

[also in C 261.1
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to ...]

London, December 14, 1927.

ITALIAN STABILIZATION

Meeting at Bank of England, December 13, 1927 - 11:30 a.m.

For Bank of England: Governor Norman
Mr. Siepmann

For Federal Reserve Bank: Governor Strong

For Bank of Italy: Governor Stringher
Sgr. Beneduce
Dr. Nathan.

Governor Stringher stated that, certain important preliminary steps having been successfully concluded, he was now of the opinion that de jure stabilization of the lira should be promptly effected, if an agreement could be reached as to the necessary arrangements. These important steps included the consolidation of the entire floating debt of Italy into long-time obligations, the balancing of the budget with a substantial surplus, the consolidation in the Bank of Italy of the note issues of the three banks of issue, and the retirement of small denomination notes heretofore issued by the Italian Government; all of which had been or would shortly be successfully concluded. He thought it desirable to discuss the general background for stabilization before undertaking the discussion of details which would appear to imply commitments.

Governor Norman stated that Governor Strong desired to ask certain questions in behalf of both of us in regard to the position, which he thought should be disposed of before undertaking a discussion of plans for stabilization.

The questions addressed to Governor Stringher and a paraphrase of the answers follow:

As to the Italian Budget.

(1) What effect has deflation had on the receipts?

Deflation has been felt in the revenues, which have been somewhat reduced, but the integrity of the budget has not been impaired, nor is it endangered for the future. The period of test had been sufficient to satisfy him completely that the strain upon the budget resulting from the enhancement in the value of the lira from about 4¢ to about 5 1/2¢ had been successfully resisted.

(2) What effect has deflation had on expenditures?

Mr. Beneduce stated that the surplus of the budget prior to deflation had been large and afforded ample protection against impairment of receipts below expenditures. Certain reductions in expenditures had been effected, however, which were principally:

- (a) Those which automatically occurred in certain State expenditures due to the revaluation of the lira itself and the decline in prices which resulted;
- (b) The cost of living indemnity allowed to employes of the State had been either entirely discontinued or greatly reduced;
- (c) Expenditures for public works had been reduced.

He is convinced that no difficulty need be anticipated in maintaining a budget surplus.

(3) What effect has deflation had on salaries and wages?

The above answers this question.

(4) What effect has deflation had on exports and imports?

Figures are to be supplied answering this question, but in general, while there had been some reduction in exports, there had been a greater reduction in imports, and the figures for exports of the last few months show a de-

cided improvement. The progress of deflation had in fact made the balance of trade and the balance of payments more favorable.

(5) Will the surplus permit regular repayment of 500 million lire to the Bank?

The plan for stabilizing the lira will result in the complete extinguishment of the debt of the State to the Bank. Consequently the item of 500 million lire to be paid each year in reduction of the State's debt will disappear from the budget, which will to that extent benefit by stabilization.

(6) Will any further repayment be made?

There will be no further payments by the Government to the Bank of Italy, as the debt will be extinguished.

(7) It was brought out that the plan of stabilization contemplates that the Government will purchase from the Bank its present stock of silver coins and pay in gold for the silver.

As to the Government Debt.

(1) Is all floating debt refunded?

All of the floating debt of the Government has now been funded by the consolidation loan. The first maturity of Government obligations occurs in 1931.

(2) May the Government borrow short money from the market?

The Government still has the right to borrow short-time money in the market, but it is not anticipated that there will be any need to do so, except for short periods in anticipation of tax receipts, as is done by the American Treasury.

(3) May the Government borrow short money from the Bank?

The Government after stabilization will be authorized to borrow

from the Bank only within the statutory limit(which, as I recall, is 360

million "pre-war" gold lire). It would require a new law to enable this limit to be exceeded. Besides that, the new Bank Law authorizing a stabilization plan must have the approval of the Governor of the Bank, and he feels that the possibility of any change in the authority of the Treasury to borrow from the Bank is limited by his own views on that subject, which appear to be orthodox.

(4) What will be the control of foreign borrowing?

Adequate control of foreign borrowing is intended to be continued as at present, being now exercised somewhat through the Bank of Italy.

(5) Will valuta proceeds be acquired by: (a) the Bank? (b) the Institute? (c) the Government?

The valuta arising from the negotiation of loans in foreign markets by Italian borrowers, when the loans have a maturity of a year or more, will be acquired by the Institute of Foreign Exchange and will consequently come under the control of the Bank. In response to Governor Norman's inquiry as to the relations between the Institute and the Bank, Governor Stringher replied that, while it is a separate, autonomous organization, it is nevertheless an integral part of the Bank. The entire capital of the Institute - 10 million lire - is owned by the Bank. The Governor is President of the Institute. The Committee is entirely drawn from the staff of the Bank. All of the employes belong to the Bank. Prior to the organization of the Institute, the Bank was limited in its legal power to deal in exchange but could make necessary purchases of valuta for reserve purposes. The organization of the Institute enabled them to expand their dealings at a time when it was necessary for the advantage of the Government as well as the Bank. Governor Stringher believes that the Institute should be continued as a necessary adjunct to the Bank. The new law authorizing stabilization will, however, provide that relevant laws essential to carrying through stabilization shall be such as are agreed to by the Governor of the Bank and the Finance Minister, and through these laws Governor Stringher expects the Bank to gain all the freedom it requires for dealing in

exchange.

