

a. W. J. Bryan

Secretary of State

1914

Hon. W. J. Bryan,
Secretary of State,

August 14, 1914.

and

Hon. Wm. G. McAdoo,
Secretary of the Treasury,
Washington, D. C.

Dear Mr. Secretary:-

Referring to our conversation this morning, Mr. W. L. Benedict, of Kidder, Peabody & Co., and Mr. Benj. Strong, Jr., President of the Bankers Trust Company, submit the following memorandum statement of a proposed method of opening necessary credits at various points in Europe for the benefit of American travellers who are unable to obtain cash on their letters of credit and travellers' checks:

The Bankers Committee of New York will direct the Bankers Committee of London to set aside out of the three million dollars gold shipped by the bankers on the Cruiser Tennessee, such specific sums of money as are required to protect guarantees given by the United States government through Ambassadors or Consuls at various points, for the purpose of furnishing cash at those points.

The amounts so set aside in London out of the three millions of gold shipment, will be held subject to the control of Ambassador Page at London, under instructions from the State Department, and will be in addition to the government fund applied to the relief of those whose resources are exhausted.

The State Department could then cable to the American Ambassador at Rome, or to other Embassies or Consulates, directing that the government give its obligation for the amount of money desired at that point for payments on travellers' checks and credits which would be disbursed by the Ambassadors or Consuls, of ir preferred, through suitable banking agencies appointed by the bankers.

As payments are made out of the funds placed at the disposal of Ambassadors and Consuls or banking agencies, the evidences of payment in the shape of drafts, letters of Credit, or travellers' checks, will be transmitted to the Ambassador at London, and he, in cooperation with the London committee, will reimburse the government out of the fund set aside in London for that purpose.

We are informed that the office of the London committee is well organized with skilled clerks, and in charge of experienced bankers, the chairman being Mr. F. I. Kent, Vice-President of the Bankers Trust Company, New York City, who has had many years' experience in handling foreign exchange and letter of credit transactions. Our committee feels every assurance that on the scheme above outlined the government will be fully protected, and these payments can be promptly made.

Respectfully submitted,

BENJAMIN STRONG, JR.

Chairman, Committee of New York Bankers.

August 20, 1914.

Hon. W. J. Bryan,
Secretary of State,
Washington, D. C.

My dear Mr. Secretary:-

It has not been possible until the present time for me to write, as I had hoped to do, making some explanation of the urgency which developed in regard to the protection of travelers' credits held by our countrymen in Europe, and furthermore the reasons for my assuming that no effective measures for their protection could be undertaken without cooperation of our Government.

Travelers' Cheques and Letters of Credit which are issued by American banking institutions and bankers total many millions in the course of one season; some institutions which make sales as high as \$30,000,000 or \$40,000,000 annually have outstanding at one time from \$5,000,000 to \$15,000,000 of these credits which may be cashed at the election and convenience of the travelers in any part of the world. The banks which issue them are unable to anticipate in what volume they may be cashed at any given point, and they are accordingly issued under banking contracts, by the terms of which the foreign institutions which make the payments on the credits receive reimbursement by drawing drafts on London at the rate of exchange current at that place on the day the drawing is made. Without this method of London reimbursement it would be necessary for the banks issuing these credits to carry very large balances in a great many cities, the total being far in excess of the total credit outstanding, and naturally the business would be unprofitable, as it would absorb too much capital if conducted on that basis.

As soon as the crisis in foreign exchange occurred and it became known that London reimbursement was likely to be disarranged and possibly be absolutely discontinued, it was apparent that those banks on the Continent which were in the habit of employing London reimbursement under these contracts might in many cases discontinue cashing cheques. In order, therefore, to meet this situation (quite unprecedented in the history of banking) two methods of procedure only were possible; one was to ship gold directly to all points where travelers were congregating and would be without funds, and the other, to establish banking credits at these points, through the agency of the United States Government, which would enable the local banks to make payments on cheques and drafts.

The procedure which has been followed of shipping gold to London as the base from which these credits might be established at different points on the Continent, has, I believe, been effective in relieving a situation which might otherwise have become so distressing as to have caused intense suffering on the part of our citizens in Europe. In fact, the mere knowledge that a shipment of gold was being made in a United States war vessel had an instant effect in releasing money to our travelers even before special credits had been established. It has been possible in some places to establish credits against reimbursement out of the gold shipped to

Hon. W. J. B. 2.

London, and in other places, against deposits in New York, much more readily than would have been the case had a mere promise of a gold shipment been held out to these foreign banks.

Prior to the writer's first trip to Washington, when he had the pleasure of meeting you, a number of the leading institutions and firms in New York were asked to make verbal commitments to furnish gold for the purpose of protecting these credits and insuring relief payments under such plan as might be developed. The response to this appeal was an immediate pledge of about \$7,000,000, which could have been largely increased had it been required, as some thirty-four firms and institutions have now participated in the fund. All of this fund was contributed with a view to cordial cooperation with the Government in relief plans.

The bankers who participated in this fund realized that although there are probably hundreds of institutions in the United States issuing letters of credit and travelers' cheques, it would be impossible to secure their cooperation in relief plans of this character in time to make them effective, and they therefore furnished the fund, not, as has been once stated, for the protection of their own credits, but for the protection of all American credits issued by responsible concerns, irrespective of whether those firms were contributors to the fund or not. Subsequent developments have disclosed the fact that a large number, if not all of the ten original contributors who practically underwrote the funds, were in little, if any need of taking measures of this character for the protection of their own credits, as the larger institutions, better known abroad, had much less difficulty in making direct financial arrangements.

We will, of course, hear of many cases of hardship, and possibly many complaints, but the course pursued has, I believe, reduced these to a bare minimum, and a continuance of the policy of opening credits where necessary, either against deposits made in New York, as will probably be necessary in some cases, or against the gold which has been shipped to London, will gradually furnish all travelers who have credits with means of paying absolutely necessary expenses and obtaining transportation home.

It now seems apparent that the three great objects to be accomplished, namely, to relieve the distress of our friends abroad; to demonstrate the ability of our Government to afford relief to its citizens in such a crisis as the present one, and to protect the credits of American institutions which were obliged to meet the obligations to their clients in Europe, are all in the way of accomplishment, and in behalf of many of the bankers in this city, who have felt a grave responsibility in this matter, I now beg to convey to you our warm thanks for your hearty cooperation and the repeated evidence of your confidence in our plans and purposes.

With cordial regards, believe me,

Respectfully yours,

(Signed) Benjamin Strong, Jr.
President.

b. Robert Lansing
U.S. Secretary of State

1916, 1919



DEPARTMENT OF STATE
WASHINGTON

January 12, 1916.

To the

Diplomatic and Consular Officers

of the United States of

America in England and France.

Gentlemen:

At the instance of the Honorable Wilbur J. Carr, Director of the Consular Service, I take pleasure in introducing to you Mr. Benjamin Strong, Junior, Governor of the Federal Reserve Board of New York, who is about to proceed to England and France.

I commend Mr. Strong to your attentive consideration, and shall appreciate any courtesies and assistance which you may find it possible to extend to him.

I am, Gentlemen,

Your obedient servant,

CB

59
January 17th, 1916.

My dear Mr. Secretary:

Mr. Carr has just sent me the note you were good enough to address to our Ambassador at Paris, which I shall take great pleasure in presenting to him, and now write to thank you for your courtesy in providing me the opportunity of meeting him.

I anticipate being in London about a week or ten days and substantially the same length of time in Paris. If I can be of any service to you or your associates in connection with my trip, I trust you will not hesitate to command me.

With personal regards, believe me,

Very truly yours,

Honorable Robert Lansing,
Department of State,
Washington, D. C.

BS Jr/VCM

R. No. 2

July 25/11

AMERICAN MISSION, Paris

S S S Washington 121 102/100 1/52/50

2629 Legri for Ginn from Rathbone Treasury

1158 Following is for Benjamin Strong quote Two

1. Have received the following cable dated 17th from Netherlands Bank quote First lot approximately 20,000,000 gold marks completed gross kilograms 7943 grams 906 ounces 255402.3 coins are genuine are weighing second lot quote This was confirmed by State Department from?

