a) D. S. Crissinger
Comptroller of the
Currency, 1921-1923

READ AND NOTED,
B. S.

COMPTROLLER OF THE CURRENCY
WASHINGTON

December 2, 1921.

My dear Governor Strong:

I have your letter in which you express great interest in Mr. Fukai, of Japan, together with a copy of a letter introducing him.

It will be a great pleasure to me to show Mr. Fukai every courtesy possible. I appreciate the opportunity of seeing him.

With kind regards,

Sincerely yours,

D R Crissinger

Mr. Benj Strong,
Governor, Federal Reserve Bank,
New York, N.Y.

November 30, 1921.

Dear Mr. Crissinger:

With this I am enclosing a copy of a letter of introduction which I have just sent to my friend, Mr. Eigo Fukai, which will explain itself.

Mr. Fukai was one of the financial advisers to the Japanese Delegation to the Peace Conference in Paris. At one time he represented the Bank of Japan in London, and when a young man was private secretary to Marquis Matzukata.

Mr. Fukai speaks English fluently and is one of the best informed men that I met in Japan.

I shall greatly appreciate any courtesies that you are able to show him, and expecially any assistance which you are able to render him during his stay in Washington.

Thanking you in anticipation, and with cordial regards, believe me,

Yours very truly,

Honorable D. R. Crissinger,
Comptroller of the Currency,
Treasury Department,
Washington, D. C.

BS:MM
Enc.

November 30, 1921.

Dear Mr. Comptroller:

This note will be presented to you by my friend, Mr. Eigo Fukai, Deputy Governor of the Bank of Japan.

Mr. Fukai is spending some time in Washington during the Conference on Limitation of Armament, acting in the capacity of financial adviser to the delegates.

During my recent visit in Japan, I had the privilege of becoming well acquainted with the officers of the Bank of Japan, and feel that Mr. Fukai has become a warm personal friend and associate. Our relations with his institution are of the closest.

He will esteem it a privilege of having the opportunity of seeing you while in Washington, and I shall greatly appreciate any courtesies which you are able to show him.

Thanking you in anticipation, and with the assurance of my regard, believe me,

Yours faithfully,

Honorable D. R. Crissinger,
Comptroller of the Currency,
Treasury Department,
Washington, D. C.

BS:MM

FEDERAL RESERVE BOARD

WASHINGTON

OFFICE OF GOVERNOR

July 31, 1924.

Dear Governor Strong:

Receipt is acknowledged of your letter of July 18th, outlining a new arrangement for the performance and payment of notarial work required in connection with the operations of your bank. The Federal Reserve Board has no objection to the plan, which appears to be entirely consistent with the principles of law and of public policy, relative to the payment of notary fees since there is no agreement or understanding whereby the notary assigns his official fees or receives less for his notarial work than the law contemplates.

Very truly yours,

D R Crissinger

D. R. Crissinger,
Governor.

Mr. Benj. Strong, Governor,
Federal Reserve Bank,
New York, N. Y.

RECEIVED AT N. Y.
JUN 27 1927
FOR ATTENTION TO
Sailer
FOR INFORMATION OF
MR. STRONG ✓
" CASE ✓
" SAILER
" HARRISON ✓
" McGarrah ✓
" BURGESS ✓
" MASON ✓
" Downs ✓
" GIDNEY ✓
" SCHNECKENBURGER ✓
" Crane ✓
" Hodson ✓
Miss Burnett ✓

Files

Cop on 835
" 1111
May 1/2

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

Acknowledged by number.

X-4887

June 24, 1927.

SUBJECT: Expense of services rendered for Government Agencies.

Dear Sir:

At the recent Governors' Conference consideration was given to the question of whether or not Federal reserve banks should be reimbursed by Federal land banks for expenses involved in paying Federal farm loan coupons. "It was reported to the Board to be the sense of the Conference" that in principle the Federal reserve banks should be reimbursed for services performed for Government agencies other than the Treasury, when the expense involved is sufficient to justify the banks asking for reimbursement."

I am requested to advise you that the view of the Board with respect to the Federal reserve banks seeking reimbursement for such expense incurred by them is not in harmony with the view of the Conference, as expressed above.

Very truly yours,

D R Crissinger

D. R. Crissinger,
Governor.

Mr. Benj. Strong, Governor,
Federal Reserve Bank,
New York, N. Y.

MISC. 3B.2— 4/67

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE

To

SUBJECT:

FROM

b) Dewey, Charles S. –
Assistant Secretary
(Nov 1927 – Nov 1928
Financial Advisor to
Polish Government and
a Director of Bank Polski

[From Harrison Collection]

(COPY)

Assistant Secretary of the Treasury

Washington

August 20, 1927.

My dear Governor:

I have been giving serious thought to our rather brief conversation of Friday relative to the Polish situation, and while I appreciate the importance of selecting an "adviser" who has had some experience in the past in dealing with the Central European countries, yet if his relationship has not been constant, with the rapidly changing complexion of affairs, it seems to me that his past experience might be outweighed by other qualifications. Some of these, which I will mention to you, I believe I possess.

The position of fiscal Assistant Secretary of the Treasury, as now constituted, is a rather difficult one to fill for the reason that this official must carry out the duties definitely assigned to him and at the same time be as current as possible with all that the Undersecretary is doing. This last requirement is not at all easy, for the reason that it would be quite impossible for the Under-secretary to advise the Assistant of every step he takes, yet the Assistant must be ready at all times to assume the duties of the Undersecretary during his absence or inability to act. I mention this particularly for the reason that the experience gained is a great one in performing my own duties and covering in a general way the duties of the Undersecretary.

As I see it the duties of the adviser can best be performed by one who will have a willingness to base his judgment not only upon the reports as issued by the Minister of Finance and the Governor of the bank, but will have the determination and energy to get out and study the various situations at first hand. The adequate use of the revolving fund in assisting State enterprises is no ordinary responsibility, and particularly in this phase of the work a first hand knowledge of the requirements should be had. Advice on any situation can be obtained from the adviser's advisory committee, from the bankers, and the central banking institutions extending credit, but their advice can only be sound if a true picture of conditions is given to them. To obtain such first hand information, the adviser himself must be a person of energy and of physical strength.

As far as the knowledge of languages is concerned, my entire family speak French fluently, and I have spoken it in a desultory sort of way for over fifteen years. Lack of opportunity to speak a foreign language reduces one's vocabulary. I believe that in a month's time with a little work I would be able to carry on any usual conversations and understand thoroughly, particularly as I would make a practice of speaking French with my own family.

A sto ability, one is scarcely a good judge of himself, but without wishing to appear egotistical, I think that my record of achievements in those things which I have had to deal with should be a satisfactory answer. My close knowledge of the Farm Loan System and agricultural credits should be a benefit, as well as the experience gained through my fiscal and financial duties.

I am deeply interested in this situation and while I very sincerely appreciate that you, as Governor of the Federal Reserve Bank, would not wish to back the candidacy of any particular person, yet I hope that placing special confidence in my energy, ability, and willingness to cooperate in carrying out the spirit of the plan, you will look with favor upon my appointment should my name be considered.

Very cordially yours,

(Signed) Charles S. Dewey

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

[From Harrison Collection]

PERSONAL

August 24, 1927.

My dear Dewey:

Thank you for your letter of August 20. I think I should explain that while I am sure my Polish friends and possibly the bankers as well will be interested in our views here in regard to the adviser, such views as we hold will not be final or conclusive and, in fact, our own interests will be rather slight as compared with those who are really furnishing Poland with the great bulk of the money.

I am sure you understand, therefore, that I can send you nothing in the way of a commitment as to my personal views when the time comes to express them and if I am asked for them, but youcan certainly count upon my discussing your wishes with them fairly and, if you desire me to do so, giving you the opportunity to take it up directly and personally.

The thing that has troubled me about your wish in the matter has been the feeling I have all along had and have already expressed to some of our friends on the other side - that it would be absolutely essential to have someone with a rather extensive knowledge of the general European position and of the personalities involved which, of course, can only be gained by experience on the ground.

I shall probably be in Washington before long and we can have another chat.

