F.D. 12A.3 76

No. 012.6

Federal Reserve Bank
District No. 2
Correspondence Files Division

STRONG PAPERS

SUBJECT

1.) STRONG TO G. WINSTON
1923 - 1927
UNDER SECTY. OF TREAS. 1923 - 2/1/1927

SEE ALSO: TRIP FILE
1925, 1926

STATEMENT SHOWING ESTIMATED EXPENSES AS REPORTED BY ALL FEDERAL RESERVE BANKS AND AMOUNT OF EARNING ASSETS REQUIRED TO COVER SUCH EXPENSES FOR THE YEAR 1924

Expenses	Boston	New York	Philadelphia	Cleveland	Richmond	Atlanta	Chicago	St. Louis	Minneapolis	Kansas City	Dallas	San Francisco	Total
Estimated Current Expenses	$ 2,132,000	$ 6,735,000	$ 2,632,000	$ 2,720,000	$ 1,650,000	$ 1,344,160	$ 4,405,000	$ 1,500,000	$ 1,230,170	$ 2,016,248	$ 1,380,000	$ 3,049,000	$ 30,793,578
Estimated Dividends	480,000	1,800,000	618,000	760,000	350,000	273,950	925,000	300,000	210,000	272,982	251,429	475,000	6,716,361
Estimated Reserve for Depreciation, etc.	150,000	1,760,000	100,000	850,000	200,000	258,527	657,197	100,000	391,180	509,720	655,000	1,000,000	6,631,624
Total Estimated Expenses	$2,762,000	$10,295,000	$3,350,000	$4,330,000	$2,200,000	$1,876,637	$5,987,197	$1,900,000	$1,831,350	$2,798,950	$2,286,429	$4,524,000	$44,141,563
Earnings													
Earning assets at 4% Required to Cover Estimated Expenses	69,050,000	257,375,000	83,750,000	108,250,000	55,000,000	46,915,925	149,679,925	47,500,000	45,783,750	69,973,750	57,160,725	113,100,000	1,103,539,075
Average Earning Assets Held Weekly Jan. 2 to Mar. 19/24	68,208,000	200,364,000	88,252,000	97,780,000	55,758,000	61,111,000	117,542,000	44,423,000	30,425,000	49,287,000	60,631,000	90,762,000	964,543,000
Average holdings of Earning Assets Jan. 2 to Mar. 19/24 in Excess of Estimated Requirements			$4,502,000		$ 758,000	$14,195,075					$ 3,470,275		$ 22,925,350
Average Holdings of Earning Assets Jan. 2 to Mar. 19/24 Short of Estimated Requirements	$ 842,000	$ 57,011,000		$10,470,000			$32,137,925	$3,077,000	$15,358,750	$20,686,750		$22,338,000	$161,921,425

Average earning assets short of requirements $138,996,075

Richmond estimate their earnings for 1924 as $3,000,000
Atlanta " " " " 1924 " 3,083,325
San Francisco " " " " 1924 " 4,615,000

December 7, 1923.

Hon. Garrard B. Winston,
Under Secretary of the Treasury,
Treasury Department,
Washington, D. C.

Dear Sir:

This is to acknowledge receipt and to thank you for the copy of the annual report of the Secretary of the Treasury for the year 1923 which you so kindly sent to Governor Strong for his information.

Yours very truly,

Secretary to
Governor Strong.

COPY

TIAL

March 24, 1924

Dear Mr. Winston:

Governor Strong is absent from the office for a brief period and I am, therefore, answering your letter of March 22 addressed to him.

On or about March 15 money rates eased considerably (temporarily, at least,) not only in this market but apparently over the entire country, so that call money was lending as low as 2½% in Chicago as well as in New York. This market has been treated to the first really abrupt decline in money rates that it has witnessed for some time. The ease has been most general in character and has affected the whole list of obligations that are influenced by changes in the money market. The extraordinarily heavy disbursements of the Treasury on March 15, accompanied by our temporary advance to it of $138,000,000. at that time, had an immediate and rather unusual effect on the price of money, because of the fact that our larger member banks were for the first time in a long period borrowing a negligible amount - the smallest in years - and were, therefore, unable to follow the customary practice of using the proceeds of their March 15 collections in reducing their debt to the Federal reserve bank.

Our member banks' reserve with us showed an increase on March 15 of about $125,000,000. in excess of normal, which resulted in an active competition to get this surplus loaned out, so that the market had, temporarily, the appearance of a lenders' panic. These excess reserve balances have now entirely disappeared, and the fact that we are now approaching the end of the quarter with its large amount of disbursements on April 1, leads me to believe that it is not unlikely that we may presently see somewhat firmer rates for money, certainly over the first of April.

Mr. Winston March 24, 1924
Washington

Open Market operations of the System have, of course, come to a complete standstill, although there was considerable activity during the week or ten-day period preceding the March 15 transactions, so that the aggregate amount in this account was materially increased. The present holdings, together with some $3,500,000. purchased for delivery later this month, now aggregate $181,000,000. The buying rates fixed by the Open Market Investment Committee about the first of March are still in effect, but at present they are so out of line with open market prices as to make it practically impossible to increase this account further. The accompanying list shows the spread that exists between our rates and the market.

As an indication of the change that has taken place in short-term "Governments" since my talk with Secretary Mellon and you on March 6, I am transmitting a list of the schedule of Government security prices at that date and the prices that at present prevail. Government obligations maturing next March were then being purchased on a 4.15% basis, while at the moment they are quoted to yield about 3.85% This is, of course, in keeping with the change that has swept over the entire list of Government paper, including Liberty Loan bonds and the Treasury bonds of 1947-52.

It is, naturally, a very difficult matter to undertake to prognosticate what the future course of money will be, but I think it is a fair statement to say that thoughtful bankers scarcely anticipate that rates will remain around the present extremely low levels for any great length of time, unless it should clearly develop that a real recession in business was in progress. In this connection, our indices for February show that the total volume of production, distribution and trade was at the highest point since March 1923.

The policy of the Open Market Investment Committee at the moment is

to hold to our present prices and to review again the situation early in April. It is not at present contemplated to alter our buying rates in any particular, but rather to await developments in the market; and if prices there should presently go in reverse and lose some of the advance that has recently been made, it is the thought of the Committee to discuss the situation with the Federal Reserve Board.

Very truly yours,

J. H. CASE
Deputy Governor

Honorable Garrard B. Winston,
Under Secretary of the Treasury,
Washington, D. C.

Encls.

JHC HAB JN

June 2, 1924.

Dear Mr. Winston:

Mr.Young is not down to-day but will be to-morrow, and I am writing simply to remind you that we are hoping to have that meeting the last of this week.

I have a dinner engagement for Saturday evening in Washington which I cannot very well change; otherwise I have no engagements at all to interfere.

Yours very truly,

Honorable Garrard B. Winston,
Under Secretary of the Treasury,
Treasury Department,
Washington, D. C.

BS.MM

June 2, 1924.

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Yours very truly,

Honorable Garrard B. Winston,
Under Secretary of the Treasury,
Treasury Department,
Washington, D. C.

BS.WM

Winston

June 3, 1924.

Dear Mr. Secretary:

It was most kind of you to send me the letter from Cleveland. Of course, the only interest which I am justified in expressing in the matter is that relating to the System as a whole, and then what I did say was with great diffidence and reserve, so please hold it in confidence.

Yours very truly,

Honorable Garrard B. Winston,
Under Secretary of the Treasury,
Treasury Department,
Washington, D. C.

BS.MM

MISC. 34, 1 40M 1-24

FEDERAL RESERVE BANK
OF NEW YORK

SENT BY

SEND TO FILES

COPY OF TELEGRAM

June 3, 1924

Winston - Treasury Department

Mr. Young would appreciate morning appointment Friday as he is obliged to leave by noon train to keep another important engagement.

Strong

June 11, 1924.

Dear Mr. Winston:

Since I saw you in Washington, I had a chat with Mr. Owen D. Young and find that his engagements are such that he could only be in Washington on June 23rd or 24th or the morning of June 25th, as he must be in New York on the evening of the 25th.

If more convenient, a meeting could be arranged at any time during the week beginning June 30th.

My suggestion is that if it would be possible, arrangements for dinner on the evening of the 23rd or 24th would be more satisfactory than any other time, and if the gentlemen who are to attend the meeting could dine with me at 1718 H Street, I would very much enjoy having them.

I hope you can arrange to be there yourself and the other three whose names you mentioned. Will you let me know at your convenience so that I can advise Mr. Young.

Yours very truly,

Honorable Garrard B. Winston,
Under Secretary of the Treasury,
Treasury Department,
Washington, D. C.

BS.MM

Winston
X Mellon

June 19, 1924.

My dear Mr. Winston:

I have just heard from Mr. Owen D. Young that he expects to be in Washington to attend the dinner at Mr. Mellon's apartment at 7:30 p.m. on June 24, and you may also count on my being there.

Yours very truly,

Honorable Garrard B. Winston,
Under Secretary of the Treasury,
Treasury Department,
Washington, D. C.

BS.MM

Winston

July 15, 1924.

Dear Mr. Winston:

The enclosed correspondence explains itself. Mr. Saunders, as you know, is one of our directors and apparently was instrumental in securing the appointment of Mr. Guilfoyle in the Bureau of Printing and Engraving. I have simply told Mr. Saunders that I would pass the information along to you without recommendation, of course, as we know nothing about the man's work and we have scrupulously avoided endeavoring to influence any action in respect of appointments of this character.

Yours very truly,

Honorable Garrard B. Winston,
Under Secretary of the Treasury,
Treasury Department,
Washington, D. C.

BS.MM

enc.

Winston

July 17, 1924.

My dear Mr. Winston:

Thank you for your note of the 16th in regard to Guilfoyle. I will have a word with Mr. Saunders about the situation.

Yours very truly,

Honorable Garrard B. Winston,
Under Secretary of the Treasury
Treasury Department
Washington, D. C.

BS.MM

Yellow copy m 282
Winston

August 1, 1924.

My dear Mr. Winston:

Thank you for your note of the 30th enclosing a copy of Governor Harding's letter. The various points which at once occur to me on the subject of the present depositary arrangements may be summarized as follows:

1. The principal objection to the present plan of paying by credit is that it has some inflationary tendency. That, however, has been reduced to a minimum by the fact that all the Government's short-time obligations now have a good market, and the amount taken by the national banks, while increased every time there is a sale of a new issue is nevertheless constantly being decreased as the banks sell their certificates at a profit. To change the practice now would undoubtedly make the certificates a little less desirable to bank subscribers, and it might necessitate at times paying a slightly higher rate on the short loans, although I should suppose it would be very slight indeed, but nevertheless the objection as to inflation has been reduced to a minimum and we no longer regard it as a menace.

2. The existing practice has now been in operation since 1917. The banks are thoroughly accustomed to it, and under its operation the Treasury has enjoyed their whole-hearted cooperation in placing new issues. We would regret very much to see it disturbed by requiring them to pay cash.

3. If the member banks were called upon to pay cash for new issues it would mean that an immense amount of money would be poured into the Federal Reserve Banks every quarter-day in addition to the present inflow of tax funds, and a heavy withdrawal of funds from the market would necessitate heavy borrowings by member banks in order to make good their reserves until the Treasury had disbursed the money in payment of maturing certificates and in making other Government disbursements. It would be a disorganizing influence in the money market. At times we would see money rates jump up very suddenly and then as suddenly decline. In general, we think the policy of the Treasury should be directed towards minimizing money market disturbances which might be caused by the Treasury's borrowings.

4. We are entirely out of sympathy with the attitude of any member bank which might feel under present conditions that it did not care to continue to hold Government deposits of this category, and allow 2 per cent. interest. While to be sure those banks were asked to make large loans to the Government at comparatively low rates until the end of the year 1919, that is to say, for a period of two years after the first issues were made in the summer of 1917, nevertheless considering the record of the entire period down to date, the relations of the banks to the Treasury have been on the whole of a satisfactory character. I think most of the banks who have understood how to handle their accounts have made satisfactory profits on the security issues of the Government

August 1, 1924.