As to the Bank of Italy.

(1) How will the profit on revaluing gold be disposed?

The entire profit on the revaluation of gold will be turned over to the State and applied to the extinguishment of the State's debt to the Bank, and it will be sufficient to wipe out the debt entirely. Governor Stringler had given every consideration to the suggestions made when I was in Italy 18 months ago that this profit really belonged to the Bank, but he said other advantages accruing to the bank as a consequence of stabilization would amply compensate for the surrender of this profit. These included the reduction of taxes imposed upon the Bank, the extension of the Bank's charter, the taking over of the valuta reserve, and other important concessions to the Bank.

(2) Will the statement be purged?

There are no doubtful assets in the Bank requiring writing off. In fact, the Bank has large concealed assets.

(3) What disposition will be made of Consortium assets?

and (4) Will there be any losses?

The Consortium and Independent Section assets are to be liquidated and this department of the Bank's business wound up as promptly as feasible. There will be no loss. Large reserves have been established already, due to the application of the taxes accruing to the State on the note issue and from other sources. The State guarantees the Bank against ultimate loss on the Independent Section assets anyway.

(5) What value will be placed on gold held abroad?

The gold held abroad, consisting of £22,000,000 due from the British Government to the Italian Government and now appearing in the statement of the Bank is repayable to the Italian Government over the next 60 years

pari passu with debt repayments of the Italian Government to the British Government. After stabilization this will simply appear on the books of the Bank as a debt due from the State to the Bank, expressed at the new value of the lira, but will not form a part of the Bank's reserve.

- (6) What value will be placed on gold received from other issue banks?

Stabilization clears this account by settling for the gold at the new rate established for the lira, and settles also for the \$90,000,000 proceeds of the Morgan stabilization loan, thus clearing the statement of the Bank of the suspended account representing part of the cost of this gold.

- (7) When will silver coinage be issued?

Silver coins are now being issued, and it is expected that the issue will be completed in the course of this year or early next year.

- (8) Will all the Treasury small notes be retired?

All notes issued by the Treasury will be retired, and any which are not retired by June 30, 1928 will no longer be legal tender.

- (9) Will the Government retain any right of issue?

The right of the Government to issue notes will terminate on June 30, 1928, when the existing issues lose their legal tender quality.

- (10) Will discount and loan rates be fixed or only reviewed by the Treasury?

The Bank Law now requires the technical approval of the Minister of Finance of changes in the discount rate. Actually, however, as far back as Mr. Beneduce can recall over his entire connection of sixteen years with these matters, the Treasury has never interposed an objection to any change proposed by the Bank. Governor Stringher states that during his 26 years of administration as Governor of the Bank he has always himself proposed the rate, and the rate which he has proposed has always been approved by the Treasury. Further than that, he has himself always suggested to the Treasury at what rate

short Treasury bills should be issued, and his proposals have always been accepted.

(11) How will the statutes of the Bank be amended?

The project has been reduced to writing and a brief summary in English translation will be delivered. The necessary decrees relating to these matters to be issued under the stabilization law of course await the conclusion of necessary negotiations.

(12) What is the amount of the Bank's

- (a) Gold
- (b) Valuta

(13) Of the Treasury's (a) gold, (b) valuta?

After stabilization, the reserve position of the Bank will be as follows:

| | |
|---|------------------------|
| Gold actually held in vaults of the Bank | 1,173,600,000 lire |
| Gold held at the Treasury and the Mint | <u>25,800,000</u> " |
| Total gold in the Bank's physical possession | 1,199,400,000 lire |
| Valuta held by the Bank or by the Institute and to be turned over to the Bank | 1,827,400,000 lire |
| Foreign Treasury bills owned by the Bank | <u>235,600,000</u> " |
| Total assets in gold standard countries accruing to the Bank | 2,063,000,000 lire |
| Silver in hand which will be converted into gold by the Treasury | <u>93,700,000</u> lire |
| Total reserve of gold or its equivalent | 3,356,100,000 lire |

This is the total of gold at the old value and of valuta before revaluing, and its expression on the new gold basis will be determined by the new coefficient.

The liabilities as of October 31 upon which the reserve calculation is to be based were as follows:

| | |
|---|----------------------|
| Liability for notes of the Bank of Italy | 18,091,700,000 lire |
| Sight demand drafts and similar sight obligations | 632,500,000 " |
| Current accounts (deposits) | 2,473,500,000 " |
| Public deposits (Treasury accounts) | <u>599,100,000</u> " |
| Total of liabilities | 21,796,800,000 lire. |

(14) Where is the valuta held?

All valuta resources are held in gold standard countries, mainly in New York and London, and a small amount in Switzerland.

(15) What control is there of the foreign exchange market?