Faithfully yours,

Honorable Charles S. Dewey,
C/o United States Treasury,
Washington, D. C.

BS/RAH

[From Harrison Collection]

Hotel George V,
Paris, May 29, 1928.

PERSONAL

My dear Dewey:

Your message through Quesnay reached me on the "Majestic", but unfortunately I was obliged to send you a reply which I fear was unsatisfactory. The fact is that I am just recovering from a long and very painful illness, and as some visitors had arranged to come over from London to meet me at Cherbourg, I was just unequal to anything more.

Day after tomorrow I am leaving for Grasse, where - confidentially - my address will be care of the Grand Hotel until the latter part of June. Harrison arrives here on the 2nd of June and expects to visit you in Warsaw at the time arranged. It is a disappointment to me not to be able to make a visit myself, but it is solely a matter of health, which would not permit of my doing so much traveling. I know you understand all this and what limitations there are upon my activities.

You would have been greatly pleased indeed, had you heard the most complimentary expressions in regard to your work in Warsaw which I heard from some Polish friends in Paris last week, and you will not object to my also saying that this arises not solely from your own attitude, but that Mrs. Dewey has had a fine contribution to your acceptance by the Polish people. Please give her my warmest regards, and express my good wishes and congratulations to M. Karpinski and M. Mlynarski.

With warmest good wishes to yourself, I am

Very sincerely yours,

Hon. Charles S. Dewey,
c/o Bank Polski,
Warsaw.
BS:M

© Philip Ettling

Treasury Dept

Customs Service

N Y

1925

TREASURY DEPARTMENT

UNITED STATES CUSTOMS SERVICE

NEW YORK, N.Y.

OFFICE OF THE COLLECTOR
DISTRICT NO. 10

ADDRESS ALL COMMUNICATIONS FOR THIS OFFICE
TO THE COLLECTOR OF CUSTOMS
NEW YORK, N.Y.

IN REPLY REFER TO

October 13, 1925.

Hon. Benjamin Strong,
Governor, Federal Reserve Bank,
New York City.

My dear Governor Strong:

At the request of Hon. Garrard B. Winston, Undersecretary of the Treasury, I enclose pass permitting you to board at Quarantine S/S DEUTSCHLAND, due about October 19.

Instructions have also been issued to the staff officers, in compliance with Mr. Winston's request, to expedite the examination of the baggage of Doctor Schacht, head of the German National Bank, at the time of his arrival on this vessel, accompanied by his wife, daughter, and secretary.

Very truly yours,

Philip Elting

Collector.

(Enclosure)

RECEIVED
GOVERNOR'S OFFICE
OCT 14 1925 11 12 AM

FILES DIVISION
DEC 17 1925
FEDERAL RESERVE BANK
OF NEW YORK

d) R J Grant
Treasury Dept
Director of the Mint
1925

(COPY)

TREASURY DEPARTMENT

WASHINGTON

March 26, 1925.

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

Dear Governor Strong:

Referring to the Hamilton medals ordered for you by your Mr. Chapman from the Philadelphia Mint, the following is submitted:

The manufacture of medals of Secretaries of the Treasury and their sale at the Mint is not covered by any regulation or obligation. The issue of these medals has been rather capricous, depending at times upon the personal wishes of the Secretaries concerned. The recent observance of the one hundredth anniversary of the death of Hamilton prompted the idea that it might be appropriate to have a medal of the first Secretary of the Treasury issued. No particular importance was attached to the incident. Mr. Morgan, the late Engraver of the Mint, was requested to prepare the design for this medal.

Respectfully,

(signed) R. J. Grant,
Director of the Mint.

2) Ogden Mills
Asst. Secretary of the Treasury
1926? – 1932

1928

(J)

CONFIDENTIAL MEMORANDUM

TO: Mr. Mills June 19, 1928.

SUBJECT: Refunding of Third Liberty Loan 4¼% Bonds due 9/15/28.

FROM: J. H. Case

Making allowance for the $75,000,000 or thereabouts of Third Liberty Loan 4¼% bonds which the Treasury will have retired tomorrow, and for the possibility of its acquiring an additional $50,000,000 or so by June 30, 1928, there will, I estimate, remain approximately $1,200,000,000 of these bonds whose retirement will have to be provided for between July 1 and September 15, 1928. Obviously this is too large an amount of securities to have maturing at one time; and, therefore, it seems desirable for the Treasury to undertake to retire not less than $300,000,000 to $500,000,000 of this aggregate amount well in advance of September 15. From the information which I have gathered from my talks with dealers in Government securities, it would seem that no one at present is able to locate any additional large blocks of Third 4¼% bonds; and it is apparent, therefore, that the bonds are very widely distributed among, and are securely held by, a large number of owners.

In this connection I have been giving careful thought to your proposal to make an exchange offering some time in July. As a result of my study of the situation, I am convinced that this offer must be a fairly liberal one, if the Treasury is to refund or retire before maturity any further substantial amounts of these bonds. In looking over the list of various maturities of the longer-term Government bonds, it occurs to me that a 12-15 year bond, with a 3 3/8% coupon, might be offered, at par (as of July 15, 1928), to holders of Thirds, the Treasury in addition agreeing to pay in full at that time (July 15, 1928) the coupon on Thirds maturing September 15 next. In other words, the Treasury would give to holders of Thirds who effected the exchange a new 3 3/8% bond at par plus sixty days' extra interest. Even with this offer, which might reasonably be considered fairly liberal, I am inclined to the belief that the Treasury would not be able to refund more than, say, $250,000,000 to $300,000,000; so that the Treasury might further offer to sell an additional amount of the proposed new bonds, say - $250,000,000 or thereabouts - at par, for cash or book credit, payment therefor to be made to the Treasury perhaps on August 1, 1928, rather than on July 15. On August 1 the Treasury might then formally agree (until further notice) to retire Thirds at par for cash, at the option of the holder, any time between August 1 and September 15, 1928: in other words, the Treasury would have outstanding after August 1 an open redemption offer, and if this offer were given considerable publicity by the twelve Federal reserve banks and through the press it might enable the Treasury to retire substantial amounts of the Thirds for cash before September 15. Should this estimate prove to be wrong, the cash sales of new bonds would at least put the Treasury in a strong position for retirement of the Thirds on September 15.

In fixing the coupon rate on a long term bond, it should of course be borne in mind that at the present time such Treasury bonds enjoy a "scarcity value" which value to some extent will be affected by the proposed new issue in July. Therefore, following the suggested July operation, if it really is the intention of the Treasury to refund the balance of the Thirds, which are due and outstanding on September 15, by means of short-term issues exclusively, I think it would be very helpful for the Treasury in July to indicate such intent, so as to avoid giving the impression that a further emission of long-term securities may also be brought out in September, 1928.

(f) H. C. Stuart.

Special Deputy Collector

NY

U. S Customs Service

Treasury Dept

1921-1922

Trip 1920

March 15, 1921.

Dear Sir:

Would you oblige me by issuing a pass for two to permit Mr. Benj. Strong and his daughter Miss Katherine Strong to pass within the custom lines in order that they may meet Mr. Strong's two sons, who are returning on the Steamship Aquitania, arriving on Saturday, March 19.

Appreciating your courtesy in the matter, I am

Yours very truly,

Secretary to Mr. Strong.

H. C. Stewart, Esq.,
Special Deputy Collector,
Custom House,
New York City.

M. Norman

April 28, 1922.

Dear Mr. Stuart:

I thank you for the Coast Guard Cutter pass, enclosed in your favor of April 27, permitting Mr. Pierre Jay to board the Steamship Homeric at Quarantine, for the purpose of meeting Mr. Montague C. Norman, Governor of the Bank of England.

Mr. Norman desires that no mention of his arrival be publicly known.

Appreciating your courtesy in the matter, I am,

Yours very truly,

H. C. Stuart, Esq.,
Special Deputy Collector,
United States Customs Service,
New York, N. Y.

GB:MM

Eliot Wadsworth

Asst Secy of the Treasury

1921

October 31, 1921.