2. The following cable dated 19th ~~1911~~ Netherlands Bank quote your cable 16 gold Germany said to contain 320,000,000 marks 1,554,500 sovereigns 18,300,000 Austrian crowns 5,500,000 roubles 1,799 (barrels) ^{barro} fine weight 21,837 (moahg not moahg) kilograms total 440,000,000 gold marks We can roughly weigh total in 30 ^{days} with margin 1/2% (obwos for obwoh) our responsibility stop pending your instructions we continue accurately weighing gold coins as heretofore and will telegraph result every lot approximating value 20,000,000 marks unquote

3. Have not replied to this cable but hold it in abeyance awaiting instructions from you.

4. Your cables 2 and 3 received (ivwep) in plain English we understood you would use Bentley's code and test word.

5. Duplicate of this cable sent to London Federal Reserve Bank unquote

LANSING

c. Charles E. Hooper

1921 - 1924

September 24, 1921.

Dear Mr. Secretary:

During the few weeks when Mr. Montagu Norman and Sir Charles Addis were visiting this country, one of our own officers, Mr. Pierre Jay, was traveling abroad and had occasion to make a short stay in Vienna. He has been fully acquainted with the substance of our discussions in Washington on the subject of the very desperate conditions now developing in Austria, and bearing upon this situation he has just sent me a cable of which a copy is enclosed.

Following our discussions of this matter I have finally received word from Secretary Hoover that we can expect no definite statement from the Administration, either affirmative or negative, in regard to the proposal which we made that the Federal Reserve Bank of New York should join with other similar institutions of Europe in making a study of conditions in Austria with a view to some assistance of a non-political character being later rendered.

I hesitate to suggest encroachment upon your time when I know you are closely engaged, but if it is possible for me to see you for a few minutes when I am in Washington this week or next week I should greatly appreciate an opportunity to discuss this matter a little further.

With assurance of my esteem, believe me,

Faithfully yours,

Honorable Charles E. Hughes,
Secretary of State,
Washington, D. C.

Benj. Strong
Governor

BS/RAH

P. S. Since dictating the above I have received a confidential cable from the Governor of the Bank of England, copy of which is also enclosed.

September 28, 1921.

My dear Mr. Secretary:

Your kind note of September 26 has just reached me, and I hasten to advise you that Friday afternoon at four o'clock will suit me entirely, and I shall call at your office at that hour.

With assurance of my esteem, I am,

Very truly yours,

Benj. Strong
Governor.

Honorable Charles E. Hughes,
Secretary of State,
Washington, D. C.

BS/RAH

THE SECRETARY OF STATE
WASHINGTON

September 26, 1921

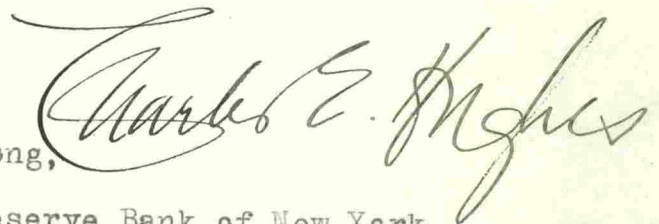
ACKNOWLEDGED
SEP 26 1921
R. S.

My dear Mr. Strong:

Your letter of September 24 has been received. It will give me much pleasure to see you, and if it will suit your convenience, I shall be glad to have you call on Friday afternoon, September 30, at 4 o'clock.

With high regard, believe me,

Very sincerely yours,



Honorable Benjamin Strong,
Governor, Federal Reserve Bank of New York,
Room 181, Treasury Building,
Washington, D. C.

October 31, 1921.

Dear Mr. Secretary:

Referring to our confidential conversation in regard to certain Japanese matters, I have recently been advised that my friend, Mr. Eigo Fukai, Deputy Governor of the Bank of Japan, has been appointed financial adviser to the Japanese Delegation to the Conference on Limitation of Armament.

Mr. Fukai is one of the ablest and best informed men that I met in Japan. He speaks English perfectly, was financial adviser to the Japanese Delegation to the Peace Conference in Paris, and has occupied important positions in the Bank of Japan, both at home and in foreign countries. As a young man he was private secretary to Marquis Matzukata, who, as you will recall, was the economist and financial expert of the Genro and one of the two living members of that body.

I have such confidence in his frankness, good judgment and integrity that I am taking the liberty of inquiring whether you might find it interesting and profitable to have a talk with him personally during his visit in this country, and if so, if you would permit me the privilege of giving him a letter of introduction to you.

That may not indeed be necessary as this letter conveys to you the thought I have in mind, and you doubtless will see him during the sessions of the Conference.

Permit me to refresh your memory with regard to the relations between this bank and the Bank of Japan, which I described to you in your office, and with which Mr. Fukai is fully acquainted. I beg to remain,

Faithfully yours,

Honorable Charles E. Hughes,
Secretary of State,
Washington, D. C.

November 7, 1921.

My dear Mr. Secretary:

This note will be presented to you by Mr. Eigo Fukai, a warm personal friend of mine, and Vice Governor of the Bank of Japan.

Mr. Fukai is financial adviser to the Japanese Delegation attending the Conference on Limitation of Armament.

If time permits you to receive a call from him, I feel sure that he will be much honored and greatly appreciate the opportunity of meeting you personally.

With assurance of my esteem, believe me,

Faithfully yours,

Honorable Charles E. Hughes,
Secretary of State,
Department of State,
Washington, D. C.

BS:MM

PRIVATE

March 9, 1922.

Dear Mr. Secretary:

You will doubtless recall our conversation in regard to a banking relationship of importance which had been established two or three years ago by this bank with a state bank of an important nation.

I thought you would be interested in learning that our correspondent has advised us of their intention to withdraw one-half of the balance maintained with us, which will be gradually done over a period of weeks or months. This refers only to the balance maintained with this institution.

The transaction has no special significance. The withdrawal is due to the fact that the balance of trade has been running rather persistently against that country, and it is necessary for the state bank to furnish dollar exchange to their importers in order to avoid an increasing discount on their own currency.

With assurance of my esteem, I beg to remain,

Yours very truly,

Governor.

Honorable Charles E. Hughes,
Department of State,
Washington, D. C.

ES.MM

THE SECRETARY OF STATE
WASHINGTON

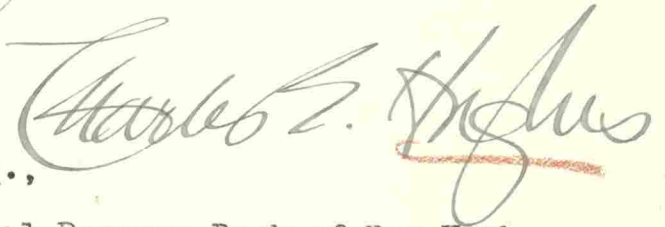
March 16, 1922.

My dear Governor Strong:-

I have received your letter of March 9th, and I am indebted to you for sending me this information with respect to the withdrawal of a part of the balance to which you referred in your conversation with me. I shall be glad to have any information which you can give me from time to time in relation to the matter.

With high regard, believe me

Very sincerely yours,

A handwritten signature in cursive script, reading "Charles E. Hughes". The signature is written in dark ink and is positioned above the typed name of the recipient.

Benjamin Strong, Esq.,

Governor, Federal Reserve Bank of New York,
New York, New York.

THE SECRETARY OF STATE
WASHINGTON

March 16, 1922.

My dear Governor Strong:-

I have received your letter of March 9th, and I am indebted to you for sending me this information with respect to the withdrawal of a part of the balance to which you referred in your conversation with me. I shall be glad to have any information which you can give me from time to time in relation to the matter.

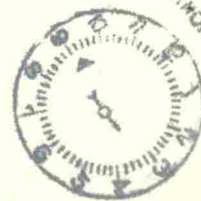
With high regard, believe me

Very sincerely yours,



Benjamin Strong, Esq.,

Governor, Federal Reserve Bank of New York,
New York, New York.



MAR 17 1922

April 3, 1922.

Dear Mr. Secretary:

I am leaving for Washington to-night, and hope that during the few days that I shall be there it may be possible for you to spare me a few minutes.

Of course I know how closely engaged you are, and if it would be more convenient, I would be greatly honored if you are able to lunch with me and thereby save your office hours.

I shall take the liberty of calling your secretary sometime to-morrow.

With cordial regards, believe me,

Yours sincerely,

Honorable Charles E. Hughes,
Department of State,
Washington, D. C.

BS.MM

NOV 7 - 1921

THE SECRETARY OF STATE
WASHINGTON

November 3, 1921.