This is answered by a memorandum delivered at the meeting. Governor Norman raised the question as to what legal or moral responsibility the Bank may have for contracts or engagements of any kind or character entered into by the Institute of Foreign Exchange. Governor Stringher and Mr. Beneduce replied briefly as follows:

"The Institute has a capital of 10 million lire, which is entirely owned by the Bank. It has a reserve of 300,000,000 (paper) lire invested in good securities, which is the accumulation of profits realized by the operations of the Institute. Three-quarters of these profits accrue to the State when the Institute is liquidated, and one-quarter to the Bank, which must transfer the profit to its "reserve" or surplus account. The Institute finances purchases when necessary by borrowing from the bank, the bank retaining the valuta of valuta/as security. This loan does not separately appear in the statement of the Bank and at times has been a large amount. While at the time of great activity and speculation in the foreign exchange market the Institute had large engagements in forward exchange, these have now all been liquidated. The Institute

has no obligations or commitments outstanding of any kind other than the amount which it is borrowing from the Bank of Italy, against which the Bank of Italy holds the valuta, but the Institute does conduct operations outside of the mere dealing in exchange - that is to say, it is the Agency for the receipt and distribution of German Reparations and acts as the Agent of the Treasury in conducting its operations in foreign exchange, such as those required to meet the foreign debt service. A balance sheet showing the assets, liabilities and obligations of the Institute will be delivered."

(16) Is there any speculation in lire?

Following official statements as to the policy of the Government in the matter of stabilization, there was considerable speculation in the lira during September and October, based upon the theory that the lira would considerably appreciate in value, and that speculation added somewhat to the valuta resources of the Institute. During the last two weeks, however, following the publication of the Government's statement that the value of the lira would be maintained at about its present level, there has been some evidence of speculation for a decline, which has drawn slightly but not seriously upon the valuta resources of the Institute. This is one reason why Governor Stringher desires to negotiate arrangements for stabilization just as promptly as possible, so as to head off any speculative tendency.

(17) Where and by whom is the speculation carried on?

The speculation recently developing was similar to that of a year or 18 months ago and seemed to have its origin in Holland, Germany, Switzerland and France, with some of course originating in Italy. Experience seems to show that New York has been more a consistent buyer of the lira and interested in an advance rather than a short-seller.

(18) What will the capital of the Bank be?

and(19) What will the surplus of the Bank be?

The new capital of the Bank and the amount of its surplus or reserve fund have not been finally settled. It has assets now adequate for capital, and Governor Stringher desires to avoid any spectacular change in the statement which would stimulate speculation in the stock. He hopes to settle the question of capital and reserve between the Government and its interests on the one hand and the shareholders and their interest on the other hand, on an equitable basis.

(20) What provision for losses has been made?

No provision for losses is needed, as everything of this sort has been done and the statement of the Bank is on a conservative basis, with considerable hidden reserves.

(21) Will there be further deflation?

Governor Stringher and Mr. Beneduce consider that the principal readjustments imposed upon Italy as a result of the policy of deflation have been completed. This, they feel, includes the influence of deflation upon the country's foreign trade, upon real estate prices and rents, upon the wholesale price level, and very largely upon salaries and wages. Some further readjustment of salaries and wages must be effected. As retail prices and the cost of living have not yet been fully reduced corresponding to the enhanced value of the lira, some further readjustments will be necessary, and they believe that salaries and wages will come down just as rapidly as the reduction in living costs warrants.

(22) How will the Bank manage any return flow of capital, such as France experienced?

Governor Stringher anticipates that there may be some flow of capital to Italy - not only a repatriation of exported capital, but foreign money seeking employment in Italy. Long-time loans will be controlled. If there is any considerable flow of capital to Italy following stabilization, it must be principally met by the following methods:

- (a) Reduction in the Bank's portfolio, which he thinks will occur somewhat as it did in connection with the borrowing of long-time money abroad early this year;
- (b) By the sale of Government securities, of which the Bank now owns about 1 billion lira that it is free to sell;
- (c) By paying interest on balances carried with the Bank of Italy by the commercial banks.

By these three methods, he thinks that any excessive issue of notes by the Bank of Italy in acquiring valuta resulting from the inflow of capital can be "mopped up."

At the present time the current accounts or deposits of the Bank of Italy are lire 2,400,000,000. Something over a billion of these are the special deposits of the banks, upon which the Bank of Italy allows 5% interest. These special rates were paid for the express purpose of reducing the circulation, and it was not an expense to the Bank of Italy, because the entire profit realized on the amount of the note issue in excess of the normal limit accrues to the State and the payment of this interest simply reduced the amount of taxes payable to the State. It also proved a great aid to the commercial banks, by giving them an earning on the cash which they accumulated as a result of the consolidation (Licton) loan. On all other deposits except the Government's accounts and certain special free balances, the Bank of Italy pays from 2% to 3 1/2% interest.

(23) Will there be any bank failures?

As the result of deflation the small, weaker banks have been forced either to consolidate or to close. The larger banks had ample hidden resources to enable them to weather the deflation crisis; so generally speaking the weak ones have gone under and the survivors have readjusted to the present position. The climax was reached in August, and the situation is now improving.