My dear Mr. Wingfield:

Thank you for your note of the 30th enclosing a copy of Governor Harding's letter. The various points which at once occur to me on the subject of the present depositary arrangements may be summarized as follows:

1. The principal objection to the present plan of paying by credit is that it has some inflationary tendency. That, however, has been reduced to a minimum by the fact that all the Government's short-time obligations now have a good market, and the amount taken by the national banks, while increased every time there is a sale of a new issue is nevertheless constantly being decreased as the banks sell their certificates at a profit. To change the practice now would undoubtedly make the certificates a little less desirable to bank subscribers, and it might necessitate at times paying a slightly higher rate on the short issue, although I should suppose it would be very slight indeed, but nevertheless the objection as to inflation has been reduced to a minimum and we no longer regard it as a menace.

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and on the Government deposit accounts. We see no reason now when money rates are very low for any change in their attitude. They should be willing to take the lean with the fat. They should bear in mind that during periods of very high money rates the Government never asked them to pay more than 2 per cent., and there were times when these balances were very large and were carried for considerable periods.

5. The suggestion that spasms in the money market could be avoided by requiring payment within ten days of the date of subscription is in effect no more than a suggestion that the Treasury withdraw the balances of the Government deposits and transfer them to the Reserve Banks somewhat more promptly than it now does. I see no particular merit in this suggestion. There may come a time if inflationary tendencies prove to be dangerous when such a policy might be adopted as sort of an emergency protection, and that is one of the various suggestions that I spoke to you about some weeks ago in discussing that question. But I am clearly of the opinion that no emergency has yet developed which would justify that course.

6. An examination of your records I think will disclose what a very large return - even at 2 per cent. * the Treasury has realized year in and year out on these deposit balances. It seems to me that it would be rather difficult to justify foregoing that revenue.

7. On the other hand, the time may come when the prompt withdrawal of balances from these depositary banks may be the means of exercising a very healthy restraint upon inflationary tendencies, and at that time it might be well to consider a policy of more prompt withdrawal of balances after sales are made and after income taxes are paid than is true of the present practice.

8. Governor Harding characterizes our present policy in buying Treasury securities in the open market as being for the purpose of earning expenses. That may be one of the purposes which he has in mind, but I am sure that the records of the committee handling these transactions and of the Federal Reserve Board are filled with comments deprecating that as the avowed purpose of the System and reiterating over and over again that our open market policy is designed for the purpose of building up a portfolio which might later be liquidated in case a dangerous speculation did develop and it became necessary to make our discount rate effective by driving the member banks to borrowing from us.

Mr. Case has read your letter and this reply and is quite in accord with what I have written.-

Yours very truly,

Benj. Strong,
Governor.

Honorable Garrard B. Winston,
Under Secretary of the Treasury
Treasury Department
Washington, D.C.

BS-MM

MISC. 34, 1 40M 1-24

FEDERAL RESERVE BANK
OF NEW YORK

Winston

SENT BY

SEND TO FILES

COPY OF TELEGRAM

August 21, 1924

Winston - Treasury

Arriving tonight Will see you tomorrow morning

Strong

Winston

PERSONAL

December 18, 1924.

Dear Mr. Winston:

I have just received and wish to thank you for your note of December 16.

Since talking with you on the telephone, I have been advised that my friends will arrive on the Caronia, instead of the Carmania, as I had supposed. This I have explained to Mr. H. C. Stuart, Deputy Collector of the Port, who has been good enough to issue to me a Coast Guard Cutter permit, as you arranged through Mr. Elting. I shall keep in touch with Mr. Stuart's office to ascertain when the cutter will go down to meet the Caronia.

Please be assured of my appreciation of your assistance in arranging this, and believe me,

Sincerely yours,

Honorable Garrard B. Winston,
Under Secretary of the Treasury,
Washington, D. C.

MSB.LS

December 18, 1924.

PERSONAL

Dear Mr. Strong:

I have just received and wish to thank you for your note of December 16.

Since talking with you on the telephone, I have been advised that my friends will write on the Continental Interest of the Continent as I had supposed. This I have explained to Mr. H. C. Brown, Deputy Collector of the Port, who has been good enough to issue to me a cover guard certificate, as you arranged through Mr. Strong. I shall keep in touch with Mr. Brown's office to ascertain when the outfit will be done so that the Continent.

Please be assured of my appreciation of your assistance in arranging this, and believe me,

Sincerely yours,

Honorable Benjamin D. Strong,
Budget Secretary of the Treasury,
Washington, D. C.

MBR:LS

Copy for Governor

February 2, 1925.

Dear Mr. Winston:

It occurred to me that you might be interested in some transactions which we have had in connection with the operations of the Open Market Investment account.

We recently sold a block of $25,000,000. of the 2⅝% Treasury certificates due September 15, 1925 from the Special Account under an arrangement to take them back to-day. It so happened that Messrs. J. P. Morgan & Company were desirous of obtaining some Treasury certificates in connection with the debt payment for account of the British Government, and we have therefore sold them this lot of $25,000,000. September certificates. We also have knowledge that they have bought upwards of $10,000,000. of these certificates in the market all of which, I understand, they will use on June 15, 1925 in making payment for the British Government. This will result in the amount of September 1925 certificates actually outstanding falling somewhat below $300,000,000. and it had suggested to my mind the possibility of the Treasury on March 15, 1925 making a joint offering to include a six months' certificate due in September, which would permit of the large amount of March 15, 1925's in the Alien Property Custodian Account being exchanged for the new September certificates and also afford an opportunity for similarly converting the July certificates held in the Open Market Investment Account, if

$90,000,000
$50,000,000
Total $140,000,000

it is mutually desirable to continue the investment in that account rather than permit the March maturities to run off. Then, too, if it should develop that the Treasury has a surplus at the end of this fiscal year, such an issue would provide a ready supply of short certificates that would be available for purchase if you should deem it wise to do so.

Very truly yours,

J. H. CASE,
Deputy Governor.

Honorable Garrard B. Winston,
Under Secretary of the Treasury,
Washington, D. C.

WBM JHC
JN HAB

Winston

February 20, 1925.

Dear Garrard:

This note will be presented to you by my son, Philip G. Strong, who is spending the week-end in Washington with his friend, Mr. Hamilton.

I am sure they will enjoy an opportunity to see something of the Treasury Department, and certainly of the Bureau of Engraving and Printing, if it is proper for them to do so.

May I trespass on your courtesy to show them that attention, and greatly oblige,

Very truly yours,

Honorable Garrard B. Winston,
Under Secretary of the Treasury,
Treasury Department,
Washington, D. C.

BS.LS

Identical letters to:

Monsieur Georges Robineau - Gov. Bank of France, Paris
Sir Charles S. Addis, Hongkong & Shanghai Bkg Corp. London.
Mr Gaspard Farrar Baring Bros. & Co. Ltd. London.
Mr E.C. Grenfell, Morgan, Grenfell & Co. London.
Monsieur Joseph Simon, Societe Generale, Paris.
Capt. Robt Masson, Credit Lyonnais, Paris.
The Right Honorable Reginald McKenna, Midland Bank, Ltd, London

April 2, 1925

My dear Sir Robert:

This note will be presented to you by my friend, The Honorable Garrard B. Winston, Under Secretary of the Treasury, who is taking a holiday of a few weeks and expects to spend a part of it in London.

I have given Mr. Winston this letter to you, as to some of my other friends abroad, in order that he may have opportunity to meet you. But it well may be that if his trip is too short he will be unable to present it. And, if so, I am sure you will understand it is entirely because of the limitation upon his time.

Assuring you of my appreciation of any courtesy that you are able to show to Mr. Winston, and with kindest regards, I beg to remain,

Very truly yours,

Sir Robert Kindersley,
Chairman, Lazard Bros. & Co., Ltd.,
London, England.

Identical letters to:
Monsieur Georges Robineau - Gov. Bank of France, Paris
Sir Charles S. Addis, Hongkong & Shanghai Bkg. Corp. London
Mr Gaspard Farrar, Baring Bros & Co. Ltd. London
Mr E.C. Grenfell, Morgan, Grenfell & Co. London
Monsieur Joseph Simon, Societe Generale, Paris
Capt. Robt Masson, Credit Lyonnais, Paris
The Right Honorable Reginald McKenna, Midland Bank, Ltd, London.

April 2, 1925.

My dear Sir Robert:

With this I beg to enclose copy of a letter of introduction which I have taken the liberty of handing to my friend, The Honorable Garrard B. Winston, who is spending part of his vacation in London, and whom I have assured of a warm welcome from some of my friends abroad.

He will be much interested in anything that you can tell him about business conditions, and I am sure you will be interested in learning from him some of the more recent news from the United States.

With kindest regards, believe me,

Very truly yours,

Sir Robert Kindersley,
Chairman, Lazard Bros. & Co. Ltd.,
London, England.

Enc.
BS.S

x C261 F.G.

PERSONAL

March 9, 1925.

17/26/24

My dear Garrard:

Some time ago I wrote Leland Harrison about the possibility of getting some information from certain of the foreign countries with respect especially to monetary and financial matters such as reach the State Department from time to time, and which might have a bearing upon our own relations in those countries.

He seemed to think that it would be necessary for us to get some cooperation from the Treasury in order that we might be put on the mailing list. Information of that sort is becoming of increasing importance to us, and anything that you can do to facilitate having such an arrangement as will work automatically and effectively to keep us posted, will be of great value.

If a list of the countries in which we are especially interested would be desirable, I can have that prepared, but I would like to have the arrangement as comprehensive as it can possibly be made. The information sent to us will be treated with all necessary confidence.

Very truly yours,

Honorable Garrard B. Winston,
Under Secretary of the Treasury,
Washington, D. C.

BS.LS

Winston

May 25, 1925.

Dear Garrard:

I find that I saved a couple of the newspaper articles containing the alleged interview with you, and you may be interested in reading them.

Don't bother to acknowledge.

Sincerely yours,

Honorable Garrard B. Winston,
Under Secretary of the Treasury,
Washington, D. C.

Encs.
BS.LS

May 26, 1925

Rec'd later - See May 15 Spec B file

Dear Garrard:

That special delivery letter of May 15, of which you gave me a copy when I was last in Washington, has never as yet turned up, despite our search, and I am wondering whether your tracer threw any light on what became of it.

Very truly yours,

BS
MSB

Honorable Garrard B. Winston,
Under Secretary of the Treasury,
Washington, D. C.

PERSONAL June 1, 1925.

Dear Garrard:

I am really disturbed about that special delivery letter.

A week or ten days ago I wrote a long letter about some business matters to Sydney Anderson. It was correctly addressed to his office in Washington, and that has never been delivered. I have also had an important letter from Dr. Stewart of the Federal Reserve Board take 48 hours or more to reach New York.

This is not the first time we have had trouble about our mail. I am wondering still what should be done about it.

Sincerely yours,

Honorable Garrard B. Winston,
1215 - 16th Street, N. W.,
Washington, D. C.

SS.LS

MISC. 34.1 40 M 8-24

FEDERAL RESERVE BANK
OF NEW YORK

SENT BY

SEND TO FILES

COPY OF TELEGRAM

June 2, 1925.

Winston - Personal

Treasury, Washington.

Your wire yesterday May 25 letter received and understood

STRONG

Winston

June 4, 1925.

Dear Garrard:

Your note of the third reached me promptly this morning. But if your inquiry of the Post Office produces any results, I shall be glad to hear them.

Thank you for the reminder about your new address. My records have been corrected.

Sincerely yours,

BS.
MSB

Honorable Garrard B. Winston,
Under Secretary of the Treasury,
Washington, D. C.

June 4, 1925.

Dear Colonel:

Your note of the third reached me promptly this morning. If your inquiry of the Post Office produces results I shall be glad to hear them.

Thank you for the reminder about your new address. My records have been corrected.

Sincerely yours,

Honorable Garrard B. Winston,
Under Secretary of the Treasury,
Washington, D. C.

July 10, 1925.

Dear Mr. Winston:

I am glad to submit herewith the usual summary of gold payments and receipts of the Federal Reserve Bank of New York, including the Buffalo Branch, for the month of June, 1925:

Gold Payments		
Coin to Banks and Individuals	$ 1,939,000	
Certificates to Banks and Individuals	117,215,000	
Certificates to U. S. Disbursing Officers	2,421,000	
		$121,573,000
Gold Receipts		
Coin	8,393,000	
Certificates	105,612,000	
		114,005,000
Net Disbursements		$ 7,568,000
Total Imports into New York (Revised Custom Office Figures)		949,000
Excess of Net Disbursements over Total Imports		$ 6,619,000

The receipts of coin by this bank, reported as $8,393,000, included $8,075,000 of coin released from earmark for account of the Argentine Embassy and the Swiss National Bank. This amount of our coin deposits was, therefore, neither imported from abroad nor taken out of circulation, According to our figures, total exports from New York during the month of June, amounted to $2,641,000.