My dear Governor:

I thank you for your letter. It will be a pleasure to meet Mr. Fukai, and I shall be glad to have you give him a letter of introduction. You may be assured that I shall not forget what you told me with regard to the relations between your bank and the Bank of Japan.

Faithfully yours,



Honorable Benjamin Strong,
Federal Reserve Bank,
New York City.

November 7, 1921.

My dear Mr. Secretary:

It is very kind of you to permit me to send a note of introduction to Mr. Fukai, which I am taking the liberty of doing to-day, and he will no doubt communicate with your secretary in regard to an appointment.

Trusting that I am not encroaching unduly upon your busy days, I beg to remain,

Yours faithfully,

Honorable Charles E. Hughes,
Secretary of State,
Department of State,
Washington, D. C.

BS:MM
Enc.

April 14, 1922.

Dear Mr. Secretary:

There has been, I regret to say, some unavoidable delay in preparing and sending to you the enclosed memorandum, which I promised to do when I last saw you in Washington. It is, of course, a matter to which I expected to give considerable further thought before writing.

Permit me respectfully to make the following comments in regard to the views contained in this paper:

In almost every discussion of this important matter which I have had with various people, it developed that some special interests tend to influence the opinions of those who are inclined to criticise one policy or another. It may be a banker who desires to realize commissions on foreign loans; it may be a manufacturer who has lost an export order, and is thinking of his own foreign trade; or again it may be a merchant, exporter or banker who has unfortunately been unable to collect debts owing for goods heretofore exported to foreign countries. You will, I hope, realize that no interest of this character has influenced the views which we hold at the bank in these important matters. It is our earnest desire to see the American banking system and the wealth of this country make a just, effective and even a generous contribution to the restoration of the world's trade, upon which the prosperity and happiness of so many of our own citizens depends.

Permit me also to invite your attention to the enclosed list, which is fairly complete, exhibiting the foreign loans placed in this country during the past fifteen months, and to call your attention to the evidence therein contained of the careful discrimination with which these loans have been sifted out by our bankers before they have been offered for sale. There seems to be no evidence

April 14, 1922

of a reckless plunging into new fields. It is especially notable that a large proportion of the loans extended to France are for refunding purposes, and that, with the exception of the French, and possibly the Belgian loans, there seem to be none to which restrictions, such as are discussed under Heading II of the memorandum, would apply.

As I have had occasion to discuss these matters with both Secretary Mellon and Secretary Hoover, I am taking the liberty of enclosing two spare copies of the memorandum in case you desire to send copies to them, and I am likewise sending another copy directly to Assistant Secretary Harrison at his request.

Apologizing for asking you to read this long document, and with assurance of my esteem, I beg to remain,

Respectfully yours,

Benj. Strong,
Governor.

Honorable Charles E. Hughes,
Secretary of State,
Washington, D. C.

BS.MM

Encs.

IDENTIFICATION OF DOCUMENT HEREWITH:

This is the memorandum prepared by Governor Strong and submitted to Secretary of State Charles Evans Hughes as an enclosure with his personal letter dated April 14, 1922, copies of which were forwarded by Hughes to the Secretaries of the Treasury and Commerce (Mellon and Hoover).

km

6/9/60



The purpose of this memorandum is to discuss restrictions or partial restrictions upon foreign loans in the American market, designed to

I. Influence or require the borrowers to expend the proceeds for goods produced in the United States; or

II. Influence the borrowers (when governments) to bring their national budgets into balance and reduce unproductive expenditure.

I

Many of those who object to opening our market without restriction to foreign loans claim that "the 'money' is being spent elsewhere than in the United States," and frequently refer to these loans as "exports of American capital." They believe that by requiring the borrowers to purchase American goods our exports will be increased. Consideration of present conditions discloses that the grounds of the objection are fallacious; and that our trade would suffer rather than improve as a result of such requirement.

When a foreign government or its citizens borrow in the United States, the proceeds of the loan are placed at the credit of the foreign government or its citizens in American banks. There are only three possible uses which may be made of that credit:

(a) (Under normal conditions) gold might actually be withdrawn from the United States by the borrower;

(b) Debts already contracted and owing in this country may be repaid out of the proceeds; and

(c) Goods produced in this country, or the services of American organizations or individuals, or American investments, may be paid for out of the proceeds.

As to (a). The export of gold. So long as foreign currencies are at a discount and American dollars at a premium, it is impossible, without loss, physically to withdraw gold and export it. This may be shown by considering the position of

the French, (a more extreme case than the English), with the franc at a discount of 50% measured in dollars. If the French Government borrowed a million dollars in the United States and withdrew the gold to France it would get a credit at the Bank of France equal to only one-half of the number of francs for which the million dollars would otherwise sell in the exchange market. In other words, that amount of gold, if coined into ten and twenty franc pieces would only produce at legal tender value one-half of the number of francs which could be realized by selling the dollars in the market at current quotations. Even the French Government, or the Bank of France, could not afford under present conditions to import gold or build up a gold reserve by such loans because of the large loss involved; nor can any other nation (or its citizens) afford to import gold from the United States so long as their currencies are at any considerable discount expressed in dollars. That is the explanation of the shipment of the entire current gold mine production of the world to this country. It may in fact be definitely and safely concluded that there can be no such export of "money" in the form of gold or of American currency which is redeemable in gold. The other means (b) and (c) of employing the proceeds of such loans must be examined if justification for restriction (1) is to be found.

As to (b). The payment of debts already contracted. Those who have entered into commitments in the United States for the purchase of goods or for any other purposes, are enabled as the result of these foreign loans to buy dollars (exchange) in the markets which otherwise would not be available. This does not mean necessarily that the nations, or their citizens, which borrow in the United States are the only ones who are thereby enabled to pay debts in the United States. A foreign government which borrows and obtains a credit here may indeed have its own debts to pay in this market, but if it has no such indebtedness to pay, it may have debts elsewhere and in order to employ the credit in paying debts due elsewhere, it must draw upon that credit. This is a normal process in banking. In case, say,

the French Government had debts to pay in London, it would probably sell dollars in London (or in Paris) in exchange for sterling, in order to repay indebtedness there. It would simply sell to London bankers checks drawn upon New York and the London bankers would thereby secure the transfer of the credit to their own accounts, and would be in position to furnish their own customers with dollars with which to pay what they owed in our country. The mechanism of exchange is so effectively developed and operates so promptly that but very few days would be required to enable, say, the French Government to realize in London upon a large dollar credit obtained in New York, and so enable British traders to make equally prompt payment of their debts in this country. The process might be further extended if the British employed the dollars to pay debts in some other country, which country was in the market for dollar credits with which to pay for goods purchased here, or to pay their debts owing in this country. From the standpoint of liquidation of debts, a restriction upon foreign loans would operate directly to reduce the amount of dollars otherwise placed at the disposal of foreign borrowers, and thereby defer liquidation of so much indebtedness now or hereafter owing to our merchants and bankers by the world at large.

As to (c). The purchase of goods in the United States. The same process operates in the case of credits resulting from loans which are not directly used by the borrower to purchase goods and services in the United States. Such credits are promptly sold by the borrower and converted into the currency of some other country where purchases are in fact made. Assume again that the French Government borrows a million dollars in New York to enable it to buy goods abroad, but not in the United States. If the goods are purchased, say, in Argentina, the dollars are sold in the exchange market and the proceeds are invested in pesos so as to pay for Argentine wheat. The French bankers who buy the dollars and furnish the pesos then dispose of the dollars to French importers who do purchase goods in the United States, or they may again, as in the case cited under (b) be sold in other markets, as, for instance,

in London, when again the British importer has dollars for the purchase of American cotton or other goods.

The fact is that credit, speaking strictly, cannot be exported from the United States. The only things which can be physically exported are gold, (when the exchanges are operating normally) or, under present conditions, goods and services. There is no possible means, except the exchanges permit gold exports, by which the American producer can be deprived ultimately of the advantage of the application of such borrowed dollars or credit to the purchase of American goods, or to the payment of debts owing in America, unless, as is quite unlikely, the borrowed funds are invested in America in one or another form by foreign investors. It is claimed that in the absence of restriction the indirect process of transfer, above described, operates slowly, is obscure, and may not be ultimately accomplished. This, however, is not a sound conclusion. With dollars at a premium throughout the world, those having dollar balances in this country earning nominal interest must, unless they are willing to sustain heavy loss, employ them at once in paying debts or buying goods. They may be, and frequently are, temporarily invested, pending other use. The interest charges on loans are heavy and the interest allowed on bank balances are small. Furthermore, foreign currencies are now appreciating relative to the dollar and the retention of idle dollar bank balances by foreign borrowers is liable also to result in exchange losses, making an added inducement to their prompt application either in paying debts or in buying goods; or inducing their prompt sale to others for such uses.