In our further conversations on Thursday and Friday (December 15th and 16th) the following questions were discussed:

(1) The Bank's capital and reserves as shown by the published statement aggregate about 388 million lire, which at the value of 5¢ equals say \$20,000,000 gold. What is proposed about the new capital?

Messrs. Stringher and Beneduce reiterated that the matter cannot be settled without further discussions with the Government, as between the Government's interest in the profits arising from revaluing the gold, etc., on the one hand, and the shareholders' interests on the other, there is still a negotiation to be completed. They are most anxious to avoid causing any outbreak of speculation in the stock of the Bank of Italy, but both gentlemen assured us that the capital will be ample as a margin over the Bank's liabilities and with due regard to the responsibilities and importance of the institution.

(2) Will the real estate be revalued?

The answer is definitely no. It will be continued at the present value, that is, at cost.

(3) Has the deflation been wholly the result of a reduction of circulation prior to December 1926? There has been no material change in the circulation this year.

Deflation has been brought about principally by the maintenance of a high bank rate, which, while not reducing the circulation of the Bank, has had a strong effect in reducing the Bank portfolio and restricting credit, and in addition, the Bank adopted the practice of rationing credit, which they were able to do because of their extensive system of branches. They emphasized that when customers of the Bank applied for increased loans and were refused, even though the cases appeared to be urgent the results were not disastrous, because in so many cases there were hidden resources of one or another kind which were drawn upon when credit was denied.

(4) How are inventories?

There has been a very general reduction in inventories and there are no topheavy stocks of goods at high prices. Cotton and wool, for instance, are in excellent shape as to inventories. The only exception of importance is the considerable stocks of natural silk which will need to be further liquidated. They insisted that no further liquidation of inventories was necessary or likely to occur.

(5) Will a new monetary unit be created, like the belga in Belgium?

The answer is no. That is definitely decided. Consequently there will be no need for any compulsory restatement of accounts in Italy.

(6) What is the story about payment of wages by check and increased circulation of checks generally, reported in the American press?

Sgr. Stringher explained that the Bank of Italy had long had the privilege, and had developed the practice, of issuing a form of circulating check payable to order, which was used in effecting domestic payments. Its employment was carefully safeguarded, so that the checks would not partake too much of the qualities of currency. There is now some movement looking to the introduction of check payment in Italy, which has taken two forms: one, as in the case of the Fiat Company, where they have met their pay-rolls by issuing checks to employees. These are ordinary checks payable to order. The other development is in the case of certain of the larger banks which have obtained authority to issue a form of cash check "to order," that is to say, they have proforma checks printed in three denominations, not to exceed respectively 200, 500 and 1,000 lire in amount. These checks may be filled out for any sum not exceeding the specified limit, are always payable to order, must be endorsed and the cash must always be in the Bank to meet them. These therefore do in a measure gain a certain circulation. I pointed out to them that such a development might embrace a number of dangers, for example:

- (a) The checks might not be adequately safeguarded against imitation;
- (b) They might stay in circulation too long;
- (c) Competition between the banks might result in this having a wide extension, resulting in large surrenders of notes of the Bank of Italy, in substitution for which these circulating checks would be issued;
- (d) It might develop bad banking habits and impinge upon the prestige and authority of the Bank of Italy.

Both Governor Stringher and Mr. Beneduce explained that this matter had already been receiving earnest attention. Governor Stringher was not content with the development, even though these checks were payable to order and were subject to the usual stamp tax and drawn against actual cash in bank. He had accordingly arranged with the Government to have all the Italian laws relating to instruments of payment carefully examined and overhauled, and necessary measures taken to impose such restrictions, conditions and restraints upon this development as would assure that no unsound practices grew out of it. I was struck by the fact that he had already undertaken just such measures as seemed to be desirable to deal with the situation.

12/15/27

GREECE

POINTS ARISING OUT OF THE AMERICAN GOVERNMENT LOAN

It is assumed that, in accordance with what Monsieur Cafandaris has always stated, the £9 million Loan will be reduced pro tanto. In other words, the greater part of the £3 millions which was contemplated for Refugees will come from American Government sources.

Question 1.

Is it the intention of the American Government that their advance should be administered by the Refugee Commission, of which Mr. Eddy is Chairman, and subject to the safeguards and trusts embodied in the statutes of the Commission?

It is most desirable that this should be so in the interests of coordination and of the proper use of the money to obtain the best results.

(The Secretary of the Treasury's announcement of 5th December seems satisfactory on this point.)

Question 2.

Can the American Government advance be regarded as part of the £9 million Loan?

If so, no difficulty will arise about security and about the control of the Assigned Revenues by the International Commission for these matters would already be covered by the decisions on the £9 million scheme.

All that would be required would be a statement on the prospectus that Tranche "A", \$12 million had been advanced on certain terms by the American Government and

offered for public subscription, [or something to the effect that a U.S. Government Loan of X ranks pari passu with this loan for purposes of security, &c.]

There is precedent for a direct Government advance towards such a Loan, in the case of the Swiss Government direct advance to the Austrian Loan.