Dear Waddy:

With this I am enclosing a copy of a letter of introduction which I have just sent to my friend, Mr. Eigo Fukai, which will explain itself. His quarters while in Washington will be with the Japanese Delegation to the Conference on Limitation of Armament.

Mr. Fukai was one of the financial advisers to the Japanese Delegation to the Peace Conference in Paris. At one time he represented the Bank of Japan in London, and when a young man was private secretary to Marquis Matzukata.

Mr. Fukai speaks English fluently and is one of the best informed men that I met in Japan.

I shall greatly appreciate any courtesies that you are able to show him, and especially any assistance which you are able to render him during his stay in Washington.

Thanking you in anticipation, and with cordial regards, believe me,

Yours very truly,

Honorable Eliot Wadsworth,
Assistant Secretary of the Treasury,
Treasury Department,
Washington, D. C.

BS:MM

Enc.

October 31, 1921.

Dear Mr. Secretary:

This letter will be presented to you by my friend, Mr. Eigo Fukai, Deputy Governor of the Bank of Japan, who is visiting this country as financial adviser to the Japanese Delegation attending the Conference on Limitation of Armament.

Mr. Fukai is a warm personal friend with whom I have had many most enjoyable visits while in Japan, and from whom I received many courtesies while there. I am anxious that he should become acquainted with you and with the members of the Treasury Department.

Anything that you are able to do to make his visit in Washington an enjoyable and profitable one will be greatly appreciated by

Yours faithfully,

Honorable Eliot Wadsworth,
Assistant Secretary of the Treasury,
Treasury Department,
Washington, D. C.

BS:MM

ASSISTANT SECRETARY OF THE TREASURY
WASHINGTON

November 4, 1921.

Dear Ben:

I am glad to get your letter of the 31st with copy of letter of introduction to Mr. Fukai. I will certainly do whatever is possible to extend the courtesies to him while in Washington. No doubt, you have enlisted one Basil Miles in this effort also.

We were talking about you yesterday and wondering how you had survived the return journey to New York and how you had recuperated from last week's tour of duty in Washington. Apparently, you are on the job again and I hope you are O. K. Do you expect to be down here during the party? Why now come down and we will give Mr. Fukai a dinner at the house. My sister will be here after the middle of next week for a week. I am planning to have a dinner or two while she is here and if you will come along, it will greatly add to the occasion.

Always yours,

EW

Honorable Benjamin Strong,

Federal Reserve Bank,

New York, N. Y.

Lansburgh - economist for "Die Bank"

Wadsworth of Treas. Dept. sent this to Strong - Aug. 16, 1922

November 7, 1921.

Dear Waddy:

Thanks for your note of the 4th. I shall be in Washington sometime I suppose in the next two weeks or so, and will then want to give a dinner for Mr. Fukai and possibly some of his associates on the Japanese Delegation. I hope you boys can all arrange to be there.

Yours sincerely,

Honorable Eliot Wadsworth,
Assistant Secretary of the Treasury,
Treasury Department,
Washington, D. C.

BS:MM

Sent to Strong Aug 16, 1922 Central B
B.S.

THE CONFERENCE OF THE CENTRAL BANKS

The consideration of the great problem of a speedy cure of the disordered finances and currencies of Central Europe has, at the Conference of Genoa, been entrusted to a particular Finance Commission. This Commission has appointed three sub-commissions, one for credit and two others for currency and international means of payment. The last two sub-commissions have on their side again formed a committee of experts, and in the heart of this committee an opinion has finally matured. The purport of the opinion is, that the Conference is to be broken up and to be continued by a new conference, at which the representatives of the central banks of issue, under the presidency of the Bank of England, should assemble. This opinion has been delegated by the sub-commission to the Finance Commission, which on its side has made it a resolution and at the same time has drawn up a report, which, however, is nothing else than a reproduction corresponding in meaning, and often even literal, of Articles 29 to 40 of the so-called "London Memorandum," which has been given to the Conference as the foundation of its deliberations after Genoa.

No positive work has been done at Genoa, as far as the world-dominating problem of currency is concerned. The work is rather to be done by the Conference of Central Banks which is shortly to be called, taking as a basis the propositions which the experts of the Entente have laid down at the end of March in the "London Memorandum." The Genoa "make-believe" Conference must, therefore, be set aside and one must confine one's self to the study of the aforesaid Articles 29 to 40, if one wishes to become acquainted with the programme of the Conference of the Central Banks. As the kernel of the problem, the currency problem, only Articles 29 to 36 come into consideration.

Of these eight articles five, namely Articles 29, 31, 32, 33 and 35, represent a useful foundation for the deliberations of the central banks. The prerequisites of a cure for the disordered currencies are here enumerated, and in a concise dogmatic style which gives the articles the character of firm theses. In this way profitless debates on important principles are checked in the beginning. And this is well, since, indeed, at the Genoa Conference votes will probably be cast by those bank presidents who with their peculiar conception of the demands of a national currency system have been the cause of the currency distress of their countries. These "expert" leaders of the central banks will, by the thesis form of the "London Memorandum," be hindered from importuning the Conference with their individual conception of money, will, rather, be compelled to submit themselves to greater knowledge.

The aforementioned five Articles confine the Conference to the following propositions:

Article 29: The preliminary condition for the economic restoration of Europe is, that every country shall stabilize its currency. This presupposes that a possible deficit in the State Budget shall be covered by the exertion of the country itself and not by the issue of paper money or by claims upon bank credit (which by indirect means would lead to the issue of paper money; A. L.).

Article 31-32: All European currencies shall have one and the same standard, namely, gold.

Article 34: In all countries currency reform has to begin with the balancing of the State Budget, under consideration of what has been said in Article 29.

Article 35: The second step is the stabilization of the gold value of the unit of currency. At the given moment each country has to decide, as a principle, whether it will return to the old gold parity or will create a new parity which corresponds approximately to the rate of exchange at that time.

These propositions are excellent and form a useful platform for the Conference of the Central Banks, which they spare at the same time fruitless debates on certain principles which have made all previous deliberations of this sort, particularly the currency conferences, an arena for scientific speculation. The conflict over bimetallism, the silver standard, an international central bank, and so on, is in this way kept at a distance from the Conference. If the five aforementioned paragraphs were to constitute the total content of the section dealing with currency in the "London Memorandum," the central banks would in reality have to concern themselves with only two practical questions: First, how those countries are to be helped which are not in condition to bring their budget into balance from one day to another, which is considered a prerequisite for currency reform; (I myself consider, on the contrary, currency reform as the prerequisite of a balancing of the budget, yet this prerequisite can, in an emergency, also be met by emergency credits from foreign countries). In the second place, in what countries the prerequisites for a return to the old gold parity--restitution--have been met, and in what countries, instead of this, a new parity must be created, consequently steps must be taken towards "legal devaluation." The entire working programme of the Conference of Central Banks could limit itself to these two principles--if a couple of other paragraphs were not contained in the "London Memorandum," which complicate the problem to an extraordinary degree and destroy almost everything which the other five paragraphs have done. These are Articles 30, 33 and 36.

Of these three articles one, Article 30, is comparatively harmless. It states, that a lasting cooperation of central banks is desirable, "which need not be limited to Europe," and which would make possible a similarly directed credit policy. Freed from its context and considered by itself this paragraph is perhaps acceptable, although it weakens the important principle, that the currency reform of each country must come from within and although it may easily allow illusions to arise. But the two paragraphs, 33 and 36, put the article in another light and take from it the harmlessness which it would have if it stood in isolation. In particular the "similarly directed credit policy" which it is to make possible for the central banks, receives a new and more comprehensive significance, as soon as one realizes the process of thought of Article 36.

This article states that a cooperation of the central banks is desirable for the reason that the competition of the separate countries for the gold of the world might lead to great fluctuations in the purchasing power of gold; an "international Convention" of the central banks would be able to weaken this competition for the gold of the world, in that not gold but a gold balance would be ceded to the respective countries (that is, they would be compelled to introduce the so-called "gold exchange standard" instead of the gold standard). It proceeds from this Article 36 that this similarly directed credit policy of Article 30 means far more than a union of identical principles of credit. The central banks are, rather, under common security to store up gold credits against one another to a fixed amount. In London concrete figures have already been fixed upon, indeed a definite percentage of the total circulation of money, calculated in gold, of the countries which are short of gold. This percentage the strongest central banks--the American Federal Reserve Banks first of all--would have to lend to the weaker ones.

