable price not higher than the world market price.

(b) Pending the final settlement of the question of title

and its recognition in the world market, the following are the immediate arrangements which the British Government is prepared to make with regard to Russian gold (other than British and Allied coins) after the test action as to the title to the gold has been decided in the British Court of First Instance in favour of the Russian Soviet Government.

- (1) Without prejudice as to title and ownership, imports of Gold from Russia exported by or on behalf of the Russian Soviet Government under the present arrangements may be consigned in parcels of not less than 25,000 ounces for delivery at the Bank of England, who shall be notified of such consignments prior to shipment.
- (2) Such parcels shall be held for safe custody by the Bank of England who, without assuming any responsibility, and subject to payment of all out-of-pocket expenses, are to export each parcel to such destination as the consignee or a person designated by such consignee may direct. Failing such export within six months from the date of the arrival of the gold at the Bank, the gold is either to be sold to the Bank at a price to be mutually agreed, or to be sold in the market by the Bank for export for account of the consignee or his nominee. Should export be suspended for any period owing to attachment by the Court any such period shall not be counted in the aforesaid six months.
- (3) The Bank of England will have a standing licence for the re-export of gold imported under these arrangements and remaining in their custody, and will make no charge for their services beyond the cost of freight, insurance, carriage, and other expenses incurred by them including charges on the usual basis for melting and assaying, if this is desired by the consignee or his nominee.
- (4) Gold imported under these arrangements is not at any time

(5) In the event of the British Government desiring to modify its general Gold Policy in such a way as to make the above arrangements impracticable, the Russian Soviet Government may claim six months' notice before such modification takes effect. It is understood that in the event of such notice being given the Russian Government will be at liberty to give immediate notice to terminate the Trade Agreement, notwithstanding the fact that the twelve months period specified in Article XIII of that Agreement may not have expired.

It is of course understood that the object of the present arrangements being to facilitate and extend trade between the United Kingdom and Russia in accordance with the Trade Agreement, all gold imported under these arrangements is to be used to pay or to secure the payment for goods purchased in the United Kingdom and in particular for goods the product or manufacture of the British Empire.

CENTRAL BANKS

- 1 A Central Bank should not compete with other Banks for general business.
 - 2 A Central Bank should not take monies at interest on its own account nor accept Bills of Exchange.
 - 3 A Central Bank should have no Branch outside its own country.
 - 4 A Central Bank should not engage in a general Exchange business on its own account with any other country.
 - 5 A Central Bank should be independent but should do all its own Government's business - directly or indirectly - including Gold and Currency.
 - 6 A Central Bank should be the Banker of all other Banks in its own country and should assist them to develop its business and economic resources.
 - 7 A Central Bank should protect its own Traders from the rapacity of other Banks in its own country.
-

- 8 A Central Bank may have an Agency in another country.
- 9 That Agency (if not itself a Central Bank) should do all its banking and all kindred business with the Central Bank of the other country.
- 10 And should co-operate in practice and principle with the Central Bank of the other country.
- 11 And should receive the most favoured treatment and information from the Central Bank of the other country.
- 12 And should do the Banking and kindred business of its Principals Government in the other country.
-
- 13 C/H.
- 14 Loans.
- 16th February, 1921.
- 15 Exam.
- 16 Good policy?

B.A.
Bank of England

MAR 21 1921

London, E.C. 2

22nd February, 1921.

Australia -
baba -
Philippines

My dear Strong,

I write to acknowledge with many thanks your letters of the 4th and 8th instant, which curiously enough reached me in the reverse order. At the same time let me confirm the letter written to you on the 17th instant.

That letter was hardly posted when I had the pleasure of a visit from Ben Junior, who seems in the best of health, full of interests and longing to get back to your side. He had a talk with Schroders and as he was much pressed with engagements to visit Oxford and Cambridge and to meet some of his friends, I was only able to persuade him to come to luncheon here yesterday before which I took him for a walk round the Bank. At luncheon you may be sure he was welcomed by quite a large party as a true chip of the old block. I shall make a point of sending to you through his kindness the little parcel which you (wisely as I think) left behind, but which you say it will help one of your hobbies to possess.

Thank

Thank you for the \$2.00 Federal Reserve Bank Note which is interesting, especially in view of the explanation you give of the letters and numbers upon it. My belief is that you don't keep a Register of your Notes but that you re-issue them so long as they are in a fit condition and thereafter destroy them, merely keeping a ledger account of the total amount outstanding from time to time and relying upon examination before destruction for the avoidance of forgeries. This question of a Register is, as you know, before us at the present time, and arrangements are being considered under which the Government issue of Currency Notes is to be dealt with and destroyed. Our general view is that, in accordance with your experience, it is not worth while to keep a regular Register; but even so, some system of sorting, examination and re-examination is necessary, especially in view of the attempts at forgery which we know to have been lately in progress, as to which you have I think been kept informed by Sir Ernest Harvey.

Your explanation that the amount of Government borrowings will depend on legislation for the reimbursement of the railroads by the Government is interesting, the result being (as I understand it) to force the railroads to carry with their Banks the debts due to them by your Government.

I was glad to have your cable as to the increase in the rate for your loans on Certificates of Indebtedness, even if only as an indication that your general policy was not downwards.

Like yourself, I was rather sorry at the Chancellor's statement as to a suggestion to your Government of debt cancellation. I don't think his statement helped matters here and I can understand that it did so still less on your side; but it is just one of those little items which pops out in the middle of a political speech when as you know party tactics and coming elections and all the rest are uppermost in the speaker's mind rather than the financial relations between Nations. I have had several talks with Lord Chalmers, whose date of sailing has been postponed to allow of your new Administration being in the saddle before his arrival. I hope that the manner in which he will negotiate will give satisfaction, and I feel certain that the matter so far as his intentions go will leave little to be desired.

Generally, conditions have not moved one way or the other since I last wrote or since we cabled to you, but the announcement yesterday of a fall of 14 points in the cost of living is an indication that what we require

is in progress, namely, that retail prices should without much delay drop to a degree corresponding with wholesale prices. This is particularly important at the present time as it is only by these means that a general reconsideration of wages in a downward direction can be brought about. At present the total amount of wages being paid week by week is considerably reduced by the amount of unemployment, but the rate of those wages which are still being paid has so far shown little sign of yielding; and thereon of course hangs the difficulty of the present high cost of production.

Nothing has been done as yet in regard to the Ter Meulen Scheme or Export Credits in general. Our Government seems to be waiting to find out what line the Supreme Council is going to take before committing itself to any guarantee or support; and without a guarantee of exchange or of political stability in the European countries I do not think our Banks or Institutions will be willing to assume the risk. A somewhat unfortunate criticism of the Bankers' attitude in this respect was made by the Prime Minister last week in the House of Commons when, having that little knowledge which is so often a dangerous thing, he did nothing to help towards a solution of the difficulty he had in mind.

With kindest regards,
Yours most sincerely,

Benjamin Strong, Esq.

W. Norman

Confidential.

BA
MAR 21 1921
Bank of England

London, E.C. 2

1st March, 1921.

My dear Strong,

I write this in confirmation of my confidential cable of the 25th ultimo, to which your answer has been received to-day and is duly appreciated.

About ten days or a fortnight ago the Prime Minister started making a speech in the House of Commons and for no apparent reason so far as an outsider is aware he came to the question of Export Credits for the purpose of helping our manufactures on the one hand and the distressed countries of Europe on the other. In developing this subject he blamed the Banks in very generous terms for their unwillingness to risk their depositors' monies in the countries of Eastern Europe. The Banks had unofficially taken up the line that while they could shoulder the risk of the exporter here and the importer there for a longish period, they could not assume the risk of exchange and of political uncertainties. I think they were right.

Be that as it may, the Bankers were nettled, and one or two of them who are well-known to you got up a meeting among themselves. Realising that the essence of

defence

defence is offence, they not only formally denied the allegations in the Prime Minister's speech but they made a deliberate assault on the dear money position by means of a formal demand for the policy to be reversed; by means of a Press campaign; and by means of intrigue in various directions. Hence the prophecy in our confidential cable of the 25th February. But as the Inter-Allied Conference is at this moment at serious loggerheads with the Germans over the question of Indemnity, the future is extremely uncertain, and no prophecy as to rates is worth the paper upon which it is written.

With kindest regards,

Yours most sincerely,

Strongman.

Benjamin Strong, Esq.

CONFIDENTIAL.

Bank of England

RA

London, E.C. 2

14th March, 1921.

MAR 28 1921

My dear Strong,

The annual election of our Directors takes place early next month and will I hope be merely a matter of form as it has been from time immemorial. There will only be one change - Lord Hollenden, our senior Director, who was Governor about 20 years ago is retiring: he is not only well on in years but is also in poor health.

Lord Hollenden is to be replaced by Mr. E.R. Peacock, whose election will be such a novelty that I wish to explain it to you in advance.

Mr. Peacock is a Canadian, born and brought up in Ontario, and after some years as a schoolmaster he was induced to come to London 15 or 20 years ago as the Agent of the Dominion Securities Company. As such he made for himself a very good position, but that business automatically came to an end 7 years ago. It happened that shortly afterwards Dr. Pearson, as you may remember, was drowned, and someone was needed by the Canadian interests to disentangle what was left behind in connection with his enterprises in

Mexico,

Mexico, South America and Spain. Thus it came about that Mr. Peacock became a permanent head, chiefly for salvage purposes, of various Canadian Companies operating in those countries.

But we are taking him ~~soberly~~ with the view of pushing the Central Bank idea for all the Dominions. You will remember that Australia has a State Bank which in no sense acts as a Central Bank and which is doing more harm than good. You will also remember that a Central Bank is being set up in South Africa to which we have contributed a Governor, and it is of vital importance that its beginnings should be upon sound lines. You know better than I do that the Imperial Bank of India has just been formed and that Canada is without a Central Bank at all.

I am sure you will approve of our desire to see Central Banks in these various places on right lines; and I think you will agree that it is by the fact of our taking in the best Canadian we can get that we are most likely to influence Canadian opinion without offending their susceptibilities.

With kindest regards,

Yours most sincerely,

McLellan.

Benjamin Strong, Esq.

BA
MAR 28 1921

Bank of England
London, E.C. 2

14th March, 1921.

My dear Strong,

I will begin by acknowledging your letter of the 21st February, along with Mr. Snyder's memorandum which gives an interesting résumé and forecast of your position. I will only allude to two points:-

1. In the second paragraph of your letter you say that it would be dangerous to make a further advance in the preferential rate (now 6%) for loans secured by War Bonds. I do not see why. I can quite see that a further advance is not necessary as I believe your loans on this security are negligible, but I do not quite grasp how a withdrawal of such preferential rate as now exists could be dangerous.

2. The last paragraph of the memorandum states that another great rise in prices is almost inevitable and that whatever is the general level in the United States will mean the general level for most other countries. Does this mean that the commodity deflation which you have effected and which we are trying to effect mainly through

the

the instrumentality of the rate is no more than a temporary happening, to be succeeded in the near future by a definite reversal of the downward tendency?

[You will have received my cable of the 10th indicating the decision of our Government to reduce the rates for Treasury Bills. As you know from my earlier letter this was clearly inevitable, although at the last moment it came unexpectedly and was intended I suspect to show the Germans how little we care for the trouble they are giving us! It is too early as yet to speak of the effect of this reduction, nor can I say whether it will be followed by further reductions in Treasury Bills rates or in the Bank rate. I fear it will produce too good a sentiment and this will do more harm in the Stock Markets than in the Commodity Markets; but while from the purely financial point of view one would far rather have continued as we were, it is evident, even to an outsider, that politically it was almost necessary to make a reduction.]

The Press telegrams which were published in our papers of last Friday, the 11th, indicated strongly the intention of Mr. Mellon to reverse the policy of the Federal Reserve Board and to reduce the rates. I assume that had you been aware of this as a true statement of his intentions,

intentions, you would have been so kind as to have advised me.

Please remember me very kindly to Ben Junior.

Yours most sincerely,

McNorman.

Benjamin Strong, Esq.

CONFIDENTIAL.

Bank of England
London, E.C. 2

APR 19 1921

2nd April, 1921.

My dear Strong,

Your long letter of the 21st March shall have an acknowledgment at once: it makes a regular volume and needs some midnight oil to help the process of its digestion. Meanwhile, I will touch on a few points.

Page 3 as to gold. The cables already despatched have been so full that I will not attempt to add to them. But my private belief is that although Rothschilds are anxious to oblige they do not want to lose the exchange business arising out of the gold, and I suspect that this exchange business gives them good marks with K. L. & Co. Therefore I believe that if you are in their hands they will somehow wangle the price against you: therefore again I believe you had better employ, for the purpose of purchasing the gold and so of deciding the price, some such independent concern as the City Bank.

As to Soviet Russia, the Trade Agreement having gone through, I expect we shall be having a trial shipment of gold before long which will form the basis of

a test action. In this connection I sent you an epitome of the arrangements between M. Krassin and our Board of Trade in my letter of the 17th February.

Central Banks. I think your additions to the Memorandum are good, although they do not affect us in this small country. I have passed them on privately, but with a note of their origin, to India and South Africa.

Page 5. I, too, am not very hopeful about the Ter Meulen Scheme, but if the principles on which it rests are pushed in the various distressed countries, I believe the credit of those countries may be improved and trade with those countries thus facilitated, even if such trade is not directly through the Ter Meulen Scheme. Now that Drummond Fraser has been appointed organiser of the Scheme for the time being I hope the general lines may be opened up. It has proved extremely difficult for the Committee to find an organiser and I think they have taken the best man available; but I fear his sight is rather limited to Manchester, where he has passed his life. I guess he ought to begin at the other end, viz., in the distressed countries.

Page 6. The date of Lord Chalmers' mission is quite indefinite.

I note with interest what you write as to your rates and shall be interested to hear how the future looks to you after the Conference on the 12th April.

I take the occasion to acknowledge your letter of the 16th March and shall be very glad to see Mr. Theodore Wold.

I have heard a good deal about you from Grenfell but less about your clean bill of health than I had hoped.

[We have virtually been without a Chancellor for three weeks: it is extremely inconvenient and all our plans are hung up. From what I have seen of Sir Robert Horne I do not think that his policy will differ materially from Chamberlain's, but as a man and a brother the latter will be very hard to beat.

So far as we have any plans they are as follows:-

An Indian Loan next week if the coal strike permits but at present the strike makes the future very dark indeed.

Towards the end of the month sales of Treasury Bills by weekly tender instead of by "tap" at a fixed rate, but perhaps continuing the "tap" for awhile at a rate of discount below the (varying) accepted weekly tenders. Of

course

course this is more or less experimental and you will realise that the object primarily is to remove from the Treasury the need of fixing money rates.

Subsequently, a long Loan for the conversion of the National War Bonds maturing within, say, five years, of which there are about £700,000,000 outstanding. If we could get these out of the way the future of our domestic finance would begin to look very different.

I do not think the reduction in Treasury Bill rates has done any harm but the result cannot be seen for six months. I fear the tendency of any reduction in money rates is to stiffen the price of wholesale commodities and the cost of living. (The relatively high price of the cost of living is, I believe, one of the main difficulties facing the coal miners, and perhaps it is an indirect reason for their strike attitude. The proposed reduction in their wages is in many cases out of all proportion to the reduction which has so far taken place in the cost of living.) But whether the Treasury was right or wrong in reducing their rate last month, it is essential that the Bank and the Treasury should work together. Rather than one do what is absolutely right and the other what is perhaps wrong, we had both better stand together and

together

together do what is perhaps wrong. On this reasoning I should not be averse to putting down our rate by one-half per cent. towards the end of the month; but I admit that financially such a change can hardly be justified.

In May or June I anticipate a large French Sterling Conversion Loan offering generous terms of conversion to those who took their Franc Loans ^{here} during the War, e.g., holders of the Franc Loans will perhaps be allowed to count the sterling they paid for their old Bonds as a subscription to the new, provided one-half of such sum is put up in fresh cash (this means two-thirds old Bonds at issue price and one-third cash).

With kindest regards,

Yours most sincerely,

W. Norman.

Benjamin Strong, Esq.

Bank of England

MAY 9 1921

London, E.C. 2

27th April, 1921.

My dear Strong,

Many thanks for your letter of the 28th March which I regret I have not answered earlier. The fact is I have been very much pressed for time and have kept you advised by cable rather than by letter, which on the whole is a more satisfactory method in these quickly changing times.

The strike position looks bad and is of course worsening the industrial position in most respects - so much so that we are nearer large failures than we care to be.

Believing that games as well as work are as necessary to Central Bank men as to any others, I send for your entertainment some photographs taken at Easter when two of our Football Teams went over to Paris to play against the Bank of France.

With kindest regards,

Yours most sincerely,

W. T. S. Merton.

Benjamin Strong, Esq.

LOOSE IN FILE

~~82
84~~



29th April, 1921.

My dear Strong,

With reference to my confidential telegram of the 15th April (No.15) I think perhaps you may be interested to receive a copy of the Statement of Claim just issued in connection with the Soviet Gold Test Case.

Yours most sincerely,

(as) M. Norman

Benjamin Strong, Esq.

CONFIDENTIAL.

Bank of England

10A JUN 2-1921 London, E.C. 2

3rd May, 1921.

My dear Strong,

I forgot when last writing to acknowledge your confidential letter of the 5th April, though it was already lying in my drawer. It concerns mainly the so-called South African gold, and as that question seems to be at an end I need not refer to it again. The question of rates is dealt with in your confidential letter of the 18th April, which it is now my purpose to acknowledge with many thanks.