If the above combination is not possible, questions will arise as to the relative priority of the charge on the Assigned Revenues for -

(a) the American Government advance, and

(b) the public issue,

and also further authority will be required from the British, French and Italian members to enable the International Financial Commission to function as regards the Assigned Revenues.

It is most desirable to avoid these complications if possible, if only on the question of time.

[The Secretary's announcement of 5th December says "The "Loan is to enjoy the same securities and guarantees as "the £9 million pound loan sanctioned by the League as "set forth in the protocol dated Geneva, Sept.8, 1927.]

It is important that the Greek stabilisation scheme should be put into force at once, and this can only be done when the new Bank of Issue is opened which in turn can only be done when the Loan has been raised and certain sums from it paid to the Bank. The Greeks are, therefore, rightly desirous to raise their Loan at the earliest possible moment - possibly in January. It would be of the greatest assistance for the early success of the operation that precise information should be available as to the intentions of the United States Government on the points set out above.

December 24, 1927.

MEMORANDUM

Of Discussions about Various Foreign Countries
in London - December 12 to 21, 1927.

P O R T U G A L

I had a long talk with Mr. Brand of Lazard Freres, some talk with Mr. Norman, and a short one with Niemeyer in regard to the developments in Portugal.

They have had a long and persistent budget deficit and an unsatisfactory monetary situation, and of course the political situation is somewhat unstable, the country having in effect a dictator. They were looking about for some financing, and I believe representatives of Blair & Co. at one time, and at another time Mr. Brand and some associates representing Lazard Freres and the Guaranty Trust Co. visited Lisbon and the latter made quite a comprehensive study of the situation. A written report is in the hands of the Guaranty Trust Co. and Mr. Brand says that it is available to us.

The Government has a floating debt, as I recall, of something like 17 million sterling. It would take two years anyway to get the budget balanced, and they want to fund the floating debt and provide money for budget deficits and stabilize their currency. Brand says that he persuaded them to apply to the Finance Section of the League for assistance and guidance. The Finance Committee at the last meeting arranged to send a commission to Portugal, which is going at once and I believe will include Salter, himself and a number of experts, as well as three members of the Committee. They are proposing to make a thoroughgoing investigation, hope to report some time in February and possibly put through a program at the March meeting.

No Bank transaction such as we would participate in is at present indicated. I have told Mr. Brand to be cautious on two points, in case anything were desired from us:

(1) Not to go ahead with plans and have the situation so crystalized that we would be deprived of the expression of any views and would be asked to join at the last minute in a plan which we had neither devised nor suggested.

(2) To have regard for the susceptibilities in the United States in regard to any League plan.

Niemeyer spoke rather disparagingly of the Portuguese, but thought something important could be done under League auspices. He represents that part of the Finance Committee which is in favor of rather stern control, but both he and Brand agreed that any plan in Portugal would require the appointment of a competent adviser or commissioner to ensure the execution of the program.

Mr. Brand describes the country as agricultural and pastoral. Something like 70% of the population is illiterate. There is no very strong public opinion in regard to financial or monetary matters, but everybody talks politics. The whole country is being divided in groups, which meet at the various cafes, each group representing some particular political opinion.

✓ The only thing to do immediately is to ask the Guaranty Trust Co. to give us a look at the report. I understand from Mr. Niemeyer that the League takes the position that they never select bankers for a transaction of this sort, but nevertheless Brand's visit resulting in the invitation does in fact give them a position for the business which will need to be reckoned with.

G R E E C E

This business is likely to come along very promptly. They are proposing to place a loan of about £ 9,000,000, the proceeds to be used principally for finishing up the refugee undertaking and to bring about currency stability. The settlement of our Government just made, if ratified by Congress, will give them \$12,000,000 and correspondingly reduce the loan to approximately £ 6,500,000.

Sir Otto Niemeyer has given me a memorandum indicating certain points to be dealt with in connection with the loan, which will need to be discussed with Mr. Mills. This also will be conducted under the auspices of the League.

B U L G A R I A

Sir Otto Niemeyer started to explain the Bulgarian situation, but we were interrupted and we never concluded. It is a project under way that we will have to develop in detail by correspondence. I am not keen about it anyway. The country is unstable and so many of the people untrustworthy as to make the business rather unattractive from our standpoint.

S P A I N

The correspondence with Mr. Dean Jay herewith explains this situation. All that I know about is what he has written, and at the Bank of England they know nothing about any possible development.

FRANCE

We learn of nothing new.

✓ As to all of the above countries, I think we might start the assembling of some information, just in case need arises to use it.

D R A F T

December 26, 1927.

M E M O R A N D U M

REGARDING ITALIAN STABILIZATION NEGOTIATIONS

On reaching London Monday night, December 12th, I learned from Governor Norman that the brief visit of Governor ^{Stringher} Strong and Signor Beneduce a fortnight earlier had resulted in no definite negotiations and they came without any documentary information but expressed a strong desire that I should join them, if possible to arrange it, and Norman expressed the same desire, because of the need for Federal Reserve Bank participation both in the negotiations and in the credit. I judge from something said to me in the course of the meetings that this was the understanding with Mussolini and Volpi before they left Rome.