The sense of Article 36 (completed by Article 30) is as follows: The gold demand of the countries which will shortly bring their currency into order, brings with it the danger, that in view of the scanty supply of gold in the world the price of gold will rise considerably and that all commodity prices, measured in gold, will sink accordingly, which would mean the same thing as an acute world crisis. This danger is to be met in this way, that from countries occupied with the reform of their currency the necessity of attracting excessive amounts of gold to themselves is to be removed, and this is best to be done by placing at the disposition of these countries gold credits with the central banks which are the strongest, from time to time, by whose help they may be able to settle possible passive balances of their payment balance, without requiring actual gold.

If one wanted to provide Article 36 with a superscription, it would have to read: "Fear of a gold shortage." The fundamentally very simple programme of the Conference of Central Banks is complicated to an extraordinary degree by the fear here expressed, and by the palliative given at the same time. We will, therefore, investigate in how far Article 36 has a right to existence, and whether it is correct to burden the Conference of Central Banks with it.

First, however, we must concern ourselves with Article 36, which signifies a still greater danger for the Conference. It begins with the assertion, expressed in the most positive form, that it will not be possible for a number of countries to return to the gold standard in the course of the next few years. These countries, so the article continues, should at least make the assertion, based on principle, that their endeavor is directed towards the introduction of the gold standard, and they should, further, declare formally how they intend to reach this goal. The superscription over this Article 33 would have to read "Resignation." We wish, first of all, to enter into detail upon this article.

. . . .

The view that a number of countries, among which Germany is apparently included, during the next few years will not yet be in condition to return to the gold standard, rests upon two considerations. In the first place, the State Budget of these countries shows so great a deficit that it cannot be hoped to bring it completely into balance before the lapse of several years. The raising of the revenues to the height of the expenditures always demands a certain time, it is argued, and during this time a requisition of the printing press by way of a makeshift cannot be avoided. As long, however, as this is the case, it is argued further, a transition to the gold standard cannot be thought of. For every increase of the note circulation means a further depreciation of the money of the country and its sinking below the newly created gold parity, forces, therefore, unresistingly abroad the part of the currency of the country which consists of gold, even if it remains with the central bank and serves only to regulate the exchanges for foreign bills.

The second consideration proceeds from the balance of payment. In the countries under consideration, especially in Germany, burdened with reparations payments, this is strongly passive. Even here there is need of a certain time to reestablish the balance. During this transition time, however, gold flows out of the country exactly as in the preceding case, because the passive payment balance brings the external value of the money of the country down below the new parity and compels the central bank, either to give up its gold or to sacrifice parity. Either, however, signifies the end of the gold standard which has barely been reestablished.

This--alas, sò popular--process of thought can be followed ònly with a certain dejection. For it shows how thoroughly corrupted are the views of today in regard to the demands of a healthy finance policy, and how pitifully little has been learned from the terrible punishment which maltreated political economy inflicts upon the nations that disregard its laws. One would think that eight years of inflation, in particular however, the last three years, must have brought even the least intelligent individual to the consciousness, that something does not agree in the equation "Budget deficit = printing press." One would think that the nations must have been obliged to feel, by their own pockets, that to print notes means nothing else than to subject to a forced taxation all those who possess an income in money of the country or own property in securities payable in the country's currency, or to expropriate them gradually, and indeed more thoroughly than the most radical Communistic rule can do it. One would think that the fearful object lesson in Central Europe--not to speak of Russia--would have opened the eyes of the expert economists, at least, and made them recognize that circulatory media which the State creates by means of the printing press are not <u>new</u> money, as it supposes, but <u>stolen</u> money, that is, money of which it cheats the citizens, by depriving of a part of their purchasing power the money tokens and claims which the citizens hold, in order to appropriate this part to itself. But Article 33 of the "London Memorandum" shows that all this is not the case. While it takes it quite as a matter of course, that the deficit in the State Budget of certain countries might be or indeed would have to be, covered by laying claim upon the printing press, it shows distinctly that the sense and essence of note printing have not yet unfolded themselves to the highly expert gentlemen who have drawn it up--they stand in very near relations to the Bank of England. Unless Machiavellian processes of thought should be at the basis of the article, which, however, can probably not be assumed.

The fundamental principle that a state may cover the deficit in its budget by the help of the printing press is in no way distinguished from the principle, that the individual citizen may, by counterfeit or theft, procure for himself the money which he lacks. That this principle has still an official acceptation, although one can scarcely shut one's eyes to its fateful consequences, is a fact which we bequeath to future races as a documentary proof of the moral insanity in the economic thought and action of our time. And if the Conference of Central Banks, in the near future, should have only one result, that a break is finally made with this thoroughly corrupt view, it will deserve credit which cannot be rated highly enough; at the same time, expressly new lines of direction for the policy of the central banks would be contained in it.

In reality exactly the same rules are of value for the State in the conduct of its affairs as for the individual who is managing his. It has to raise its revenues to the height of its expenditures, or, if it cannot do this, to bring down its expenditures to the level of its revenues. A deficit which has its origin in abnormal circumstances and will again disappear with these circumstances the State may cover by means of taking credit, that is, by taking up long term loans, in case of need, forced loans. If all these ways are impracticable, which is always to be traced back to weakness or imprudence, never to an actual impossibility, there remains as the last, unpleasant, but unavoidable way out, the declaration of the inability to pay, State bankruptcy. Here the State touches the border where the unmoral begins. But it remains still on this side of the boundary, for it acts only weakly or imprudently, not dishonorably. It oversteps the boundary for the first time at the moment when, in order to disguise open bankruptcy, it seizes upon the printing press and fulfils its obligations to creditors, officials, holders of dividend-bearing stocks, and so on, payable in good money, in bad money; that is, when it commits bankruptcy, without formally announcing it, and, at the same time, cheats numberless outsiders, who stand in a relation to the State in no wise involving legitimate claims, cheats them of part of their private income and property, or, rather, lets them be cheated by third parties. Compared with this treacherous wholesale expropriation by means of the printing press, an expropriation which presents itself in the mask of the honest man, open deeds of violence as, for example, the famous confiscation by Charles I of England of the private deposits in the Tower, have something positively appealing about them.

The pretext that the necessity of the time is stronger than all moral philosophy and economic theory, is a smooth phrase. Not on this account, because the necessity of the time exculpates the State, which is counterfeiting money, exactly as little as the rascal who is forging a check. But because there is at this time no state in Europe, not excluding Russia, which would not be able to cover the deficit of its ordinary budget--which indeed has been considerably unburdened by the fraud practiced upon State creditors and officials--by means of internal loans, and voluntary ones. For the printing press, which revolutionizes the entire political economy, has caused, among other things, an enormous lack of capital to arise. One of the most interesting chapters of inflation is involved here, which, unfortunately, has never been made the object of a special investigation. In a few words, the course of events is this, that the decimation of all existing claims--through the shrinking of the value of money--enriches the debtor by just as much as it impoverishes the creditor; in connection with which the debtor feels the enrichment, in the first place, less in his property than in his income. A second income over the origin of which the one who enjoys the profit does not rack his brain very much, but which considerably increases his need of capital, piles itself, consequently, upon the income from trade, industry, and agriculture (from the latter only under quite definite conditions), which, apart from this, is in inflation times, mightily swollen. The great masses of notes, which in all countries of inflation are accustomed to be hoarded, come from this source, for the most part, and do not become transformed into investments of capital because they fear extortion through excessive taxation and through continued depreciation of the value of money. The State needs only to put these two considerations out of the way, hence to pursue that policy of taxation and finance which is dictated aside from this; then capital in more than sufficient extent will stand at its disposal in order to cover the deficit of one or two budget years and to proceed peacefully to the balancing of the budgets of later years.