The total gold held by the Federal Reserve System on June 3 was $2,818,000,000, and on July 1 was $2,786,000,000, representing a reduction of $32,000,000 during the course of the month.

This prompts me again to review with you the question of our gold payment policy. You may remember that when this bank first inaugurated the payment of gold in the usual course of business in August 1922, it was with the express purpose

of offsetting imports into the United States. During the next two and a half years, that is, up until the end of December 1924, the total gold imports into the United States amounted to $751,513,000, and the net payments of gold coin and certificates by the Federal Reserve Bank of New York during the same period amounted to $717,124,000, or only $34,389,000 less than the total amount of imports. This shows how well our original object was accomplished.

When, however, it became apparent in December 1924, that the direction of the gold movement was changing, that exports might shortly exceed imports, we reconsidered our policy at some length, and, as I told you when you were in New York about that time, we decided to continue making gold payments, not with the purpose any longer to offset imports, but rather with a view to maintaining in circulation approximately the amount then outstanding, that is, between $900,000,000 and $1,000,000,000 of gold certificates. In other words, having accomplished our original purpose of offsetting the import movement, we felt that it would be unnecessary and unwise to lose all that we had accomplished by decreasing payments as imports decreased for that would only result in drawing out of circulation most of what we had placed out.

The natural consequence of our present policy, that is, of maintaining the present gold certificate circulation at about its present mark, will be a direct reflection in the System's reserves either of an export movement or an import movement, whichever should take place. Before Governor Strong left for Europe, he expressed again his agreement with our present program, even though it would result in having future exports or imports very directly affect the amount of the System's gold reserves.

I am discussing this in some detail only because I understand that some of the other reserve banks have now commenced making payments of gold in rather substantial quantities. As you know, it was only the New York bank that made these

payments in the usual course from August 1922 until the early part of 1924, when the Federal Reserve Bank of Chicago commenced substantial payments. Because of the proportion of our volume of payments, it was possible for us to control the total outstanding as long as the Federal Reserve Bank of Chicago was the only other bank making such payments. A sudden shift now in the policy of many of the reserve banks which in the past have not paid out enough even to offset their receipts, might make it very difficult for us to maintain the total in circulation at the present figure of about $970,000,000, as we had more or less informally agreed.

In the circumstances, therefore, it may be advisable for us to have some discussion of this question perhaps before the meeting next week when I understand that you are to talk to the conference relative to it. It is a matter about which we should have no confusion of purpose because, as the past three years have demonstrated, our combined efforts can so easily accomplish this object.

Very truly yours,

GEORGE L. HARRISON,
Deputy Governor.

(Dictated by Mr. Harrison
but not read.)

Honorable Garrard B. Winston,
Undersecretary of the Treasury,
Treasury Department,
Washington, D. C.

GLH.MM

MISC. 3. 1-50M-1-25

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE August 6, 1925. 192

TO

FROM J. H. Case

SUBJECT: Inquiry from Mr. Winston concerning National City Bank's protest against loans on gold to Bankovni.

be glad to do so if Mr. Winston would send us in the meantime a copy of the letter to the State Department so that we would know exactly the nature of the charges to which we were making reply.

Mr. Winston said that at the moment all he desired us to do was to send him an informal memorandum for his own use.

* * * * * * * *

This memorandum was prepared and mailed to Mr. Winston on August 7, 1925. A copy of it is attached.

JHC

MIS. 1-50M-1-25

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE August 6, 1925 192

TO

FROM J. H. Case

SUBJECT: Inquiry from Mr. Winston concerning National City Bank's protest against loans on gold to Bankovni.

Mr. Winston telephoned this afternoon that during his recent visit to New York he had talked with Mr. Mitchell, President of the National City Bank, and that during the conversation Mr. Mitchell had complained that the Federal Reserve Bank had made certain advances on gold to the Bankovni urad Ministerstva Financi, Prague, which advances had previously been made by the National City Bank but were transferred to the Federal Reserve Bank because the Bankovni was able to obtain a lower rate of interest. Mr. Winston said that Mr. Mitchell had followed up his complaint to him by making formal protest in writing to the State Department and that the State Department had asked the Treasury for information regarding the transaction. I explained briefly to Mr. Winston the circumstances surrounding these advances on gold to the Bankovni and said that I would obtain for him complete details from our files.

* * * * * *

Subsequently at 3:45 P. M. I telephoned to Mr. Winston and advised him that if he desired us to make a formal reply to the charges which Mr. Mitchell had made to the State Department we felt that we should be furnished with a copy of Mr. Mitchell's letter, but that in view of all the circumstances we would prefer to submit to Mr. Winston, for his confidential information, an informal memorandum giving all of the facts concerning the transaction which might be used by Mr. Winston as seemed advisable to him. Furthermore, I advised Mr. Winston that if, after receiving such a memorandum from us, he believed it desirable to have us make a formal reply to Mr. Mitchell's protest, we would

CONFIDENTIAL MEMORANDUM FOR MR. WINSTON, UNDERSECRETARY OF THE TREASURY, REGARDING CERTAIN LOANS ON GOLD MADE BY THE FEDERAL RESERVE BANKS TO THE BANKOVNI URAD MINISTERSTVA FINANCI, PRAGUE.

Submitted by:

J. H. Case,
Deputy Governor, Federal Reserve Bank of New York.

August 7, 1925.

The Bankovni urad Ministerstva Financi, Prague, has been exercising the functions of a provisional state bank of issue in Czechoslovakia pending the establishment of an independent and definitive central bank in that country for the establishment of which a bill has recently been introduced in the Czech Parliament. In the autumn of 1922, we received an inquiry from this institution asking us whether we would open an account for it and make investments for its account in this market. As we had had no previous relations whatever with this institution and, therefore, knew little of its affairs, before replying to the inquiry we consulted with the Bank of England which follows a similar policy to our own in the encouragement of relationships between central banks. We were informed by the Bank of England that they were also entering into relations with the Bankovni and were prepared to regard them as a bank of issue pending the establishment of an independent central bank in Czechoslovakia. In view of this fact and in line with our established policy of entering into relations with foreign central banks of issue and encouraging cooperation between central banks for the furtherance of currency stabilization and the economic rehabilitation of Europe, we advised the Bankovni that we were prepared to do the business for them in this market which they requested.

We opened an account for this bank in June 1923, and for about one year thereafter did practically nothing for them beyond the investment of their funds in this market in bankers acceptances.

In July 1924, the Bankovni advised us that in order to keep their exchange stable it was necessary for them to increase their foreign balances at times when there was a temporary adverse balance of payments against them and for that purpose they desired to secure advances upon the security of a part of their gold cover. They advised us that they had on deposit with the National Bank of Belgium in Brussels foreign gold coin valued at approximately $11,100,000 and inquired whether we were prepared to make them advances against that gold.

Section 14-a of the Federal Reserve Act gives the Federal reserve banks power to make loans on gold coin or bullion at home or abroad. Therefore, since we had power under the Act to make such advances to the Bankovni and, furthermore, as it was a facility which we felt it proper for this bank to extend to central banks with whom relations had been established, we advised them in response to their inquiry that we would be willing to make three months' advances in amounts not to exceed 95% of the bullion value of the gold.

The first advance aggregating $6,000,000 was made on December 2, 1924, for three months, and the rate quoted was 3% which was our rediscount rate at that time. A second advance aggregating $4,500,000 was made on January 16, 1925 for three months and at the same rate. Since that time both advances have been renewed twice for periods of three months each, the rate for all renewals having been 3-1/2% since that was our rediscount rate at the time the renewals were made.

The establishment of this relationship with the Bankovni was undertaken with the approval of the Federal Reserve Board which has been fully advised from time to time with regard to the advances on gold to the Bankovni.

These advances have also been shown in the statements of condition of the Federal Reserve banks published each week. Furthermore when the arrangements for the making of these advances to the Bankovni were being negotiated, we suggested to the Federal Reserve Board that the State Department might be interested to learn about the matter and, under date of August 7, 1924, the Board advised us that in accordance with our suggestion the Department of State had been advised of the proposed transaction.

As the other eleven Federal reserve banks share on a prorata basis with the Federal Reserve Bank of New York in the transactions with foreign central banks, these advances on gold to the Bankovni have been participated among all Federal reserve banks.

PERSONAL AND CONFIDENTIAL

August 7, 1925.
3:00 p. m.

Dear Mr. Winston:

Since dictating the special delivery letter enclosing the Belgian communication from Governor Strong bearing date of July 28, I have received another letter from him addressed from Paris under date of July 30, 1925, which contains some additional information on this same subject, and of which I enclose a copy.

Very truly yours,

JM

J. H. CASE,
Deputy Governor.

Honorable Garrard B. Winston,
Under Secretary of the Treasury,
Washington, D. C.

Encl.

SPECIAL DELIVERY

PERSONAL AND CONFIDENTIAL

August 7, 1925.
2:50 p. m.

Dear Mr. Winston:

I have just received a packet of mail from Governor Strong among which is a confidential letter dated Brussels, Belgium, July 28, 1925, in which Governor Strong refers to discussions which he has had with Governor Hautain of the Banque Nationale de Belgique, and which appears to me to have a very important bearing upon the subject of the debt negotiations which you are to undertake next week.

Governor Strong has furnished me with an extra copy of this letter for your private and confidential use, which I am enclosing herewith. Kindly acknowledge receipt.

Very truly yours,

J. H. CASE,
Deputy Governor.

Honorable Garrard B. Winston,
Under Secretary of the Treasury,
Washington, D. C.

Encl.

[dep Europe trip 1925]

CONFIDENTIAL:

Hotel Majestic,
Paris, France,
August 19, 1925.

My dear Winston:

So far, I have not had opportunity to gather impressions in France as fully as I would like, partly because so many people are away on vacations, and partly because of language and other difficulties which have to be overcome here to a greater degree than almost anywhere else in Europe.

Undoubtedly they have had a good crop this year, and it is now pretty well gathered. I refer especially to cereals. The tourist crop has been about the best on record, and, from personal experience, I can testify that it has brought a good price. In Paris, even on a gold basis, prices are pretty high, and yet Americans have been here in droves, spending money right and left.

Of course there has been a good deal of uneasiness about the situation in Morocco, but the evidence of cooperation between the Spanish, British and French, and the recent military success which the French enjoyed against the Riffs has largely relieved that feeling of uneasiness, which was undoubtedly growing and having a rather widespread effect.

There is unfortunately some feeling that when Parliament reassembles the present government will be facing difficulties which they may not be able to survive. Two or three people have mentioned to me the possibility of their not lasting many months longer. The ever-present fear in the minds of the business men is the activity of the socialists and communists, and the introduction of fanciful ideas of government and finance by some of the long haired type of radicals.

So far as I can learn, there are no figures available from which to judge of the success of the conversion loan which is now being floated and on which subscriptions close early in September. They all speak hopefully, but with some reservations. The general attitude is that the people will not subscribe until the last days. My rough impression is that the maturities are now being comfortably taken care of, but that the subscriptions are only about 50% of expectations.

There are about 55,000,000,000 to 58,000,000,000 francs of bonds de defense outstanding, maturing, of course, every day. They are issued for one month, three months, six months and one year. Some days they are short and some days they are over in subscriptions to take care of maturities, but the average recently has been pretty good. Some fear is expressed that if they have a failure of the present loan, it will mean an enforced conversion of the bonds de defense and a very severe blow to French credit. The only other resort, if conversions are not effected and maturities cannot be met, is inflation by further issues of Bank of France notes, of which they have had all that they want and more.

You know the new bond is a perpetual 4% rente, issued at par in exchange for bonds de defense, with all of the exemptions and privileges attaching to the existing issues, and with the obligation of the Government to pay interest on the basis of the sterling value of the franc figured over an average period each day, at the rate of 95 francs to the pound. Of course any distrust of the

which caused a decline in its sterling value would simply add to the budget burden in paying interest on these new rentes. I have never fancied the scheme myself, but am led to believe that the emergency justified some such radical scheme as this.