The meetings were held in the Treasury Committee room in the Bank of England and were attended by Governor Stringher, Signor Beneduce and Doctor Nathan - the last named being the London representative of the Bank of Italy - and on our side, Governor Norman, Mr. Siepmann and myself.

I learned that at once Governor Norman had received my cable urging general central bank participation, he sent Mr. Siepmann to Paris

Zurich, Berlin, Amsterdam and Brussels, and wrote letters or otherwise communicated with four or five of the other banks of issue, so that when I reached London I had acceptances in principle from seven of the banks of issue, including ourselves nine, and the amounts which he had indicated to them seemed to assure that the credit could be made up without participation of more than 20 or 25 million dollars at the outside by the Federal Reserve Bank and 2 or 3 million sterling by the Bank of England, so that when we sat down to discuss the project, Norman felt a good deal of assurance as to the results, so far as the banks of issue were concerned. This was the status of affairs when I arrived and when the Italians arrived with a mass of documentary information.

A word as to the personalities. Stringher is about 74 or 75 years old, a very short man, with a rather timid and hesitating manner. One is impressed at once by his gentleness of character, as I had already observed in Rome. While he appears timid, he is a man of very precise, well settled opinions, and knows thoroughly what he is talking about. He was candid to a degree in everything he said and most anxious to be

accurate in all of his statements. In fact, once or twice on the day following the making of some statement he started the meeting by explaining that he feared he had been a little inaccurate in what he had stated the day before, and immediately corrected it, an example being his statement that the Government debt to the Bank of Italy would be completely liquidated. He explained that the nominal debt for the gold shipped to England would not be repaid, which of course we had thoroughly understood, but also that the Government had a current account of interest owing the Bank in connection with the Independent Section, which was offset by certain counter-accruals in the Bank and was of course a minor and trifling matter, but he wanted to make sure that this appeared in our record as having been disclosed.

At one point in our discussions, Governor Norman asked whether Governor Stringher could be removed by some action exterior to the Bank, meaning of course whether Mussolini could remove him. Norman endeavored to frame the question a bit too delicately, Nathan's interpretation led to a misunderstanding, and Stringher apparently understood him to ask

whether he was in danger, either because of his age or for some reason, of quitting the Bank or of not being reelected. It was amusing to watch the expression on their faces, for obviously the question as interpreted by Nathan could have been understood as a suggestion that it might be time for Stringher to retire, because of his age. Dr. Nathan in interpreting Stringher's reply endeavored to be equally tactful, and it struck me at once that there was a complete misunderstanding. Siepmann also saw this, because he has a slight understanding of Italian. I then told Dr. Nathan that I wanted to ask the question in my own way, not of Governor Stringher, but of Signor Beneduce, and told him quite frankly that Norman and I had such a high regard for Governor Stringher's character and ability and record in the Bank that we would like to have such assurance as we could gain that there would be no change in the management. When this was translated, they all began to laugh, with every evidence of relief, and Stringher appeared particularly embarrassed. Beneduce then said very impressively that Governor Stringher's management of the Bank throughout all the difficult period of the war and subsequently had gained for him the confidence of all of Italy, but beyond that he was one of the most beloved men in

Italy and there was not the slightest possibility of any change.

There was a little human touch to the conversation, starting with just such misunderstanding as served to bring out the real facts much better than if it had been more bluntly and accurately expressed. I think it is safe to say that before the meeting was over we all developed not only great confidence in Stringher but a great deal of affection for him. His honesty is too obvious to escape attention.

Signor Beneduce, I would estimate, is about 43 to 45 years of age, possibly a little older, rather a lawyer type and unquestionably one of the really able men of Italy. He is a strong anti-Fascisti, but enjoys such complete confidence from Mussolini that he is employed by the Dictator on various difficult and delicate matters with entire confidence, and Beneduce is willing to accept such employment, although unwilling to accept any office, because of his patriotism. I was told that he could have had a Cabinet position at any time, had he been willing to accept it. For something like 16 years he has been in one capacity or another as special adviser to Stringher, and Stringher has great confidence in his judgment. He speaks very little English, but understands it somewhat. Stringher

speaks none. They both read English rather freely, and both speak French.

Dr. Nathan, a man a little over 40, London representative of the Bank of Italy, is a fine-looking, upstanding fellow, speaks English perfectly, and his interpretation was wonderfully given. He impressed us all favorably, but I think what stood out more than anything else was his great respect and affection for Stringher and his solicitude lest the Governor be over-fatigued. As the sessions were long and strenuous and it was obvious that Stringher was under considerable strain, Dr. Nathan was of the greatest possible assistance in promoting understanding at difficult points where language, etc. increased the difficulty.

The negotiations started by Stringher's making perfectly clear that he did not want discussion of detail or plans to take place until the fundamental questions had been discussed, as he was afraid that the discussion would imply commitments on one side or the other which would be embarrassing unless our minds met as to fundamentals, especially conditions in Italy. These he described briefly but very completely.