The establishing of a balance in the State Budget is, therefore, not, as Article 33 of the "London Memorandum" assumes, a prerequisite which must be fulfilled before one can proceed to the currency reform; it is, rather, quite to the contrary, dependant on its side upon the previous or at least contemporaneous execution of this reform. To let the currency problem alone until the budget balances, means an adjournment ad calendas graecas; for under the condition of permanent revolution of money, of continued transformation of the value of the unit of reckoning, the budget account can never come into balance. Moreover, I have recently explained here why currency reform can cure State finances, but the financial reform can not cure the currency, and I must today refer to what I said at that time.

Just as out of the way as it is to place the currency question chronologically after the question of budget balance, is it also to wait with the currency reform until the trade balance of the countries with unsound currencies comes into equilibrium. Cause and effect are here very naively confused. Where the trade balance is passive, that is, the obligations of payment towards foreign countries, which are due, are greater than the amount of the available or easily secured foreign means of payment, there the departure from the principles of a sound currency is alone to blame for this passivity. In a country which has the gold standard, or a financial system resting upon the principle of this standard, a "passive trade balance" is inconceivable. The principle of the gold standard is: increase of the national monetary circulation with a predominence of claims, decrease of the circulation with the predominence of debts to foreign countries. This automatic expansion and contraction of the available purchasing power raises and depresses the prices in the country exactly to the extent which is necessary in order to absorb the imports flowing in in the place of payment, and to prepare and to dispose of the exports necessary for purposes of payment; both, without causing any considerable change of the value of money or of the course of the exchanges. The extent of the payments to and fro is in this connection quite irrelevant; if it reaches figures such as the German reparation payments present, it, to be sure, influences the level of prices in the most incisive manner, but leaves the value of money and the rate of exchange intact. A country with sound currency can, to be sure, come into the situation of declaring open bankruptcy, namely, when the State authority is not sufficient to attract from the population the sums necessary for payment abroad. But it can never have a "passive trade balance" in the current sense, that is, be unable for lack of adequate supplies of foreign bills to deliver abroad the amounts standing in readiness at home. For the low level of prices, which here arises from the obligation of payment, under all circumstances keeps in readiness those exports which assure the creation of the necessary foreign bills. The passive trade balance, in the sense of the impossibility of creating foreign bills at parity, first appears when the State, in order to spare its population as regards taxes, has recourse to the printing press, hence, sacrifices the currency; which means nothing else than replacing open bankruptcy, which would injure foreign countries, by disguised bankruptcy, which expropriates its own officials and domestic creditors as well as indirectly all holders of claims in the currency of the country, to a partial extent.

That the "London Memorandum," in spite of the true facts of the case, takes the passive trade balance as well as the budget deficit as a pretext to dissuade a number of countries from the immediate setting about of currency reform, detracts from the value of this preliminary work in a lamentable manner. The Conference of Central Banks is thereby hindered, in the first place, from accomplishing practical work, and instead of this driven upon the course of theoretical considerations of paper "lines of direction," so that it runs the risk of becoming lost in the well-known and by this time unendurable typical conference prattle. It appears that some of the authors of the Memorandum have had their good reasons for recommending a dilatory procedure. Certain central banks consciously pursue the policy of drawing the currency of their country near to the gold parity by intentional deflation. These banks would like to go as far as possible out of the way of a discussion upon the practical question, "Devaluation or Restitution, new or old gold parity?", because they know the mighty interests which resist, for weighty economic reasons, any improvement of the value of money. They would like to win time in order, first of all, to reach the old gold parity absolutely or approximately and then, when they can expose a fait accompli to publicity, to discuss the question at what gold parity the individual countries are to anchor their currency. Without admitting it, the Bank of England, above all, takes this standpoint. Also, the Bank of France, which with its notes is still distant from gold parity by more than 50 per cent., hopes, nevertheless, to bridge this span in a few years, would like to postpone the definite return to the gold standard until the old parity can be destroyed. Indeed, even the Bank of Italy cherishes such desires, in its case plainly unattainable. But shall the nations groaning under the scourge of a more severely disturbed and completely unstable currency, who would feel any fixation of the value of money, no matter on what basis, as a benefit, on this account wait passively until their neighbors believe that the psychological moment for their own currency reform has come?

. . . .

Article 36 of the "London Memorandum" wishes to introduce a cooperation of the central banks to the extent that the strong demand for gold which is feared for the time of the practical currency reform in the case of the countries of inflation, shall be lessened by furnishing the gold credits with the central banks which are strongest, from time to time. The drawing upon these gold credits, eventually completed by means of an international clearing, is to take the place of the sending of actual gold and consequently deprive the countries occupied with currency reform of the necessity of attracting to themselves great masses of gold.

In regard to the nature of the gold movement and the possibility of its substitution, in principle, by a world clearing system, I have already expressed myself somewhat exhaustively in these pages. I have denied the possibility of a general world clearing, as long as a pax aeterna does not absolutely protect the right of property of the separate countries to their gold funds deposited at any place--the presupposition of every clearing. More easily realizable would be the conception of a gold credit from country to country or from one central bank to another. Here too the difficulties of a political nature may not be underemphasized. In any case the question of currency reform, quite simple in itself, is enormously complicated, as soon as one couples it with the question of a lasting community of work of all or of single central banks. There arises a loss of time, which, in view of the urgency of the problem, can only be justified if there is really danger of an acute shortage of gold and of an international crisis in prices, in case one omits to watch over the return of Central Europe to the gold standard and to organize it centrally.

But this danger is quite imaginary. The world gold market has not the least to fear from the currency reform of the Central European States, even if the reform takes place in a thoroughly anarchistic way, according to the judgment of each individual State and without mutual consideration. And, indeed, for an entire series of reasons.

In the first place, the need of gold which is connected with a return to the gold standard, is quite insignificant. The essence of the gold standard in the restricted sense, which today practically alone comes into the question, does not consist in the fact that the monetary circulation of a country is composed of gold and gold covered notes (gold certificates). It does not even consist in the fact that the monetary circulation of a country is covered by gold to that percentage which assures the redeemability of money, for which, according to experience, a 33 1/3 or 40 per cent. gold cover would be required. The gold standard which the different Central European countries can and must introduce today, in order to attain again to a stable value of money, is a cross between the "gold redemption standard," the principle of the redeemability of notes in gold, and the "gold exchange standard," the principle of the foreign payment through transfers of gold balances abroad. The first standard is prohibited because the masses of people made distrustful by the currency deceit of the last few years would make use of the redeemability of their money into gold by collecting together all the quantities of gold in any way attainable and hoarding them up, using the gold, therefore, not as a means of payment, but as a treasure. If, one hundred years ago, Ricardo considered a 12 per cent. gold cover quite sufficient to assure the redeemability of notes to a practical degree, today even a four times greater amount of gold would, presumably, be despoiled in a few days. The gold exchange standard is prohibited because it postulates a far going economic and political dependence of the country which introduced it upon that country which holds its gold balance or, in case of need, advances it. The cross which the Central European countries will, by way of expediency, have to adopt, is the gold margin standard, that is, a standard the kernel of which, consisting of paper, is surrounded by a gold margin, which is just sufficient to equilibrate each passive balance of the trade balance by the delivery of gold. This gold margin standard will become a real gold standard in that the paper kernel is at all times kept in agreement, as to value, with the gold margin, which may easily be accomplished in a mechanical-quantitative way.

For the introduction of this gold margin standard no more than 20 per cent. of the total circulation of payment media needs to be covered by gold in any country which pursues an honorable currency policy. Germany, whose circulation today (on the basis of a value relation of 50 paper marks to one gold mark) has a gold cover of about 33 1/3 per cent., has, consequently, in so far as it can dispose freely of this cover, more gold in its possession than it needs for the execution of its currency reform, and a similar relation obtains in a number of other countries, such as France, Italy, and Czecho-Slovakia. Here the currency reform can be begun, consequently, without any consideration of the world supply of gold. The claims which the other countries without a sufficient provision of centralized gold might perhaps make, are, after this, of scarcely any weight; at the same time the fact must be reckoned with, that here--particularly in Russia and Austria--great masses of golden hoards will come to the light of day, as soon as the value of money is stabilized.