It is claimed that cases are frequently cited where orders for American goods have been lost because of the failure to stipulate in loan agreements "for expenditure in the United States." It is well to examine the effect of the requirement generally upon the trade of the country if these pleas are to be regarded. The exports of the United States are not only manufactured goods, they are grains, food stuffs and raw materials as well. Furthermore, it is not the exporters alone who

are interested in the question of free borrowing versus restricted borrowing. A policy of restriction affects all producers - those who export and those who do not export. It also affects American creditors including the Government of the United States, which itself has debts to collect from Europe. Lack of purchasing power on the part of many countries to-day contributes considerably to the existing depression in the United States and Europe, and it is by such credits as are now being extended to Europe that this purchasing power is slowly being restored and the cycle of production, exchange of goods, and consumption is being rebuilt.

If complaint is made that the manufacturer of electrical machinery loses an order for a power plant to be erected in some foreign country because of no restriction, it may with equal force be claimed that a restriction requiring the power plant to be purchased in the United States might indeed result in no loan being placed here at all. In this event an American cotton, steel or copper or other exporter might lose the opportunity to export his product to some foreign country. With the exportation of cotton or copper, and all other goods, generally facilitated by these foreign loans, the electrical manufacturer might well be called upon to erect power plants in the South or West which would otherwise not be ordered if American cotton or copper was not exported, and the cotton or copper industries were languishing.

What has been taking place during the last 15 months becomes apparent when all the circumstances are examined. We have imported since January 1, 1921, some \$800 millions of gold, and in addition have extended loans to foreign countries aggregating about \$1000 millions. The sum of these two plus the value of our imports, of our remittances largely for American travellers, or by our alien population, together with other items of less importance, have in total supported our export trade. Any restrictions imposed upon these foreign loans, which would require the foreign borrowers to buy certain goods in this market at higher prices than the same goods could be purchased in other markets, will simply have the effect of reducing loans

in our markets, (declined as the result of such restriction) and to that exact extent will reduce the amount of our prospective exports of other goods or will defer the prompt collection of current unfunded debts which would otherwise be paid here.

It must further be borne in mind that a restriction upon the amount of foreign loans placed in our markets will have a tendency to increase the amount of payments made to us in gold. The extension of credit to a foreign borrower is in effect the employment of that amount of credit upon the basis of existing gold reserves. It is a consumption of existing lending power rather than (as in the case of gold imports) the creation of new lending power. Imports of gold add to our gold reserve, and to our lending power, and increase the danger of possible future excessive expansion of credit, with all of the evils of speculation, extreme fluctuation of prices, and consequent disorder in the commodity markets, such as have been recently witnessed as the result of the war inflation. In the general interest of the country as a whole, and entirely apart from considerations of the relative effect on foreign countries needing credit, it would be better for us to increase our capacity to sell goods abroad by use of our already immense power to extend credit, rather than still further to increase (but not use) that lending power by the importation of more gold.

It is my belief, therefore, that a restriction of the character now being discussed will result in a reduction of our export trade just to the extent that the restriction attempts to require borrowers to buy goods in this market at higher prices than they can be obtained elsewhere, and so defeats the negotiation of such loans. Prices control where trade goes. A lower price, even of 1/2 cent a bushel for wheat will result in a borrower of American dollars buying wheat in Argentine; but the purchaser of the dollars will in turn buy cotton or some other commodity here which can be had at prices competitive with other world markets. No other use of the dollars can be made, save to pay debts. Would it not be a sounder policy to

enlighten those who complain of the lack of restriction, rather than to answer their complaint by enforcing a policy which will restrict the total of American exports.

II

The imposition of the restriction for the purpose of influencing foreign governments to reduce budget expenditures for military or other unproductive purposes, is, of course, a political question upon which American business men will be reluctant to express views, especially as it involves the political relations of our government with other governments.

All of the arguments, however, as to the effect of such a restriction upon our export trade apply equally to restrictions imposed for the purpose of influencing foreign governments in their domestic policies, and here again, I believe, a misconception has arisen as to just what happens in connection with such loans.

For purpose of illustration, let us assume that the loan to the Department of the Seine, France, was admitted to have been made for the purpose of balancing the budget of the City of Paris, and that the expenditure causing the budget excess over revenues was due to the maintenance of an abnormal and uneconomical payroll by the City of Paris, which could not be defended upon economic grounds. The result of the loan from the standpoint of the American trader was nevertheless to the advantage of American trade. The City of Paris could not meet that payroll by importing dollars from the United States and paying them to civil employees. It had to convert the dollars into francs by selling the dollars in the Paris market, and those who purchased the dollars had to expend them in the United States, or sell them to others who would do so.

From the standpoint again of our export trade, a requirement that credit borrowed in the United States must not be employed for unproductive purposes by the foreign governments might well mean that all foreign governments with unbalanced budgets and which are spending money for unproductive purposes will be unable to

borrow in this market, and in consequence the American export trade will be cut down by the exact amount of all such loans as are thereby prevented from being placed here. It is in effect stating to such foreign governments that, unless they put their financial houses in order, we will not sell goods to them or even to those to whom they may sell the dollars they borrow in this market. This will certainly check the increase of our export trade, that is, prevent its expansion by the amount of such loans as would otherwise be negotiated in this country.

All of those generally familiar with the budgets of certain foreign nations know that conditions of trade and finance throughout the world will continue to remain unsettled until expenditures by certain governments are reduced, the printing of currency ceases, and the foreign exchanges return more to normal and are less exposed to violent fluctuations. But can these most desirable objects be accomplished by declining to sell American goods abroad, or in any way restriction loans which enable the sale of American goods abroad? Certainly any foreign government with an unbalanced budget would view with consternation a policy by our government of restricting our imports from that country. The most effective method of influencing a foreign government would, in my opinion, be to call for a prompt payment of debts which it may owe to our government, unless it applies more energetic and successful measures to the reduction of unproductive expenditures and to general financial and monetary reform. Yet here again the requirement that a foreign nation shall begin paying us large sums each year for interest and principal operates to reduce its ability by just so much to buy goods here, that is, reduces its buying power.

Within the last six months a notable change has occurred in conditions in Great Britain which has a direct bearing upon our policy. Solvent foreign borrowers in good standing, both government and private, are now able to borrow money on long time in the London market at at least $1/2$ of 1% below the rates of interest that are being asked for similar loans in the United States, and for short time banking loans they are able to borrow in London fully 1% or more under our rates. Restrictions

which tend to close our markets to loans at this time, when dollars are at a premium may indeed result in permanent loss of markets by our exporters, for the loans will largely go to London. The existence of the premium on dollars is an almost overwhelming inducement for foreign governments to borrow here, and so further develop our export trade. To illustrate, with francs at 50% depreciation, or, say, at the rate of 10 francs to the dollar, a French loan of a million dollars in this market to-day will produce, when the dollars are converted in France into francs, a total of 10 million francs. With the franc appreciating in value (measured in dollars) the amount of francs required every six months to pay the dollar interest on such loans is not only constantly being reduced but should francs appreciate to par by the time the loan matures only 5 million francs will then be needed to buy the American Exchange in the market with which to repay the million dollars originally borrowed here. Those nations now suffering from a serious discount in their domestic currencies will thereby be later relieved of the heavy burden of repaying borrowings made now in their own depreciated currencies, which must later be repaid in an appreciated currency, when the value of the domestic currency in later years is restored. You will observe, therefore, that far-sighted finance ministers will naturally seek to borrow as much as possible in the American market in order that in later years the budget requirements (that is, tax requirements) to meet the loan will decline in correspondence with the appreciation in the value of the domestic currency. Speaking broadly, herein lies the great opportunity for the development of American export trade, the expansion of which must from now on for a period, and possibly to a large extent, be financed upon credit. These borrowings may be made by nations which have no occasion to spend any money whatever for the purchase of goods. They will nevertheless dispose of the dollars so borrowed to others who will use them in purchasing American goods.