I had a long list of questions to ask which were partly an-

swered by the written documents, but we had not had time to examine the latter before the meeting started, as they were only delivered that day. Questions and answers were all reduced to writing. They occupied all the meeting Tuesday and Wednesday, together with many questions which Governor Norman asked.

It soon developed that Governor Norman felt very strongly that a private bank credit was desirable. It also developed that his mind was quite set on stabilization at the equivalent of 100 to the pound, rather than 90, the rate at which the lira was then selling. He expressed a desire not to know the rate which they had in mind until after they had considered his suggestion of 100. I saw at once that there were difficulties on both these points.

Stringher said that the negotiations were out of his hands, so far as the Government was concerned, if a private bank credit to the Government or secured by Treasury bills was necessary. I suspect that Norman desired not only to reduce the amount of the credit by the central banks, but to share the responsibility with important private

bankers who might be influential politically. My own feeling was that the main advantage of a private bank credit was in gaining the support of the money markets of London and New York. When the Italians appeared Wednesday with telegrams from Rome authorizing them to proceed on that line, they seemed greatly relieved and pleased, but when we came to discuss the rate of stabilization the real difficulty arose.

I was rather shocked that Norman took the position he did.

Stabilizing at 100 to the pound meant a gift of 11% to certain classes and a loss of equal amount to other classes at the maximum. It struck me that it was such a reversal of policy as to subject the Government to some ridicule and might give rise to a good deal of dissatisfaction, if not active hostility. Besides that, information in regard to the rate would ultimately have to go to a large number of banks and bankers, and the temptation to take advantage of this knowledge, with a profit of 11% which could be certainly made, was a real and dangerous risk to run. Then again, I was convinced that the responsibility which we would assume in insisting upon some other rate, if it were possible to arrange it, was more than was justified. This was all fully discussed privately with

Norman and I could see that he was ready to surrender the point. He did, however, ask Stringher whether he was free to negotiate as to the rate and how he felt about it himself.

Again some interpretation difficulty arose that led to much amusement. A private conversation in Italian between Stringher and Beneduce which Nathan apparently was not expected to interpret disclosed that Stringher would have favored a lower rate, although possibly not 100, but that long argument with the Government had persuaded them to concede the rate at 19 to the dollar, principally because it made a satisfactory unit, and this concession of $2\frac{3}{4}$ % was the very limit to which they could go. Nathan translated this conversation, indicating that Mussolini had dictated the rate and that Stringher would have preferred some other rate. Stringher and Beneduce were both shaking their heads hard when Nathan got this far, and finally we left them alone to talk it out. When we returned, Stringher said that possibly some other rate might have been better, had the exchange remained at a lower rate, but it had now been at the rate of 90 long enough for him to be convinced that $92\frac{1}{2}$ was the most

that could be done towards "giving a tot of brandy", as Norman expressed it, and that he was not only meeting the views of the Government but also expressing his own mature judgment after long study and reflection, that 92½ and 19 were the best and safest rates to establish. We then agreed on that point, making it perfectly clear in the record that we were doing so upon their responsibility and as a result of their representations.

The telegrams from Rome had authorized Stringher to request us to submit a project for a private bank credit to Morgans. We therefore sent for Whigham at once and outlined the situation to him, without disclosing the proposed rate. As I had expected, a telegram he sent to New York brought the reply instantly from Leffingwell referring to my conversation with him before sailing, in which I had stated that I thought any Italian Government financing in connection with stabilization was out of the question. The \$100,000,000 issue, which the prospectus stated was for stabilization purposes, would be discredited. When it was fully explained to Whigham and by him cabled to Leffingwell that this credit would not have that effect, I think they were all quite satisfied. It developed, however, that it was necessary for them to take Hambros, Barings and Rothschilds

into their confidence at the earliest possible moment, as they had been bankers for the Italian Government in London for many years and would be offended if they were handed a "cut and dried" proposition. This difficulty was met by an agreement that the discussion would take place without disclosure of the rate at first.

The final and most real difficulty arose, however, in connection with the central bank credit. It seems that Governor Norman had been relying upon the same general program as applied to Belgium, in which case the plan was agreed and the papers were signed upon his handing the Belgians a letter in which he used the expression that he "had reason to believe" that a central bank credit could be arranged. He had not made clear this point to Stringher at first, but had in a general way stated that he had acceptances in principle from seven other banks of issue which assured him of getting the amount required. Stringher had interpreted this as meaning that telegrams from these banks only would be necessary before we signed commitments in some form by which all the banks of issue would be committed for a total of \$75,000,000. This was going a step further than Norman was prepared to go, nor had he prepared their minds

for an intermediate period before formal ratification of participation would be given by the participating central banks.

I finally suggested that we deal with the facts exactly as they were, writing Governor Stringher a letter stating that the Bank of England and the Federal Reserve Bank together would provide a credit for \$55,000,000; that invitations had been sent to 13 other banks of issue to participate for amounts stated; that acceptances in principle had been received from seven of them aggregating \$..... ; and that subject to legal ratification by the directors of these different banks of issue, a credit of \$75,000,000 was assured.