In opposition to this stands the fact that never has so huge an increase of the gold available for coinage purposes, centralized in banks of issue, taken place as in the last few years. It is estimated (according to the Moniteur des Intérêts Matériels), that the visible gold supplies, in spite of the remarkably strong current into the gold industry, have increased in comparison with 1913, by 14 milliard francs (34 milliards against 20 milliards). The increase is to be traced back partly to the new supply from the gold mines, partly to the disappearance of old gold from the circulation of the countries of inflation, and it is completely out of the question that the reintroduction of the gold standard into these countries will lay claim upon even a fraction of nominal value of the masses of gold which the circulation in the last few years has retired and has replaced by paper. Unless individual countries prematurely go too far in their conception of the gold standard, and try immediately to pass over to an absolute gold standard. Even for this the time will surely come some day, and for this very reason, that the world is overstocked with centralized gold. But the countries must grow organically up to the absolute gold standard. It is a luxury which today scarcely one of the inflationary countries can allow itself.

Meanwhile, even if it were otherwise, and separate countries should really attract a greater mass of gold to themselves than is postulated by the currency reform; what would be the practical effect? As things are today, the demand for gold, whether it rests upon the increased export of the countries to be reformed or upon credits which are granted them, would be a charge upon the United States, the single country, in which gold is obtainable in any amount one chooses. The drawing of gold would take place in this wise, that notes would be presented for redemption to the Federal Reserve Banks and the gold bars and coins received for them would be shipped to the countries to be reformed. The consequence would, in America, be a contraction of the note circulation which, according to the quantitative theory, today no longer contested, would lead to an intensification of the purchasing power residing within the remaining note circulation, and with this to a depression in prices. If this shrinking of the note circulation and this lowering of the price level should be felt as a disturbance in the economic life, the Federal Reserve Banks would be quite at liberty to bring again into distribution the notes which have just come in for redemption. Since their gold supply, according to the first May report of the Federal Reserve Board, is greater than their note circulation by 820 million dollars, the banks could put into circulation an equally high amount in notes without the circulation of a single uncovered Federal reserve note in America. Europe could, consequently, draw from the American central bank system, 820 million dollars in gold, that is, an amount far exceeding the actual need in any case, without in any wise affecting the cover (note well, complete cover!) of the American central bank notes, without the need for the circulation to feel a diminution of such notes, in short, without the fear of any economic disturbance whatsoever.

From the currency reform of the European countries of inflation, a certain danger might proceed in a single case. Namely, if these countries, in their totality, should represent great financial strength and should be able to make effective any significant demands at whatever time they chose, or to collect their demands in gold. In reality, however, the situation is just the opposite: the countries to be reformed are financially weakened, and the possibility of demand lies on the other side. If, therefore, a danger threatens the international gold market today, it proceeds not from the countries of weak exchanges at the time, but from the countries of the strongest exchanges, particularly from the United States. By a sudden demand for their war advances the United States can actually conjure up a crisis in the world market, while the gold claims which Europe may make from grounds of currency technique, can produce no more than trifling effects.

The Conference of Central Banks will, therefore, if it is in earnest, as to the speedy cure of European currency disorder, be able to do nothing better than, in the beginning, to throw overboard Articles 30, 33 and 36 of the "London Memorandum," which do not do away with complications, but, to the contrary, create them.

Alfred Lansburgh

Translated by K. D. Frankenstein
E. M. G.

[From B Strong Jr]

E. Wadsworth

4, RUE HENRI MOISSAN
(QUAI D'ORSAY)
SÉGUR 70-32

Paris
April 12, 1923.

Hon. Benj. Strong,
Governor, Federal Reserve Bank,
New York, N. Y.

Dear Ben:

Logie tells me that he has had a letter from your secretary saying that you have felt it necessary to go west for a few months to get your larynx back in good order. I cannot tell you how sorry Nancy and I am to hear it. You have tackled this proposition before with great success and no doubt will tackle this one successfully, but it must make you pretty mad to have to pull out just now.

Of course, we were all greatly interested and somewhat amazed at Bill Williams' departure from the bachelor circle. Logie wrote 2 letters, one to Nemo and one to De Chambrun, after we had talked the situation over, which epics I enclose copies of because you certainly should see them, and Nemo will probably never think of sending them. Without Allen Winslow, and Bill ~~Cain~~ and you in the west, Nemo must feel himself quite deserted. As for Jim Hickes, he must be wondering what will happen next to his menage. [Harjes]

See 1718 H St

Basil gets back in a day or two and we will have a reunion of the Paris Branch. Really it looks quite serious for the old house. I wish Nemo had taken in one or two younger men to carry on with.

Logie is finally quite thin for him, playing a lot of golf, and taking care of himself. Basil was in his usual form when he left. He has been to Rome and from there went to Vienna and Warsaw. I am looking forward to talking with him on his return. He seems to like his job very much.

[de Lasteyrie]

Nancy and I have just been to a luncheon at the office of the Finance Minister, M. Lasteyrie, given by him in our honor. It was a very genial and delightful affair. That is a wonderful old building and we lunched in state in the little dining room and wandered around the big salons afterward. Lasteyrie is quite optimistic about his budget and about French finances in general. He says there is only fly in the ointment, Viz.; reparations. His income is improving but just what is happening to his expenses he did not say. However, he thought that possibly the income might be two millard francs better this year than the estimate. He was 400,000,000 ahead for the first 3 months. I asked him what he had been doing to the franc and he denied all knowledge of the reason for the present rapid fluctuations.

The air is full of rumours as to the Ruhr and the attitude of the British; also the results of M. Loucheur's recent visit to England. Loucheur was not in any way representing the government when he went to London. However, we hear that there are hopes as to the results of his mission.

We are living most comfortably in Bob Bliss' apartment and I hardly know what we would have done without it. We expected to be at home before this and Nancy is planning to go home any way at the end of next week whether I get thru or not. The conferences drag along. The delay in cabling and the difficulty of conveying full understanding to Washington of the situation here as it developes, also the Easter holidays, make quick action impossible. I wish we had a long distance telephone to Washington.

One item of our family news may interest you old scout. About next September when you ease back to U.S. there may unless all signs fail be another Wady L or U. in the world. We are of course delighted beyond words. Pretty late in life to start bringing up a family but better late than never. We speak of you often. When the family gets together once more we will open something old and dusty and drink to your health you tough old hickory and back it too.
Nancy send her best so does

Wady.

Norman came pussyfooting over here a while ago. Stirred all the boys up, dropped in here twice but said nothing and disappeared. Some Montagu! Nancy thinks his beard is real.

Wadsworth

TREASURY DEPARTMENT

ASSISTANT SECRETARY

WASHINGTON

June 28, 1923.

Dear Ben:

On getting back here on one day early in June, I found your most encouraging and chatty letter of May 23. All the family have seen it, and since then we have more and encouraging information via Ben, Junior. Needless to say that we are more than delighted that things go so well. As usual, here comes advice from a long distance to one who rarely takes advice, to the effect that you should stay on the job until it is entirely finished and then a little more, so that when you come back you can join the family sewing circle without any qualms or handicaps.

I came straight here from the boat after spending a day in New York with Nancy. We had an old home dinner Thursday night with quite an attendance. Prather, Fred Sterling, Mac, Jim Curtis from the outside, and Elliot Goodwin, Phillips, Nemo and E.W. Frank Polk dropped in for an hour or two; also Allan Winslow was on hand. Unfortunately, Nemo's car broke down on the way in from Chevy Chase so that he, Prather, and Curtis did not arrive until about half-past nine. There was a great deal of conversation; also, there was an auction pool. Mac was quite chagrined at selling for $2 less than Loggie, but they both, with Basil, sold for about the same, whereas Nemo brought $100. nearly three times what the others did. That shows about the rating that the others have in public estimation.

Nemo and I are now at the house, but move out to the Straight farm, we hope, on Saturday.