Of course you have heard the many rumors of the resignation of Governor Robineau following the disclosure of irregularities in the accounts of the Bank. I am told that twice he submitted his resignation, which quite likely would have been accepted had they been able to find a successor. Rumor has it that the job was offered to Monsieur Sargent, who was at one time sous-Governor of the Bank, later an officer of the Treasury, and at present the head of one of the banks in Paris. I am told he declined. And the same story is generally heard as to Monsieur Joseph Simon, head of the Societe Generale, to whom I gave you a note of introduction.

I have just had luncheon with Monsieur Simon, and had a long and confidential talk with him. He tells me that he is now of the impression that there will be no change in the governorship of the Bank, at any rate for the present.

I went through a considerable part of the Bank of France yesterday, - the first time that I have made a tour of the premises in about nine years, - and was astonished to find the improvements which had been made since Monsieur Pallain resigned. It is really a modern, up-to-date institution, so far as one could judge by the way the work was being done. It is fully equipped with American tabulating, adding and type machines, and with all the modern appliances for accounting records, etc. The dingy old building has been repainted and refurnished with modern furniture; the girls have all been put into so-called over-alls, and it has a very neat, businesslike appearance. I also visited the new branch they have established out near the Etoile and I do not believe we have anything any better for any bank in the United States. At least all of this is to the credit of Monsieur Robineau, who is very much beloved and trusted by the staff of the Bank, even though he may be a rather weak man in combatting importunate politicians. If Robineau has some part of the blame for juggling the accounts, I certainly feel that the regents of the bank have more. And when his own people appeal to him on the ground of patriotism, of course the difficulty of his position is obvious. Nevertheless, a stronger man would have resigned and precipitated a crisis, however great it had been. That, I am told, is the argument used with all of them, - that it might have disrupted French finances and turned them inside out consequently.

I would like to give you some detailed account of my talk with Monsieur Simon:

His history is briefly this: As long ago as 1906, he was Chef de Bureau to Caillaux when he was in the Cabinet; has known him all his life; and has a very high regard for him as a man of culture and ability. He says he comes of an excellent family, and while under a cloud, he, nevertheless, is the strongest man in France in monetary and financial matters, but, of course, not as strong politically as others.

Much of what I am writing may already be known to you, but I will burden you with repetition:

The present understanding is that Caillaux will head a mission to the United States which is proposing to sail not later than the fifteenth of September. Simon has urged that the mission sail as early as possible, and fixed September 15 as the latest feasible date. He is to be a member of the commission himself, and he tells me Caillaux is determined to select some of the leaders of the various

tical parties as members of the mission, as only by that means will it be possible for him to deal with the parliamentary situation which will likely arise on his return if a settlement is effected, as it will need ratification by the parliament and only by having some of the important men of the various parties committed to the settlement can he get ratification. I think Simon feels, - and possible Caillaux - that such a mission is justified by the complexion of our own debt funding commission, which contains representatives of the two political parties in Congress.

The French mission plans to go immediately to Washington on landing in New York, without seeing anyone, believing that courtesy demands this. Simon himself seemed to be a bit uneasy about the uncertainty of the political situation at home, in a general way feeling that an arrangement of the American debt is but one step in a whole series of reforms in finance and monetary matters which should take two or three years to accomplish under the continuous management of the same men. And under their system of government, they can hardly expect the present cabinet to last for any such period, and consequently the policy of continuity will be difficult to carry out.

He has asked me some questions about the personnel of the Commission, which I have answered with a good deal of caution, telling him something of who the men are, and what their history has been; explaining that Mr. Mellon is a man of great skill, who deals with facts and not illusions, and that it would be a very wise thing for them to take to America, complete as possible, information about their situation, and in such form that it will give Mr. Mellon a thorough understanding of their problems.

I asked him if there was any basis for the uneasiness about the promptness with which the French Government was paying its current bills; and if there was none, that should be dispelled; but if there was any foundation for it, this should be disclosed, as well as all other material facts bearing on their capacity to deal with their financial problems.

He said that on the whole he felt that the Belgian settlement, if correctly reported in this morning's newspapers, would be helpful, the principal and most important thing being the apparent disposition of the American Commission to deal with the problem of payment upon the basis of capacity, rather than upon the amount of the obligations per se.

He thinks that the budget situation is showing a constant improvement, the current year's deficit of 2,000,000,000 francs being a great improvement over former years. And he was hopeful that in the near future a balance can be struck, but he urged all of the difficulties which we have all heard repeatedly about direct taxes, the difficulty of getting adequate taxes from the farm classes, etc.

One of the great difficulties they are facing is the uneasiness of the public generally about political conditions, and their fear of a socialistic government. The peasant classes in France are mostly small agriculturists, as you know; that is to say, property owners and savers. The classes having socialistic tendencies are wage earners and a considerable section of the so-called intellectuals, - professors, lawyers, and the like. These latter classes are active and agressive, while the farm peasant is a quiet fellow, who stays at home and works hard on his farm, saves his money, hates to pay taxes, and gets frightened at the idea that his property may be taken away from him.

Simon points out that the collection of the taxes now imposed is being made most effective. He says that in a big bank like the Societe Generale, with branches in so many towns, they have a good chance to observe this. He thinks the reports of failure to collect taxes are grossly exaggerated and most unjust.

The income tax is not as productive as it should be, but he calls attention to the fact that this is a new tax, only imposed since the war; that the people are not accustomed to it; that it is abhorrent to their traditions and temperament; and that its development will necessarily be gradual. Even so, when one considers that most of the income from securities is already taxed up to 25%, such as coupons and dividends, and the income tax is imposed on top of that tax, the actual figures as to direct taxation are a bit misleading. Increases in the return from the income tax will not be by an increase of rate, but rather by spreading the area of the tax over greater numbers.

I asked him whether he thought the reduction of the bank rate to 6% and, in general, the maintenance of present rates on the government's borrowings was a wise program; whether rates should not be increased, some pressure put on credit generally, and the short time securities of the Treasury put on a more businesslike basis as to the value of funds. He said that that criticism they had had many times; that the Treasury consulted the principal bankers as to whether the rate should be raised, and they were unanimously against it, all of them stating that an increase in rate would be regarded by the holders generally of the bonds de defense as evidence that there was something wrong, and that it would actually have the effect of frightening holders and reducing subscriptions rather than the reverse.

Of course you realize that Simon is non-political, and one of the thoroughly sound, able bankers of France. He agreed with me that the ideal program would be, first, to complete some kind of a security pact and give a sense of confidence as to political conditions in middle Europe; then to fund the American debt; and, following that, undertake a vigorous monetary and fiscal reform, which would include revaluing the franc and revising the Government's debt, if possible with some advantage in interest. He thought that with confidence restored a good deal could be saved in interest, but the difficulty, again, was political.

The question of capacity, I think, must be preeminent in their minds just now, and he looks at that question in a fairly reasonable and businesslike way. He says that he can understand that payment out of German reparations might be objectionable in America as tending to create the impression that we would become involved in all the disputes over German reparation payments, and, ultimately, with the political discord with which this is all associated. On the other hand, we are a creditor of France, which has a certain limit to its capacity to pay its debts, that limit being influenced by the extent to which she is able to collect from her own debtor, - Germany.

I gather that he felt that a definite scheme of fixed payment over a period of years might, on the one hand, have the effect of imposing too heavy a burden, or, on the other hand, might call upon France to pay less than perhaps possible if Germany were able to carry out the Dawes Plan in a larger way than many people now suppose is possible.

I know nothing of what is in their minds in the way of a proposal, but should suppose that in some way they would hope to have ultimate payment greater or less according as they get more or less from Germany. It will be the same old difficulty, which I should hope, however, could be dealt with so that a contract can be effected.

I gained the impression that Caillaux is going to America with the intention of getting a settlement if it is possible to do so. He may not have an acceptable proposal, but he will certainly have some proposal which he will be prepared to fight for with his own parliament on his return if it can be put into shape acceptable to us.

My own belief is that almost any settlement is better than a break just now, especially as Simon tells me that the country is in a mood now to make sacrifices in order to put the house in order.

With a commission such as Caillaux has suggested, I can well imagine that you will be indulged with a good deal of oratory. After a good many years experience with these folks, my suggestion would be that the oratory be allowed to flow just as freely as possible; that the members of our own commission do not attempt to deal with the members of the French commission by argument, expostulation, or admonition. If they could listen patiently to these gentlemen, exchange patriotic speeches without limit, and then let Messrs. Mellon and Caillaux sit down privately and arrange the deal, it will be found much easier to let Monsieur Caillaux convince his own people, and Mr. Mellon our people. And the effective thing to be accomplished by the commissions will be the votes among themselves whether they will agree to the proposals of the respective chairmen or not. I can assure you that it will be very much easier for Monsieur Caillaux to convince his own colleagues than it will be for our Commission to do so.

There is one point which I promised Monsieur Simon to speak to you about very confidentially.

He says that it would be a matter of much delicacy for him to seek the advice of any of his American friends while he is negotiating with the Commission, on which matter I think he is quite correct. I told him I would speak to you, however, about the possibility of some private discussions of that character in case he felt that he needed the advice of some reliable American friends while he is in Washington. It would be a very excellent thing if that is done. And you know of a similar case where the results were good.

I had hoped to visit Paris without being under the necessity of seeing Caillaux, fearing lest it might cause some embarrassment. But when I was at the Bank yesterday, Robineau told me that Caillaux knew I was here and would feel that I had been discourteous if I did not call to see him. I explained to Robineau that my colleague in Paris was the Governor of the Bank of France; that I was not official in any way; and did not want to make any calls which might be misinterpreted He said that that would be carefully explained to the Finance Minister, but he strongly urged me to see him. So I am going to have a talk with him late tomorrow afternoon after having another visit with Robineau. Of course you know the way things flash around here in Paris. While Simon only reached Paris this morning from the country, he had already been advised of my appointment with Caillaux, and wanted to know whether I proposed to see him alone, or would have anyone with me. I think he was afraid there would be someone with me.

While my talk with Caillaux may lead to some modification of what I gathered from Simon, at present my feeling is that the French are earnestly desirous of settling the debt; are probably encouraged to feel that they can as the result of the Belgian settlement; will undoubtedly need to go through a period of discussion and bargaining; will probably have a great variety of things to suggest; but, in the end, if we are reasonably generous, we should be able to get a settlement; and any settlement is better than none. So I hope that Mr. Mellon and Monsieur Caillaux

can fix it all up without a lot of wrangling in the commission, which would endanger the result.

I will continue this letter at the first opportunity after seeing Monsieur Caillaux, but, as I am leaving for Switzerland tomorrow afternoon, I may not have a chance to fix it up until next week.

One impression I got from the bankers is the probable urgent need of a moratorium with the French even greater than with the Belgians. They do need a period after the uncertainty of the debt obligation is disposed of within which to carry out the rest of their financial and monetary program, especially to get the budget balanced. And for the first time I get the impression that the effort to put the budget in order is a serious one with some chance for success.

Continued - August 24, 1925.

As stated above, I had a long visit at the Bank of France last Thursday afternoon and went directly from there to make my call on Caillaux.

On the whole he impressed me quite favorably. He seemed to be a man of culture and energy, but not afflicted with the French nervousness and excitability. He speaks English very well indeed. Fortunately he caused me no embarrassment by attempting discussion of debt negotiations, or making any special requests for assistance, or loans, or anything of that sort.

He was anxious to tell me something of his program, which I can describe in a few words:

As to the budget, he says that he can accomplish balancing it, assuming that an arrangement is made as to the British and American debts, and is within striking distance of it now. He had the figures all on his desk, which he said he would have been glad to show me had there been time, giving the various changes proposed for taxation.

Among other things, he says that the maximum inheritance taxes will go up to about 80%, and the maximum income taxes in the high brackets he proposes to go as high as 70%. And other sources of revenue are to be tapped. He complained a good deal about the French system of taxation, - the product of many years' experimentation and efforts on the part of the Government to meet a characteristic French demand that the collection of taxes shall be reduced to a mathematically exact calculation of how the burden shall rest with justice to every tax payer. He said it would be better for France if they had a simpler system and more direct taxes, but the French temperament would not stand it. He explained that the direct income tax was new since the war, and he agreed that to be more productive it would need to be spread over a wider area; and that simple increases in rates were dangerous in developing various expedients for escaping taxes and driving money out of the country.

He claimed that it was too early to gain any idea of the success of the pending loan, which had encountered difficulties because of the harvests, which occupied the peasants, and because of the strike of the bank clerks, which made the work of the banks ineffective; also because the old Bonds de Defence paid 1% more than the new loan; that there was no advantage in converting before the last days, and consequently results could only be expected late. Subscriptions were scheduled

close September 5, but they are being extended, probably until the end of September.