The position taken by your Administration towards Soviet Russia is just about right so far as I can judge as is also your opinion. The Trade Agreement with this country is the outcome of long negotiations and a great deal of political pressure from many sides. The trade that will spring up as a direct consequence of it is likely to be small, but I think it may have considerable indirect results in helping to open up private trade and somewhat to restore private property or ownership in Russia; and after all, by such slow steps from within

seems

seems to be the only way in which what we call Russia can find itself again.

The trial parcel of Soviet gold we have here (see cable No. 15) is a side show to the Trade Agreement and was probably insisted upon by M. Krassin rather for political than financial reasons. As you say, most of the Soviet gold has already percolated elsewhere.

In the letter under reply, you seem confident of maintaining your rates and I should think you would be right to do so; but since the 18th April, when your letter was written, I have had your confidential cable No. 19 and am therefore uncertain at the moment just how you stand.

Our position is of course different from yours, not only because we are owed very little money by the public but also because the Treasury Bill Rate has really dominated the short money market; and ever since the late Chancellor put his rate down early in March the eventual necessity of our conforming thereto has been staring me in the face. It seemed better for the Treasury and the Bank to work together even if in so doing the best may be sacrificed to the good; rather than that one should adhere to what seems intrinsically the soundest policy and

so part company from the other. Of course this question of Bank Rate and Treasury Bill Rate has lately been somewhat modified by the introduction of the ^{Weekly} tender system, but only time will show how that is going to work and whether it can be maintained indefinitely as I hope it may. It is liable of course to be too much affected by the sudden abundance or shortage of money due to special and temporary causes, but on the whole I hope it will go some way towards making the Bank Rate as effective as it used to be in the old days.

I should think your plan of anticipating the maturity of the Victory Notes falling due in May 1923 was good, although I am not clear whether you have the right to repay them before that date or whether you mean to offer to convert them. As regards conversion, our position is entirely different from yours. To begin with, we have ^{real} this huge mass of floating debt - £1,200/£1,300,000,000 - which is just as much as we can handle or ought to allow, and under present conditions it is unfundable. Secondly, in the next four years we have £800/£900,000,000 maturing, each maturity of which becomes to all intents and purposes part of the real floating debt within twelve or eighteen months of its maturity. In order to effect any conversion, you must therefore deal with the maturities well in advance

of their due date. I do not think it would be wise for the Treasury, considering the very uncertain future ahead of us, to allow the ~~strictly~~^{real} floating debt to increase from its present figure to any material extent, whether by the falling in of future maturities or by the need of financing unforeseen expenditure (e.g. coal strike); moreover I believe the whole financial outlook from the Treasury standpoint would be different once they had no maturities ahead of them until, say, 1927, and only a floating debt of its present magnitude to think of. If you agree with this view, it was wise to offer the present conversion terms (which are no more than current market rates) in order to get rid of the 1922-1925/maturities.

Of course this policy has been violently attacked especially by the Bankers, but that only proves that these short maturities continually coming nearer to the floating debt stage were exactly what the Bankers wanted to retain.

The German trouble and the coal strike together have come so unfortunately at the same moment as this Conversion that I fear it cannot be the success that might have been hoped. A nominal amount of conversion would do us little good especially over 1922 and 1923, and it is only natural that when conditions are much disturbed

the

the existing short investments may be preferred.

So far as I can remember I was re-elected for a year on the 5th April, and Mr. Peacock, about whom I wrote to you, was elected on the following day.

Finally, I do not defend the proposed schedule of German reparation payments and I am happy to think I have not got to do so. This question of reparations is not as it should be, and as Mr. Keynes assumes it to be, a purely economic question. It is almost entirely a political question over which the French Government is forced to tug in one direction and the German Government in another. I doubt if the German Government could stand if they were to agree to any of the amounts which have been suggested, even if they could pay them; and I am afraid that if M. Briand were not to stand out for more he would quickly be succeeded by a fire-eater, probably M. Poincare, whose main object would be to reach Berlin: and I believe our Prime Minister is having a moderating influence on both sides and going perhaps as far as possible without breaking up the Entente.

With kindest regards,

Yours most sincerely,

McNorman.

Benjamin Strong, Esq.

CONFIDENTIAL.

Bank of England

JUN 9 1921
London, E.C. 2

14th May, 1921.

My dear Strong,

I write first of all to acknowledge your letter of the 26th of April, and I take the last line in it to contain the kernel of our respective difficulties. So long as a Government has directly or indirectly a large floating debt I wonder if any system can leave the Central Bank of the country really free to manage affairs from a purely financial standpoint. Indeed it was the desire to make some step towards this freedom that made me glad that our Government should have made an attempt by means of the Conversion Loan to prevent our actual floating debt increasing in size even at some cost in interest. As to this I wrote you on the 3rd, and there has been bitter criticism here, but like all other criticism of financial action it has been largely political. Time alone and long time will show which steps have been wise and which have been foolish.

The coal strike position is very bad and that again is political rather than industrial. I

suspect

suspect too that it is much more closely connected with Soviet activities than most of us have any idea of. Had we known how prolonged the strike would be I doubt if a month or so ago we should have attempted to carry out our plans as we have done. But that is merely "jobbing backwards".

Now I want to say a word in your private ear about Austria. You know the position of Austria is desperate and in my opinion nothing could be done to improve it until the Allies should have come to terms with Germany. But some weeks ago the Austrian Prime Minister and Finance Minister came to London and various meetings were held with the allied representatives. The result of these was that the plight and the needs of Austria were somehow turned over to a Committee of the League of Nations and for the last month or so a Commission appointed by this Committee has been studying matters in Vienna. I understand that in a couple of weeks meetings will be held in London to consider the reports of this Commission, and the possible outcome is as follows: The Austrian Government with the consent of all political parties in the Austrian Parliament will agree to the appointment by the League of Nations of a Controller or of a Committee of

Control of Austrian Finance, Taxation, Customs and Note Issue for a term of years. Subsequently it is thought that the indiscriminate issue of Notes will be stopped; that an internal loan will be issued to absorb some of the redundant currency and that the Government importation of food stuffs &c. will be ended, thus leaving the feeding of Austria to private enterprise.

In order that this shall have any chance of success some improvement and stability of the Austrian Exchange is necessary. For that purpose an external loan seems to me to be also necessary. The Security that could be offered should be a charge on all exports and imports (to be levied in gold?), ~~a~~ first charge on all Austrian assets ranking even ahead of ~~the~~ credits already granted for food, &c., by the allied and associated Powers; both to be levied and collected by the Controller or Commission of Control above-mentioned. (The Controller would probably be a Dane or a Swiss - alternatively the Commission of Control would be Representatives of the Allies and a neutral).

Now under some such conditions as these could the Government of Austria raise an external loan? Could they for instance raise the equivalent of £2,000,000 in Paris, perhaps in Switzerland or Denmark and in London,

and

and if they could do so what could be done in New York?
That is the question I wish to put for your personal
consideration.

You will understand that I am only thinking
aloud and basing my thought on surmises and not on facts.
You will also understand that I raise the question because
an agreement with Germany has now been reached and because
the next step should be an attempt to rehabilitate Austria
as a step towards the rehabilitation of distressed Europe.
It seems to me that unless something definite is done the
whole position in those parts must go from bad to worse.

I tried to send you a cable about this but
it was too complicated. If you think the idea of an
external loan is ridiculous so far as New York is concerned
just send me a cable to say so and it will be a guide to me
personally in case it comes to discussing this question.
Needless to say there is no idea in any country of
Government credits to Austria.

With kindest regards,

Yours most sincerely,

McNorman.

Benjamin Strong, Esq.

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183.

*
17th May, 1921.

Dear Mr. Governor,

Referring to my letter of the
15th April I now have pleasure in sending you as I
⁽⁷³⁾ promised the London Clearing Banks' Statements for the
first four months of this year.

Believe me,

Yours very truly,

(R.L.) M. Norman

The Governor, F.R.B.

Federal Reserve Board.

CONFIDENTIAL.

Bank of England

BA

London, E.C. 2

JUN 3-1921

20th May, 1921.

My dear Strong,

The following is for yourself only.

You will remember that in January last Lord Chalmers was on the point of starting for Washington as the British Representative to arrange about funding the Debt with your Treasury. His visit was postponed from day to day and week to week - chiefly due I think to your change of Administration - and has never come off.

A few weeks ago he was again on the point of sailing on the same Mission but again the plan of sending such a Representative has been deferred for an indefinite period, with the result (not unnaturally I think) that Lord Chalmers begged to be relieved of all connection with the Mission whenever and if ever it might become a reality. He would have been glad to go, but having lived for three months with his trunks packed and unable to make any plans from day to day, he wishes to be excused from spending another three or six months in the same state of uncertainty.

No

No alternative choice has been made or
thought of so far as I am aware.

With kindest regards,

Yours most sincerely,

McNorman.

Benjamin Strong, Esq.

CONFIDENTIAL.

BA Bank of England
London, E.C. 2
JUN 13 1921 23rd May, 1921.

My dear Strong,

Your letter of the 9th instant has arrived this morning, and to remedy the omission in my previous letter I may say that we succeeded in winning the football matches with the Bank of France, who now wish to return to the charge in an atheletic competition. But this is a form of sport which has never been taken up seriously and I am afraid we cannot organise the necessary competitors.

I am surprised, and from your standpoint disappointed, that your Treasury funding programme has been deferred; nor do I really believe that the fact that "interest rates still seem a bit high" is a valid reason for not going ahead. It seems to me that the future is so unsettled and the importance of funding so paramount that every opportunity ought to be taken to fund when the situation admits of it. The mere fact of funding is far more important than the actual interest charge - at least that is how we have looked at things here and I am only looking at your situation from our standpoint. Our

handicap

handicap so far has been that our situation has never been such as to permit of funding or converting on any large scale or with any real chance of success.

Your letter of the 5th reached me a couple of days ago and is very interesting as showing how pressure developed as regards your rates.

As long as our coal strike situation is as far from definite settlement as it appears to-day, we shall not be disposed to make any further alteration in the rate. If we could get the coal strike settled I should like to go down to 6 per cent. with the definite expectation of having to go back to 7 in three or four months. But all of this is purely hypothetical and I have not even thought it worth while to cable to you on the subject.

The coal strike situation is very bad: the leaders are discredited with their followers. The rank and file are led by the delegates - mostly young men and hotheads - and are being led further than they had expected. The result is that the leaders are almost afraid to negotiate for fear of being turned down by the delegates (as happened a couple of weeks ago) and I cannot say what the outcome will be. Industrially the

position

position is most serious: no coal is being mined: stocks are being used up: the factories and plants are being closed for lack of coal and coal mines are being flooded: so that it is not only a question of unemployment to-day but of the disorganisation of industry for months to come. Meanwhile of course, owing to the cessation of manufacturing, some commodities are likely to rise in price as they gradually attain a scarcity value. The whole thing is most unfortunate and depressing and is not looked at as seriously by the public as in my opinion ought to be the case.

The Reparation position of course has been wonderfully improved and there was all along a conviction in this country that the Germans would agree to the terms put forward. In France there was undoubtedly disappointment that the Germans did so, and the fact of settlement of the Reparations question has made M. Briand's political position extremely difficult - hence to some extent the new trouble about Silesia. And there I believe the apparent differences between our Prime Minister and the French ~~attitude~~ are due to the desire of the former to help M. Briand in his own political difficulties.

It was in connection with this improved position arising out of the Reparations Agreement that I wrote to you about Austria on the 14th May. Since then I have heard that the French are very anxious to make an advance to Austria in one way or another, and I think communications have been passing between Paris and New York as regards help also being forthcoming on your side (probably through J.P.M. & Co.). The meeting about Austria is to begin in a couple of days in London, and the immediate difficulty appears to be not only the question of the ultimate Loans about which I wrote to you but of advances to carry Austria along until the arrangements for control and for the issue of those Loans can be completed. But the whole position is so vague that this is all I can say about it at the moment.

With kindest regards,

Yours most sincerely,

H. Norman.

Benjamin Strong, Esq.

P.S. I enclose an article on Central Banking which you may be interested to study.

CONFIDENTIAL.

Bank of England

London, E.C. 2

PA
JUN 8 - 1921

25th May, 1921.

My dear Strong,

I write only to acknowledge the receipt of your personal letter of the 13th instant and I agree with what you say as to the distinguishing difference between your position and ours.

As regards the gold question, which is a side issue to the Trade Agreement, I sent you confidentially in my letter of the 17th February a copy of the arrangements between our Government and M. Krassin on this point. This of course has never been published and we alone outside the Government Departments possess the information.

I cannot, as you request at the bottom of page 1, give you any further information as to the test shipment of gold. The case is still sub judice and I do not know when it will come on the list for trial; nor have I yet received authority to send it to America, but I expect to receive that authority, provided the test case goes in favour of Soviet ownership, and then to send

the

the gold coins to Morgans. Their value probably does not exceed \$3,000 to \$4,000.

So far as I am aware, no gold is now being shipped from this country to New York other than newly refined gold such as I described as "contract" gold in my telegram of the 26th March. We do not permit any indiscriminate import and re-export even from the Colonies.

The coal strike situation remains unchanged and was virtually summed up in my cable of the 17th instant.

Circulation is decreasing famously, which seems to show that in many districts men are "consuming their own fat" which has so far been laid by in the shape of currency.

With kindest regards,

Yours very sincerely,

Mitman.

I am ignoring gold in Transit

Benjamin Strong, Esq.

~~104
167~~

7th June, 1921.

My dear Strong,

In connection with my letter of the 14th May and my cable of the 4th instant, I send you herewith the recommendations as to the Financial Restoration of Austria issued by the Economic and Financial Committee of the League of Nations together with the Report made to the Committee by the special Commission of Enquiry.

Yours most sincerely,

(sd) W. Norman

Benjamin Strong, Esq.

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105

*

7th June, 1931.

My dear Strong.

Additions have been made to the Statement of Claim in connection with the Soviet Gold Test Case, a copy of which I enclosed in my letter of the 29th April. I am therefore sending you with this the fresh Claim as amended.

Yours most sincerely,

(sd) M. Norman

Benjamin Strong, Esq.

CONFIDENTIAL.

Bank of England

London, E.C. 2

RA
JUN 27 1921 9th June, 1921.

My dear Strong,

I enclose confirmation of my cables to you on the subject of Austria to date, together with the replies on the same subject the second of which I received this morning.

I can only write about this Austrian matter in a changing and disjointed way. It seems to be as difficult as it is important, and in my communications with you I am only trying to ascertain from someone who is disinterested - except as regards the general good - how we in Europe can best set the Austrian house in order so as to conform with say the opinions of reasonable Americans.

In my opinion several steps have been taken by the Finance Committee of the League of Nations which were not wise, although the main lines upon which they worked were sound and desirable. But they did not think out the carrying through of their Scheme; they did not distinguish between politics and economics; or rather

rather they did not recognise that even a sound economic plan for Austria if financed and controlled by the Entente would inevitably be more political in the long run than economic; therefore they failed (as I think) in not assuring themselves from the beginning of Neutral support. Further, after their Report was settled it was a mistake to cable only to Morrow: there are other firms in New York who for obvious reasons would be more likely to put up money for Austria than J.P.M. & Co.

I can assure you that we here wish to remove these arrangements for the rehabilitation of Austria from the political atmosphere of the Entente, which in this case means France and Italy, and to place them both as regards money and control in the hands of Neutrals. But as I have said, things had gone a long way under the directions of the Finance Committee before the inevitable results were pointed out by others who are accustomed to business.

At the present time I am in negotiation with M. Glückstadt of Copenhagen and with Dr. Vissering and Mr. Ter Meulen of Amsterdam as to interesting their respective countries. I should have sent someone to Switzerland with the same object but for difficulties

with

with the French Government, who have objected privately to our desire that the control of Austrian fiscal and financial affairs shall not be in the hands of the Entente.

Assuming these preliminary difficulties to be cleared away and considering the state of Austria - time of course is very precious - the Bank will make an Issue to the public here of, say, £2,000,000 Austrian Treasury Bills secured on "Ter Meulen" Bonds and repayable out of an eventual Loan. I think any Government guarantee would be fatal and obviously if Austria is guaranteed by the British Government for an Issue in London there is no hope of getting Neutral money without a guarantee, which in turn cannot be obtained; and as the French Treasury at the moment insists on guaranteeing the French portion of the temporary advances to Austria, you see how we are already at loggerheads on a question of principle. More than this I cannot say at present - I am waiting for the French, and I am going to fight so far as possible for what is economically best for Austria as against what is politically best for the Entente.

As to the removal of the Liens, this from your cable is evidently a more difficult question than

* See end

21

than I had supposed and will probably have to be dealt with by the Ambassadors concerned as soon as the other matters have been settled.

As to other matters: The payments by Germany under the Reparations arrangements have given a great deal of trouble as you can readily imagine. I don't know whether it is the fault of the Germans, or of the Allies, or of the Reparations Commission, but more probably it is due to the same sort of reasons as those for which I have blamed the Finance Committee of the League on page 1. I mean that it was never thought out in advance what the meaning was of huge payments in "gold marks" or how they were to be carried out. Hence when a couple of weeks ago the Germans tendered to the Reparations Commission payments for large amounts of various European currencies, the Reparations Commission did not know what to do with them or at what rates to give the receipt required in "gold marks". They asked me first of all to take over these various amounts and guarantee a rate of Exchange in dollars; a risk which neither your Bank nor ours could contemplate! Thereupon the Reparations Commission told the Germans that if they required a receipt in "gold marks" they must make

their

JL 3/3/31

their payments in dollars, and this the Germans proceeded to do with the result that having only paid \$40,000,000 or \$50,000,000 the Exchange has fallen from \$4 to \$3.70!