It is frequently claimed that the British Government imposes some restriction similar to that discussed under (1). This I understand has never been the case, except during the war, and is confirmed by the following cables exchanged with the Bank of England:

"It is being repeatedly asserted here that your Government has for some time past influenced or required bankers to stipulate that proceeds of foreign loans placed in your market be expended for British goods. Can you inform me if this statement is wholly or partly correct or wholly incorrect? Personally believe principle is bad and would like expression of your views. Strong."

"Your #74. First: Statement is wholly incorrect as regards last couple of years. I entirely agree with your opinion that principle is bad. Second: Blackett confirms this. Third: This does not apply to loans which may be guaranteed by British Government under trade facilities act for relief of unemployment but no such loans have been issued to public. Bank of England."

What happens in London has been generally understood by Americans engaged in trade in the East and elsewhere, and is the natural development of the extension of British banking into foreign lands in close association with British mercantile establishments. When applications for loans are made to the London market by foreign borrowers, it is not uncommon that the London banker endeavors to secure some sort of an understanding that the proceeds will be spent there, as one of the considerations for the placing of the loans in England. It is not the result of government requirement, can hardly be said to be even a custom, but is simply the result of better cooperation after many years of experience between that department of the British business organization which supplies credit and another department which manufactures and export goods.

Viewing these complicated subjects of disordered exchanges (which are an impediment to the restoration of trade), of the impaired purchasing power of many nations (which is likewise an impediment to trade), of the excessive gold reserves in the United States (which may become an inducement to speculation rather than aid development of production and commerce), as a whole the world problem to-day is clearly how to restore conditions to such degree of stability so that international trade and inter-change of goods and credit will again return to normal. No greater contribution to this end may be made by any nation than by ours through the free extension of credit to sound borrowers by American investors and bankers. It will gradually bring the foreign exchanges of many countries back to a normal and stable level. To that end I believe the energies of the American Government and its citizens should now be directed.

READ AND NOTED,
B. S.

THE SECRETARY OF STATE
WASHINGTON

April 20, 1922.

My dear Governor:

I am greatly indebted to you for sending me your memoranda in relation to foreign loans. I have sent the copies, which you were good enough to furnish me, to Secretary Mellon and Secretary Hoover. You may be assured that the matter will receive the most careful consideration.

Very sincerely yours,

Charles E. Hughes

Benjamin Strong, Esquire,
Governor,
Federal Reserve Bank of New York,
New York, N. Y.

Department of Commerce
Office of the Secretary
Washington

April 29, 1922.

Hon. Charles E. Hughes
Secretary of State
Washington, D. C.

My dear Mr. Secretary:

I am in receipt of the very able memorandum prepared by Governor Strong upon the subject of foreign loans. I do not think anyone disputes Governor Strong's economic premise that foreign loans made in the American market will be represented by the ultimate export of goods or gold to some destination - either to the borrowing country or otherwise. It can at once be agreed that in principle foreign loans are vital in the present situation of the world and of our commerce.

I am not, however, prepared to accept Governor Strong's implied conclusion that no standards should be set up in the placing of foreign loans in the American market. I believe these standards can be developed in the banking community itself. I am convinced that unless they are so developed Congress will, sooner or later, impose control on the placing of such obligations, as there are other and larger considerations than those enumerated by Governor Strong. It appears to me that the Federal Government has certain

unavoidable political and moral responsibilities toward these operations and that our bankers have certain internal responsibilities to our commerce.

POLITICAL RESPONSIBILITIES

no!

In the political category it may be stated that credits from our citizens to foreign governments or municipalities have a different complexion from either internal credit operations or even of credits to private persons abroad, in that there is no method by which failure in payment of such loans can be prosecuted, except by the diplomatic intervention of our government. There rests upon the Federal Government, whether desired or not, an implication that it will assist our citizens in relation to such transactions. To impose such lines of conduct on defaulting governmental creditors as will recover to our citizens their due is a path which has led to infinite complexities in international relations. It is perfectly possible to carry an argument against foreign loans to an extreme, but even a moderate view should certainly go to the extent of creating some concern in the Federal Government that the security and form of these loans should, at the outset, involve a fair hope that the Federal Government will not be required to enter upon intervention.

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A further political interest lies in finance which lends itself directly or indirectly to war or to the maintenance of political and economic instability. We are morally

and selfishly interested in the economic and political recovery of all the world. America is practically the final reservoir of international capital. Unless this capital is to be employed for reproductive purposes there is little hope of economic recovery. The expenditure of American capital, whether represented by goods or gold in the maintenance of unbalanced budgets or the support of armies, is destructive use of capital. It is piling up dangers for the future of the world and while it may bring temporary values to the lender of the money, or the exporter of goods, it makes no contribution to the increase of economic stability and in fact contributes directly toward the continuation of instability, and thus indirectly robs both the lender and the exporter of goods of the real benefits that would otherwise accrue.

Broadly, the reproductive use of export gold or goods means an increased standard of living, increased demand for further goods and increased social stability, whereas the unproductive use is the negation of these ends.

The most pertinent fact with regard to Europe today is that the whole political and economic life is enveloped in an atmosphere of war and not of peace. Restrictions on loans made from the United States to reproductive purposes will at least give the tendency to render impossible that form of

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statesmanship which would maintain such an atmosphere.

MORAL RESPONSIBILITIES.

In the second category, that of moral responsibilities, the problem is also much involved and argument can be carried to extremes, but again some middle ground does exist. Our citizens have had but little experience in international investment. They are not possessed of the information with regard to the security of many of these offerings which is possessed by the Government or such offerings would not be entertained. A serious question arises in my mind as to whether the Federal Government has the moral right to withhold this information from its citizens.

For instance, a vast amount of foreign currencies, and securities in foreign currencies, have been sold to the American investor, which have resulted in a national loss of probably upwards of five hundred millions of dollars in the last three years. It may be contended that it is the duty of the different state governments to protect their citizens from such frauds, but in the international field it seems to me improbable that any action of the state governments would be practical, and if once undertaken under the various investment control laws of the different states, might lead to a large amount of international complication.

Even in the field of more respectable finance, the loan history of some of the nations who are borrowing freely in these markets for the first time could not be familiar to the American investor or there would be less facility in placing these loans with other than speculative investors.

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May aid.
Another instance of these moral responsibilities lies in loans to countries already indebted to the United States Government in large sums and who from every apparent prospect will not be able to meet these obligations to the American people. Our Federal authorities must have some responsibility in not informing our citizens (or the promoters to them) that these nations will probably have to confess inability to meet their creditors. Unless some such action is taken the citizens from whom such information has been withheld would seem to me to have the moral right to insist that the Federal Government should not press its governmental claims to the prejudice of their investment.

The only justification for allowing loans to proceed to countries already unable to meet their liabilities, would be that the resources obtained from such loans would be applied to re-productive purposes which would increase the assets of such a borrowing nation in such manner as to strengthen its ability to meet its obligations to the United States Treasury. Therefore, the Federal Government must from this reason alone be at once interested in the purpose to which such loans are to be applied.

The whole of these problems or moral responsibilities are perfectly capable of dialectics in ethics to their total obliteration, but the test of action of the Federal Government in these particulars should at least be the standard that would be expected of a reputable business man dealing with

his own customers.

RESPONSIBILITIES OF OUR BANKERS TO DOMESTIC COMMERCE

The great complaint that has arisen in the West against the flood of foreign loans is largely concerned over competition raising interest rates. Foreign Government loans floated in this market are offered on terms which yield from 2% to 3% per annum in excess of the amounts which many of our domestic institutions can prudently pay for such credits, and in a market where there is not unlimited capital, must measurably decrease the ability of our domestic institutions to secure credits. There can be no question that the foreign competition has maintained interest rates against our domestic industry. It is, of course, contended that these loans support our export trade and thru the employment of our workmen, etc., tend to impel domestic recovery. But when we consider that 94% of our activities are domestic, the burden is against the domestic situation. It is but partially true to say that goods exported as a result of foreign credits are an addition to our productivity and employment. They may quite well displace goods that are needed in our own domestic development. For instance, in the present situation of our railways, these institutions cannot afford to pay in excess of 6% per annum for credits with which to increase their equipment. They are, therefore, unable to compete with foreign railways offering 2% to 3% higher interest. There is no addition to the productive capacity of the United States when an American railway is unable to secure such equipment because it cannot compete with a French railway

in offering higher rates of interest.

I am not disposed to state that any restriction should be applied for these reasons. I state it in refutation of the superficial view that "there is nothing in such contentions".