He spoke of the prevalent opinion abroad that the French were not paying adequate taxes, and asked for some expression about that. I told him I did not think that all the people of America could be convinced about that one way or another by a detailed explanation of the complicated system of taxation in France. The only argument which would be convincing would be a balanced budget, and once that was done the criticism would disappear.

He was very positive in his assertion that with a balanced budget he would propose to deal with the floating debt vigorously, and ultimately effect a consolidation of the debt. And, with a reasonable situation as to the debt, they must effect a stabilization of the franc for a period and then revalue it at some figure to be determined. The alternatives to a successful consolidation of the debt by some such measure as that being attempted now would be either further inflation as the maturities were taken care of, by note issues by the Bank of France, or else a forced conversion, which would hurt their credit. I believe at first Caillaux was supposed to favor an enforced conversion, but the bankers talked him out of it, stating that it would wreck the country. He is supposed to lean somewhat to that and somewhat to capital taxes.

He thought the French people would accept a revaluation of the franc if it did not involve a reduction in the amount of paper money in circulation.

Then he wanted to know in a general way what the American attitude was and whether, in case of need, they could turn to the United States for help in their program. I told him that if he had in mind some specific transaction, such as a loan, the past record in that respect indicated that the American attitude was helpful. He must bear in mind, however, that while the Federal Reserve System had a certain control of the use of its own credit, that was a very small matter compared to the attitude in general of American investors, which could not be controlled. But during the last two years we had loaned $2,000,000,000 to the rest of the world by absorbing security issues, and some further sum in the way of bank loans and credits. If anything developed to shake American confidence in European affairs and that investment market closed, it would add very seriously to their difficulties; that foreign investments were new to Americans; and that they were still timid about them.

He wanted more information about this, and I explained how successively Switzerland, Holland, England, and then France had suffered from a shock to confidence. The case of Switzerland being typical, where the proposal for a capital levy resulting in a flight of Suisse francs, and temporarily wiped out the balances of the Bank of Issue, which had to supply the exchange to timid Suisse people.

Not much developed in the talk beyond giving me the impression that he was a pretty vigorous person and really determined to do a good job if he is given opportunity.

From various other sources I get the following information and impressions: First about the loan. I am told that it is a fact that so far the loan has been a complete failure. The Government has outstanding from 55,000,000,000 to 58,000,000,000 of short paper, of which about 15,000,000,000 is held by the banks

d 40,000,000,000 by the public generally. It is the 40,000,000,000 with which they must deal. Outside of the City of Paris, I am told, subscriptions last week amounted to only 1,000,000,000 francs. It was at first hoped that they would get at least 20,000,000,000 converted. They are now talking about 10,000,000,000 being a successful result (when it would, in fact, be a failure and leave them in a difficult situation).

That this is beginning to be appreciated would appear from a statement made to me yesterday by one of the special American NewspaperCorrespondents, that there were stories about that they were again having difficulty in France in meeting maturities and that while the statement of the Bank of France showed that they had a good margin on their note issue, if the true facts were known it would be shown that the new limit had already been exceeded by 2,500,000,000 francs. I, personally, don't think that story is true. But it indicates the degree of nervousness which exists.

There also are stories around that the fighting in Morocco is costing them vast sums of money beyond what they have stated, and that they have fixed up some deal with the Spaniards to finance it so that it does not show in the French figures.

There is a good deal of discussion and uncertainty about the commission to go to Washington. The last time I saw Simon, he asked me whether the commission should all go at the same time, or whether he, Simon, should go ahead of Caillaux. I told him I thought that was the sort of question which should be dealt with by private inquiries at Washington. Then he wanted my personal opinion, and I told him I would like time to think it over, but my first impression was that Caillaux should go at once himself. It would add dignity to the proceedings; would give the commission an appearance of responsibility which it could not otherwise have, and avoid the unfortunate impression resulting from Parmentier's visit.

Subsequent inquiry leads me to believe that Caillaux's position is a very difficult one. The socialists are in position to unhorse this Government at any moment. They know that if they do so the burden of dealing with the Moroccan situation and with these debt negotiations will fall upon them. They prefer to sit by in the position of vetoing or approving procedures, rather than assuming the responsibility of initiating them and conducting them. Caillaux, accordingly, is anxious to make no effort at funding the debts which is unsuccessful. And I think his disposition might be to send Simon on ahead to spy out the land, and, if there is hope of success, then to go over and finish up, himself, but, if not, to escape the odium of failure by not going.

The rumor reaches me that an unofficial proposal for a 99 year system of payment, with 2% interest, has been transmitted and rejected at home.

Now there is no doubt that the first reaction to the Belgian settlement here was rather favorable, as it gave the impression that capacity was going to be an important consideration in fixing the amount. Since the figures have come over they have been analyzed pretty carefully here, and the French now seem to draw the conclusion that the amount to be paid by the Belgians, increased to the proportions of the French debt, and without the special concessions made to Belgium as to the pre-armistice debt and interest, etc., will put an unsupportable burden upon the French and that they could not pay that amount. The statement that the terms accorded Belgium were of a special character out of respect to some moral obligation

treated by President Wilson, has given them a chill. Possibly it is just as well that this should be so if the Funding Commission is ready to make some concessions to the French when they come to negotiate.

The facts are, undoubtedly, that the burden of the foreign debt on the French is much heavier, proportionately, than the burden of the foreign debt on the Belgians. The Belgian foreign debt amounts to about $80. per capita, or thereabouts, and the French foreign debt is possibly $100. per capita. Belgium, of course, suffered little devastation compared to France, and had priorities in repration payments which has put them in a fairly strong position. The French, having to pay the reconstruction bills themselves, without adequate reimbursement from Germany, have gotten their finances in a very bad state.

Of course we must remember at home that the whole scale of living here is almost poverty along side of our scale of living at home and has a connection with the difficulty of collecting taxes and the meagre investment fund available for dealing with their domestic debt, compared with some other countries. For instance, a friend of mine has just rented a large house under an arrangement by which he takes over the chef and butler. The wages of those two men aggregate less than 500 francs a month -- one of them gets the equivalent of $10.00, and the other $12,00 a month. Parmentier tells me that his apartment is run by a frenchman and his wife. He has had to increase their wages two or three times recently to meet the added cost of living, and he says he now pays them 525 francs a month. They do all the work in his apartment and the man, in addition, takes care of his car. If this scale of living is applied throughout France to all classes, one recognizes what a slender margin there must be for taxation and for investment.

Up to this point I have been rambling along, recounting conversations and impressions as we would in discussion. Now for a few specific conclusions as I see the picture here:

1. The domestic debt of France is some 300,000,000,000 francs. Of this 55,000,000,000 are short obligations maturing every day. These are a menace to the nation, and with any shock to confidence, the only way in which they can be paid is by inflating the currency.

2. Caillaux's effort to deal with this was the result of a choice of the following measures:

a. a capital levy
b. an enforced conversion
c. a further inflation of the bank note issues
d. an obligation issued on a gold basis.

He selected the fourth, fixing the rate at 95 francs to the pound, and the interest at 4%. The result of the loan, so far, has been a complete failure. No one knows what the reaction will be when it becomes publicly known, and the date is being deferred in the hope that something will save the loan.

3. The Bank of France has, in part, lost control of the situation. Its commercial portfolio is of negligible amount. Most of its bills are simply collection bills discounted for five days. The bulk of its earning assets are the direct obligation of the Government. There is now no hope of the Government repaying. Consequently no bank rate is effective. And the bank has lost control of the possibilities of inflation due to issues of notes made on Government account.

4. The budget has not yet been balanced. They admit a deficiency of 2,000,000,000 francs. It may, indeed, be larger than that.

5. With this situation at home, they are commanded by both the British and Americans to fund their debts. I think it has given them a tremendous shake-up. There are some in France, and I believe influential people, who feel that the situation is rather desperate, and that the heroic measure would be to frankly tell the British and American Governments that they cannot and will not pay; make the sacrifice to their credit; and then do their best for their domestic creditors

6. The present painleve government is retained in office by sufferance of the socialists. When parliament meets they may go out. It depends upon the outcome of the debt negotiations, the Riff war and the pact negotiations. If they go out, there is likelihood of a socialist government under Herriot, or the like, and all sorts of fanciful attempts to deal with the debts and like matters, probably including a forced conversion and capital levy, all calculated to scare the French investor out of his wits.

7. There is, nevertheless, the feeling that with the suspension of reconstruction work (which I believe is almost complete) the prospect of collections from Germany, and a pretty good domestic business situation with an improved balance of foreign payments, if they can make a liberal adjustment of foreign debts, they can some way or other wiggle out of the situation.

8. It is probably true that if the franc can be stabilized and the budget balanced, even though the domestic debt is not reduced, the thrift and industry of the French people will result, within a few years, in the accumulation of a savings fund which will constantly lighten the burden of the debt.

9. With this outlook, while they were pleased at the evidence of a generous attitude towards Belgium, they are disturbed by the statement that it was a special arrangement for Belgium which will not apply to others. Roughly, if the French debt is three-quarters of the British debt, then the French payments will be three-quarters of the British payments, or $120,000,000 a year. This would be beyond their capacity, especially as they must make a funding arrangement with the British as well, and the British seem to be advertising strongly the opinion that the French are capable of making very considerable payments.

10. I gather that the Belgian schedule of payments starts at about $4,000,000, and, after ten or twelve years, reaches nearly $13,000,000. Against this there will be still some payments by Germany which will be applicable to the payment of the debt, so that the pressure on Belgium will be much lighter. Their work of reconstruction is completed. They have the benefit of priorities in reparation payments from Germany, and they have been forgiven a large part of their foreign debts. France, on the other hand, had no preference from Germany, had enormous reconstruction projects to finance in northern France, has had but small contributions of cash from Germany which will be applicable to finance reconstruction, and will need a considerable part of whatever Germany can pay hereafter for the improvement of her domestic national debt situation.

11. Finally, I think it is a fact that if debt negotiations fail, and, at the same time there is a loan failure in France, they will be driven pos-

sibly to an enforced conversion of the domestic debt; the domestic credit of the Government will suffer tremendously; and there will probably be some flight of capital, with the resultant pressure on the franc.

12. But there are, of course, offsetting considerations, one being the fact that the inflation which has taken place in France has reduced the burden of the debt to very much less than its nominal figure. If the French were as complacent about paying taxes as the Anglo Saxons, the burden of the debt would be much less, but the psychological limit of taxation in France is low, - much lower than in either England or America, and the same rules which would apply to a British adjustment will not apply to a French adjustment because we are dealing with Frenchmen and not Englishmen.

My best judgment is that some kind of settlement must be made with the French if they are to avoid trouble; and that if these negotiations fail trouble is almost certain to come.

I have had quite a few talks with Morrow, and with Gilbert, as well as some others, to get the impressions they have gathered from talks here. I think Morrow's idea is that the French can pay a total of $100,000,000 a year to the British and Americans together. But, of course, with us this would include the $20,000,000 they are now paying as the interest on the debt for the sale of supplies. The British, on the other hand, seem willing to accept a more moderate fixed obligation, and take a part of their payment conditioned upon German reparation payments.

My own feeling is that the best prospect of collecting from France lies in very moderate payments indeed for the first period of, say two or three years, giving them a chance to put their domestic situation in shape, and that after a few years their capacity to make foreign payments will be very greatly increased if they escape the present crisis.

Another thing of which I am convinced is that a reorganization of their monetary situation is essential to a continuance of foreign payments. This is because of the menace of their floating debt. If they undertake to pay us considerable fixed sums, and close to the margin of safety, and then they have any difficulty with their domestic debt at all, their only recourse is to the Bank of France, and that means depreciation of the franc and of the exchange.

I may write you something more later, especially after we learn more of the negotiations in London. But I will let it go for the present, as Dr. Stewart is leaving tomorrow and will take it to you.

Sincerely yours,

Honorable Garrard B. Winston,
Under Secretary of the Treasury,
Washington, D. C.

JHC HAB

1 p. m. September 8 1925

Winston

Washington

Strong cabled following information this morning for you. One: Refers you to his letter of August 24th, page 8, line 4, and advises that current reports indicate total so far only 4,000 million. Two. Refers to your request of August 27 for certain information regarding financial and economic conditions and advises he will bring further reports with him. Sails tomorrow via Olympic.