I cannot say what the duty of the Reparations Commission is. Do they act in a judicial capacity? Are they Trustees and, if so, for whom? Can they assume risks in Exchange and, if so, who takes the profit or the loss? and so on. But in order to avoid further complications, the Allied Treasuries are trying to arrange for a meeting next week at which inter se they shall take the risk of Exchange and so allow the Reparations Commission to retain in a European currency any further sums they may receive from Germany. I don't know if this can be done. Like every other reasonable proposition, it is liable to be turned down by the French.

The only other way in which similar fluctuations in the Exchanges can be avoided is by means of some combination between the Central Banks of the countries concerned. The Reichsbank have realised this and I have told them that we will co-operate with them as we would endeavour to do with you. Perhaps you will

hear

21

hear from them. But here again in order to make co-operation between the Central Banks complete we need the Bank of France; and though the Reichsbank are going to write to them, I am not hopeful of the result. Apart from the question of general principle, we must admit that co-operation with the Reichsbank, in so far as it means holding marks, is a question for grave consideration. You would not wish to hold ^{much} sterling and still less should we wish to hold marks and still less again would you.

With kindest regards,

Yours most sincerely,

Misrahan.

Benjamin Strong, Esq.

* Although it may be necessary for the Government or ourselves to become subscribers to and holders of these Treasury Bills in order to ensure adequate applications.

CONFIDENTIAL.

ACKNOWLEDGED

JUL 5- 1921

B. S.

Bank of England

London, E.C. 2

22nd June, 1921.

My dear Strong,

This is first of all to acknowledge your confidential letter of the 2nd in which one or two points need a brief answer.

My cryptic reference to "various reasons" for doubting whether the Clearing Banks' Monthly Returns would continue to be published regularly referred only to their joint publication - I expect them to be published separately by the different Banks instead of jointly by the Banks in a combined form. This makes no difference and is due to petty quarrels between them.

The end of your third and also of your seventh paragraph shows in an interesting fashion how similar in many ways are the conditions surrounding us.

I shall not attempt to write about Austria. The scheme is in the melting pot at the moment, from which we must wait to see if the French will retrieve it. But to answer your specific question, the export or import tax would obviously have to be levied in

gold

gold or its equivalent, i.e., dollars or European currencies at a certain rate of exchange.

I take the opportunity also to acknowledge your personal letter of the 8th which deals mainly with Austria.

Needless to say, I entirely agree with your last paragraph but one - in fact I think I had already written in that sense to you as well as to others. A Mr. Riis-Hansen has been lent by the Danes to act as Controller or Administrator, and is I think just on his way to Vienna.

Please refer to my letter of the 7th June enclosing an amended Statement of Claim in connection with the Soviet Gold Test Case, which I am now advised is likely to be tried on the 6th of next month. You will think that there has been a good deal of delay and so do I, but it is apparently due to a lack of eagerness on the part of the Russians themselves. This may be because they have very little gold left in Russia and therefore little to bring here, or because they are quarrelling among themselves in London. I think there is little doubt that the members of M. Krassin's Mission are feathering their own nests!

We shall bring the rate down to 6% to-morrow as intimated in my cable of the 10th June. It is true that

the

the strike has not formally come to an end, but it is disintegrating from within although the Unions lack the leadership to have it called off. The inevitable economic pressure is also making itself felt in many districts, and there is a violent conflict going on between the opposing parties in the Unions which the Unions themselves may barely survive as at present organised.

With kindest regards,

Yours most sincerely,

divorman.

Benjamin Strong, Esq.

ANS'D BY CABLE, DATE

ANS'D BY LETTER " 7/5/21

CONFIRMED "

RELATIVE CORRESPONDENCE

Strong's letter of 6/2/21

Norman's letter of 6/17/21

" Cable #40

C O P Y

June 22d, 1921

Bank of England

My dear Strong

Please refer to your confidential letter of June 2^d - last lines of page 1. I have now been placed in the saddle until (say) April 1st 1922 + the future will not be even considered until Nov. 1921 - according to long custom.

But I am driven to regard it as very probable that given health arrangements will be made next November for to continue for another year - viz till April 1923. I gather this will be the general wish here from what has been privately said to me.

Yrs ever

[signed] MN

Px C.

June 22nd 1921

Bank of England
ACKNOWLEDGED
JUL 5-1921

B. S.

My dear Strong

Please refer to your confidential letter of June 2nd - last lines of page 1. I have now been placed in the saddle until (say) April 1st 1922 & the future will not be even considered until Nov. 1921 - according to long custom.

But I am drawn to regard it as very probable that given health arrangements will be made next

Nov. 25 1922

November for me to continue
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will be the general wish here
from what has been privately
said to me.

Yr ever
M.N.

CONFIDENTIAL.

Bank of England

London, E.C. 2

ACKNOWLEDGED

27th June, 1921.

JUL 12 1921

My dear Strong,

B. S.

Many thanks for your letter of the 9th enclosing copy of the Business Summary to the 6th June with the "yellow pages" as to the duration of the depression. The information is wonderfully complete and interesting, and I have to confess that we here have no Statistical Department which keeps us thus informed week by week. As a matter of detail, the confidential discussion mentioned as being enclosed seems to have been accidentally left out.

I have also to acknowledge your letter of the 13th on the Mercantile Bank of the Americas, about which we have heard so much during the last few weeks that I am glad to have your confidential statement.

With kindest regards,

Yours most sincerely,

Mervinman.

~~ANS'D BY CABLE, DATE~~

~~ANS'D BY LETTER " 7/2/21~~

~~CONFIRMED~~

~~RELATIVE CORRESPONDENCE~~

~~Strong's letter of 6/9/21~~

Benjamin Strong, Esq.

*READ AND NOTED
B.*

CONFIDENTIAL.

Bank of England

London, E.C. 2

13th July, 1921.

My dear Strong,

I am writing primarily to acknowledge the receipt of your letters of the 20th and 21st June and we shall look forward to a visit from Mr.Treman in the near future.

Mr.Jay has already given us the pleasure of seeing him both yesterday and the day before, and he and I have spent a couple of hours in discussing many questions which pertain particularly to the sphere of Central Banking. I need not say that it took less than no time for him to become one of us, and this has been brought about as much by his delightful personality as by his position in your Bank.

Long before I knew that he was coming here even for a few days, I felt that the difficulties and uncertainties amid which we both seem to be struggling made it very desirable, if not indeed necessary, that we should meet in the near future. The cables which have

passed

passed between us (of which confirmations are enclosed) have now made this a settled programme. I am, so to speak, entitled to a vacation next month and that I shall dedicate most gladly to renewing our conversations of last winter on your side of the Atlantic, and for various reasons I have asked Sir Charles Addis to come with me. He has a far greater knowledge than I of economic subjects, was a member of the Currency Committee which reported a couple of years ago, and he and I together will be better able not only to discuss questions with yourself but also to bring back a picture and perhaps a programme for the consideration of our colleagues, than I could do alone. Moreover, as I remarked to Mr. Jay, Mr Wilson made a lamentable mistake in failing to have co-operation with his colleagues, and if I may compare small things with great this is a mistake which I should wish to guard against!

But you must kindly remember that next month is to be a vacation, and that New York, apart from its heat at that time of year, is not a good place for a vacation; so my idea is that after a week or so in New York we should go to Bar Harbour where my old friend Mrs. Markoe has a cottage and in one way or another would

would find us accommodation and quiet. I only throw this out as a suggestion and shall be careful not to commit you to any such plan without your full approval.

I think that if we were to sail on the 5th or 6th August so as to arrive ^{in NY} on the 14th or 15th we should have between two and three weeks clear before it was time for Sir Charles and myself to start again from Montreal on the way home.

I take this opportunity of acknowledging your letter of the 13th June, and on the subject of Austria I enclose only for your personal information a note which I made last week of a long conversation with M. Avenol. This really will give you a bird's-eye view of the differences which exist between the French and Italians on one side and say ourselves and the Dutch on the other; differences so fundamental that even if the general questions of release or subordination of liens be settled I do not see how the financing of Austria is to be arranged. You may take it from me that M. Avenol is better qualified than any other French Official to speak for the French Government on the external financial

policy

policy of his country.

With kindest regards,

Yours most sincerely,

W. W. Strong

Benjamin Strong, Esq.

ANS'D BY CABLE, DATE
ANS'D BY LETTER "

CONFIRMED "

RELATIVE CORRESPONDENCE

Strong letters 6/20/21 6/21/21

Referred to in letter of

Yorname July 13,

A U S T R I A.

M. Avenol called to-day and stated that after our last Meeting (which was at an informal Meeting of the Economic Committee) he had gone to Italy where he had found great difficulty in obtaining consent to the proposals of the Economic Committee of the League. The Italians considered that they had primary rights over Austria and did not wish to make any contribution and were at first unwilling to postpone their liens for food and reparations. But he thinks that, subject to an agreement with the United States and to a seat on the Committee of Control in Paris, the Italians will eventually agree to postpone their liens.

M. Avenol then attended the Council of Ambassadors in Paris at which it was agreed that a request should be made to all the countries to postpone their food liens on Austria; that reparation liens should be postponed by the Reparation Commission; and finally that the Entente Ambassadors in Washington should jointly request the United States Government to release its food lien, to appoint an American to the Committee of Control in Paris, and to encourage its citizens to subscribe to the Austrian Advances.

After these steps had been achieved, M. Avenol came back to London where he has seen Sir Basil Blackett and Mr. Gluckstadt, and has discovered to his dismay that the whole of his plans for Austria are in the melting pot.

After long discussion with M. Avenol it appears quite evident that there are two alternative courses open in regard to the rehabilitation of Austria once the liens are postponed -

- (1) A Neutral Administrator in Vienna acting under the direction of a Committee of Control in Paris: this Committee to consist of Gluckstadt, Blackett, Avenol, an Italian and

apply the necessary political pressure on Austria when required.

French Bankers will find their quota to the temporary Advances under the guarantee of the French Government and not otherwise. M.Avenol hopes that the Public in America, England, and some of the Neutral Countries will subscribe their quotas, but he admits that the Control will be vested to all intents and purposes in the Entente, and he states emphatically that under no other conditions will France and Italy co-operate.

(2) An independent Neutral Administrator in Vienna (with perhaps an Advisory Committee of Control, to whom he could refer if he wished, that Committee being composed of a majority of Neutrals).

Under this scheme I told M.Avenol that I thought money could be obtained from the publics in the United States, Holland, Scandinavian Countries and Great Britain, and I hoped could be similarly obtained in France, Switzerland and Italy.

I agreed that the former plan could be put into effect but only if the necessary money was provided by the Governments of Great Britain and France: I did not think it reasonable to expect that money would be provided under these conditions by the Public here or by the Governments or public of the Neutral Countries: and this plan was a Cabinet question pure and simple.

M.Avenol said he saw no hope of carrying through the scheme under the latter alternative and he feared the whole matter was at an end: the idea was ridiculous and he emphatically objected to the Neutral Administrator whose name had been put before him by Mr.Gluckstadt. He could never agree that the Committee of Control, whether advisory or powerful, should consist of Neutrals and he thought it proper and necessary that the Entente should in fact permanently control the political and economic situation in Austria and in the adjoining new countries.

He eventually suggested as a compromise that Mr.Hansen

on an international basis. I agreed that it was an advantage that Mr. Hansen should stay in Vienna longer than the proposed three months and in fact until the temporary Advances should have been repaid, but I thought it unlikely that the Neutral Nations or America would join in the temporary Advances if Austria was to be controlled as he proposed by the Entente, and I did not think the Neutral Nations or America would eventually share in the Funding Loan if its proceeds were chiefly to be used to repay the temporary Advances of France and Great Britain.

In parting we agreed not to give up hope of finding a solution but we also agreed that the two plans above outlined seemed so far removed from one another in practice as to make compromise difficult.

6th July, 1921.

READ AND NOTED,
B. S.

CONFIDENTIAL.

Bank of England

London, E.C. 2

23rd July, 1921.

My dear Strong,

Thank you for your confidential letter of the 27th June, received some days ago, full of interesting subjects, most of which are controversial or at any rate admit of very differing views under present conditions. At the end you very kindly ask me to write quite fully about all these subjects. Well, I am not going to do so: first of all because no amount of letter writing would be adequate, and secondly because I am coming over to discuss all these questions and as many more as you wish next month. Enclosed is a list of the sort of questions I want to discuss with you.

held over }

Finally, I may confirm that with Sir Charles Addis I am booked to sail from Liverpool in the "Celtic" on Saturday, the 6th August. I shall be bringing my man Dick whom you may remember, and if we are to stay a night in New York I should be obliged if you would engage rooms. Beyond that I shall be entirely in your

hands

hands for a week or so for whatever purposes and places you may think most useful.

With kindest regards,

Yours most sincerely,

W. Norman.

Benjamin Strong, Esq.

P.S. We plan to come back from Quebec on the 3rd September by the "Empress of France" but shall not reserve accommodation at this end. The next boat is the "Empress of Britain" on the 10th September from Quebec, but I doubt if that would be early enough for engagements on this side.

ANS'D BY CABLE, DATE

ANS'D BY LETTER "

CONFIRMED "

RELATIVE CORRESPONDENCE

Strong's letter 6/27/21

27th July, 1921.

My dear Strong,

I have your notes of the 11th and
13th July and am sending you with this three copies of
^(126 A) the amended Statement of Claim and three copies of the
Judgment in the case of Marshall v. Grinbaum and the
Bank of England.

I have had a copy of the London
Clearing Banks' June Statement posted to your Reference
Library and have given instructions that they shall be
regularly supplied with these figures.

Yours most sincerely,

(Sd.) M Norman.

Benjamin Strong, Esq.

POSTAL TELEGRAPH - COMMERCIAL CABLES

CLARENCE H. MACKAY, PRESIDENT.

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NEW YORK CITY
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228RASO 50 RADIO 630PM

712

EMPRESS OF BRITIAN VIA QUEBEC QUE SEPT 10

GOVERNOR STRONG

FEDERAL RESERVE BANK NEWYORK

WE SAIL TODAY HOPING OUR VISIT HAS DONE EVEN HALF AS MUCH GOOD
TO THE SYSTEM AS IT HAS GIVEN PLEASURE TO US PLEASE THANK
YOUR OFFICERS FOR THEIR WELCOME AND FRIENDLESS AND BEG THEM TO
CULTIVATE THE INTERNATIONAL OUTLOOK SO LONG

NORMAN ADDIS

POSTAL TELEGRAPH - COMMERCIAL CABLES

RECEIVED AT
20 BROAD STREET
ALWAYS OPEN
NEW YORK CITY
278, 1279 RECTOR

CLARENCE H. MACKAY, PRESIDENT.

DELIVERY NO.

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This is a fast Day Telegram unless otherwise indicated by signal after the number of words: "N. L." (Night Lettergram) or "Nite" (Night Telegram) 16-3

228RASO 50 RADIO 630PM

EMPRESS OF BRITIAN VIA QUEBEC QUE SEPT 10

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CULTIVATE THE INTERNATIONAL OUTLOOK SO LONG

NORMAN ADDIS

712
ACKNOWLEDGED
SEP 13 1921

R. S.

C O P Y

Sept 15, 1921.

Empress of Britain

Dear Strong

The more I think of it the more delightful are the memories of our visit: that I must write + tell you for in yourself those memories began + end. There were - as I told you - three reasons which prompted me to come: to pay our respects to the Board in Washington: to point out the needs of the world for treatment + consideration on international lines: to support + strengthen your position by returning your visits + by standing behind you as regards the rest. How far we have met with success you will be able, slowly, to judge, apart from the motives of which I know you approve.

As soon as we reach London I shall try to get hold of Jay + to live with him for a couple of weeks, there or wherever it may seem wise to go.

Keep me informed of what goes on in a general way - especially about the final form of Hoover's letter + about your plans to carry its request into effect.

Finally let me beg you to care for yourself more than you seem to be doing. You belong to others quite as much as to yourself + I have - as one of the others + the right if indeed not the duty to beg you to go slow. You are an international asset + almost unique in your own country: with you we hope to gain the whole world: without you we should not know where to turn for instructed support: do not jeopardise that support, especially at this stage, by endangering the powers or the health of yourself as its channel.

I think that Central Bankers are destined to play their own great part.

Give my love to Ben + forgive my preaching. God bless you.

As ever

[signed] MN.



Sept 15. 1921.

READ AND NOTED
B. S.

EMPRESS OF BRITAIN.

My dear Strong

The more I think of it the more
delightful are the memories of our
visit - that I must write & tell you
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& consideration on international
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& by standing behind you as regards
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with success you will be able, slowly,
to judge, apart from the motives
of which I know you approve.

As soon as we reach London
I shall try to get hold of Fay
& to live with him for a couple of
weeks, there or wherever it may
seem wise to go.

Keep me informed of what goes
on in a general way - especially
about the final form of Hoover's

2
POS

Letter & about your plans to carry
its request into effect.

EMPERESS OF BRITAIN.

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support : Do not jeopardise that support, especially at this stage, by endangering the powers or the health of yourself as its channel.

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as ever

driv-

S/N 6761



Sept 15, 1921.
READ AND NOTED
B. S.

EMPEROR OF BRITAIN.

My dear Strong

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I feel are the memories of our
time that I must write & tell you
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With you we hope to gain the whole
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know where to turn for instructed

position by returning your ^{right}
by standing behind you as regards
the rest.

How far we have met
with success you will be able, slowly,
to judge, apart from the ~~rest~~
of which I know you approve.

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I shall try to get hold of ~~any~~
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destined to play their own great
part -

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my preaching. God bless you.

as ever
H.W.

RA

TRANSLATION OF CABLEGRAM

Federal Reserve Bank,

London, England,
Rec'd Sept. 28, 1921.

New York, N. Y.