This would have been all right, except that Moreau's telegram - the first one received - stated that he agreed quite willingly and would submit it to his directors on Thursday for approval. Of course, this did not suit Stringher, who was pressing so that the decree could be issued as early as possibly the following week, that is, within four or five days.

We were quite "stumped" as to how to meet the situation, especially as I was definitely limited to \$30,000,000 - and, as I now feel, quite

needlessly, because the assurances were sufficient for us that ample participations would be accepted. Finally Norman, like a good soldier, agreed to be temporarily responsible to the extent of 9 million sterling. He had privately consulted some of his directors before doing so. In fact, that was the only solution, because Whigham told us that the private bankers would not conclude their credit unless the central bank credit was absolutely assured quite as fully as Stringher desired it to be. So we finally prepared a letter as in the records, and then Norman gave me his endorsement on a copy of it that our liability was limited to \$30,000,000. Of course it is obvious from the papers that, so far as the letter which we gave to Stringher is concerned, the Federal Reserve Bank was jointly responsible with the Bank of England to produce \$75,000,000, and technically at that point I had exceeded the authority. On the other hand, it was most important not to disclose to them just how it was done, and I was content, after talking to Mr. Harrison, to do it in the way we did. Had we disclosed the situation in detail, I felt, and Norman felt, that it would have established a precedent which it would be very difficult to avoid when France came along, and that Norman and I might be forced into a position

of being preliminary underwriters for the total amount of any credit desired by the Bank of France, which likely would be considerably larger than the one Italy desired.

As a matter of fact, when the agreement between Norman and myself was finally reached, we had telegraphic acceptances in hand for a sufficient amount to reduce our possible total liability under the letter given Stringher to about \$50,000,000, and the Bank of France was really committed, because Moreau had telegraphed an unconditional acceptance of participation directly to Stringher in reply to Stringher's letter of courtesy inviting him to participate.

There was another interval of difficulty. It was amusing and, I felt at the time, quite unnecessary, in that Norman insisted with Stringher that the Banks of France, Belgium and Switzerland would require letters from him applying for a credit, this being a legal requirement. It galled Stringher terribly to write such letters, and I think the explanations given were unsatisfactory to him. The fact is that when the Belgian credit was arranged, Italy was not invited as a first party until

after it was concluded, and then when they were later invited to come in, the Bank of Italy had required a letter of that character from Governor Franck; apparently the latter and Moreau had talked it over and were not going to let the Bank of Italy off with any less than the Bank of Italy had required of Belgium.

Stringher's first letter, which was in French, appeared to be rather a formal, cold presentation, and there was a deadlock that lasted for a few hours, until finally Siepman intervened with a good deal of tact and got letters agreed that were satisfactory to all parties. It was almost comic to watch the perplexity with which Stringher and Beneduce attempted to deal with this matter, and Norman on the other hand to make it just as difficult as he could for them. He did not intend to, but on that point he "got his ears back".

Even allowing for these particular points, I have never had part in an important negotiation which was as satisfactorily conducted as this one. The reason really lies in the fact that Italy adopted the various necessary measures preliminary to negotiation and executed them with great vigor and success prior to arriving at the decision. Most

of the other countries undertaking stabilization, with the sole exception of England, had failed to do that in advance, and I must say that there is evidence of great self-control and self-sacrifice that it was possible to arrange this program on the simple lines which it has assumed, without a great many "ifs and ands" and reservations.

Another interesting sidelight on the whole Italian program developed when Fummi arrived. He told me that Mussolini had been unwilling to go ahead with stabilization and was somewhat reluctant even now until he felt that the risks of an unfavorable reaction had been completely eliminated, that he had followed literally and exactly the program that we discussed in Rome 18 months ago, and that it was partly on that account that they were anxious for me to come personally to London to get first-hand evidence of the success with which the job had been done. I think there has been a strong feeling in Italy that Norman was unsympathetic, because of his British lack of faith in the Fascisti regime. He is regarded in Italy as being hostile to the present Government, and it was somewhat on that account also that they were anxious for me to get to London and give the negotiations a little more sympathetic turn.

My only dissatisfaction with the procedure was in feeling so limited in discretion as to the original commitment. It was really mortifying that the Federal Reserve System could not have assumed that preliminary responsibility for \$45,000,000 or \$50,000,000 and the Bank of England only \$25,000,000 or \$30,000,000, when one considers that the Bank of England has a capital of \$70,000,000 and we have a capital of \$350,000,000. This will not occur again if we are called upon to do a similar job for the French. We must go prepared to make our maximum possible commitment and not risk misunderstandings with our friends in Washington. I was thoroughly justified in doing what I did, because before telephone Mr. Harrison I went over the whole situation with Norman, explained exactly how our folks felt at home, that I had stated that our commitment might run as high as \$50,000,000, that I was proposing to say that the likely amount was 15 million, it might run to 20 or 25, but 30 millions at the outside was safe. He was there at the time and entirely approved. The difficulty, of course, arose from the failure to differentiate between Italy and Belgium as to the preliminary commitment and make that entirely clear to Stringher and Beneduce.