There are lots of changes here. Gilbert leaves in August for a trip abroad. The Secretary is away so I shall be acting for a little while until he gets back. There is another change coming, which you will hear about in due course. The signs along the Federal Reserve Board alley are greatly changed. I have not even met the new members of the Board. Adolph is going to stay around all summer with just an occasional few days off. He told me that with you away it was very necessary for him to be here in view of the many newcomers.

[on Austrian loan? May 30?]

As to the European trip, it finally ended by the signing of an agreement, and I was able to get back for Harvard Commencement. It was a very interesting tour of duty and threw a lot of light on European conditions, points of view, and aspirations. The outstanding feature is utter lack of unity of command. I had to make a speech on Commencement

[on US Army occupation? June 7?]

Day and enclose it with some trepidation for your inspection. It is quite a change from my point of view of four years ago. We often say that if people would go abroad and study Europe, they would feel differently about America's participation. I did that very thing and feel very differently from the way I did, but with the reverse English. Whoever might be our representative and however wise he might be, he would have a tough time deciding what ought to be done. As a matter of fact, Europe is basicly much better off. People are getting three square meals a day and are better dressed and more comfortable than they were in 1920. Of course the Ruhr is making a tremendous reaction.

On the way home I spent three days with Monty Norman at that wonderful house of his. We had one long evening together, and the next evening Sir Robert Horne came. We dined well and Sir Robert was most outspoken. He does not like the French and says the only league of nations that is necessary is that between England and the U.S.A. Norman is very keen on reviving the Central European Nations, and of course the Austrian loan was largely his work. He wants to tackle Hungary next, but the Reparations Commission turned him down, due to the fact that the French had two votes and they both went against him. However, he is the great little worker and schemer. I did not think he looked particularly well. He still takes an hour's walk before breakfast and then goes to the bank to stay from 10 to 7.

I saw Baldwin for a moment. It was only two days after he had landed in the job and he was certainly jumping sidewise. Checkers will save his life if anything will as he goes there religiously every Sunday.

I saw Lasteyrie to say Good Bye at the end of May. He was chatty and quite optimistic about his budget, as usual. Anyone that can fathom the French national finance of today is wise. I suppose he knows a lot about it and therefore founds his optimism on something real. No one else was optimistic.

Basil, Bill Wright and I took a motor trip through the devastated regions, getting as far as Ypres. The amount of construction that has been accomplished is simply amazing. I wonder what will happen when this artificial stimulant to business stops. I suppose there have been more buildings put up in France and Belgium since 1920 than were built in twenty years before. No wonder business is good and there is no unemployment. As they are doing the work on other people's money, or rather the hope of getting other people's money, it is done well.

All goes well at home. Nancy and the boys are at Gloucester and will proceed to Northeast Harbor about the middle of July. I am going up there for a week after the fourth and then settle here until September without any chance of a break.

By the way, I came down on the train with Governor Harding. He looks 100% better than he used to and claims that he likes Boston. I think Boston likes him. He is a little more queer and lonely than ever. You would have been amused at his remarks on the subject of [Case] your friend Herbert. He said he would like to have such self-confidence. A number of people that I talked with in New England were very peevish at the remarks that have been made by the said Herbert to the effect that everything was too high - that a buyers' strike would break the backs of the sugar profiteers, etc. The popular impression seems to be that there was an effort made to put the foot brake on a little but instead the emergency brake went on and got stuck. There is a complete absence of buying orders in the New England mills. They are all beginning to curtail and will run out of their orders before the end of the summer. You were exceedingly right in your prognostications and statement that we were getting inflated and must have a secondary deflation. I wish I had acted accordingly.

The best of luck to you old Top. Nancy sends her best. Our party is to take place in N.Y. about October 1st.

Clifford has resigned. A man from Chicago takes his place. That is graveyard until announced. about July 10th. No decision as to Under Sec. until the Sec. returns but I guess it will be the new man. Anyway not me as surely the Sec would have spoken. I do not care too much as it leaves me much freer to move in the next two years if Foreign Loans come to a standstill.

Come back and look us over in the autumn you tough old bird

EW.

Address by Eliot Wadsworth of Boston, Assistant Secretary of the Treasury at the Alumni exercises on the afternoon of Harvard Commencement, Thursday, June 21, 1923.

Three years ago I spoke here of the problems of Europe and of a plan then being discussed for the creation of a large fund which might be used for reconstruction loans. The plan was not adopted and substantially the same results have been accomplished in a natural way more rapidly than anyone could have imagined at that time. Through normal commercial channels America has hastened reconstruction in most practical ways by providing a ready market for European products and issues of sound securities. The Austrian Loan just floated so successfully is a striking example of what may be done. The investors of the United States have loaned huge sums to foreign nations on a business basis. The liberal spending of American tourists has been and will be a considerable factor in steadying the exchanges.

Europe has passed through the first serious crisis left by the war and underlying conditions are much better than in 1919 - 20. Business is more active, transportation improved, an enormous amount of reconstruction has been accomplished, so that tens of thousands of families are now housed and settled who were formerly mere refugees. The farmer everywhere is doing well, which is perhaps the outstanding feature of the situation on the Continent, and gives good ground for optimism as to future stability. Increasing production of food is a firm foundation to build upon. Nations which in 1919 urgently asked for relief loans for the purchase of minimum food rations for their people are now self-supporting and in some cases exporters of food.

Finance and industry were on the mend but now are so dependent upon the situation in the Ruhr and its results that no prediction is possible.

History shows nothing that compares in size and far-reaching effects with the Ruhr occupation. Wars have been settled by treaties and have broken out again, but always the new war was much the same as the old, with the resulting damage largely confined to the fighting zone of the armies. There is no record of such a struggle as is now being waged to force a nation, defeated in an unjust war of aggression, to meet its just liabilities under an accepted treaty. Europe, and in fact the world, is again in a period of uncertainty much like that of 1917 - 18, when every human plan for the future depended upon the outcome of the battles in Northern France.

Before the war Germany produced 190,000,000 tons of semi-bituminous coal of which 111,000,000 came from the Ruhr; 60,000,000 from Upper Silesia; 15,000,000 from the Saar Basin now out of German control. But the Ruhr coal was of greater importance than the tonnage shows, as it provided nearly all the coke for Europe. The by-product ovens of the Ruhr supplied nearly three-fourths of the ammonia, the benzine, and the coal tar used in Germany. The coal, steel and finished products of the Ruhr factories are fully as essential to Germany as is the output of the Pittsburgh District to the United States. That little area, perhaps 40 miles long by 15 wide, provided something which no ingenuity can replace. A hundred thousand French and Belgian troops without firing a shot were able in a few brief weeks to practically place a strangling hand on the jugular vein of the German industrial machine.

Practically another war is going on but it is along new lines. No bombs, no cannon, no poison gases are being used to stop by rigid blockade the industrial heart of Germany. Long-distant cannon, far-flying aeroplanes and Zeppelins are as pigmies in their effects when compared with the cutting off of coal, steel and their by-products from many millions of human beings. Without actual physical destruction the stoppage of the mines and factories is causing immense loss, suffering and inconvenience.

Brazil feels the reduced demand for her coffee and other products in Central Europe. Far away India curtails its purchase of manufactured goods from Manchester and Birmingham because of the loss of German markets for its raw materials. No such effective weapon has ever been wielded by one nation against another. We had thought of the Great War as a producer of marvels of offense and defense. In less than five years after its close we see a new force applied: a few thousand men in blue uniforms carrying on an effective pressure upon a nation of 60,000,000 people. The intricate industrial machine built up in the past hundred years now proves itself a weapon of deadly strength when one of the sources of the power which makes it run is controlled and the throttle of that power tight closed.

New history was made in every battle of the Great War and new history is being made today as the stoppage in the Ruhr Valley quietly but inevitably affects one community after another hundreds of miles from what might have been the zone of ordinary warfare.

This is the great issue of the moment, but there are many others, political and economic, in Europe, the Near East and Russia which must be worked out on the ground by the peoples and their governments. They alone can bring about a settlement and adjust the conflicting interests and hatreds brought about by the upheaval of the War, the fall of long established government systems, and the repartition of a continent.