No. 81 STRICTLY CONFIDENTIAL FOR GOVERNOR Your 91

- 1st Understand finance minister has resigned owing to his failure to obtain financial aid but official confirmation has not been received.
- 2nd Impossible now to foresee whether other resignations will follow or ultimate effect beyond weakening of present Government.
- 3rd Need for investigation would seem more urgent in order that their results may the sooner bring help to Austria.

British Government and French Government are conferring as to advances of say

£250,000 Sterling each

Bank of England

CABLE FROM BANK OF ENGLAND

Received Sept. 24, 1921

SSTRICTLY CONFIDENTIAL FOR GOVERNOR No. 78.

First: Your No 88 and our return Find conditions in Austria repeatedly worsening so that continuance of Government uncertain. Your paragraph 2 most disappointing and trust at least you obtain consent to proceed at once with investigation which would at least arouse hope and so help to maintain exchange values. At the moment advances from French and British Governments seem essential owing to good conditions although greater difficulty may be thus caused later as stated yours No. 82 last paragraph. Am sending representative to Vienna to ascertain general situation and beg you telegraph your views as to any action you think advisable.

Second: Jay has read all cables Joint visit to Vissering loses its object if Austrian investigation indefinitely postponed though Jay hopes to call on Vissering

ACKNOWLEDGED

NOV 1 - 1921

Bank of England

London, E.C. 2

B. S.

13th October, 1921.

My dear Strong,

Indeed I owe you some apology for not having written to you sooner after returning with Sir Charles Addis from our visit to your Bank and to the System generally. But I did not do so because Jay was here and I knew that not only was he keeping you informed but that on his return he would be able to explain to you what has been going on far better than I could hope to do in any number of letters.

But once and for all let me thank you and your Officers and friends for all your kindness to us and for the warmth of your reception. I do not doubt that somehow or another good will come of our visit. It has taught us a great deal: it has enabled us to make the acquaintance of the Board in Washington: it has helped us to see somewhat more clearly through your eyes, and last but not least it must help to increase the intimacy between the Federal Reserve Bank of New York

and

and the Bank of England.

I shall not go into general matters which, as I have said above, Jay will explain to you fully on his arrival in a few days, but as one of the matters about which he will speak will be our recent visit to Vissering I take the opportunity of enclosing for your information a copy of a letter which I wrote to him yesterday as to his promised visit to the Central Bank in Switzerland. I trust both Jay and yourself will agree with the somewhat vague terms in which I have purposely set out the objects we have in view - objects which Jay and I agreed in principle in the course of our conversations in Amsterdam.

Do not forget that at no distant date we here are hoping for the pleasure of a visit from one of your number and I dare to hope that it may be yourself.

With kindest regards,

Yours most sincerely,

McNoman.

Benjamin Strong, Esq.

ACKNOWLEDGED

CONFIDENTIAL.

NOV 2 - 1921

Bank of England

London, E.C. 2

21st October, 1921.

My dear Strong,

As you will remember, it was part of my programme to pay a visit as soon as I could find time to the Governor of the National Bank of Belgium.

My visit has, however, been anticipated by the presence in London of the Vice Governor, M. Lepreux, with whom I was able to arrange for a long interview the other day. Under pledge of strict confidence I explained to him and have sent him a copy of the heads of the discussions which Mr. Jay and I had with Dr. Vissering, of which you are already in possession. M. Lepreux expressed himself as fully appreciating their importance, and indeed accepted them on behalf of the Governor of the National Bank of Belgium to whom he will communicate them on his return to Brussels at an early date. From this you will see that the good seed has been sown in one more centre.

I am sorry I cannot stay to write more to-day as I am much occupied with thoughts of a Committee to be appointed to deal with the recently declared

Government

Government measures on the all-important question of
unemployment.

With kindest regards,

Yours most sincerely,

H. Norman

Benjamin Strong, Esq.

ANS'D BY CABLE, DATE
ANS'D BY LETTER " 1/2/21
CONFIRMED "
RELATIVE CORRESPONDENCE

CONFIDENTIAL.

Bank of England
ACKNOWLEDGED
London, E.C. 2

NOV 25 1921

28th October, 1921.

R.S.

My dear Strong,

You are already aware of the visit Jay and I paid to Visseling when we discussed in confidence all manner of things; and you are also aware of my conversation with the National Bank of Belgium when many things were likewise discussed, but rather more guardedly, and when as a matter of fact the Reichsbank and the position of Germany was hardly touched upon.

Before Jay left us I had arranged, as he was aware, that my colleague, Tiarks, should have a first and informal meeting with the representatives of the Reichsbank, in Hamburg, and I urged him to do his best to induce them either to come here or to meet me in Amsterdam. I heard nothing after Tiarks left until last Sunday, when I had a telegram from him stating that President Havenstein and Mr. Kauffmann (who may be called the Controller of the Reichsbank) were on the point of coming here. They arrived on Monday and left

yesterday,

yesterday, so we have had several days for talking, and their visit has remained practically unknown. They have been nowhere except to the Bank and very few outsiders have been to see them.

The President is a quiet, modest, convincing and very attractive man: but so sad. I was much impressed by his attitude of almost hopelessness and by the pleasure which it evidently gave him to be treated in an open and friendly manner. But really he has nothing to say beyond what is contained in my confidential cable No.90. Banking as such does not exist in Germany; his mind is preoccupied by rising prices and falling Exchange: by the payment for needful imports and by fears as to each succeeding Reparations payment. There is no position in Germany, whether of a Bank or a business or an individual, but that of the State, and at the present moment all are dominated by a bitter disappointment over the unfairness and futility of the Silesian decision and over the future Reparations payments.

Havenstein said there were doubtless profiteers in Germany as elsewhere but he did not attach much importance to them. He also stated that German Firms and Companies no doubt had accumulated balances in foreign currencies to an amount which he could not

estimate,

10/28/21

estimate, but these for the most part were needed for the purchase of raw materials. It is the uncertainty of the cost of and methods of payment for necessary raw materials in the near future which makes the greatest difficulty in calculating the ability of the State to continue making Reparations payments for any particular period.

He did not complain of the physical conditions of his people - he thought that there were comparatively few who were not employed one way or another - but it was perfectly obvious from beginning to end that to his mind the present state of affairs could not continue much longer; that he was absolutely dismayed at the prospect of the occupation of further territory by France; that he was bitterly disappointed about Upper Silesia (as to which the decision seemed to him to be due more to stupidity and lack of business knowledge than to wicked politics); and that he wanted above all things some help and some advice and indeed some consolation from your Bank and from ours. We gave it him to the best of our ability and I advised him of his own motion to get into touch with you, knowing you to be well-disposed towards Germany and towards Central Banks and to be as anxious as any of us for the rehabilitation of Europe.

As

10/28/21

As to the Reparations payments, I had to make it perfectly clear to the President that the provision of funds to make these payments (without any definite prospect of their repayment) was not a banking matter which could be undertaken by either of us. In that respect the position of Germany (and the Exchange) has worsened of course from what it was when temporary banking advances were made by Foreign Bankers last summer. The failure to make payment of sums as and when due for Reparations in future is a question of politics and must be decided by Governments. But in seeking for some suggestion which we here may make to our own Government in this connection, we have hit upon an idea which is enclosed in the form of a secret memorandum. It is known to the Chancellor and to Blackett, and I intend to make it known to the Prime Minister before he goes to Washington. What I want to know from you is what is your opinion of the idea, what the attitude of your Administration would be and of course any better idea that may occur to you. (The British Government have as you know any number of French and Italian Sterling Treasury Bills representing part of the inter-allied debt).

We are going to take over most of the

Reichsbank's

London

5.

10/26/21

Reichsbank's banking business and do the very best for them that we can in the way one Central Bank should I think co-operate with another. Havenstein is very glad of this - I don't know why. He says it will save trouble and please his Government and be a satisfaction to him. I hope you will hear from him and do the same.

Many greetings to Jay and other friends,

Yours most sincerely,

Hornman.

—

Benjamin Strong, Esq.

ANS'D BY CABLE, DATE
ANS'D BY LETTER " 11/25/21
CONFIRMED "
RELATIVE CORRESPONDENCE
Hornman cable #90

REPARATIONS PAYMENTS.

In the event of Germany being definitely unable to provide the monies required for these payments and therefore forced to make actual default to the Reparations Commission at one date or another, the following plan should be considered.

H.M.G. to hand to the German Government an amount of French (and/or Italian) Sterling Treasury Bills equal to the amount of the Reparations payment upon which she would otherwise default, in exchange for a similar amount of German Sterling Treasury Bills or other approved Securities.

Germany to hand to the Reparations Commission in full settlement of the amount of her Reparations payment thus due the French (and/or Italian) Sterling Treasury Bills (which would become pro rata the property of whichever of the Allies is entitled to receive payment according to the agreed proportions).

From the point of view of H.M.G., this would entail an exchange of French for German Treasury Bills of like amount.

*Memo - Confidential
Revised to 10/28/21*

entail the issue of Sterling Treasury Bills or other Securities (which would rank behind the Reparation and similar claims) in lieu of cash payments.

From the point of view of France (and other Allies), this would entail the receipt of French Sterling Treasury Bills in lieu of cash or approved foreign currencies which she is entitled to receive. But could she refuse her own Bills?

27th October, 1921.

CONFIDENTIAL.

Bank of England
London, E.C. 2

7th November, 1921.

My dear Strong,

On reading over my letter of the 28th of last month I do not think that there is anything about the Reichsbank and President Havenstein which I can usefully add unless you ask specific questions and these I should do my best to answer. But there are many other points about which I ought to have written to you sooner.

First as to Vissering: as the most convenient way of giving you information I send you a copy of his letter to me of the 2nd and of my reply of the 5th instant. I fear that there is not much to be got out of the Swiss National Bank nor, from what I hear in other quarters, of the Riksbank.

The mention of Vissering leads me to say another word in his connection. You will remember that months ago I was secretly told of Vissering's willingness to go to Vienna to administer a suitable rehabilitation scheme for Austria. I was much struck by the idea, not

only

only because of his ability (even if he is cranky,) but also because he would ensure an economic rather than a political standpoint. I mentioned his name to you and practically to nobody else, and when I was in Amsterdam last month with Jay I was particularly careful, (having received the above under the seal of secrecy), not even to let Vissering know that I was aware of it. Only last week I received, however, the idea that Mr.Ter Meulen had been greatly disappointed at my not having discussed this offer of Vissering's to go to Vienna with Vissering while Jay and I were in Amsterdam. My reply of course was that I only did not do so because I did not think myself free, and not in the least because I or you or anyone else had the impression that Vissering's offer was not the best solution for finding an administrator in Vienna that any of us could conceive. I mention this merely in case the question should crop up later.

Secondly as to the cables which we have recently exchanged about our rates. You will have understood that when the Bankers' Deposit Rate came to be above Treasury Bill Tap Rate there was a good deal of squealing. The manner in which you were able to act last Wednesday and the indication you previously sent of your intentions

were

were extremely helpful and satisfactory. Pray accept my thanks.

[Thirdly, as to Austria. After some lingering the British Government has now placed at the disposal of the Austrian Government (through the Anglo-Austrian Bank in Vienna) £250,000 which, though it does not take the form of a relief credit, is intended solely for that purpose. I think the French Government is making arrangements to do the same.]

The conversion of the old Anglo-Austrian Bank into a British Company and of the old Austrian Laenderbank into a French Company are both nearly completed. I think I told you that in both cases the operation is made easier by the funding of the very heavy debts which both of these Banks owe in sterling to us, but at the same time it ought to be a help towards the opening up of Austria. The quarrels in Austria between the protagonists of the French on the one side and of the British on the other have been very unfortunate and of course all spring from the fundamentally different standpoints of the two Countries. Our basis is economic, the French basis is political, and nowhere is the distinction more clearly seen than in Austria.

[Fourthly,

Fourthly, I am rather wondering what plans you have been able to make. On my side it might be well for me to say that I look forward to spending most of the month of January in the South of France.

Fifthly, Mr. Frank Vanderlip (as you may have seen) is wandering about Europe with thunderings of a new plan to settle all European difficulties. I hope the time has already come when he has gone so far as to be able to do a good deal less harm than when he was last similarly engaged!

Sixthly, your Officers will well remember all the trouble they had about the changeful methods of the Reparation Commission in the keeping of their account, and I told you that on my return here we would try and get the Commission's methods improved. Well, the result is that our Mr. Paice (Deputy Chief Cashier) is now spending a week or so in Paris in order to advise the financial section of the Reparation Commission on the methods of their Departments. But what between the French and the Italians and the English I should think he would be glad to get home again!

Lastly, I am very sorry the Prime Minister will

not

not be able to attend the opening of the Conference.

Obviously his appearance at a later stage will not have the same effect but may be better than nothing. I will not write more about this especially as one of the last things I told Jay was that it appeared to be definitely settled that Mr. Bonar Law was to go to Washington and not ~~or~~ the Prime Minister. But thereby hangs a tale!!

With kindest regards,

Yours most sincerely,

Norman.

Benjamin Strong, Esq.

ANS'D BY CABLE, DATE
ANS'D BY LETTER "
CONFIRMED "
RELATIVE CORRESPONDENCE
Norman's letter of 10/28/21

COPY.

CONFIDENTIAL

Amsterdam, November 2nd, 1921.

M.C.Norman, Esq.,

Referred to in letter of
Norman's Nov. 2/21

Governor of the Bank of England.

Dear Mr. Norman,

Thank you for your letter of October 12th. It did not reach me until after my return from Switzerland and Berlin.

I was in Zurich during some days, and had ample discussions with Mr. Burckhardt. I told him about our confidential discussions and asked him for information as regards the present position of the Swiss National Bank, and whether he would be prepared to further our endeavours towards an understanding among Central Banks, on the lines pointed out by you.

Mr. Burckhardt was kind enough to explain to me, clearly and in detail, the government of the Swiss National Bank. It appears from what he told me, that he is not so free in his actions as the Governors of most of the Central Banks. He is under the immediate supervision of a Board of the Bank, consisting of 40 members. Two thirds of these are appointed by the Swiss Parliament. President of the Board is Mr. Hirter, a member of Parliament.

It is obvious that this situation is not without danger. Parliament might easily get too much

influence

v/n - 11/2/21

influence on the government of the Bank. Mr. Burckhardt told me he has to be continually on his guard in this respect.

Mr. Burckhardt is not allowed to go abroad without permission of the Federal Government. In asking that permission he has to state the reasons for his journey. Also the Board has to be informed of his absence.

I am afraid, therefore, that personally Mr. Burckhardt will not be able to do very much. He declared, however, that he would be pleased to co-operate, as far as in his power, in the direction you pointed out.

In connection with the last fall in the exchange rate, I returned from Switzerland via Berlin. The consequences of that fall are so important, also for Holland, that I would not miss the opportunity of seeing the Governor of the "Reichsbank" and some other Berlin bankers about that question.

I want to emphasize that I made this visit only for my own information as President of the Nederlands Bank.

When it appeared, during my discussion with Mr. Havenstein, that you had already entered into relation with him, I have expressly stated that I did not wish to discuss the matters you intended to talk about, as I wanted to abstain in every respect from coming into your domain.

I asked my Colleagues in Amsterdam to let you know about my visit to Berlin, as I wished to prevent you from hearing about it first from another side, and possibly with a wrong statement as to the purpose of my visit.

In

✓n 11/2/21

In a letter, I hope to write you one of these days, I intend to tell you something more about this visit.

Thank you for your letter of October 26th and for your telegram of the same date. Messrs. Havenstein and Kaufmann were here last Friday and I had an ample discussion with them.

" As to your letter of October 12th, I entirely agree with you about the result of our confidential discussions, viz. that we agreed generally to further:

(1) An understanding as to the general financial policy of Central Banks;

(2) Co-operation on international and economic lines among Central Banks; and

(3) An eventual consortium of Central Banks (under the lead of the Federal Reserve Bank) for the rehabilitation of Austria and Eastern Europe on purely economic lines. ✓

Perhaps I shall not be wrong in thinking that, in these circumstances, further steps will be taken either by the Federal Reserve Bank or by you, and that I may expect your further communications in due time.

Believe me, dear Mr. Norman,

Yours most respectfully and sincerely,

(Sd.) G. VISSERING.

CONFIDENTIAL.

Referred to in letter
Norman Nov. 7, 1921

5th November, 1921.

Dear Dr. Vissering,

Pray accept my thanks for your interesting letter of the 2nd instant.

The information which, during your visit to Switzerland, you succeeded in obtaining as to the Swiss National Bank is very complete from our point of view, and I regret to say somewhat unsatisfactory. It is however a step in our favour that Mr. Bureckhardt individually will co-operate with us and there we must let the question lie for the present. Incidentally I should think there were considerable resemblances between the position of the Swiss National Bank and the Riksbank.

I was glad to hear (through the kindness of your Secretary) that you were proceeding from Switzerland to Berlin, and you may be sure that for whatever particular reasons you might have decided to do so I was only glad to think that as President of the Netherlands Bank you would be visiting the President of

the

the Reichsbank.

While you were in Berlin you will have learned that Mr. Havenstein's decision to come to London was sudden but, I can assure you, very welcome. We had long and full discussions with him and I was particularly glad that on his way home he should have had the advantage of again seeing you, and I told him that so far as I was concerned he could not be too free in his conversations with yourself.

As regards the final page of your letter, there is, I think, nothing more to be done at the moment, but I hope to have further communication with Mr. Strong (who will be much interested to hear about Mr. Burchhardt) as well as with yourself.

With regard to Austria you may be aware that the British Government has just placed at the disposal of the Austrian Government through the Anglo-Austrian Bank the sum of £250,000, and I believe that the French Government are making similar arrangements. These advances may almost be looked upon as relief credits though they do not actually take that form. I regret that any larger scheme for the rehabilitation of Austria is as remote as ever owing in particular to the fact

that

that no material progress has been made in Washington with the legislation necessary to permit the removal or postponement of the American Liens. I trust that the time will yet come when we may be able to consult your wishes as to arrangements for the Austrian rehabilitation.