It is undoubtedly bad economics to attach compulsory purchase of American goods as a condition of loans in our markets, as the shipment of goods ultimately follows in any event. It is however a fact that such conditions are applied in foreign countries, as a matter of practical negotiation both of British bankers and others, particularly in the following directions:

- A. Establishment of the conditions that specifications for public works expenditure from money borrowed shall at least give their contractors and builders of equipment an equal chance to compete on equal terms with other foreigners;
- B. Where construction is of public type that will necessitate continuous subsequent purchase of spare parts and supplies of the country originating the system, insistence is strongly made for selling the initial plant to the borrowing country.

For instance, there is scarcely a China railway loan on the London market that has not embraced one or both of these considerations. These reservations on loans could where possible, be carried out by our bankers as well as others.

Yours faithfully,

Herbert Hoover

HH/KA

May 6, 1922.

My dear Mr. Secretary:

Your note of May 5, enclosing a copy of a letter addressed to you by Secretary Hoover, dated April 29, 1922, has just been received, and at the earliest opportunity I shall ask the privilege of sending you a brief comment upon only one or two points raised by the Secretary.

With many of Secretary Hoover's arguments I am in entire accord, and of course you realize, as we must, that I would not venture to pass upon those considerations which are strictly political and which more directly relate to the political policies of our government as distinguished from a strictly economic point of view.

I much appreciate your courtesy in sending me his letter, and beg to remain,

Yours sincerely,

Benj. Strong,
Governor.

Honorable Charles E. Hughes,
Secretary of State,
State Department,
Washington, D. C.

BS.MM

ACKNOWLEDGED

JUN 9 1922 THE SECRETARY OF STATE

WASHINGTON

May 5, 1922.

ACKNOWLEDGED
MAY 6 1922
B. S.

My dear Governor:

With reference to my letter of April 20, 1922, acknowledging the receipt of your memoranda in relation to foreign loans, I beg to enclose herewith, as of possible interest, a copy of a letter dated April 29, 1922 from Secretary Hoover, commenting upon your memorandum.

Sincerely yours,

Enclosure.



Benjamin Strong, Esquire,
Governor,
Federal Reserve Bank of New York,
New York City.

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ACKNOWLEDGED

JUN 9 1922 THE SECRETARY OF STATE
WASHINGTON

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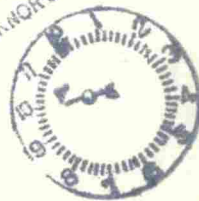
Sincerely yours,

Charles E. Hughes

Enclosure.

Benjamin Strong, Esquire,
Governor,
Federal Reserve Bank of New York,
New York City.

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MAY 6 1922

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THE SECRETARY OF STATE
WASHINGTON

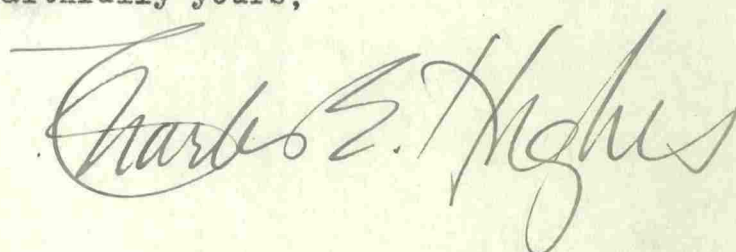
June 29, 1922.

My dear Governor Strong:

I trust that you will pardon my delay in acknowledging the receipt of your very interesting letter commenting on Secretary Hoover's memorandum of April twenty-ninth upon the subject of foreign loans. I have sent copies of your letter to Secretary Mellon and Secretary Hoover, and I am indebted to you for the statement you have made.

With high regard, I am,

Faithfully yours,



Honorable Benjamin Strong,
Governor,
Federal Reserve Bank of New York,
New York City.

COPY

*Original and further correspondence
on file 419*

June 9, 1922.

My dear Mr. Secretary:

May I ask your consideration of the following brief comments in regard to the memorandum of April 29 which Secretary Hoover was kind enough to prepare, commenting upon what I sent you on the subject of foreign loans. His statement is most impressive, and especially so when one considers the extent and variety of his experience. In fact, my respect for his views has led me to hesitate for some time before writing you again.

The memorandum which I sent you was purposely confined to the rather narrow economic point of view. Mr. Hoover's memorandum opens the door wide to the consideration of the political and moral responsibility of the officers of our government in this important matter. His comments relate principally to two aspects of foreign loans. First, is it wise to permit or encourage our citizens to make loans to those nations now engaged in wasteful military expenditures? And second, has our government a moral responsibility to restrain its citizens from making loans which may turn out to be bad and consequently involve us in some diplomatic or like procedure, to assist in their collection in the event of default?

As to the first, I am most heartily in accord with the principle that we cannot afford to lend encouragement, and should not give moral aid or comfort to those governments which are in any way responsible for a continuance of the present unsatisfactory political, social and economic conditions throughout the world. My doubt has been solely as to whether our influence should be exerted by restriction upon lending to those nations, or whether some better or more effective means could not be devised. If the only means available is to restrain our citizens from lending, then I hope our government will employ that means.

it I have a strong feeling that the key to this situation lies in the policy of this government towards the whole subject of inter-government debts.

It is a subject which Secretary Hoover and I have frequently discussed, and I shall not burden you in this letter with arguments.

As to the second aspect of the matter, permit me to respectfully submit the followings:

If loans by the citizens of one country to a foreign government or to its citizens are predicated upon the theory that at some time those who make the loans may find it necessary to turn to their government to aid in the collection of such loans in the event of default, then I would agree that no such loans be permitted. They would simply later become an added cause of dispute, dissention and international misunderstanding of the sort that leads to warfare. According to my understanding of the history of international credit transactions, not for a century or more has the collection of defaulted loans been the subject of more than diplomatic representation of the mildest sort, and even then as a rule only when resort to the courts of the borrowing nation has resulted in manifest injustice to the lenders. In governmental regulation of this and all sorts of other matters, must it not be borne in mind that when government assumes any responsibility whatever for assent or dissent in a given transaction, it may turn out that its greatest responsibility arises through failure to act rather than through affirmative action. In other words, if our government undertakes to pass upon the goodness of a loan, even in a minute degree, does it not inaugurate a system of responsibility to which there may be no termination except by the assumption of full responsibility?

When so conscientious an officer of our government as the Secretary of Commerce expresses his concern lest American investors make loans which will involve losses, it seems indeed an ungrateful attitude to dissent from his position. I hesitate indeed to do so, but my point is that once regulation, supervision, or control is attempted, there is no limit to which it may develop and no limit to responsibility which our government may ultimately be called upon to assume.

June 9, 1932

COPY

It may indeed lead to responsibilities which would involve us in those very disputes and dissensions which I am so eager that this nation should always successfully escape.

Will you accept this expression as evidence of my earnest desire to contribute in any way possible to the elucidation of a matter which is of very grave concern to this country and its citizens, and which of course must in the last analysis be determined by those who carry the responsibility.

Two spare copies of this letter are also enclosed in case you feel disposed to transmit them to Secretary Mellon and Secretary Hoover.

Again thanking you for your courtesy in giving a part of your valuable time to considering this correspondence, and with assurance of my high regard, believe me,

Respectfully yours,

Honorable Charles E. Hughes,
Secretary of State,
Department of State,
Washington, D. C.

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ence.

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June 9, 1922.

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June 9, 1932.

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Again thanking you for your courtesy in giving a part of your valuable time to considering this correspondence, and with assurance of my high regard, believe me,

Respectfully yours,

Honorable Charles E. Hughes,
Secretary of State,
Department of State,
Washington, D. C.

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OCT 5 1922
October 5, 1922.

Dear Mr. Secretary:

Only to-day have I had opportunity when Mr. Irving T. Bush called to see me, to gain some idea of the proposal which he has in mind for an international conference, and to learn something of what he is seeking to accomplish by that method.

You know how deeply interested we have all been at the Reserve Bank in various proposals of that character, and I hope that you will give me opportunity to discuss them with you when I am in Washington next week.

Commencing on Tuesday we have a conference which will probably last all of the week, but I shall be there all day Monday and will take the liberty of calling your secretary to see whether you are free to give me an appointment.

With cordial regards, believe me,

Yours sincerely,

Honorable Charles E. Hughes,
Secretary of State,
Washington, D. C.