CASE.

COPY OF TELEGRAM

SEND TO FILES

SENT BY

FEDERAL RESERVE BANK
OF NEW YORK

MISC. 34.1 40 M 8-24

PRIVATE September 25, 1925.

My dear Garrard:

Referring to the question of gold which appears in the statement of the Bank of France as being held abroad, this figure in the statement of September 10th is 1,864,000,000 francs, which at the par of sterling exchange is the equivalent of £73,900,000 sterling.

The amount still to be returned by the Bank of England is something over 18,000,000 sterling, which would leave somewhere between 55 and 56 million sterling as the amount of the unsettled gold account with the British Government.

This is, of course, supplementary to my letter to the Secretary.

Sincerely yours,

B. S.

MSB

Honorable Garrard B. Winston,
Under Secretary of the Treasury,
Washington, D. C.

BS.LS

PERSONAL

October 1, 1925.

My dear Garrard:

I am enclosing for your edification a confidential memorandum made by one of our men who is a trained observer, and you will notice to what extent, in a general way, it is confirmatory of what I wrote to the Secretary.

While, of course, I have done whatever I could to keep you informed, and have distinctly refrained from making any specific suggestion or recommendation, I am, nevertheless, fearful that arrangements may be made for the repayment of the French debt of a character which cannot be fulfilled. However, the event remains to be seen in later years, when it will be an academic question for both you and me.

Sincerely yours,

Honorable Garrard B. Winston,
Under Secretary of the Treasury,
Washington, D. C.

Enc.
RS.LS

Confidential
September 29, 1925.

AN IMPRESSION OF FRANCE

It has so often been said that "Paris is France" that it is a little hard to realize how untrue, in many ways, this popular saying is--that actually Paris is almost as far from the centre of gravity of the country as, for example, New York or the Atlantic seaboard cities in the case of our own country; that Paris is so far to the north that the German invasion penetrated to within less than twenty-five miles of the capital with the greatest ease, and that, aside from Paris, most of the larger cities of France, like Lyon, Marseilles, Bordeaux, Toulouse, and St. Etienne lie within the southern half of the country.

In point of fact, the northern segment of France of which Paris is distinctly the industrial centre, takes in scarcely more than about one-third of the population. Yet it is largely to this northern area that the attention of the great bulk of American tourists is confined. It was, indeed, very striking to note how few Americans were to be seen south of Paris and the chateaux country, in three or four weeks of traveling, and covering well over fifteen hundred miles. Perhaps the most decisive effect of this little journey of exploration was the overturn in the writer's mind of the popular notion that France can be considered a "rich" country. Measured at least by American standards, and even I should say by English standards, the reverse appears rather to be the fact.

For example, it is remarkable that one may travel for hundreds of miles southward from Paris, through an obviously very fertile and highly populated country, and see still in village after village and on farm after farm far more ox teams than horse teams and practically not a sign of a tractor. Still more striking, scarcely any farm machinery other than that which can be run by hand is seen. From the railway trains and from the auto cars which now run almost everywhere, the eye could overlook thousands of acres which were being harvested with scythes, the women workers being almost as numerous as men.

Consider the economic waste, in time and in human labor, that is implied in this general prevalence of ox teams and of harvesting by hand-swung scythes and it is not difficult to understand why it is that the man power required to produce a bushel of grain in France is several times that prevailing in the United States. It is true that their yield per acre is higher because the fields are more intensively cultivated, though not to the same extent as in Germany and other northern states of Europe. But the labor-time cost per bushel is far greater.

In other words, we have a parallel here to the experience of American manufacturers who have opened branch factories in France, that not only is the money wage of the workers scarcely half that of the United States and in many cases far less, but the average output per man is equally low. As stated by one careful observer, "very roughly, it takes two average workers to do the average job of one worker in America." Along the same line we find that, with more than one-third of the population of the United States, the French consumption of electricity is about one-eighth; and correspondingly their use of automobiles is on about the same scale.

And everywhere you go this same impression is borne out by the look of the farm houses and farm buildings and the city streets and houses, outside, of course, of popular watering places like Biarritz or Nice and Cannes. There is nowhere the air of wealth or prosperity. You have the feeling that, alike in the country and in the towns, the country is backward, the standard of living is low, the scale of income is meagre, and the population living for a very large part but little above the border line of bare subsistence.

A striking instance in point is the surprise that greets the eye in going through some of the chateaux country, down the Loire. This is Touraine, counted one of the richest parts of France; heavily patronized by crowds of American, English, and other tourists and therefore well supplied with pocket

money and more prosperous than the country as a whole. Yet even in this "heart of France," as it might be called, one may see a sight that is rare in almost any other leading European country. That is hundreds upon hundreds of families still housed in caves!

Everyone has read about the "cave dwellers" of France, whose mode of existence has not changed greatly from that of their forebears, the troglodytes along the ancient Nile. Many books have been written about them, but the writer, at least, was still quite unprepared to ride for miles and miles along the valleys of the Loire, the Indre, the Cher, and the Vienne, and see more than four out of five of the farm dwellings and of the smaller village dwellings as well, still in whole or in part consisting of the caves that must have been inhabited by the same sort of a population, eking out a scant and debile existence, for an almost immemorial time--possibly, as the astonishing researches of the last quarter of a century have shown, running back certainly thousands of years. In many cases additions to the ancient caves have been made in front so that the original dwellings are covered up; but even now one may see hundreds upon hundreds of habitations that are still little more than cave dwellings with a facing or veneer of modern construction. Certainly, with but very few exceptions, the stables, wagon sheds, wood sheds and the like were still these ancient caves cut out of the soft chalk that offered such an easy and highly defensible retreat to the ancient inhabitants.

Considering how unhygienic and unsanitary this sort of dwelling is--dark, damp, and gaining but little of the purifying effect of sunshine--one does not marvel at the percentage of the French population that was unfit for military duty in the War and below even their very modest requirement of stature.

And throughout this southwest third of France there was but scant evidence of new building, since the War, such as has characterized other countries like Germany, England and, to the nth degree, the United States. Outside of a

little strip along the Basque coast, from Biarritz down to the Spanish border, where tourists come in crowds to the sea, and new hotels, villas, and even chateaux are springing up everywhere, one could go for a long distance without any signs of new construction. The building prosperity of France has been largely confined to the devastated area and to the northern segment about and above Paris; the part that most tourists see.

One noted many other signs, if not of indigence at least of conditions far from sharing that wave of expansion that has characterized most of the great industrial countries and most notably, of course, our own. Before the War, France was noted for its fine roads. Today, seven years since the end of the War, many of the country roads are far from being kept in good repair and show distinct signs of neglect.

The same with the railways. Traveling on the railways is not a comfort, from the prevalence of flat wheels and uneasy springs. This is scarce any wonder because the railway fares are absurdly low. At a rough estimate, second class fares, which used to be counted about the equivalent of our ordinary fares, first class being about equal to our Pullman rates, are not one-third the present passenger fares of the United States; so it is no wonder that the railways, either those State owned or other, cannot obtain sufficient revenues to keep up their rolling stock or road beds. Down along the southern border I saw plenty of engines, in use, thirty or forty years old, several dates of the engines going back to 1881 or 1883; and the tractive power of most of the engines seemed to correspond fairly well with their age.

There has, of course, been a considerable advance in electrification of the southern railways, along the Pyrenees, and the change from the old steam to the modern electric engines is felt almost instantly that the train begins to get under way. But in spite of the abundance of cheap power obtainable from the mountain streams, the electrification of the railways has so far advanced but a little way.

In keeping with the general impression here recorded one finds that the general scale of prices throughout this region and of most of France, is still astonishingly low. Though the average of commodity prices at wholesale and even of the cost of living is now from four to five times that of the pre-war scale as measured by the indexes, one gains the impression that this cannot be true of the southerly portion of France here chiefly considered. The case of railway rates is not exceptional. Cab fares in Paris and everywhere else are so ridiculously cheap that one marvels how they can even pay for the gasoline at the high rates at which "petrol," or "essence" is sold. And at least in the most southerly sections and outside of the more popular places like Biarritz, hotel rates and the like are still very low. At two of the loveliest watering places in the Pyrenees it was possible to obtain excellent hotel accommodations with characteristically fine French cooking, at rates less than one-half similar accommodations in this country or even in England. At some of the very best hotels the rates did not run over $3.50 or $4.00 a day per person. The same accommodations would be half again as much in rural England, and twice as much in London.

In the same way, excellent champagne was to be had at the better-class hotels at from 30 to 40 francs, which in gold is not more than two-thirds what it was before the War, and excellent table wines at from 8 to 12 francs the bottle. Incidentally, the cost of these same wines in England is now nearly three times their price in France, in gold, due partly to the heavy duty but much more to the enormous rise of retail prices in Great Britain.

Excursions in auto cars, which now provide such an agreeable way of seeing something of the more mountainous country, may be had at 30 to 40 francs for an all-day excursion, often covering very considerable distances.

And as a similar instance of the generally low scale of expenditure, one could but note the average play at the popular gaming places. Where there were no Americans or foreigners about, the average plays were still in francs,

as before, but with the franc worth now less than a nickel. And yet few rooms would employ less than a dozen croupiers and changers, although it would seem as though the total income of the tables would scarcely pay the wages required. But those who gambled wore the same earnest air as though they were dealing in what the average American would probably call "real money." Probably the average play, in dollars, at Palm Beach, would be larger than the play there in francs.

All this, it seemed to the writer, has a very important bearing upon the question of the French ability to bear taxation and likewise their capacity to pay their debt to America. The average of taxation, measured in gold, may be no greater today, as these pages have endeavored to make clear, than before the War, relative prices considered. But the fact which to the present writer, at least, was not clear is that the relative income of France today must be less than before the War, and therefore their ability to pay taxes. These are matters which, of course, with the topsy turvy change of monetary values, are exceedingly difficult to establish, but it is difficult to reconcile the extremely modest scale of expenditure and the general cheapness of things, measured in gold, with any other view. Eventually I believe France will be greatly stimulated by the upheaval of the War, but, contrary to the impression gained from some of the more obvious obtainable data, one does not gain the impression of anything like so much of a post-war advance in France as in Germany.

Winston

October 8, 1925

Dear Garrard:

The Links will reserve a room for you for Monday night, and they have secured seats D-109,110 and 111 at the Empire for "The Trail of the Wolf" that night. Is there anything else that I can do?

Sincerely yours,

Honorable Garrard B. Winston,
Under Secretary of the Treasury,
Washington, D. C.

October 9, 1925.

My dear Garrard:

It will probably be necessary for me or some officer of the bank to go down the bay to meet Dr. Schacht and his family when they arrive on the Deutschland on October 19.

He is likely to be met by a small army of newspaper reporters, and I want to make sure that nothing goes wrong. Can you arrange for me to get the necessary pass to go down on the cutter? I hope the machinery can be set in motion to facilitate the handling of his luggage, the examination of passports and his passing the usual medical examination, which just now seems to be a matter of some difficulty for foreigners when they arrive late in the day.

When I came in on the Olympic, we did not dock until ten o'clock, and only American citizens were examined and permitted to land. I do hope any such occurrence can be escaped in some way by some direction to the authorities, and I will try to get in touch with you in case I learn that the boat is liable to be late in landing.

We will have another party to handle when Governor Hautain and Mr. Vandervyvere, Minister of Agriculture (Former Minister of Finance), and Mr. VanZeeland, Secretary of the Belgian Debt Mission, arrive on the 25th, but I will take that up with you later.

Very truly yours,

Honorable Garrard B. Winston,
Under Secretary of the Treasury,
Washington, D. C.

BS.LS

October 28, 1925.

My dear Garrard:

It will probably be necessary for me or some officer of the bank to go down the bay to meet Monsieur Hautain, Governor of the National Bank of Belgium, Minister Vandervyvere, and Secretary VanZeeland, when they arrive on the Majestic on November 10th. Can you arrange for the necessary cutter pass?

And I do hope machinery can be set in motion to facilitate the handling of their luggage, examination of passports, medical examinations, etc., so that it will not be a matter of difficulty for them.

You will recall that I wrote you on October 9 of the prospective arrival of this party.

Sincerely yours,

Honorable Garrard B. Winston,
Under Secretary of the Treasury,
Washington, D. C.

Winston

November 19, 1925.