You will have noticed that following on the policy which Mr. Jay and I discussed with you, the New York Discount Rate was reduced to $4\frac{1}{2}\%$ last Wednesday and our Rate to 5% on the following day. I should be still better pleased to see the New York Rate 1% below ours but this is a step for which we may have to wait a considerable time.

Believe me, dear Dr. Vissering,

- Yours most faithfully,

(Sd.) M.NORMAN.

Dr.G.Vissering.

(Mr. Strong answered this)
(letter by hand)
Bank of England

London, E.C. 2

11th November, 1921.

My dear Strong,

We have just unveiled in the Bank Garden our Memorial to the members of our Staff who fell in the Great War. As you are interested in our domestic affairs, I thought that you would like two photographs of the Memorial. The Statue represents St. Christopher and the Garden is the old Churchyard of the Church of that name which, as you may recollect, lies just outside the Court Room.

Yours most sincerely,

Alfred Norman.

Benjamin Strong, Esq.

ACKNOWLEDGED

FEB 7 - 1922 Bank of England

London, E.C. 2

B. S.

11th November, 1921.

My dear Strong,

I enclose an early copy of Sir Charles Addis's address before the Institute of Bankers on the 8th instant. It was received with mixed feelings but, on the whole, I think that it has done good as an antidote to the policy of the devaluation-mongers!

With kindest regards,

Yours most sincerely,

H. Norman.

Benjamin Strong, Esq.

PRIVATE & CONFIDENTIAL.

READ AND NOTED,
B. S.

Bank of England

London, E.C. 2

11th November, 1921.

My dear Strong,

of his own

I send you a copy of a scheme
drawn up by Mr.Havenstein when he was here, which I
meant to have enclosed in my letter of the 7th instant.

Pray forgive the omission and,

with kindest regards,

Believe me,

Yours very sincerely,

McCormick

Benjamin Strong, Esq.

Mr. Star ple. read & hold for my return,-
or better return, with comments, to me, within
10d.

~~SECRET MEMORANDUM~~ - BY PRESIDENT HAVENSTEIN.

Referred to in letter
Norman's 1/1/21

The lists (appendix A and B) are based upon the discharge of the liabilities forced upon us. They are illustrating the unbearable pressure upon the German economy and the overburdening of the German credit, and it cannot be overlooked that in the details the suppositions are very optimistic but by no means sure.

Thus in the first place both lists are founded upon the mere assumption that the unvariable annual payments of 2,000 millions of gold marks forced upon us are including, year by year, 1,000 millions of gold marks that are not represented by the customary means of payment, but by goods. It is true this would be at the cost of our exports, but on the other side, the remedy would mean an appreciable improvement in comparison with payments in cash or cheques and bills of exchange running in foreign currencies. Thus in accordance with that assumption the fixed annuity is inserted into column 8^a invariably with 1,000 millions of gold marks with regard to the delivery of goods, while the export in column 2 is inserted with an amount of 5,000 millions of gold marks beginning with 1921. This amount answers approximately to the export value stated in 1920 owing to the serious decline of our export in the first months. Moreover it is supposed that we shall succeed in increasing very strongly the German export of commodities, i.e. for the next ten years by no less than 1,000 millions of gold marks annually, then for the following six years by 500 millions of gold marks annually. Thus after the elapse of 16 years the value of the German exports would reach the high rate of 18,000 millions of gold marks a year (that is nearly the double amount of our export before the war). The further supposition is that our exports could be maintained during the following years at that excessively high level. All this is very unlikely in view of the conditions of the world-market and the protective anti-

dumping measures of the countries with sound currencies. Too, the lists are based upon the supposition that the German shipping will have for the transport of foreign goods in freights and from banking with foreigners and so on yearly earnings from 200 millions of gold marks in 1921 rising up gradually to 1,000 millions in 1934 and all the following years. This sum answers nearly to the sum before the war.

As to the import of goods wanted by the German economy for its own needs it is supposed - in the list A - that it may be possible to reduce the demand of imported goods from 7,500 millions of gold marks - which sum, it may be mentioned, for 1921 is probably much higher thanks to the new hole in the west (Loch im Westen) - within two years to 7,000 millions and within other two years even to 6,500 millions of gold marks (column 5). But, unfortunately, owing to the fresh break in the Western custom frontier the above mentioned estimate of the import of 7,500 millions will presumably reach a far higher level. I likewise have supposed that by improving our productive methods we may succeed in rendering more productive the process of refining, i.e. the importation of foreign raw materials destined to be re-exported after having undergone a refining process. Supposed that an export of goods requires now-a-days an import of raw materials etc. in the amount of 60% of the value of the export - in accordance with the estimate made by the German experts on the London conference - I hope that within five years the rate of 60% will be lowered to 50% (column 6). This may be especially true in the fabrication of high-standard goods. As to the other items forming the passive side of Germany's balance of payment I also do not fully share the opinion expressed in the Memorandum prepared for the London conference. I do not believe that the debit of 1,500 millions of gold marks should not undergo any diminishing. I might rather assume that, as the payments made on account of the clearing (Traité de Versailles) - at present

about 500 millions - will have reached their end in 1924, that debit will be reduced to 1,000 millions of gold marks (column 7)

The rate of interests upon the annual balance resulting from the movement of Germany's foreign trade (column 11) has been taxed at only 5% (column 9), but without making allowance for any sinking fund. The actually existing indebtedness of Germany to foreign countries has been put into account for 1920 with 62/3 milliard gold marks in accordance with the German memorandum for the London conference and the relation between gold mark and paper mark has been established one to fifteen (column 13). All these estimates and presumptions are very optimistic and they are not meant to say that I personally believe they would be fulfilled in all parts. They are rather meant to illustrate that even in the case of far-going improvement of our economical energy and capacity our indebtedness to foreign countries must grow to the utmost.

If we regard the list A which is so arranged that both the cases are represented, the payments of 50,000 millions of gold marks to the Allies as well as the 132,000 millions of gold marks, and if we examine especially the first case which alone seems to be discutable, the absurdity of the demands appears from the fact that Germany must pay the amount of 50,000 millions of gold marks in the short time of eleven years. With this fact sentence is passed upon the improvement-bond (Besserungsschein) proposed by the Allies, because its character bearing the form of an export-duty makes by no means any allowance for the German economy. According to the increase of the export which has been - necessarily - estimated to be a very strong one, the export-duty of 26% would yield in 1921 the amount of 1,3 milliard gold marks, would run up to 3,9 milliard gold marks in 1931 and already after the elapse of three years the yield would exceed every year the annuities of 2,000 millions the delivery of commodities included. Payments to such an extent would not be possible without a further monstrous increasing of the floating debt and in consequence of it without

a further inflation. At all events the annual liabilities resulting from the German balance of payments would have increased to 19,900 millions of gold marks (column 10) in 1931 and the indebtedness to foreign countries to 60,800 millions of gold marks (column 12). We are not able to state the corresponding sum in paper marks the relation of 1 : 15 between gold and paper mark being removed and the base of the calculation being shaken. Only the fifteenfold of the sum in gold marks represents a sum of 912,200 millions of paper marks. The annuities having ceased in 1932, the German indebtedness, it is true, would rapidly decrease and up to 1941 it would have diminished by more than a third to 37,700 millions of gold marks. But mention must be made of the remarks uttered. The result bases on the presumption that the German export can be intensified to nearly the double of its extent before the war and can be maintained upon this high rate, that during the whole time 1,000 millions of gold marks of the import can be saved, that the other earnings of the German economy can be extended to the rate before the war of 1,000 millions of gold marks and that it would be possible to get foreign credits at an interest rate of 5% - probably all these conditions will never be fulfilled.

List B is, as to the increase of the export, based upon the same presumptions as list A, but as to the import it reckons upon the hypothesis that this item will always exhibit the invariable figure of 7,500 millions of gold marks and that our exports will constantly condition imports (raw materials, etc.) of 60% of the values of the exports. The table demonstrates that in spite of the ceasing of the annuity-payments in 1931, our foreign debt will continue to increase so that already in 1941 the amount of 88,100 millions of gold marks will be reached. To fulfil such obligations means an absolute impossibility, and that not only in the sense that Germany cannot extend her indebtedness for all future times solely in order to pay the present war indemnities claimed by

the Allies. The chief reason is that Germany will never be able to get international credits in such an extent as it is shown by the figures in column 12. That is also true without any restriction with regard to the development represented by table A made up under the supposition that our obligation has been fixed once for all at 50,000 millions of gold marks. The experiences made just now, when we had to raise the money for the payment of the first 1,000 millions of gold marks, have exhibited the German credit in the foreign countries at a very low level. Even the credit of only 200 millions of gold marks, the first one taken in connection with the war indemnity payments, could only be realised under extraordinary difficulties and it could not be got, before the Reichsbank herself entered as debtor.

The combination of column 12 (indebtedness to foreign countries) with column 2 (export) furnishes perfect evidence of the total impossibility for Germany to fulfil the demands of the Ultimatum; neither the increasing of the export nor the supply of the waited foreign credits will practically be possible and the accomplishment of the Ultimatum must, according to the experiences made with the payment of the first instalment bring about a progressive collapse of Germany's finances and currency.

The liability to pay 132,000 millions of gold marks (lists with appendices) would cause a steady increase of Germany's foreign debt ad infinitum, even if the optimistic premises of list A should not prove to be exaggerated ones. It seems not to be very useful to enter more in the details of the results as are expressed by those fantastic figures.

READ AND NOTED,
B. S.

CONFIDENTIAL.

Bank of England
London, E.C. 2

14th November, 1921.

My dear Strong,

I am much obliged to you for sending a report of the Hearing before the Joint Commission of Agricultural Inquiry as stated in your letter of the 24th October. It is a bulky volume and mostly in small print so that I do not pretend as yet to have mastered its contents. But I am in process of reading parts of it with care, especially your evidence and that of Governor Harding and I shall no doubt thus obtain a good deal of information about the System which could not be gathered otherwise. Much as you have been worried by this Agricultural Inquiry, I feel sure that in the long run the outcome will be to the advantage of the System as well as to yourself. Unfortunately the wear and tear falls upon you and not upon the System, but that is what comes of being a pioneer.

Now comes your letter of the 1st about Mr. F. A. Vanderlip and the call you have had from Mr. H. E. Benedict. I have already suggested in my letter of the 7th November that the former is inclined to "rush in where

angels

angels fear to tread", and this I think will be especially true if the Austrian Representatives are induced by him to go to Washington this winter.

Mr. Vanderlip is in London now and I shall be seeing him shortly, but I do not intend to discuss these matters with him - in fact I shall, if possible, do no more than play the part of a listener. I know Mr. Vanderlip has been in close communication with the Austrian Minister in London.

Your remarks about Mr. Hughes on the second page of your letter under reply seem to confirm our earlier ideas that the whole Austrian question, including the League of Nations Scheme, should be left alone for the present, firstly because of Mr. Hughes' attitude which might land you in such a position as to necessitate complete abandonment of American participation, and secondly because without your co-operation the European countries cannot work together.

In any case I doubt if the League of Nations Scheme of last May can ever be carried out as such. It was intended ^{by the French} to rely upon political support from the Entente and that the ultimate power under it should lie in Paris. If and when the time comes, the League of

Nations Scheme will have to be dressed up in somewhat
non-political and so
 different garments to make it palatable to Vissering, to
 yourself and to this Country.

I take this occasion also to acknowledge your letter of the 3rd instant, received to-day, telling me of the visits of Mr. McKenna and Sir Drummond Fraser. From neither quarter are we here disposed to look for any concrete results. Personally I think Mr. McKenna spoke about the Inter-Allied War Debts when he had better have kept silent. But two things must be remembered about his visit. Firstly, he feels very strongly against German reparations which may rightly be treated alongside of the Inter-Allied War Debts, and, secondly, he is anxious to increase the prestige and foreign business of his Bank.

With kindest regards,

Yours most sincerely,

R. Norman.

ANS'D BY CABLE, DATE

ANS'D BY LETTER "

CONFIRMED "

RELATIVE CORRESPONDENCE

Benjamin Strong, Esq. *Strong's letter 10/24/21 11/3/21*

CONFIDENTIAL.

Notary M. J. M.
Bank of England
London, E.C. 2

16th November, 1921.

My dear Strong,

Since writing to you on the 14th instant I have two further letters to acknowledge.

First, your letter of the 2nd. I think perhaps you rate the National Bank of Belgium rather more highly than I should be inclined to do for the purposes we have in view; but they are certainly on our side and Mr. Lepreux showed a keen appreciation of the importance of the arrangement under discussion. I am not sure how far they would go when it came to standing up and making a commitment; and as regards general European questions they are necessarily tied up with the French.

Secondly, as to the Scandinavian Banks. In my letter of the 7th (and for similar reasons) I have put the Swiss and the Swedish Bank in the same category; but if the opportunity occurs I should certainly favour our linking up with Copenhagen and Christiania, and with your permission I will take the first chance of trying to do so.

Thirdly, as regards the closing lines of
your

your letter under reply. I need not repeat that the developments with regard to your rates not only did not embarrass us but were of very great assistance.

Fourthly, I come to your letter of the 1st November and am delighted to see that you approve of the lines of my letter of the 12th October to Vissering.

Beyond the general statement (in conversation with Vissering) that the relations of Central Banks should be exclusive I have not had occasion to refer to this subject with him. He did not ask us to open an account for him - I know he has accounts elsewhere in London - and I did not try to induce him to bring his business to us. But if and when the question (See post script) comes up exclusiveness (or "matrimony" as we are accustomed to call it here) would in principle be an essential.

The same applies to my conversation with Mr. Lepreux of the National Bank of Belgium, and he accepted the idea of exclusiveness most readily although for years he has done his business in London with several other concerns.

In our discussions with President Havenstein the subject was mentioned and agreed. He said rightly

rightly enough that having several old and satisfactory accounts in London he could not close them forthwith but would make them dormant without delay or continue to do business ^{only} with our definite knowledge and approval. That was as far as we could ask him to go. In this connection you may be interested in the enclosed copy of a letter from the Reichsbank dated the 5th instant setting forth the terms upon which they wish to keep their account here, which you will see covers the question of exclusiveness. Please keep this to yourself.

When you come to talk with the Bank of Japan, I think you would be justified in requiring that their other accounts in New York should be made dormant in consideration of the facilities which you would offer to them as from one Central Banker to another.

Fifthly, your second page. I have no news of Austria at the present moment. Before anything can be done in that quarter, not only must the Funding Bill be passed by your Congress but the European position as regards Reparation payments and Inter-Allied Debts must I think be generally known.

Lastly, I feared when writing to you on the 21st October to be greatly swamped as Chairman

of the Committee on Guaranteed Loans (for the relief of unemployment) but mercifully at the last moment our statesmen decided that economically speaking I was too orthodox to give such a Committee a proper savour, so I have been rejected and Kindersley is to reign in my stead!! It is lucky that these sort of things do happen for they make you chuckle even on the darkest day!

With kindest regards,

Yours most sincerely,

Millomax.

Benjamin Strong, Esq.

X P.S. We must always remember that the Bank of Japan or the Reichsbank might want business done which it would not suit you or us to do, e.g. dealing with documents, insurance, exchange, and such like.

ANS'D BY CABLE, DATE

ANS'D BY LETTER "

CONFIRMED "

RELATIVE CORRESPONDENCE

TRANSLATION.

REICHSBANK-DIREKTORIUM

No. 25973

Referred to in letter of
Norman's 1/16/31

BERLIN,

5th November, 1921.

Referring to the interview which the undersigned had the honour of having with the Governor of the Bank of England, Mr. F. C. Tiarks, a member of the Board of Directors, and also the Chief Cashier, we beg to inform you that the Reichsbank-Direktorium have unanimously accepted the proposals then suggested regarding the working of the Account.

Accordingly will you please open in your books a non-interest bearing account (1) and a second account (2) to which will be transferred from account (1) such funds as are to bear interest. On account (1) a minimum balance of about £50,000 will be provided to remunerate you for the trouble involved in keeping the accounts. The alteration of the minimum balance to be dependent on the amount of work involved.

As arranged at the past interview, will you further please receive cheques, drafts, &c. sent to you by us and with the proceeds credit our account (1), as also with funds received from a third party for our credit.

In the case of non-payment of cheques, drafts, &c. will you please take the necessary steps for noting and protesting and return the documents to us with charges and expenses through account (1). Will you please advise us by letter regarding the resulting credits as far as amounts under £5,000 are concerned; please inform us by wire, using the code which is already in your hands, of the fate of amounts of £5,000 and over.

In accordance with the suggestions which we have already made will you make transfers from account (1) to account (2), and for our account either lend the money at interest or apply it in the purchase of Treasury Bills or

first class bills which ever is in your opinion in our best interests.

The instructions on our accounts will be made either by means of cheques or by letter or telegraphic advices to pay. Cheques and instructions by letter must be signed by two gentlemen authorised to sign for the Reichsbank Direktorium in accordance with the enclosed list of signatures and in this form are binding. Cheques that may be drawn will in every case be advised beforehand and we request you not to honour any cheques of which advice has not arrived. Telegraphic instructions are only to be acted upon if the examination of the key number at the beginning of the message corresponds to the code. Our transactions will be within the limits of our credit balance.