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October 19, 1922.

Dear Mr. Secretary:

Since writing you on the 18th instant in regard to the account of the Bank of Japan, we have received the regular monthly report from their Department of Statistics and Research which contains the following significant item:

"On the 18th of August the Government announced the program for regulation of the prices of commodities ***** The program consists of 19 items of which the principal ones may be enumerated as follows: (1) The reserve held abroad against note issues to be abolished; (2) Small paper currency to be recalled from circulation and replaced by metallic currency." The other items enumerated do not relate to foreign balances.

It should not be concluded from this statement that withdrawals of balances which may now be held in this country by the Japanese Government and by Japanese banks has any political significance. The Japanese currency, which is principally issued by the Bank of Japan, (and the small amount of fractional currency issued by the Treasury to replace silver, which disappeared from circulation during the war,) is covered to the extent of almost 100 per cent. by gold or foreign gold balances. It is this very large stock of gold which has been the cause of a certain amount of inflation and speculation in Japan, and really has been the fundamental reason for a certain amount of political and social unrest because of the high cost of living.

I am under the impression that the withdrawal of foreign balances will not be carried to the point of impairing that portion of the government

October 19, 1922

reserve abroad, which is really maintained in anticipation of the maturity of bonds which were sold in the United States and England during the Russo-Japanese war; but as to that and other matters suggested by the statement above quoted, I am writing to the Governor of the Bank of Japan for further information, which will be conveyed to you later.

Accompanying this letter is a memorandum relating to Japanese exchange, Japanese trade balances and the gold movement between this country and Japan, together with appropriate comments thereon.

I beg to remain,

Yours respectfully,

Benj. Strong,
Governor.

Honorable Charles E. Hughes,
Secretary of State,
Washington, D. C.

BS.MM

enc.

Comments

The accompanying figures indicate in a general way

(1) That the adverse trade balance of Japan with the rest of the world has been progressively reduced from January of this year until it has been extinguished. The figures for August and September are not yet available.

(2) That coincident with the elimination of the adverse trade balance, the discount on Japanese currency and the corresponding premium on dollars has been reduced from the high point of -5.04 to the September rate of -3.49.

(3) That coincident with the general reduction of the adverse trade balance there has been a fairly continuous excess of exports to the United States over imports from the United States.

It curiously exhibits one fact which may be only coincidence, namely, that the traditional timidity of the Japanese in financial matters led them to refrain from using their American dollar balances at a time when they were really required to meet adverse trade balances, and now that the trade balance has been corrected and the cause of their timidity has been removed, they have decided to withdraw some of the dollar balances which they hold in this country.

This surmise could hardly be verified without considerable investigation, however, and should be accepted with some reservation.

Japan's Foreign Trade in 1922

	<u>Exports</u>	(in yen) <u>Imports</u>	<u>Excess of</u> <u>Exports over</u> <u>Imports</u>	<u>Excess of</u> <u>Imports over</u> <u>Exports</u>
Jan.	87,270,969	178,806,718		91,535,750
Feb.	101,420,192	197,542,917		96,122,725
Mar.	114,978,103	207,344,519		92,366,416
Apr.	129,678,785	188,891,084		59,212,299
May	155,481,675	173,786,816		18,305,141
June	147,113,834	159,332,771		12,218,937
July	144,659,000	143,208,000	1,451,000	
Aug.				
Sept.				
Oct.				
Nov.				
Dec.				

Source: Currently from "Monthly Return of the Foreign Trade of The Empire of Japan," Department of Finance.

Gold - Imports and exports between United States and Japan - 1922

No direct or indirect imports or exports during the period from January to August, 1922.

Japanese Foreign Rates of Exchange - (Yokohama)

\$0.4983 = 1 yen

	<u>1922</u>	<u>% above or below par</u>
Jan.	.4762	-4.44
Feb.	.4732	-5.04
Mar.	.4747	-4.74
Apr.	.4742	-4.8
May	.4744	-4.8
June	.4783	-4.0
July	.4780	-4.1
August	.4779	-4.1
Sept.	.4809	-3.49

Trade of the United States with Japan

Total Merchandise

<u>1922</u>	<u>Imports</u>	<u>Exports</u>	<u>Excess Imports</u>	<u>Excess Exports</u>
Jan.	\$27,940,894	\$27,984,775		\$ 43,881
Feb.	22,406,076	18,788,029	\$3,618,047	
Mar.	19,356,986	22,851,839		3,494,853
Apr.	18,990,442	14,040,634	4,949,808	
May	29,692,987	16,050,577	13,642,410	
June	35,825,403	16,363,395	19,462,008	
July	20,260,639	16,024,397	4,236,242	
Aug.				
Sept.				
Oct.				
Nov.				
Dec.				

PRIVATE

October 18, 1922.

Dear Mr. Secretary:

Since last I wrote you in regard to the Japanese account, we have succeeded in effecting a readjustment of the terms of the account in a manner which I think will be more satisfactory both to the Bank of Japan as well as to this institution, the principal change consisting in the reinvestment of a larger proportion of the balance of funds which they maintain with us.

As this will be handled in such a way as to produce a larger return in interest to the Bank of Japan and a somewhat larger income from commissions to this bank, it is not unlikely that the amount of the balance maintained with us will be increased; although possibly not to its former proportions. Definite advice of any such change will be sent to you whenever it occurs.

I beg to remain,

Respectfully yours,

Benj. Strong,
Governor.

Honorable Charles E. Hughes,
Secretary of State,
Washington, D. C.

BS.MM

October 20, 1922.

Dear Mr. Secretary:

Referring once more to the proposals which have been outlined to you by Mr. Irving T. Bush, President of the Chamber of Commerce of the State of New York, I have had a further conversation with him since seeing you in Washington, and now take the liberty of adding the following comments to what I then stated.

His proposal for a non-political unofficial conference of business men to be held in this country is directed especially towards the enlightenment of American public opinion in regard to the various matters, principally economic, which so pressingly require discussion and solution. There can be no possible objection that I can see to the taking of any steps which will create a sound public opinion in the United States upon these matters. But I have been obliged to state to Mr. Bush, rather reluctantly I confess, that I believe his method is a mistaken one and will do more harm than good. Possibly this view can best be expressed by stating that in the present temper of the country it will better serve his purpose to have a conference confined to American business men than it would be to have a mixed conference which would include representatives of foreign governments. There will be differences of opinion expressed by those coming from abroad, there is likely to be a certain amount of resentment arising from attempting to shape American public opinion by the introduction of the views of interested parties from abroad, and at the present juncture, I am reluctantly compelled to express the view that such a meeting would do more harm than good.

October 20, 1922

This is substantially what I believe I said I would write you
after seeing Mr. Bush again.

With assurance of my respect, believe me,

Sincerely yours,

Honorable Charles E. Hughes,
Secretary of State,
Washington, D. C.

BS.MM

THE SECRETARY OF STATE
WASHINGTON

October 21, 1922.

My dear Governor:

I have received your letter of the eighteenth,
with regard to the Japanese account, and am glad
to have the information which you give.

Very sincerely yours,

A handwritten signature in dark ink, reading "Charles E. Hughes". The signature is written in a cursive style with a large, sweeping initial "C" and a long, trailing flourish at the end.

Honorable Benjamin Strong,
Governor,
Federal Reserve Bank of New York.

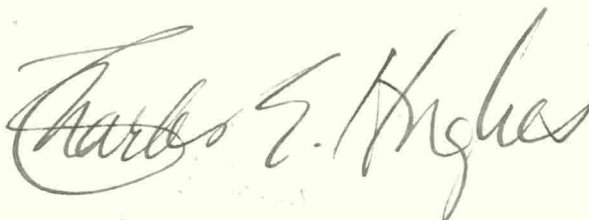
THE SECRETARY OF STATE
WASHINGTON

October 21, 1922.

My dear Governor:

Your letter of October nineteenth, with respect to the account of the Bank of Japan, has been received, and I am much obliged to you for this information.

Sincerely yours,

A handwritten signature in dark ink, reading "Charles E. Hughes". The signature is written in a cursive style with a large, sweeping initial "C".

Honorable Benjamin Strong,
Governor,
Federal Reserve Bank of New York,
New York, N. Y.

THE SECRETARY OF STATE
WASHINGTON

October 21, 1922.

My dear Governor:

I have received your letter of October twentieth, and thank you for letting me know of your interview with Mr. Bush and of your views on the project which he has in mind.