Dear Mr. Winston:

This note will be handed to you by Messeurs A. Vandevyvere, Minister of Agriculture, F. Hautain, Governor of the National Bank of Belgium, and Paul Van Zeeland, Secretary of the National Bank of Belgium, who are visiting Washington for a few days this week.

I have taken the liberty of explaining to these gentlemen that you will arrange for them to meet Secretary Mellon, and I hope at that time both you and he will be able to make that the opportunity for acquainting yourselves fully with the object of their visit to this country, concerning which I have already spoken to you.

Commending them to your kind attention, I beg to remain,

Sincerely yours,

BS

MSD

Honorable Garrard B. Winston,
Under Secretary of the Treasury,
Washington, D. C.

BS.LS

Winston

November 27, 1925.

My dear Garrard:

Unfortunately I was so fatigued after my trip, first to Chicago and then to Washington, that it was absolutely impossible for me to prepare something to submit to Mr. Mellon before leaving for New York on Thursday.

Enclosed is a memorandum which covers the point which I had in mind. It is not an attempt to express in language anything more than the bare outline of a statement which can be elaborated at will.

I think it is a very important message to get before the people of this country; in fact, important enough to find a place in the President's message or in his speech before the Federation of Farm Bureaus of America in Chicago.

Of course it may seem presumptuous in me to make any suggestion of the sort, but you seemed interested, and so I am taking the liberty of passing it on.

Sincerely yours,

B.S.
msb

Honorable Garrard B. Winston,
Under Secretary of the Treasury,
Washington, D. C.

Enc.
BS.LS

The agricultural industry in the United States is confronted with three problems:

1. CREDIT.

This is being dealt with by three agencies.

(a) The Farm Loan System which is gradually developing an efficient and very extensive organization for making loans to farmers upon the security of mortgages.

(b) The Intermediate credit banks.
All of those with whom I have discussed operations of these organizations speak favorably of the results and seem to look forward to their enlarged development, so that they may ultimately become a very important part in the credit machinery of the country. That was my anticipation at the time of making the suggestion to the Joint Commission on Agricultural Inquiry during the hearings of 1921.

(c) The Federal Reserve Banks.
This System furnishes insurance to solvent banks throughout the United States that they may be able at all times to meet necessary credit requirements for short time borrowings, and their value is inestimable in stabilizing credit conditions.

The three agencies referred to, you will observe, cover long time mortgage loans, loans of intermediate periods, such as are needed for the cattle industry and for crops requiring long preparation and longer time for marketing, and the short time credits extended through the commercial banks.

2. MARKETING (domestic).

This is a problem which must, of course, be dealt with by agencies such as cooperative marketing associations, which are now gradually developing throughout the country and which should be fostered and encouraged. We have been giving attention in this district to this particular development by advising bankers as to how acceptance credits may be used to finance cooperative marketing associations, so that the paper drawn for this purpose will be eligible at Federal reserve banks.

3. PRICES.

There has been a great improvement in the relationship between the prices of the things which farmers produce and those which they consume, the last two years bringing the farmer's dollar more nearly to parity with the wage earner's dollar. But one of the most important considerations in prices is the ability of the rest of the world to purchase and consume the surplus production of our farmers. Our ability to market surplus crops abroad depends upon various factors, principally,

(a) Stable monetary conditions throughout the world, so that they will no longer be subject to the hazards of fluctuating currencies and exchanges.

(b) Willingness of the American investor to extend credit to foreign countries during the period of reconstruction. This places dollars at the command of the world with which to buy American produce.

(c) Progress in elevation of the standards of living throughout the world rather than curtailment of purchasing power of our customers. Nothing will promote this more effectively than will the development of stable monetary conditions.

4. With one-half of the world's monetary gold now in the United States and nearly three billion dollars in the possession of the Federal reserve banks, there is now, in fact, more credit potentially available in this country than can safely be used at home without danger of inflation. What we need is a sound international credit policy directly designed to stabilize currencies, to aid nations in meeting their financial problems and to lay foundations for the development of higher standards of living.

5. This is now being expressed in the willingness we have exhibited to aid those nations which deserve aid by,

(a) Cooperation with those central banks which pursue sound policies, free of governmental or political interference in bringing about sound monetary conditions and stable currencies.

(b) Maintaining an open market for investments in foreign securities of sound enterprises, especially in lands where we sell our surplus farm produce.

(c) These are in part the responsibilities of the Federal Reserve System, and good progress is being made, although gradually and carefully, in discharging the trust conferred upon the Federal Reserve System in the custody of this great mass of gold which should be devoted to constructive purposes, the greatest just now being reconstruction.

Winston

December 8, 1925.

Dear Garrard:

Referring to our conversation about that address, I am enclosing a skeleton which may or may not be in line with what you had in mind.

You will observe it contemplates little in regard to policies, but it will not be difficult to introduce that if you think it would be of interest.

The important thing, of course, is the European monetary situation and our relation to it, and the general situation as to markets for our surplus production, particularly the crops; also the need for extension of credit by this country during the period of European recovery in order that this market may not be impaired.

If you will glance over the enclosed and return it to me with your comments, I will start something right away.

Sincerely yours,

Honorable Garrard B. Winston,
Under Secretary of the Treasury,
Washington, D. C.

Enc.
BS.LS

Winston

December 10, 1925

Dear Garrard:

I telephoned to the Links, and they will take care of you on arrival Sunday afternoon.

If there is anything else I can do, please let me know.

Sincerely,

Honorable Garrard B. Winston,
Under Secretary of the Treasury,
Washington, D. C.

Winston

PERSONAL:

January 20, 1926

Dear Garrard:

I am very much obliged to you for keeping me intimately informed of developments in the question of the repeal of the 15-day provision for loans secured by Government Bonds. Needless to say I am glad of the decision.

I do hope it is possible to bring our Spring plan to fruition.

Sincerely yours,

Honorable Garrard B. Winston,
The Under Secretary of the Treasury,
Washington, D. C.

Minister

PERSONAL

March 3, 1926.

Dear Garrard:

Yours of February 12 was somewhat delayed in reaching me because of its having been addressed to "Farm Springs", - an easy mistake to have arisen when getting an address over the telephone.

The outcome of the Tax Bill, on the whole, struck me as being most satisfactory, although I would rather see the Treasury with a little more margin up its sleeve for rainy weather.

But I have been much distressed by the situation as to the Italian settlement. It may have some bearing on our trip to Italy, in which I confidently expect you to join me. I have read the copy of the letter of February 10 with the greatest interest; and permit me to say that I think it is a corker!

The Polish Minister will be over here Friday. I wish you could stay over and continue the discussions which we will have tomorrow, and hear what he has to say. There is, of course, quite a bit in the feeling as to our being wholly disinterested, and none of the others thoroughly so, although with varying degrees of selfish interest. In a way, the Germans and French, who are suspicious of Polish conditions, are actuated politically almost entirely. In the case of England, I do not think that with Norman he is considering matters wholly from the standpoint of the Bank of England. In fact, he has been almost too broad minded, if possible, in his attitude toward some countries, such as Greece, in taking risks for constructive purposes. If Norman's attitude is to be criticized at all, I should say that it is rather that he lives in an atmosphere and negotiates with people all surcharged with political influence and considerations; and furthermore, almost all of these people are more influenced by suspicion, distrust and fear, than they are by a wholly simon pure desire for constructive aid. They are still afraid of one another, and there is a good deal of selfish pulling and hauling. It is a pity that it is so, as so much could be gained by frankness and mutual respect and confidence.

You amused me by saying that you sent the Greeks back. Of course we would have been subjected to ridicule had they come over ostensibly to fund a debt, but really to get a huge loan. I have always been troubled by the character and extent of the commitment made in a former Administration.

The most interesting and amusing thing in your letter is the statement attributed to Volpi. It is one of the finest Latin statements that I have seen in many a long day. In fact it is just such fine Italian hands as displayed here which form the foundation of a good deal of the distrust and suspicion to which I refer. I was at once reminded of that most famous of all little books on politics

by Machiavelli, called The Prince, supposed to have been a description, as I recall, of the qualities and characteristics of one Caesar Borgia, whose record as a matter of Machiavellian deplomacy was probably only equalled by Talleyrand, who again was equalled, possibly, by Frederick the Great. It really is a little masterpiece, and it delighted me to read it, for it gives one a little pinch of the kind of dust that lies behind the door.

This letter is really superfluous, as I am to see you tomorrow, but I was so delighted to hear from you that I am writing to encourage you about doing it again.

My best to you, as always.

Sincerely yours,

Honorable Garrard B. Winston,
Under Secretary of the Treasury,
Washington, D. C.

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My best to you, as always.

Sincerely yours,

Honorable Garrard B. Winston,
Under Secretary of the Treasury,
Washington, D. C.

CONFIDENTIAL June 18, 1926.

Dear Mr. Winston:

Referring to my telephone conversation of yesterday afternoon, I am indeed sorry that there was any misunderstanding on our part about which of us was to tell the Board of Governor Strong's testimony before the Indian Currency Commission in London.

I had understood you to say that you preferred to make the report rather than to have me do so, on the ground that Governor Strong had employed experts, prepared data and made an appearance before the Commission, acting as Fiscal Agent of the Treasury upon the confidential request of the Secretary. I would have referred to the matter myself on the assumption you had overlooked it in your talk before the Board, except for the fact that I knew you had seen the Secretary subsequent to our discussion as to the procedure which we would follow, and feared that he might have suggested some other course. Not being released myself I, of course, said nothing.

I am sorry indeed that the omission occurred. It was the only matter that I think we failed to cover fully, and I would not want the members of the Board to think that it was intentional. In the circumstances, I hope that you will have an opportunity to explain the matter to them, as you said on the telephone you would, and to point out my understanding that it was you rather than I that was to tell them of it, as well as the reasons I did not feel free to do so.

I want to thank you for all the time and trouble you took in outlining the foreign situation to the Board with me. Your explanations and statements

supplementing Governor Strong's own reports were most effective and, I am sure, gave the Board a much clearer and more vivid picture of the situation than it would have been possible for me to have given alone.

Very truly yours,

GEORGE L. HARRISON,
Deputy Governor.

Honorable Garrard B. Winston,
Undersecretary of the Treasury,
Treasury Department,
Washington, D. C.

GLH.MM

C O P Y

June 23, 1926.

Dear Mr. Winston:

You will recall we recently discussed with you the rate of interest being paid by the Treasury on its temporary borrowings over the income tax periods, in relation to the market rate for money. As I explained to you at the time, it seemed to us desirable that arrangements be made so that the market excess of funds resulting from these quarterly operations should, as far as possible, be utilized to meet the Treasury's temporary borrowing needs. While we have, during several of the recent tax periods, succeeded in accomplishing this in a measure, it is not possible to do it directly for the reason that the rate of interest paid by the Treasury for these temporary borrowings is not sufficiently high to attract the funds from the market. For instance, on June 15 we made temporary sales to the market from the Special Investment Account of the System at 3% interest, while at the same moment we were loaning the Treasury a much larger sum at 2% interest.

It has been suggested that possibly the Treasury might be agreeable to paying a somewhat higher rate for such portion of the funds as might be provided outside of the reserve banks, but from some standpoints this does not seem to be altogether desirable. In reviewing past correspondence with the Treasury on this subject, I find the principle clearly expressed that the Treasury was willing to pay whatever the accommodation was worth, that is, what it could be obtained for in the open market and I assume, therefore, that if some satisfactory way could be found of determining what is a fair market rate, there would be no objection on the Treasury's part to paying it.

While the rate of interest which may be received by the reserve banks for this accommodation is perhaps not of itself an important factor, nevertheless I think we may agree that in principle it should be as near as possible to the market rate for the same accommodation elsewhere. We are interested in working out, if possible, a plan which will permit of the utilization, in part at least, of the surplus funds in the market on the tax periods for the purpose of taking care of the Treasury's temporary borrowing needs. There is attached a memorandum which discusses this subject more fully, which will perhaps be of interest to you.

If you find yourself in agreement with the views expressed in this memorandum, I should like to suggest that the rate on the one-day special certificates be a subject of negotiation at each tax period. I think we would find little difficulty in arriving at a fair rate as we determine what rate is necessary, in order that member banks may purchase the certificates or participations in them.

I shall appreciate it if you will go over this memorandum and then favor me with an expression of your views concerning it.

Very truly yours,

J. H. Case
Deputy Governor.

Honorable Garrard B. Winston,
Under Secretary of the Treasury,
Washington, D. C.