We must, however, mention one point, namely that payments may be delayed by quite unforeseen circumstances (such as delay in the post, mutilation of code messages, &c.) and that in such circumstances our account may temporarily be out of funds. Since it would not be agreeable to the Reichsbank if their instructions could not be carried out, or if their cheques could not be honoured, we beg, referring to the interview that took place between the Governor and the second signatory, that no objections be raised to an overdraft to the extent of £100,000, it being thoroughly understood that the overdraft is to be used only in quite exceptional circumstances and that on receipt of telegraphic advice it will forth-with be put in funds by us.

For cheques we propose to use a form similar to the enclosed specimen. As you laid considerable stress on the point that these cheques should be made of the same paper as those usually used by you, we shall be glad if you will forward the cheque form (uncrossed) in books of 50 and charge us with the cost. We shall be obliged if before the final printing you will send a proof for our consideration.

As arranged please send us at the end of each month a statement of our accounts for agreement.

In cases in which we desire to undertake purchases on the London Market of foreign securities we will place our instructions in your hands in order that they may be carried out to our best advantage eitherly yourselves or your connections.

We will in future make our arrangements so that the London business of the Reichsbank is chiefly conducted through the Bank of England and we will keep with our correspondents comparatively small amounts. We venture to point out, however, that the transfer must be gradual as for obvious reasons it would be undesirable to suddenly sever connections which have existed satisfactorily for many years.

The question of a gold deposit at the Bank of England we will refer to again as soon as the necessary alteration of the Banking Law has been effected.

We take this opportunity of expressing our thanks for the generous and conciliatory manner with which the undersigned were received. We express the hope that the relationship may have greater and greater influence on the economic conditions not only of the countries concerned but also further afield.

Awaiting your reply we beg you to take over for the credit of account (1) our funds amounting to £10,000.

REICHSBANK-DIREKTORIUM

(Sd.) - HAVENSTEIN (Sd.) - KAUFFMANN.

RECEIVED
CONFIDENTIAL

DEC 10 1921

P. J.

RECEIVED
24th Nov 1921
Bank of England
London, E.C. 2
READ AND NOTED
B. S.

24th November, 1921.

My dear Strong,

I have read the enclosed which I hasten to pass on to you.

I received it privately from the Swedish Minister and I need not add that it is intended for your eye only.

With kindest regards,

Yours most sincerely,

Mitoman.

Benjamin Strong, Esq.

COPY.

any time
Referred to in letter of
Norman's 1/24/21

Representatives of the central banks in the three Scandinavian countries recently met in a conference at Copenhagen. A resolution was here agreed upon, containing a declaration of the policy to be adopted by the banks concerned, "Sveriges Riksbank," "Nationalbanken," and "Norges Bank."

The resolution lays stress on the necessity of returning to a fixed gold standard. The pre-war standard came to an end by various restrictions imposed during the war and gold ceased to function as a standard measure of value. Without reviving this function, i.e. without returning to a fixed standard of value, no stabilisation of the various currencies is possible. Theoretically speaking, it might be possible to choose another standard, but practically there is no other way out than returning to a gold standard. This of course does not mean restoring the pre-war gold standard. Each country will have to decide for itself when and on what basis this standard ought again to be established. To try to arrive at an international agreement with a view to restore the gold standard simultaneously and generally all over Europe would be a vain attempt. No country would be willing to make the present dollar exchange the basis for reducing the gold value of its own currency. Everywhere the hope is entertained that the present exchange may be improved.

Besides, no separate country would be able to initiate with any advantage or any hope of success such an undertaking. This cannot be done without the co-operation of the United States. The nearest expediency would seem to be an agreement between the United States and Great Britain. The first step towards restoring an effective gold standard hereby taken, other European countries, in the first hand those with a comparably favourable exchange, would follow suit. Such an

agreement

agreement would also mean the first and indispensable condition for success in attempting to solve the problem of exchange, even if only a step towards the ultimate purpose, the general economic restoration of Europe.

In any circumstances, so long as not even Great Britain has fixed a new parity of exchange in regard to dollars, none of the Scandinavian countries would be in a position to stabilise the dollar value of its currency. The resolution emphasises as a guiding rule, that the small countries should abstain from all stabilising experiments till a solid basis for such an attempt, i.e. an international standard of value, had been arrived at. Premature action would minimize or jeopardise the possibilities for a future stabilisation. This, however, should not be a reason for these states to remain inactive in the meantime. An energetic work for improving their own economic and financial conditions is strongly recommended. This work has hitherto been directed towards preventing a new upward movement in the prices and stimulating a careful and continuous reduction. How far this reduction ought to be brought is not considered a question for the banks represented to decide.

The resolution further asserts that the bank rate during the war and up till now more or less has lost its pre-war effectiveness as a regulator of the financial conditions of a country. Only by stabilising the currencies in a number of countries, by restoring the gold standard and the international confidence can the bank rate resume its normal functions.

HOWELL

JAN 10 1922
Bank of England

B. F. London, E.C. 2
30th November, 1921.

My dear Strong,

A few weeks ago I sent to you two photographs of our War Memorial; I now send you a photograph of the unveiling. This picture appeared in one of our illustrated papers. Please accept it from me as a Christmas card!

I am so sorry to hear from Jay that you have been unwell and I trust that by the time you have received this you will have quite recovered.

With kindest regards,

Yours very sincerely,

Benjamin.

Benjamin Strong. Esq.

CONFIDENTIAL.

rec'd Dec. 12

act n 16

Bank of England

London, E.C. 2

1st December, 1921.

My dear Strong,

I have not written to you since the 16th November, not that there has not been a good deal to say, especially about Reparations, but because the whole question of payments and postponement and moratorium have been in a state of kaleidoscopic change. So, rather than writing, I have relied upon pretty full cables since receiving your No.8 up to the sending of my No.4.

I was of course anxious to obtain the views of your Treasury friends on the Memorandum enclosed in my letter of the 28th October. I am sorry that even unofficially they would express no opinion on anything that is European. But there we are! I am not surprised that you thought that the plan has various objections. Had it not been at least drastic, and perhaps outrageous, it would have been of no use. As it is, the effect of having this concrete - even if outrageous - plan to put before our Government and Sir John Bradbury (Reparations Commission) has done a great deal to make me hopeful of

a moratorium.

Practically all of us in London are agreed on the views and remedy stated in my cable No. 100. I sent a copy of it to Vissering but he is rather casual and has not answered. I fear his hands are pretty full with the trouble over the Rotterdamsche and the Nederlandsch-Indische &c.

As to the period of postponement (if there is to be such a thing) you complain quite rightly that my 6 or 12 months is too short. The fact is that what we want is a long moratorium; what the Reparation Commission may be willing to concede is a moratorium of more or less indefinite length subject to being broken at their discretion on 60 or 90 days' notice. The exercise of such discretion by them would of course prove fatal to building up business with Germany or by Germany, and my 6 or 12 months is therefore not aimed at the real length of the moratorium but at the notice necessary for its termination.

Rathenau is not very helpful. Like the other Germans who have been here, he is panic-stricken at the thought of the occupation of the Ruhr and would be willing to advise practically any course which would

obviate

obviate this. We here are most anxious and insistent that the Ruhr shall not be occupied but at the same time we want to get on to a smooth keel so as to allow international business - or at any rate European business - to start up again.

It is for the sake of this international business that I am so anxious to see the Reparations somehow tacked on to the Inter-Allied Debts and settled as a whole. We are, as it were, in jeopardy to-day of making a temporary European adjustment of the Reparations payments which adjustment may last long enough to allow the Inter-Allied Debts to be settled next spring or summer as a totally different and separate question. Such a possibility is too ridiculous! Having, let us suppose, steadied the Exchanges by some Reparations adjustment, we are immediately to see them unsteadied by Inter-Allied Debt payments?

As regards the present position, it is more or less outlined in my cable No.3, and the Government is now engaged in trying to square Belgium and Italy so that their Representatives as well as Sir John Bradbury may be prepared, if necessary, to vote for a moratorium. These having been squared, it would be a question of

some

Please consider this and
let me hear your views.

some "hanky panky" with the French.

Now a word as to Austria. I told you some weeks ago that the British Government were advancing £250,000 and that the French were going to do the same. The former has been done: the French have backed down. At the same time the position in Austria is becoming more and more desperate, and I think the idea of borrowing for food, &c., on their Art Treasures is quite reasonable. Anyhow, when the question came up Sir John Bradbury was in London and quite approved of the idea for his own part. He saw the Austrian Minister and fortunately was able to have a talk with Jack Morgan too; so that my telegram No.4 of yesterday was merely to prevent international - and still more Austrian - operations being discussed in New York without your knowledge.

You know these questions are even more serious than they are difficult. I don't believe it would take a great deal of financial or political stupidity at the present moment to bring chaos into Austria similar to what we see in Russia; to break up Germany, and beginning in Portugal to spread revolution

right

right through the Peninsula.

Don't forget that you are expected at
Nice early next month, and as to our great sorrow you have
been laid up it is all the more necessary for you to plan
such a trip.

With kindest regards,

Yours most sincerely,

Norman.

Benjamin Strong, Esq.

ANS'D BY CABLE, DATE

ANS'D BY LETTER " 12/16/21

CONFIRMED "

RELATIVE CORRESPONDENCE

Strong letter Nov. 16/21

" Cable #8

Norman's " #4 #3 #100

CONFIDENTIAL.

RECEIVED

Bank of England
DEC 1921
London, E.C. 2

P. J.

2nd December, 1921.

My dear Mr. Jay,

Very many thanks for your letter of the 19th November which touches on two or three interesting points.

For instance, you say the passage of the Bill permitting refunding of War Debts is the nearer because the Secretary of the Treasury has been replaced by a commission of five to carry out the objects of the Bill. I am glad the prospects of its passing are brighter, but I should suppose the prospects of satisfactory results arising from it when passed have been dulled.

Next, I rather agree with your thoughtful friend that nothing could be done to relieve e.g. Austria until questions between France, Germany and this Country have been settled. This means readjustment in one form or another of the Reparation payments; and at the present moment these dominate everything. No matter what the conditions and prospects of Austria were we could not

deal

deal with her until something has been done about Reparations. While I believe this to be true to-day let us hope it will not continue so indefinitely.

But this is all part of a larger question which I happen to have mentioned the other day at the end of a cable to Strong. Both for economic and political reasons Europe is in a very precarious state. All the countries except Russia are just keeping on an even keel, but in several, such as Austria, rioting on a large scale for economic reasons is near at hand, and in others, such as Portugal, revolution is knocking at the door. I think we shall come through.

The question of Reparations is being considered promptly and effectively by our Government and its settlement would have a steadyng effect all round. But if things really go wrong in one place or the other, who is going to get the blame?

We all hope that it will not be long before you come and pay us another visit. Meanwhile with kind regards and good wishes,

Believe me,

Yours sincerely, Strong letter 11/19/21

Pierre Jay

ANS'D BY CABLE, DATE
ANS'D BY LETTER " 12/16/21
CONFIRMED "
RELATIVE CORRESPONDENCE

Jay?

Pierre Jay, Esq.

RECEIVED

CONFIDENTIAL. DEC 16 1921

P. J.
Bank of England

London, E.C. 2

3rd December, 1921.

My dear Strong,

This is merely to enclose a copy of the letter I have received from Havenstein and of my reply which is alluded to in my cables Nos. 100 and 5.

I have agreed the reply, in confidence, with the principal people here, and I am also sending a copy to-day to Vissering and to the Governor of the Bank of France.

I know already from your cable No. 11 that this letter expresses your opinion as to Germany's inability to borrow for the purpose of making Reparation payments.

Yours most sincerely,

Norman.

ANS'D BY CABLE, DATE

ANS'D BY LETTER " 12/16/21

CONFIRMED "

RELATED CORRESPONDENCE

Norman's cables #100 + #5

Strong's cable #11

Benjamin Strong, Esq.

Referred to in letter of
Norman 11/3/11

COPY

Der Präsident
des
Reichsbank-Direktoriums.

N.
C.B.

BERLIN, S.W.19.

den 25 ten November 1921.

Dear Mr. Norman,

I have been asked by the German Chancellor to submit to you the following request which I beg to support most sincerely also on my part.

The negotiations of the German Government with the Reparation Commission who was staying in Berlin during the last two weeks have lead to the result that the Reparation Commission does not at present see its way to lighten the obligations which the London Ultimatum has imposed on Germany; the Commission insists decidedly upon Germany actually effecting the payments of 500 and about 250 millions of Goldmarks which according to the Ultimatum she has to make on January 15th 1922 and February 15th 1922 respectively. Germany is not able to effect these payments out of her own supplies of foreign currency. She foresees that of the above-mentioned two instalments an amount of about 550 Millions of Goldmarks cannot be raised. In order, however, not to leave any doubt as to her sincere and earnest desire to fulfil the obligations imposed upon her, as far as this is at all possible, and in the hope and expectation that this proof of her utmost willingness to pay will lead to further negotiations with the Reparation Commission and the Powers of the Entente with a view of obtaining another modus for the Reparation payments corresponding to her ability, Germany is resolved to make an attempt to raise the deficit in respect of the January and February instalments in the exceptional way of a credit. We see a possibility to get this credit at present only through England.

Therefore, in view of the willingness of help which you have been good enough to hold out to me in a large-hearted manner when I was in London, I beg to address to you the earnest entreaty to negotiate with the leading men of the London Haute Finance in a way which you think fit, whether and on what

general

general terms and in which form they would be prepared to grant to the German Empire a credit up to 550 Millions of Goldmarks equal to about 30 Millions of Pounds Sterling.

If such a readiness exists I should be much obliged if you would kindly make clear the following points:

Would the credit have to be guaranteed by sureties supplied directly by the German Empire?

In this connection I may say that the German Empire does not at present possess any free sureties of her own. If and as far, however, as the consent of the Reparation Commission could be obtained the German Government could possibly proceed to the mortgaging of the customs or of the foreign currency which is to be delivered by the German Exporters out of the value of their exports, respectively, to the mortgaging of a corresponding part of these two sources of Revenue.

Should the London financiers think it
be supplied
indispensable that sureties/by a third (private) party, the German Government would lay great stress on seeing from your reply of what kind such sureties ought to be. As you are aware the German Government is in negotiations with leading personalities of the German Industry to clear the question whether and in what way a guarantee for a credit to be taken up abroad could be supplied by the principal firms concerned, eventually under resecurty for the guarantors by an internal guarantee of a large number of firms. Your reply would enable the German Government to carry on these negotiations with a still more concrete aim.

A guarantee of the Reichsbank would not come into question for this credit; I am sure that you will be with me of the opinion that the gold of the Reichsbank must not be employed as cover for these requirements or as a security for these credits.

Now, as regards the form of the credit, we should be much obliged by your informing us -

whether there exists at present a possibility for a loan for a long period (subscription loan)

or whether only a short bank credit is thought obtainable.

The latter, however, would be of value to Germany only, when granted for a period which would permit the gradual repayment within a reasonable time out of funds to be made available. A repayment out of the securities to be supplied directly by the German Government (part of the Revenues from customs or foreign currency resulting from exports), would scarcely be possible within a short time and the same applied to a guarantee to be given by the German Industry, as the Industry also could redeem its obligations only gradually out of the foreign currency resulting from Export. The German Government would in the latter case make efforts to cause the Reparation Commission to waive until the final repayment of the credit the collection of the 25% or of a corresponding part thereof of the export value in foreign currency.

If your reply opens the possibility of a credit, the German Government contemplates to carry on further negotiations through a commission of Experts that would be sent to London.

With the expression of my highest esteem

I beg to remain,

dear Mr. Norman,

Your

(Signed) HAVENSTEIN.

To

Mr. Montagu Collet Norman,

Governor of the Bank of England,

London.

3rd December, 1921.

Referred to in letter of Norman 1/3/21

Dear President Havenstein,

I have received your letter of the 25th ultimo, submitting on behalf of the German Chancellor a request which for convenience I may summarise as follows:

In order to effect payment of the instalments due to the Reparation Commission in January and February of next year, the German Government wishes to obtain advances of one kind or another aggregating not less than Mks. 550,000,000 gold and believes that such advances cannot be obtained except in this Country.

You suggest that security might be found in the hypothecation of the Customs revenue or of such foreign currencies as might be acquired as the result of German exports; but in both cases the sanction of the Reparation Commission would be required. You further suggest that some kind of private security might be provided if the form could be agreed with the German Government.

You say, and I am not prepared to contest your view, that neither the guarantee of the Reichsbank nor the gold at present held by the Reichsbank would be willingly pledged as security.

Lastly, you ask whether, in the event of the German Government being able to obtain such advances in this Country, they would take the form of long Loans (to be subscribed by the Public) or of short credits (to be supplied by Bankers).

I have consulted with those best competent to form an opinion and I have to say, in reply to your request, that under the conditions which at the present time govern the payments due during the next few years by the German Government to the Reparation Commission, such advances cannot be obtained in

this

this Country. I beg you so to inform your Chancellor.

I hold myself at your disposal for any further information or assistance you may desire, and meanwhile, in view of the importance of your letter, I am sending a copy of it together with a copy of my reply to the Chancellor of the Exchequer.

I beg to remain,

Dear President,

Yours most faithfully,

(Sd.) M. NORMAN.

President Havenstein.

ACKNOWLEDGED

CONFIDENTIAL.

FEB 7 - 1922

Bank of England

London, E.C. 2

5th December, 1921.

My dear Strong,

First of all, I have to acknowledge your letter of the 21st ultimo, received to-day, and shall of course be happy to see Mr. Nakane on your introduction.

Secondly: The National Bank of Roumania (of whose independence and management I hear a very good account) have recently received a considerable balance on our Books by the closing of an account opened really for the Roumanian Government during the War for the purchase of grain. The opening of this ordinary account has given an opportunity of inviting them to enter the "Central Bank" fold, and in order that you may be aware of the constitution and prospects of the fold I send you a copy of my letter of invitation. Being merely an opening move, it is of course vaguely phrased.