Very sincerely yours,

A handwritten signature in dark ink, reading "Charles E. Hughes". The signature is written in a cursive style, with the first name "Charles" and the middle initial "E." being more prominent. The last name "Hughes" is written in a slightly more upright cursive. The signature is underlined with a single horizontal line.

Honorable Benjamin Strong,
Governor,
Federal Reserve Bank of New York.

October 25, 1922.

Dear Mr. Secretary:

When Mr. Irving T. Bush last called to see me in regard to the conference plan which he had proposed, he showed me a galley proof of an article which was to appear in the Hearst newspapers, a typewritten copy of which I believe he had already sent to you.

This appeared I believe in all of the Hearst newspapers on October 22, and I am enclosing those of the Washington Times, the New York American and the Herald Examiner of Chicago.

Possibl^t this may convey a little further insight into the program than appeared from anything either Mr. Bush or I may have already said to you.

I beg to remain,

Yours respectfully,

Honorable Charles E. Hughes,
Secretary of State,
Washington, D. C.

BS.MM

enc.

See Carver
Mr. Bush
10/17/22

THE SECRETARY OF STATE
WASHINGTON

October 26, 1922.

My dear Governor:

I have received your letter of October
twenty-fifth, enclosing Mr. Bush's article,
which I am glad to have.

Thanking you, I am,

Very sincerely yours,

Charles E. Hughes

Honorable Benjamin Strong,
Governor,
Federal Reserve Bank of New York,
New York, N. Y.

THE SECRETARY OF STATE
WASHINGTON

November 7, 1922.

My dear Governor:

On returning to Washington I find your letter of October thirtieth, with respect to the gold and foreign exchange policy of the Japanese Government.

Thanking you for this information, I am,

Very sincerely yours,

A handwritten signature in dark ink, reading "Charles E. Hughes". The signature is written in a cursive style with a large, sweeping initial "C" and "H".

Honorable Benjamin Strong,
Governor,
Federal Reserve Bank of New York,
New York, N. Y.

RECEIVED BY
GOVERNOR'S SECY
NOV 8 1922



THE SECRETARY OF STATE
WASHINGTON

November 7, 1922.

My dear Governor:

On returning to Washington I find your letter of October thirtieth, with respect to the gold and foreign exchange policy of the Japanese Government.

Thanking you for this information, I am,

Very sincerely yours,

Honorable Benjamin Strong,
Governor,
Federal Reserve Bank of New York,
New York, N. Y.

PRIVATE

October 30, 1922.

Dear Mr. Secretary:

Since writing you on October 19 in regard to the gold and foreign exchange policy of the Japanese Government, we now have a further report dated October 5 which contains the following:

"With reference to the removal of the ban on the export of gold, which has been the subject of much discussion and speculation of late in connection with the regulation of commodity prices as mentioned in the last report, the Government made an announcement of its views on the 16th of September to the effect: (1) that it was not expedient to lift embargo at this moment when business conditions, at home and abroad, are still unsettled, but that the Government will be ready to take the step as soon as the situation shall become more stable and there shall be no fear of sudden disturbances to our business and finance as the result of such an action; (2) that, while the ban on the export of gold remains in force, it will be the policy of the Government in future to sell as much freely as possible its funds held abroad, so as not to put our import trade to too much disadvantage as the result of the unfavorable exchange. ***** Our foreign trade has continued favorable since last July. According to the preliminary reports, exports exceeded imports this month to the amount of ¥15,000,000, due in the main to a general decrease in imports and to heavy sales of raw silk for exports. As a result, our New York exchange, which had remained at \$47 3/4 for cable transfers since early July, improved by 1/4 to \$48 on the 7th."

The above would seem to confirm the comments which accompanied my last letter.

I beg to remain,

Respectfully yours,

Benj. Strong,
Governor.

Honorable Charles E. Hughes,
Secretary of State,
Washington, D. C.

BS.MM

CONFIDENTIAL

December 19, 1922.

Dear Mr. Secretary:

Bearing further upon what I have recently written you in regard to the policy of the Japanese Government respecting its foreign balances, I take the liberty of enclosing to you a copy of a confidential communication which I have recently received from the Governor of the Bank of Japan.

With assurance of my esteem, believe me,

Yours very truly,

Benj. Strong,
Governor.

Honorable Charles E. Hughes,
Department of State,
Washington, D. C.

BS:MM

Enc.



THE SECRETARY OF STATE
WASHINGTON

December 21, 1922.

CONFIDENTIAL

My dear Governor Strong:

I have received your letter of December nineteenth and am glad to have the information you give with respect to the policy of the Japanese Government with regard to its foreign balances.

With high regard, I am,

Very sincerely yours,

A handwritten signature in cursive script, reading "Charles E. Hughes".

Honorable Benjamin Strong,
Governor, Federal Reserve Bank of New York,
New York City.



DEC 22 1932
THE SECRETARY OF STATE



December 21, 1932

GOVERNOR'S COPY
RECEIVED BY
CONFIDENTIAL

My dear Governor Strong:

I have received your letter of December nine-
teenth and am glad to have the information you give
with respect to the policy of the Japanese Government
with regard to its foreign balances.

With high regard, I am,

Very sincerely yours,

Charles E. Hughes

Honorable Benjamin Strong,

Governor, Federal Reserve Bank of New York,

New York City.



DEPARTMENT OF STATE
WASHINGTON

November 9, 1923.

My dear Mr. Strong:

not sent to files
Pardon me for the delay in replying to your letter of October 7, 1923, which was handed to me by Mr. Harrison.

I have read your letter with great interest, and as I understand from Harrison that you expect to be in Washington shortly, I shall look forward to an opportunity of discussing the matter with you upon your arrival.

I was so glad to hear that you had completed your cure and that you would be back with us.

With kind regards,

Sincerely yours,

Mr. Benjamin Strong,
Broadmoor,
Colorado Springs,
Colorado.

Charles E. Hughes

February 14, 1924.

Dear Mr. Secretary:

Having recently had occasion to make some inquiry as to the economic dependence of Japan upon the United States, it occurs to me that the report which has just reached my hands may be of some interest to the Department in connection with Japanese relations generally.

I am, therefore, taking the liberty of handing you a copy on the regular office form, which you may be interested in glancing over. If not, doubtless you would care to pass it on to your assistant who has charge of these matters.

You will, I am sure, not hesitate to advise me if reports of this character are really of no interest, so that I shall not bother you by sending them.

With assurance of my esteem, I beg to remain,

Respectfully,

Benj. Strong,
Governor.

Honorable Charles E. Hughes,
Secretary of State,
State Department,
Washington, D. C.

BS.MM

enc.



FILES DIV.
MAR 4 1924
DEPARTMENT OF STATE
WASHINGTON

In reply refer to
FE - 611.94/20

March 3, 1924.

Mr. Benjamin Strong,
Governor, Federal Reserve Bank of New York,
New York City.

My dear Mr. Strong:

I have to acknowledge your letter of February 14, in which you were good enough to enclose a copy of a report regarding the economic situation of Japan and at the same time to express my thanks for your courtesy in placing this information at the disposal of the Department.

The report in question is highly informative and has been read with interest; and if it is convenient for you to supply similar reports from time to time, the Department will be glad to receive copies of them.

I am, my dear Mr. Strong,

Sincerely yours,

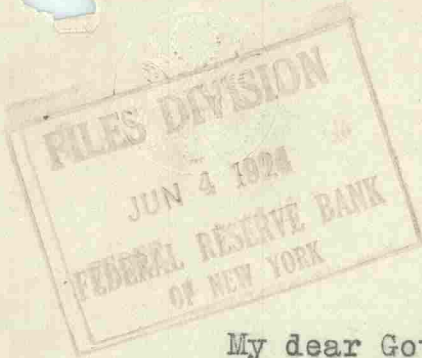
Charles E. Hughes

Hughes

THE SECRETARY OF STATE

WASHINGTON

June 2, 1924.



re Tax re direct re Mellon

My dear Governor Strong:

I have received your letter of May twenty-ninth and thank you for sending me a copy of your letter to Mr. Mellon, which I have read with deep interest. I should not care to make any comment until I have had a chance to discuss the questions with Mr. Mellon and others.

With high regard, I am,

Very sincerely yours,

Charles E. Hughes

Honorable Benjamin Strong,
1718 H Street, N. W.,
Washington, D. C.