Encl.

MEMORANDUM REGARDING TREASURY'S TEMPORARY BORROWINGS

About two years ago the rate paid by the Treasury on its temporary borrowings at the reserve banks was put on a sliding scale basis with a view to automatically taking care of changes in the market rates for money. The present basis for determining the rate fixes it at 1% below the rate to be borne by any short-term securities issued by the Treasury on the tax payment dates; or if no short-term securities are issued, the rate is to be 1% less than the market rate of any outstanding government securities maturing within six months, in no event is the rate to be less than 2% nor more than 5%.

There is one respect in which this method of fixing the rate does not work satisfactorily. Over the tax payment periods there is temporarily injected into the money market a considerable amount of surplus funds by reason of the fact that the Treasury pays cash for the maturing issue of certificates of indebtedness, whereas it takes some days before checks received by the Treasury in payment of income taxes can be collected. This surplus of funds corresponds more or less generally to the amount of float on the income tax checks and also to the amount of the overdraft in the Treasurer's account. During the periods when the banks are borrowing heavily at the reserve bank, these funds would be used temporarily to reduce the indebtedness at the reserve bank, but more recently there have been periods when the banks have been substantially out of debt at the reserve bank, with the result that they have no use for these surplus funds except to put them into the call market, thus causing temporarily a period of abnormally easy money, which is followed by a period of tighter money as the funds are withdrawn. With a view to correcting this situation, this bank has during the recent tax periods sold from the Special Investment Account of the Federal Reserve System, (subject to a repurchase agreement), government securities to several of the largerbanks in New York City and Chicago which found themselves with surplus funds. These securities are then bought back as the government's checks are collected, so that by the time the Treasurer's overdraft is eliminated, all of the securities have been repurchased.

To illustrate, on March 15 last we sold a total of $38,000,000, all of which were repurchased by March 20. On December 15, 1925, we sold a total of $30,000,000, all of which were repurchased by December 19. These sales have been made at rates to yield the buying banks about the same as would the purchase of short-term government securities in the market, although considerably less than the prevailing call money rates.

The following is a comparison of the rates paid on these temporary sales with the call rates and also with the rates paid by the government on its temporary borrowings.

	Temporary Sales	Call Money	Treasury 1 Day Cert.
June 15, 1926	3%	3½%	2%
March 15, 1926	3½%	4¼%	2%
Dec. 15, 1925	3¼%	5%	2¾%

It will thus be seen that while we were able to make the temporary sale of government securities at substantially less than the prevailing call money rate, it was nevertheless at rates considerably above those paid us by the Treasury on its overdraft.

While these operations have accomplished their purpose in the main, there are, from the standpoint of the reserve system, two disadvantages to the method followed:

1st - There is no assurance that it will always be available; that is to say, its use depends on the reserve system holding in its own investment account a sufficient amount of government securities available for sale in this way to take up the slack in the market, and

2nd - It results in a direct loss to the Federal Reserve System of the difference between the rate paid by the Treasury on its overdraft certificate and the rate at which these temporary sales are made to the banks. On March 15 this difference was 1½%, and on June 15 it was 1%.

Much the better way to handle this situation would be, if it were possible, to sell to the banks either one-day certificates of the Treasury or participations therein, thus utilizing the excess funds throwninto the market as the result of the Treasury's operation to cover the Treasurer's overdraft at the reserve bank. The one factor which would make it impossible to take this step now is the method of determining the rate of interest now being paid on the Treasury's temporary borrowings. That is to say, it would not be possible to interest the banks in a purchase of these certificates or a participation in them at a rate 1% less than the coupon rate on any short-term certificates being issued at the time, or 1% less than the yield of the shortest outstanding government securities, for the reason that such a rate is generally about 1% below the true market rate for short-term funds.

One suggested solution is that the Treasury might pay a rate corresponding to the market rate on such portion of the overdraft certificate as might be sold to the banks, continuing to pay the lower rate on such portion as was actually carried by the reserve banks. Upon careful consideration it is believed that this would be undesirable both from the standpoint of the reserve banks and the Treasury, as it would be very difficult to justify the existence of two rates for what would appear to be substantially the same accommodation, and from every standpoint it would seem better that the matter be handled on a strictly business basis so that the reserve banks will receive neither more or less than the market rate for this accommodation.

In the correspondence with the Treasury two years ago it seems to have been the accepted view, not only of this bank but of the Treasury as well, that the rate paid by the Treasury should be the market rate for such accommodation. This view is clearly stated in the Treasury Department's letters of April 1 and April 23, 1924.

It seems doubtful whether any automatic plan can be devised by which a fair market price for the funds loaned to the Treasury can be fixed. There is, however, no serious difficulty in determining at each tax period the going rate for this type of funds. As to the general level where the rate would settle, there are a number of indications. It would probably be in the neighborhood of this bank's buying rate for 15-day bankers acceptances, or the yield on the shorter outstanding government securities. It would probably be about 1/2 per cent less than the discount rate. The precise rate can, we believe, best be determined by negotiation as we find what rate is necessary in order to sell to the member banks the one-day Treasury certificates, or participations in them

August 9, 1926

Dear Mr. Winston:

Mr. Jay suggests that I pass on to you a bit of information concerning a report of the Indian Currency Committee from Mr. Harrison Brush, vice president of the American Smelting and Refining Company. Mr. Brush has heard by cable from one of his friends in London that the proposal involves the sale in ten years of about 240 million fine ounces of silver from the Indian Government reserves. This is about the only new item of information which he had.

The problem of the effects of the Indian proposals seems to be pretty largely a problem of Indian psychology; whether the Indians will unload silver from private holdings.

Very truly yours,

WRBg

W. Randolph Burgess
Assistant Federal Reserve Agent

Honorable Garrard B. Winston,
Under Secretary of the Treasury,
Washington, D. C.

WRB:R

(Signed by A. R. after Dr. Burgess left for rest of his vacation)

Winston

Biltmore, N. C.,
February 14, 1927.

Dear Garrard:

This letter will doubtless be delayed in reaching you, just as it has been much delayed in the writing. It will be a feeble attempt to express something of the appreciation I have always felt of your wonderful work in the Treasury, and what is even more personal, my enjoyment of our delightful association during these years.

You know in the earliest part of my connection with the Federal Reserve Bank, when the Treasury Department business was negligible in importance, our relations with the officers of the Treasury, outside of the Secretary, were neither intimate nor, I regret to say, especially satisfactory. After 1917, however, we had long years of busy and happy association with Leffingwell and Gilbert, and when Gilbert left I faced the future with much apprehension as to what would be in store for us. You can imagine, therefore, the satisfaction which we all felt when the conviction grew upon us that the change was but a change of the individual and not at all in the happiness of our relationship, and in fact I feel the same way now that Ogden Mills is to succeed you.

Of course I would have much preferred if you could have remained and we could have had another such trip abroad as we had last year. Possibly we can do the latter anyway, but please, my dear Garrard, accept this as a very inadequate expression of my feeling about the last few years, which I hope you share. I also want to send you the best of good wishes for the future. I hope your career in New York will be as successful as it was in Washington, and I delight in the thought that we shall see something of each other.

Sincerely, your friend,

Hon. Garrard B. Winston,
c/o Messrs. Shearman & Sterling,
53 Wall Street,
New York.

Winston

Copy + further correspondence on file C 261 Cuban Agency

Hotel Brighton,
Atlantic City, N. J.,
April 16, 1927.

Dear Garrard:

It was a joy to have your letter of April 15. I like the idea that your leaving the Treasury does not mean that the old ties are to be broken. Furthermore, you happen to write about a matter which I have been working on lately, and the same mail brings a report of your talk with Mr. Case and a copy of Charlie's letter on conditions in Cuba. Watching the accounts in the newspapers and my correspondence with the bank on this subject have given me a feeling of uneasiness which might indeed be apprehension if I did not feel that recent experience in Cuba has made us all conscious of the possible dangers there.

Please understand that this letter is personal, and I don't want it to get out of your hands, but I would much appreciate your talking it over with Charlie whose interests there are so considerable.

Let me first recount what I believe to be the objections to maintaining a branch of the Reserve banks in Cuba, just to refresh your memory.

First, it is probably not warranted by law to maintain such an office in a foreign country.

Second, it involves the assumption of an expense by the Reserve banks which is no less than a gift to the Cuban nation.

Third, it subjects the assets of the Reserve banks maintained in Cuba, and especially the reserve of unissued notes, to the operation of a foreign legislature and of courts of a foreign country.

Fourth, it subjects these assets to such hazard, as it may be, of a rather unstable country where bank runs are frequent and where disorders, even, in fact, revolution, may at times arise.

Fifth, it has the effect of making the Reserve System in a measure responsible not only for the protection of its own members in Cuba but for the protection of foreign banks doing business in Cuba as well. It would hardly be possible to afford adequate protection to our banks in Cuba and withhold it from foreign banks. It seems to me that this is unfair to the American banks.

Sixth, in the event of disorder in Cuba it might necessitate a type of intervention by the American government for our protection which would otherwise not be necessary.

Seventh, inasmuch as every Reserve bank is liable for the redemption of the notes of every other Reserve bank, it imposes a liability upon us in New York just as great as it does upon the Federal Reserve Bank of Atlanta, despite the fact that we might protest all we pleased against the maintenance of this office.

There are other objections of less importance which I won't recount.

Now, as to the solution of the difficulty, which is what I have been stewing over lately, I can clearly see that in the present situation it would bring on the very calamity which we seek to avoid by closing the office. We certainly cannot afford to desert our own members in Cuba with conditions there as they are at present, and I would be the last to suggest it. This means that some substitute for the present arrangement which would be effective in practice and satisfactory in every way to our banks should be found, and the Cuban Government induced to accept it. I had formerly advocated a bank of issue which could be associated with the Federal Reserve Bank of New York in some way and, in fact, am not willing to finally dismiss that as impracticable, but when I say a bank of issue I do not mean such an independent establishment as other modern banking

countries have, but something which would be copper fastened and adequately protected against misuse, exploitation, etc. Such a bank must be either completely independent of the Cuban Government and have a certain amount of exterior supervision such as we could give it or, on the other hand, it should be no more than a shell of a bank with certain very limited functions to be operated by the Government which are not really capable of abuse. Between one and the other extreme there are a variety of schemes possible according to the degree of confidence which one is willing to extend to the Government. I can see some very serious dangers in the plan you suggest and some very distinct advantages. The fact is, according to my notion, Cuba needs an automatic system of currency issue, the currency to be secured by gold, and the elastic element in the currency to be furnished, not by a Cuban bank, but by the American banking machinery. And I believe that some plan of that character can be devised. It will require a good deal of study and some knowledge of local practices in Cuba, with which I am not acquainted.

My present plan is to return to New York the latter part of next week. If you and Charlie and I could sit down some day for the purpose of jotting down the main headings of a plan, and if at that time I could get more exact information as to just what are the fluctuating requirements in Cuba from the standpoint of our banks which have branches there, I think we could start the preparation of something very promptly, and I have some reason to believe that we can get support both from the Treasury and in the Department of State.

From the above you will see that I differ very little from what you suggest except as to the need for a system which permits of no discretionary expansion of the currency in Cuba by any kind of a Cuban agency or organization, government or otherwise.

I hope things are going well with you, and look forward to an early visit with you.

My best regards to you and Charlie.

Sincerely yours,

Hon. Garrard Winston,
55 Wall Street, New York City.

Winston

May 16, 1927.

Dear Garrard:

I have written Charlie Mitchell asking him to dine with me one night this week when you and he are both free. Will you please ask your secretary to advise Miss Bleecker what night you select.

Sincerely yours,

Mr. Garrard B. Winston,
C/o National City Company,
New York City.

Winston

October 18, 1927.

Dear Garrard:

Could you do me a favor? I want to learn all that I can about Leighton W. Rogers from the officers of the National City Bank who had to do with him when he was in Petrograd. Of course, I want to know about his integrity, tact, ability and dependability, whether he is the sort who got along with people abroad or who failed to do so, and in what particular directions his abilities lie.

If you can get this for me I would very greatly appreciate it, and I am also looking forward to seeing you and possibly Charlie if he is not too busy some day soon so that I can hear something about you and your interesting trip abroad and what you found there.

With best regards to you both,

Sincerely yours,

Hon. Garrard B. Winston,
55 Wall Street, New York City.