Thirdly: I also take the opportunity of enclosing a copy of a private and chatty letter written to Havenstein.

Fourthly: As to a moratorium for

Reparation

Reparation payments, I have given you the present position in my cable No.3, and so here it need only be added that if a moratorium should be arranged which would cover payments in cash other than costs of the Armies of Occupation but not deliveries in kind, the following conditions would probably be among those which would be required by the Reparation Commission from the German Government -

- (1) Abolition of Subsidies.
- (2) Provision of a Budget surplus.
- (3) Stoppage of Note printing.
- (4) Custom Duties to be calculated in gold or approved currencies.
- (5) Strengthening of the Reichsbank vis à vis the German Government, so that the former should be reasonably independent and able to decline or protest against requests made by the latter.

Fifthly: In your last weekly cable as to general conditions on your side there occurs the following rather ominous phrase -". . . signs of speculation appearing in the awakened demand for less well seasoned issues."

I should be glad to hear more as to the meaning

meaning and extent of this development and your opinion as to where it is going to lead. Is it, for instance, going to affect your rate policy and what future movements do you see for your rates over the next few months?

Here I am inclined to think we can jog along as we are.

With kindest regards,

Yours most sincerely,

H. McCormick.

Benjamin Strong, Esq.

ANS'D BY CABLE, DATE
ANS'D BY LETTER " 2/7/22
CONFIRMED "
RELATIVE CORRESPONDENCE
*McCormick 33, 36, 38,
May " 39, 36.*

PRIVATE

Referred to in letter of
Norman 16/1

5th December, 1921.

Dear Mr. President,

Your visit to London came to an end some five weeks ago and I have to thank you for your kindly message since received through Tiarks. I, at least, enjoyed your visit greatly, and I believe we shall some day come to remember it as a sort of "turning point". As to matters of business you or the Reichsbank will be hearing by separate letters.

On the 2nd I received from Dr. Rathenau your letter of the 25th November, and being already prepared for it I was able to post my answer the following day, when for your convenience I sent you a telegram to say it was coming. I showed the answer to Dr. Rathenau and though he might have wished it had been worded differently (because he was thinking politically rather than as a Central Banker) I do not think he was displeased with it. You may like to know that I sent copies to Mr. Strong in New York (in part by cable), to Dr. Vissering, and to the Governor of the Bank of France, all confidentially.

I hope the answer will have satisfied you, first, because it stated the true facts and secondly because those facts are really a help towards the object you wish to achieve. I cannot write to you as to how that object will be achieved for that is not a banking question; nor do I really

know

know enough about it. But I told you in London that, in my belief, the Ruhr would not be occupied next month and though there are certainly difficulties with France and others to be overcome, that is still my belief.

One of the results I wish to see emerge as an outcome of the negotiations now in progress is a strengthening of your (Reichsbank's) position vis a vis your own Government. In my opinion a Central Bank which is so much dominated by its own Government as to have no independence or initiation and even no right of protest ^{in a} is not/fair position and therefore cannot play its part either within its own country or, still more, alongside other Central Banks. That is for instance the present position of the Bank of France, and we all lose by it. In varying ways the position of the Netherlands Bank and of the Bank of England and even of the Federal Reserve Bank is different and more independent, and, now that we have more or less emerged from the domination of our respective Governments which during the War was unavoidable, all Europe will gain from it. Therefore I hope to see your position strengthened as a result of the present negotiations, especially with other Central Banks, and for that reason too I was glad you paid a visit to Vissering (who wrote and told me what he intended to do) and I hope you are already in touch with Strong.

In all these matters I look back on your visit (as I have said) as a turning point. Many people here will

will attribute the present negotiations to the visit of Stinnes. I did not see him but I heard about him. I do not know why he came: his standpoint is not the same as yours and I doubt if he achieved any good - financially or politically - unless perhaps for his own business. Or they will attribute them to Rathenau. But that also is not true though his views are wide, and not unlike yours, and he has made a good impression and helped towards a European understanding. I should like to think that he was going next to Paris.

We hear bad accounts from Austria. What is to happen there? The political differences of the Entente make any action difficult, and here there is hardly free capital enough to establish the country firmly on an economic basis, even if that were now possible. An attempt is being made to obtain a Loan for Austria in America on the security of the objets d'art, but the American Government is still, I fear, indisposed to encourage any transactions with such European Countries except by way of charity. And here we are trying to re-establish the old Anglo-Austrian Bank as a British Company and thus to promote trade in Austria at least on a small scale.

I hope that after the Disarmament Conference at Washington shall have been smoothly ended the American Government will arrange a general Economic Conference to

cover all financial questions at which I should like to see your country represented. But this is only a hope, which has not as yet been even mentioned in Washington.

You will understand, Mr.President, that I am writing to you personally, and as one Central Banker to another. I hope you will be able to understand my meaning and that you too will write to me. When you do so please be sure and tell me if, in any way, I can be of help, for you know that is what I should like.

Believe me,

Dear Mr.President,

Yours Sincerely,

(Signed) M.NORMAN.

President Havenstein.

RECEIVED

CONFIDENTIAL

DEC 10 1921

P. J.

Bank of England

London, E.C. 2

7th December, 1921.

My dear Strong,

I have to-day received your confidential letter of November 25th, as to which I need only offer one or two remarks by way of reply, because my cables (Nos. 90, 98, 100, 3 & 6) and my letter of the 1st December have really dealt with practically all the points you raise.

But referring to your second paragraph in which you note "the failure of the Reichsbank "to withstand the pressure of political domination" I may aptly point to my letter of the 5th instant, page 2, heading 5. It is pleasing to think how great minds often agree!"

Next, referring to your 3rd page 1st paragraph, you are already aware of our hopes of an international discussion of economic and financial matters after the present disarmament conference.

Next, I do not dissent from your criticisms (on pages 3 and 4) of the Memorandum I had sent

Since

sent in my letter of October 28th, and I have already told you that the proposal in the Memorandum was intentionally outrageous.

In other words, and to use your own words, it was a method of "temporising with a situation which needs radical treatment" which would put "almost irresistible pressure on the French for revision of the reparations program".

This is past history now. It is extremely difficult not only to keep you informed of facts when you are 3,000 miles away, but still more to keep you in touch with hopes and fears and sentiment!

With kindest regards,

Yours most sincerely,

Norman

Benjamin Strong, Esq.

ANS'D BY CABLE, DATE
ANS'D BY LETTER "
CONFIRMED "
RELATIVE CORRESPONDENCE

Strong's letter 1/25/21
Norman's cables # 90, 98, 100, 346
" letter 12/1/21 10/28/21

ACKNOWLEDGED

ACKNOWLEDGED
FEB 7-1922

B. S.

Bank DEC 27 1921
of England

London, E.C. 2

9th December, 1921.

My dear Strong,

LOOSE IN FILE

I send you a Statement giving the figures of our Internal Debt on the 30th September last, which I hope may be of interest to you.

I meant to have enclosed it in my letter of the 7th instant, and I trust that you will forgive the omission.

With kindest regards,

Yours most sincerely,

McNorman.

Benjamin Strong, Esq.

CONFIDENTIAL

ACKNOWLEDGED

Bank of England
FEB 18 1921
London, E.C. 2

R. S.

17th December, 1921.

My dear Strong,

I have no letters from you to acknowledge.

This is Saturday, and I go back for the sake of a brief recapitulation to last Saturday, the 10th instant.

My cable No.9 of the 9th had given you an imaginary picture as it appeared in the best light when Loucheur went back to France on that date.

On the Saturday I saw Rathenau for a long time before he left, and in consequence I was persuaded that at the present time we can achieve nothing better than a temporary moratorium, but that the ultimate settlement should depend upon a General Economic Conference to be called if possible by the United States. I did not know whether a brief moratorium without other rearrangements was possible, and I was uncertain about the prospects of a General Economic Conference being called within reasonable time by the United States.

By Monday the 12th it had therefore

seemed

seemed worth while to try and bring together the United States, France and Great Britain, not for a General Economic Conference but for a meeting in the persons of their Prime Ministers and President, who should determine, more or less unofficially but in principle, the general lines to be followed when the time came for a General Economic Conference to be called, and in the meantime should establish the necessity *owing to the Exchanges & dangers* for a brief moratorium in respect of German Reparations. Hence my cables Nos.10 and 11.

On Wednesday, the 14th, came your cable No.19 asking in paragraph 2 for certain reasons for my request, and stating (what I did not then know) that the newspapers had taken hold of the idea of a meeting between the British and French Prime Ministers and your President in Washington.

Your request needed some consideration and Wednesday is a bad day here, so that my answer No.14 was not sent until the evening. On Thursday, the 15th, came your message No.21 asking for the further elaboration of my previous message, No.14 paragraph B.

By this time the question of a meeting between the two Prime Ministers and your President was being actively

actively, and I may say bitterly, discussed in the newspapers here and in France. The position was becoming difficult: it was thought that the British Government was somehow involved in this idea of a meeting, of which as a matter of fact they knew nothing, but which had undoubtedly and unfortunately been somehow divulged to the Press, possibly in Paris. Be that as it may, the question of a meeting in Washington, about which I was attempting privately to find out the possibilities from yourself, had lost all chance of privacy and had become public property which in turn was liable to make a difficult position for the British Government, especially in view of Briand's prospective visit.

My 17, sent on the evening of Thursday, the 15th, was therefore designed to ask you to hold your hand. I had no other course.

On Friday, the 16th, which was yesterday, I received your No.23 and sent you my No.18, the only answer which, under the circumstances, was possible, and there the matter stands and I will not enlarge upon it at length.

Of course you, Strong, and we here, know

that

that we are individually and entirely agreed upon the most desirable policy, which is summed up in your words "that simultaneous consideration of Reparations and "inter-Allied debts by all parties interested would be "the ideal arrangement". That is the ideal at which I was aiming, even if it were by a private meeting of three in anticipation of a General Conference of many.

Blackout letter
1/2/23

But it is evident that at the moment that ideal of simultaneous consideration is not practical politics, and we in Europe must therefore try to make some arrangement among ourselves without the United States; but I do not know how far it will be possible to do so.

Briand is due to arrive to-morrow and Rathenau is coming back on Monday in a watching capacity. The best we can hope for is a three or six months' moratorium (without any occupation of the Ruhr) to be granted, in the ordinary course of its duties, by the Reparation Commission. But to obtain the necessary majority on the Reparation Commission for this purpose, the British Representative, Sir John Bradbury, who can probably count upon the support of Italy, must be assured of the support of either Belgium or France, or both. To

obtain

obtain the support of either or both of these Countries will need considerable "payments" to one or both of them in one form or another; and if the moratorium is to last no more than three or six months, the time is not long enough to impose on Germany even the few very proper and necessary conditions outlined in my letter to you of the 5th instant.

I have given you in a rough and ready form a chronological account of the past week's cables, with some explanation of how they came to be sent and how they were received on this side; and I am now in hopes that you have been making personal and informal enquiries as to how the land lies in connection with such a meeting as I have mentioned above, or failing that of a General Economic Conference in Washington.

With all good wishes,

Yours most sincerely,

McNorman.

Benjamin Strong, Esq.

P.S. I purposely leave out any mention of Austria until I have heard from you further.

ANS'D BY CABLE, DATE
ANS'D BY LETTER " 2/18/22
CONFIRMED "
RELATIVE CORRESPONDENCE

C O P Y

Sunday, Dec 18, 21.

Thorpe Lodge,
[redacted] Campden Hill, W.8.

[redacted] My dearest Strong

It grieves me very much to feel you are not well + perhaps are overworking + not taking care of yourself. As a private individual you are within your rights: As a Central Banker you are not. Thats the main reason for this letter

I have told you before that you are not your own property: Many of us depend upon you: there may yet be (not a war but) a tug of war! + you will have to pull on your side because there is nobody else in the whole of America. So you are an international asset. Dont forget that. The fact that perhaps few realise it, makes it none the less true + those of us who do realise it, love you all the more for it.

These Reparations questions have during the last few weeks given us a state of things half way between a circus + a pandemonium. I hardly know whether I am on my head or my heels!

Addis is in China + that really has been almost a mercy: for he likes to argue every question down to the theoretical bone- which is quite right but takes a long time + uses up a deal of tissue. But he certainly takes the wide international view + looks upon you as a Brother. So I can ask no more of him.

Dolow I
I am going to the South of France on the 31st as you know + Moreau is coming too. I must pull out for a few weeks or I shall be done up. But I shall be back in any case before the end of January.

[Dec. 18, 1921]

I am keeping in close touch with Vissering + Havenstein. It was the latter's visit here which in a quiet, unseen way really brought the Reparation Question to a head here + obtained for it a more "understanding" feeling: in fact the Chancellor has become as much anti-France as he has pro-German! He realises that the large question is the Civilisation of Europe which includes the industrial machine - + no mere argument of pounds or dollars.

I realise that your position - to say nothing of the position of your administration - is fearfully difficult. I am glad we paid you that visit last summer + I am glad too that your Congressional Enquiry is behind you

Is it not strange that in these crucial days you + I + the likes of us in standpoint, have most to fear from the countries which in theory are most democratic - ie. France + the U.S. - while Japan, Germany, Italy + England though nominally less democratic are actually more international in outlook.

Now, for heavens sake, take good care of yourself, my dear B.S. The object of this scrawl is to urge you to do so. From the Armistice down to Nov 1921, we have had lots of troubles but they have been made for us. From Nov last for a while we have troubles to get over which are the direct + inevitable outcome of the war. And you + I have another 15 months in which to work together

God bless you: I lean on you every day. Yrs affect^y [signed]
M_N

Sunday, Dec 18. 21.

THORPE LODGE,
CAMPDEN HILL. W.8.

ACKNOWLEDGED

FEB 2nd 1922

B. S.

My dearest Stone

It grieves me very much to feel you are not well & perhaps are overworking & not taking care of yourself. As a private individual you are within your rights : As a Central Banker you are not. That's the main reason for this letter

I have told you before that you are not your own property : Many of us depend upon you : there may yet be (not a war but) a big one : you will have to pull on our side because there is nobody else in the whole of America . So you are an international asset . Dont forget that . The fact that perhaps few realise it , makes it none the less true & those of us who do realise it , love you all the more for it .

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Sunday, Dec 18. 21

ACKNOWLEDGED

FEB 2nd 1922

B. S.

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CAMPDEN HILL. W.8.

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THORPE LODGE,
CAMPDEN HILL. W.8.

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Miss.

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you & I & the likes of us in stand point, have
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us. From Nov last for a while we have
trouble to get over which are the direct &
inevitable outcome of the war. And you &
I have another 15 months in which to work together

God bless you:

ACKNOWLEDGED
FEB 18 1922
R. S.
Bank of England
London, E.C. 2

19th December, 1921.

My dear Strong,

I enclose a copy of a Memorandum dealing with the Austrian financial and domestic situation in October last. I had it from the League of Nations' Office and I feel sure that you will realise that it is intended for your eye only.

With kindest regards,

Yours very sincerely,

disfornan.

Benjamin Strong, Esq.

CONFIDENTIAL

ACKNOWLEDGED
Bank of England
FEB 18 1922
R. S. London, E.C. 2

23rd December, 1921.

My dear Strong,

I am sending for your information copy of a letter received from the London Office of the Guaranty Trust Company and of the reply sent by our Discount Office on the 20th instant. It is conceivable that this might come to your knowledge in a roundabout way and I will therefore explain briefly the somewhat obscure reply which was purposely made.

The idea of this enquiry was the purchase/a substantial holding, and possibly an actual majority, of the shares of one of the Discount Offices in order to ensure facilities for the discounting of the purchasers Bills; and if the shares thus purchased had been transferred into the names of the nominees of the purchaser, those nominees would doubtless have been American residents. Therefore the uncalled liability which exists on most of the shares of such Companies (frequently as much as 75%) would in the last resort have to be collected from nominees not resident in this country

country and the security obtained by a large uncalled liability would to a great extent be lost owing to the difficulty of collecting in a foreign country.

There were therefore two objections -

- (1) That a Discount Company was to give especial facilities to one client, and
- (2) The probable removal to the United States of the nominees who would respond if a call were made on the shares.

I agree that you have to read this into Mr. Paget's letter and that is why I am writing to explain it privately to yourself.

Yours most sincerely,

H. C. Strong

ANS'D BY CABLE, DATE
ANS'D BY LETTER " 2/18/22
CONFIRMED "
RELATIVE CORRESPONDENCE

Benjamin Strong, Esq.

March 12/21
Referred to in letter of

COPY

Guaranty Trust Company of New York,
32, Lombard Street,
E.C. 3.

19th December 1921.

Catesby Paget, Esq.,
Principal of the Discount Office,
Bank of England, E.C.

Dear Sir,

We shall be obliged if you will inform us if, in the event of our buying shares in a Discount Company we should in any way prejudice the relations and facilities of such Discount Company with your good selves.

We shall be obliged if you will kindly address your reply for attention of the undersigned.

Yours very truly,

(Sd.) E.G.HUMPHREYS

Asst. Manager.

EGH/AP

Referred to in letter of Norman 12/21

COPY

Discount Office.

20th December, 1921.

Dear Sir,

In reply to your letter of the 19th instant, I cannot undertake to say that if a Discount Company enjoying facilities at the Bank of England were to alter its nature such facilities would necessarily be continued without change.

I am,

Dear Sir,

Yours faithfully,

(Sd.) C.PAGET,

Principal.

The Assistant Manager,

Guaranty Trust Company of New York,

32, Lombard Street, E.C. 3.

CONFIDENTIAL

ACKNOWLEDGED

FEB 18 1922
Bank of England
R. S. London, E.C. 2

23rd December 1921.