Whatever moral influence the United States may have in its present position has been exercised in the interest of peaceful and just settlement of these problems. Our desire that differences should be adjusted by conference and arbitration has been well known. With the concurrence of the government, a leading American banker sat on a committee which asked the privilege of studying the question of reparations from a practical business point of view, but the offer was not welcomed. The Secretary of State suggested a tribunal of experts to which the reparation question should be referred and intimated that the United States would not be averse to assisting in its deliberations. Our representatives have worked as they could at conferences and elsewhere to bring results, not without some success as was shown at Lausanne. The British debt has been funded; settlement has been arranged for the cost of the American Army of Occupation. The complications growing out of the War are being cleared up one by one as opportunity occurs.

History cannot be unmade and the question can never be answered whether or not the United States could, by a different policy in 1919, have prevented or eased the present situation. We made our decision then; did not ratify the Treaty of Versailles; did not subscribe to the covenant of the League of Nations. Who can be sure that a different action could have prevented the present clash between the opposing interests of France and Germany? It is often said that if the United States had been officially represented on the Reparation Commission and had sat on the Council of the League of Nations many complications would not have arisen or would have been solved. Whether that is so will never be known. The situation as it was in 1919 cannot be revived; too much has happened since. We must take the facts as they are.

We may look back to what might have been only as a guide for the future. Supposing for a moment that the United States had officially taken part in the discussion and conferences of the past three years, then surely our representatives would have been forced to align the United States on one side or the other of the great questions which have been considered; questions involving European national policies of the most intricate and changing nature. These representatives in an effort to bring about results must have taken decisions and thrown the influence of the United States in favor or against the plans suggested.

European statesmen are quite aware today that even a very high official of this government must ultimately depend upon the approval of public opinion to make his acts effective. In a situation which changes almost from day to day, how could any American representative know what public opinion would support? In fact how could there be any intelligent public opinion when it is difficult even for men on the ground to follow developments and understand what is back of them? The different attitudes taken by England on the question of reparations and the Ruhr under three ministries which rapidly followed each other is a good example of the difficulties which would confront this country in determining its course.

The settlement of reparations and guarantees is fundamental to the future of certain nations of Europe. Drastic steps are being taken to force the issue. Some far-reaching results must be obtained. Suppose again that the United States through its official representatives had committed itself for or against the present action in the Ruhr; that stand could not fail to become a political issue in the next campaign. It would be an issue upon which the voters could not be fully informed, and yet the result of the voting would be of paramount importance to the nations of Europe who would be affected. What nation with its interests at stake could resist the temptation of taking part in such a campaign?

That is one of the old arguments against the official presence of the United States in the political arena of Europe, and only to make it more definite do I sight the Ruhr as a typical example of the kind of question which would constantly be injected into our elections. Such issues could not be clean cut and the result of an election could rarely be considered as the judgment of a majority regarding them. The very issue most discussed in a campaign might be settled or completely changed between election day and inauguration. Campaigns must be fought largely on domestic questions. Party issues, the personality of the candidates, or the running of a strong man on an independent ticket would have predominant influence on the results. Few, if any, administrations could fairly consider an election as a mandate covering our policy in Europe for four years.

I have ventured to theorize in a dangerous field in an effort to impress a point which seems so vital to this country. As a people we can only act through officials elected once in four years. The power in their hands to help or hinder the development of this country is stupendous.

There are domestic problems facing us at home which are not too small to keep the best men that can be found for high government office amply occupied. Our national finances, taxes, the prosperity of the farmer, industrial relations, railroads and shipping are a few of the many questions which press for constructive settlement. We alone can solve them. We can ask no help from outside nor do we intend to. The voters must decide every so often into whose hands they will intrust the affairs of this nation. Whoever may be chosen should represent the choice of the people based upon home questions and not upon any theoretical action which may or may not be taken in Europe.

In many ways this is as critical a time for the United States as it is for any other nation. We may as individuals be deeply interested and engrossed in the spectacular happenings of Europe. I do not belittle our selfish interest in the result of those happenings, but I feel deeply that our action as American citizens should be controlled by what is best for the United States in the management of its own affairs.

The United States today is a great and solvent nation. No such development has ever occurred before in the world. No such democratic government has ever existed. We are a great experiment and a very successful one. We see great nations which for generations had been looked upon as stable beyond question struggling today in a crisis which may wreck their government, finance and industry and turning to us for help. Upon our own welfare will depend the extent to which we may be of help. Upon the men whom we elect to office much of our welfare depends. America need not fear the accusation of the world that we are selfish or self seeking simply because we devote the best thought and energy which is in us to our own problems and policies. The world needs the United States, needs us at our very best, strong in government, sound in finance and industry.

The broad sympathy of the American people together with an energetic, ever present desire among American business men to build up and not tear down must give assurance that others will not suffer but will benefit as we achieve social advancement and prosperity.

By keeping ourselves free and uncommitted; by keeping strong; by handling our own business efficiently, we are in the long run conserving and building up a force which has and will prove of untold benefit in the re-establishment of Europe.

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OFFICE OF
COMMISSIONER OF INTERNAL REVENUE

ADDRESS REPLY TO
COMMISSIONER OF INTERNAL REVENUE
AND REFER TO

TREASURY DEPARTMENT

WASHINGTON

December 15, 1919.

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

Sir:

I am in receipt of your letter dated November 28, 1919, addressed to Assistant Secretary Leffingwell and by him referred to me for reply. You enclose a copy of a letter from Mr. H. C. Sylvester, Jr., Vice-President of the National City Company, in which it is urged that individuals and corporations be permitted to inventory their securities and to deduct the shrinkage in computing tax liability.

In reply I desire to thank you for your interest in this matter, and wish to assure you that this subject will receive my careful consideration.

Respectfully,

Daniel C. Roper

Commissioner.

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ASSISTANT SECRETARY

TREASURY DEPARTMENT

Washington,

FILING DEPT.

February 12, 1915.

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FEDERAL RESERVE BANK

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FEDERAL RESERVE OF NEW YORK

Benjamin Strong, Jr., Esq.,
Governor, Federal Reserve Bank,
New York City.

Dear Mr. Strong:

You will perhaps remember that you asked me the other day about the power of the Secretary of the Treasury to borrow money. Since my return to Washington, I have looked this up, and have the honor to advise you as follows:

Section 40 of the Act of Congress of August 5, 1909, known as the Payne-Aldrich Tariff Act, amended Section 32 of the Act of June 13, 1898, and authorized the Secretary of the Treasury to borrow money from time to time at a rate of interest not exceeding 3 per centum per annum, in such sum or sums as, in his judgment, may be necessary to meet public expenditures and to issue therefor certificates of indebtedness in such form as he may prescribe, and in denominations of $50 or some multiple of that sum, and each certificate so issued shall be payable, with the interest accrued thereon, at such time, not exceeding one year from the date of its issue, as the Secretary may prescribe, providing that the sum of such certificates outstanding shall at no time exceed $200,000,000.

Prior to the enactment of this amendment, under date of November 20, 1907, 3 per cent certificates of indebtedness were issued under the authority of the earlier Act, in the sum of $15,436,500, which were sold to national banks at par and accrued interest, and were used as a basis for circulation. They matured one year later and were redeemed.

Besides this power, Section 26 of the Federal Reserve Act provides that nothing therein contained shall be construed to repeal the parity provisions of the Act of May 14th, 1900, "and the Secretary of the Treasury, may, for the purpose of maintaining such parity, and to strengthen the gold reserve, borrow gold on the security of United States bonds authorized by Section 2 of the Act last referred to, <u>or for one-year gold notes bearing interest at a rate not to exceed 3 per centum per annum</u>, or sell the same if necessary to obtain gold".

Under the provisions of the Act of 1909, the Secretary has authority to borrow $200,000,000 on certificates of indebtedness, and, for the purpose of maintaining the parity of all forms of money issued or coined by the United States and to strengthen the gold reserve, he has authority to borrow such amount as may be necessary, without limitation.

Very sincerely yours,

Wm P Malburn