My dear Strong,

I have told you in my cable No. 21 of the 22nd instant that in principle an Agreement has been reached with France. This Agreement will not, of course, be of any real value until it has been passed by the other Allies as well at the Meeting of the Supreme Economic Council which is intended to be held at Cannes the first week of next month.

Our people are anxious that German Representatives should be invited to come and discuss the contents of the Agreement. The French will not have it at any price. I suppose it will end in Rathenau or some other well-informed German being unexpectedly found in a hotel at Cannes at the critical moment ⁱⁿ and there being an unofficial meeting with Loucheur and some of the Britishers. That is the way the French prefer to carry on their negotiations!!

On the

As the basis upon which my cable of yesterday rests is an "aide-memoire" (an extremely secret document) of which I enclose a copy for your personal information and upon the annex of which I will only make one or two remarks.

A. (4) As the month of December is not yet ended it is obvious that these provisions merely give the idea of what it is very properly desired to bring about.

B. (1) and E. I think these provisions are outrageous. I have written to Havenstein to tell him so in the hope that he will say outright that were he as President of the Reichsbank to be superseded, he would withdraw. I notice the technical adviser is not described as a neutral which was at first insisted upon by the French. The word neutral must have been knocked out at the last moment. But upon this general question I have been very wishful that the position of the Reichsbank should be considered. At present it is as bad (or worse) as the Bank of France so far as being dominated by politics and that view was shared by the Reparation Commission. On the other

other hand the French were anxious to have a Caisse de la Dette in Germany: an arrangement which would fatally interfere with the sovereignty of Germany. So you see that this "technical adviser" idea was shoved in as being more effective than the mere strengthening of the Reichsbank and less obnoxious than the Caisse de la Dette.

There is no provision for a General Economic Conference in the paper now enclosed but the intention is that arrangements to that end should be made during the Meeting of the Supreme Economic Council when I have no doubt the necessary corruption by this country of France, Belgium and Italy will be completed!"

Yours most sincerely,

Hillman.

Benjamin Strong, Esq.

ANS'D BY CABLE, DATE
ANS'D BY LETTER " 2/18/22
CONFIRMED "
RELATIVE CORRESPONDENCE

Confidential.

22nd December, 1921.

The British and French Governments, having taken into consideration the declaration of the German Government that it is unable to meet in full the instalments in respect of reparation falling due on January 15th and February 15th, 1922, and its request for postponement, agree to make recommendations on the following lines to the Allied Powers for dealing with the problems which arise:-

(1) That the sum of 150,000,000 to 200,000,000 gold marks which the German Government offers to pay in respect of the January and February instalments, being insufficient, the Allied Governments should insist on a payment of 500,000,000 gold marks.

(2) That if the German Government cannot meet this payment otherwise, it should apply a portion of the Reichsbank gold reserve for the purpose.

(3) That payment of the sum of 500,000,000 gold marks should be accepted as follows:-

125,000,000 on January 15th, 1922.

do. on February 15th, 1922.

do. on March 15th, 1922.

do. on April 15th, 1922.

(4) That in view of the inability of the German Government to meet its engagements and as a condition of the grant of postponement of certain payments, the German Government shall agree to take, without delay, the measures set out in the accompanying note.

(5) That the Allies should agree to forego any cash payment from Germany during 1922 in excess of the sum of 500,000,000 above mentioned.

(6) That the Allied Governments should consent to the operation for a period of three years of the Wiesbaden Agreement

regarding

regarding reparation in kind payable to France, subject to the following conditions:—

(i) the amount of deliveries under Annexes III to VI of Part VIII of the Treaty and the Agreement, together shall not exceed 1,250,000,000 gold marks in 1922, 1,500,000,000 in 1923, and 1,500,000,000 in 1924.

(ii) the amount standing deferred at the end of 1924 shall be liquidated by France in ten equal annual instalments beginning on the 1st May, 1926 by set off against sums due to France in each year out of reparation receipts, and unless the operation of the Agreement is continued for a longer period by agreement among the Allies, France shall, in no year subsequent to 1924 receive, whether in cash or deliveries, sums which, when added to the said instalments, would result in France receiving in that year more than her proportionate share, as determined by Inter-Allied agreements, of the total payments by Germany in that year, including the instalment due by France.

(7) That any Allied Power entitled to reparation shall be permitted to enter into agreements similar to the Wiesbaden Agreement for delivery in kind, subject to the approval of the Reparation Commission, provided that the value of deliveries in kind to be received by any Powers other than France (including the proceeds of the British Reparation (Recovery) Act and any similar Acts) shall not, during 1922, exceed 500,000,000 gold marks in the aggregate.

(8) That Germany should be required to use her best endeavours to the satisfaction of the Reparation Commission (which in case of necessity would apply the provisions of paragraph 17 of Annex II of Part VIII of the Treaty of

Versailles, without undue delay to give effect to the Wiesbaden Agreement, and to enter into agreements with other Powers for deliveries in kind of the nature of the Wiesbaden Agreement.

(9) That during 1922 each Power shall retain for its own use the value of any deliveries in kind (including the proceeds of any levy under any Reparation (Recovery) Act). But subject to the provisions of paragraph 6 of this document and of any Inter-Allied agreement already entered into or hereafter to be entered into, the receipts of any Allied Power in respect of reparation during 1922, together with interest thereon at 5 per cent. per annum, as from 1st January, 1923, shall be taken into account in determining the proportions of reparation receipts due to each Power in 1923 and subsequent years.

(10) That as from 1st May, 1922, the cost of the Armies of Occupation, other than that of the United States of America, and exclusive of the cost under Articles 8-12 of the Arrangement of 28th June, 1919, should be fixed at monthly amounts payable to British, French and Belgian Governments in sterling, French francs and Belgian francs respectively. These amounts should be determined by taking an annual amount of 220,000,000 gold marks which should be divided in proportion to the effectives employed, a special allowance of 2 gold marks per man per day being made to cover the higher cost of the British Army; the rate of conversion being based on the mean rate of each of the currencies in question during the month of December 1921.

The distribution thus determined should be liable to modification by agreement in accordance with variations in the number of effectives supplied by the respective Governments.

The Governments in question should further agree annually upon a lump sum in paper marks to cover the costs of services and supplies furnished by Germany under Articles 8 - 12 of the above Arrangement.

In the event of special military action of a precautionary or coercive character being decided upon by the Allied Powers,

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the resulting expenses should be payable by Germany, over and above the lump sums above mentioned.

(11) The British Government will raise no further objection to the acceptance by the Reparation Commission in the agreement between France and Germany regulating the price of coal delivered to France, so far as concerns deliveries up to 31st December, 1921, inclusive, provided that it is agreed that for the future all coal deliveries to France, irrespective of the method of delivery and of the internal price in Germany, shall be credited to Germany and debited to France on the basis of the cost at St. Quentin of French or British coal, whichever is the lower, less the cost of transporting the German coal to St. Quentin which is borne by France.

The price thus to be fixed would include all cost of transport borne by Germany.

(12) The British Government for its part, subject to the concurrence of the Belgian Government, would be prepared to accept a ratification of the Treaty of the 13th August, with the following modifications:—

(a) The milliard already paid and the 500,000,000 gold marks to be paid by Germany in January to April, 1922, should be treated together.

(b) Out of this total sum of 1,500,000,000 gold marks there should be applied a sum of 500,000,000 towards payment of the cost of the British Armies of Occupation up to 30th April, 1921, inclusive: and France should similarly receive such sum as would result in France obtaining the same proportionate payment on account of the total costs of the French Army of Occupation incurred up to the 30th April 1921 inclusive as will have been received by the British Empire in respect of the same period on occupation account, the amount due in the case of France being determined on the assumption that the value of the Saar Mines is not debited to France on occupation account.

(c) The remainder of the sum of 1,500,000,000 of gold

marks

marks will be payable to Belgium in respect of Belgian priority subject to the deduction therefrom of a sum of approximately 175,000,000 lire now deposited with the Bank of Italy.

(d) The value of the Saar Mines will be debited to France as a reparation payment in 1922, and France shall liquidate the debit in accordance with the provisions of paragraph 9 of this document.

ANNEX.

CONDITIONS.

- A. Germany will within 15 days make arrangements to the satisfaction of the Reparation Commission for
- (1) collecting existing Customs duties on an effective gold basis;
 - (2) raising the internal price of coal by x%;
 - (3) raising railway, postal, telegraph and telephone rates by x%;
 - (4) ensuring that as from the 1st January 1922 pending the appointment of the technical adviser mentioned in B (1) below, except by permission of the Reparation Commission,
 - (a) the net addition to the advances by the Reichsbank to the German Government (whether directly or in the form of discounting of Treasury Bills) during any single month shall not exceed the net amount of such advances during the month of December 1921;
 - (b) the net additions to the issues of uncovered notes of any kind during any month shall similarly be limited to an amount not exceeding the net additions to the issues during the month of December 1921.
- B. The German Government will prepare and submit to the Reparation Commission within six weeks of notification a considered programme for
- (1) the grant of autonomy to the Reichsbank and the nomination of a technical adviser to be agreed upon between the Reichsbank and the Reparation Commission charged with the duty of supervising the financial policy of the Reichsbank and in particular with

discretion

- discretion to refuse consent to advances direct or indirect by the Reichsbank to the German Government;
- (2) the issue of internal loans - other than Treasury Bills discounted by the Reichsbank - in amounts sufficient to cover any Budget deficit until such time as the Budget can be balanced by Revenue receipts;
- (3) measures calculated to secure the balancing of the Budget: in particular the gradual suppression of subsidies, and of expenditure whether capital or otherwise on services which are not of urgent necessity; and the balancing of the receipts and expenditure of the railway, postal, telegraph and telephone services, together with all necessary fiscal measures for the assessment and collection of taxation;
- (4) measures calculated to stop abuses in the matter of export of capital and to facilitate the return to Germany of capital already exported;
- (5) measures directed to prepare the way for a reform of the monetary circulation of Germany; including the cessation as soon as possible of additions to the uncovered note issue;
- (6) periodic publication of financial and commercial accounts and statistics in accordance with pre-war practice.

- C. This programme as submitted shall indicate the periods necessary for its continuous realisation in each part and shall so far as possible be accompanied by the text of any laws or regulations necessary to give effect to it. The Reparation Commission, within one month of the receipt of the programme from the German Government, will pronounce upon it. It will decide if the periods proposed by the German Government are such as should be accepted, and if it decides that they are

not

not to be accepted, it shall fix different periods. It shall indicate what modification in the programme it considers necessary. If the German Government fails to submit the programme within the time specified, or fails in the execution of the programme in any particular, the Reparation Commission may declare the failure of the German Government and such declaration by the Reparation Commission shall in itself have the effect of making immediately due any payments under the Schedule of Payments which at that date are in arrear, without prejudice to the penalties which default in the terms of paragraph 17 of Annex II of Part VIII of the Treaty of Versailles may involve.

- D. The Committee of Guarantee will have its seat in Berlin.
 - E. In the event of no agreement being reached by the 31st March 1922 between the Reichsbank and the Reparation Commission as to nomination of the technical adviser mentioned in B (1), the Reparation Commission shall have power forthwith to appoint such technical adviser without further consultation with the Reichsbank.
 - F. The German Government shall undertake to recognise the full power of the Committee of Guarantee to supervise the execution of the measures above indicated and to assist the Committee by all means in its power in the exercise of its functions of supervision.
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ACKNOWLEDGED
FEB 17 1922
Bank of England
London, E.C. 2

29th December, 1921.

My dear Strong,

I refer to your letters of the 21st and 25th November concerning your letter of introduction to Mr. Nakane, only to say that he called here some 10 days ago in order to make an appointment to present your letter. Since then I have twice tried to get in touch with him without success but shall hope to do so early in February.

At the moment it appears that Mr. Nakane has been forced to go into a hospital for an operation; but you know that we are not only willing but anxious to get a bit closer to the Bank of Japan.

I should also say that a dozen or so of the Japanese Business Mens' Mission called upon us last week when, failing any other matters of interest, I gave them a dissertation upon Central Banking. I did not then recognise Mr. Nakane and he did not

make

make himself known to me, but it is only fair to say that, owing to the generous fare which had been extended to the Mission, most of my visitors were asleep while I was trying to entertain them!

Yours most sincerely,

H. Strong.

Benjamin Strong, Esq.

ANS'D BY CABLE. DATE
ANS'D BY LETTER " 2/17/22
CONFIRMED "
RELATIVE CORRESPONDENCE

ACKNOWLEDGED
Bank of England
London, E.C. 2
FEB 17 1921
B. S.

29th December, 1921.

My dear Strong,

I write merely and briefly to acknowledge the receipt of the letter written to me by Jay on your behalf and dated the 16th instant.

It recapitulates various points in the letters and cables which I have lately been addressing to you, but it seems to call for no particular reply especially as the subject most concerned, namely Reparations, has already been mentioned in my last letter to you of the 17th instant and is now awaiting discussion at the Supreme Economic Council at Cannes in the first week of next month.

I and we all most earnestly hope that your health is now completely restored after the illness which of recent weeks has evidently been troubling you and thus prevented your personal and valued attention being given to the various matters of interest which have

have appeared in our correspondence.

I shall look forward to hearing more
from you on my return from Nice between the 25th
and 30th of next month.

Yours most sincerely,

Hickman.

Benjamin Strong, Esq.

CONFIDENTIAL.

ACKNOWLEDGED
FEB 8 1922

Bank of England

B. S. London, E.C. 2

30th December, 1921.

My dear Strong,

When Monsieur Loucheur and Dr.

Rathenau were here a week or ten days ago, the main subject of discussion was, as you know, the German Reparations, but in addition thereto discussions also took place with the idea of opening up trade in Eastern Europe and Russia. It is difficult to say whether these were based mainly upon political or upon economic considerations. I think that the Prime Minister, who took part at an early stage, had it in mind to use this method in order to bring together France, Germany and perhaps other countries, on an economic plan as it was impossible at the moment to do so on political lines. On the other hand some of those Bankers and business men who had discussed similar schemes with Stinnes a month or so ago and who were brought into the present discussion were undoubtedly thinking along economic lines with

the

the object of opening up trade. At the same time you may take it as certain that some more or less satisfactory assurances were received from the Representatives of the Soviet Government as to their willingness to abandon their earlier ideas of Communism and anti-capitalistic legislation.

Within the last day or two one or two meetings have been held for the purpose of bringing these nebulous and quasi-political ideas on to a more solid economic foundation. They have been attended by our Colleague Kindersley, by Docker who represents manufacturing in the Midlands, by Hichens who represents iron and steel, by one Smith who represents engineering and such like, and though the idea is still hazy these gentlemen have now gone to Paris in company with a Cabinet Minister (Worthington-Evans) to carry matters further in conjunction with those who have been interested in the idea by Loucheur.

I have not thought it worth while to send you any cables on this subject, but I take the opportunity of enclosing for your personal information a memorandum marked secret which gives the outline

3.

of the scheme I have mentioned above in so far as up to the present it has been reduced to writing.

Yours most sincerely,

Roman

Benjamin Strong, Esq.

ANS'D BY CABLE, DATE
ANS'D BY LETTER " 2/18/22
CONFIRMED "
RELATIVE CORRESPONDENCE

SECRET

PROPOSALS FOR RE-ESTABLISHING BETTER
ECONOMIC CONDITIONS IN EUROPE

Europe is paralyzed. Her industries are dislocated, her international trade is almost at a stand-still, her people suffer from unemployment and privation.

Systems of transport have fallen into disorder with the result that the whole current of commerce has been impeded.

Want of confidence of one nation in the other has paralyzed the efforts of individuals, and the fluctuation in the values of the national currencies has tended to restrict trade to primitive barter, and to destroy the opportunities of employment.

A resumption of international trade and a development of the resources of each country will extend the volume of productive employment and tend to relieve existing privation.

International trade will be re-established only when those engaged in trade and industry can once more feel confident that in Central and Eastern Europe economic principles will be observed which are essential to the development and even the existence of private enterprise.

The fundamental conditions upon which alone international trade can be actively developed with the Central and Eastern European countries may be thus stated:-

The rights of private ownership in real and personal property and private enterprise must be recognised. This implies without infringement of internal sovereignty the recognition of public debts and of the obligation of compensating those whose property may have been expropriated or withheld.

There must be a legal system which sanctions and enforces trade and other contracts with impartiality.

An adequate means of exchange must be available, and, generally, there must be a financial and currency conditions which offer reasonable security for trade.

To bring back Europe to its former prosperity it is essential that these conditions should be fulfilled, otherwise trade and employment will remain impossible except to a very limited extent.

If any country refuses to fulfil these conditions, trade with that country will remain impossible except to a limited extent, and all Europe will suffer in consequence. The markets of Central and Eastern Europe are essential to the well-being of European industry. If those markets cannot be reconstituted, Eastern and South-Eastern Europe will lose millions of their population and reconstruction will become progressively more difficult; and the conditions which produce misery and starvation in the East will doom the industrial population of Western Europe to a long period of under-employment, during which they will compete with each other in markets incapable of taking more than a part of the goods they are anxious to produce. In such circumstances the economic rehabilitation of Europe will be impossible. Inflation will continue, the cost of living will rise, the standard of life will be depressed; and in the West of Europe as in the East, starvation and under-feeding will waste the fibre of the wage-earning and the professional classes and cause wide-spread misery until the producing power of Europe is scaled down to a consuming capacity far below the level of 1914. From such a force of events all peoples must suffer alike.

The process of reconstituting each country by its own unaided efforts has not yet proved successful. Whole-hearted co-operation among the nations of Europe and amongst all the classes of the community can alone overcome the difficulty and stimulate and assist each country to make the best use of its own energies and resources, and it is therefore proposed that the principle Allied Powers, Great Britain, France, Italy, Belgium and Japan and the United States of America