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PERSONAL AND  
CONFIDENTIAL

September 15, 1922.

My dear Mr. Gilbert:

Your favor of the 13th instant is before me. We intend to let our maturing certificates run off to-day, and the result of a variety of transactions will be to reduce our own holdings somewhere in the neighborhood of \$32,000,000. This morning we have \$139,000,000 of Treasury notes and certificates of indebtedness (some six or seven millions of which are those carried for dealers) and the above reduction will bring us down to less than \$98,500,000 of our own ownership; This compared with \$155,000,000 to \$156,000,000 on July 1st. Our present estimate of earnings would indicate that with allowance for the regular charges at the end of the year we will no more than earn our dividend. As to all the reserve banks, since the committee was formed and not including to-day's transactions, the reduction in their investment account has totalled \$101,000,000. The reduction effective to-day has not been reported to us, but will probably be not less than \$50,000,000 more, including our own.

In view of these facts you will realize that we have witnessed a reduction since June when the committee began actual operations, that is in three and one half months, exceeding \$150,000,000 or about one third of the whole account. I do not think that anything more than that could have been done without disturbing the money market, although we too have suffered impatience at times that we did not progress faster.

Please do not consider, as might be implied from your letter, that I personally, as chairman of the committee, or even the committee as a whole attempts or desires to attempt to exercise any control over investments or investment policy of the respective reserve banks. We had an understanding, as you know, that



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investments in excess of what is needed for earning purposes should be allowed to run off, and that operations should be conducted through the central committee. Our influence has been directed towards reducing the account right along, but we have no power, nor would we desire to exercise the power, to be more than the agents of the Federal reserve banks to carry out their wishes in line with the policy established at the April conference.

Your suggestion that we liquidate investments faster than we are doing and at the same time reduce discount rates, I fear is not feasible, and certainly I would want to discuss it with you and with the Federal Reserve Board as well as our directors very thoroughly before attempting such a programme. My impression is that our next move must be to slightly increase the rate at which we buy bankers acceptances, which will have a tendency, of course, to distribute these bills throughout the market, instead of having them accumulate in our hands, and this, it seems to me, is more in line with the policy which you advocate than would be a reduction of our discount rate to a point which would invite borrowing by member banks and which indeed might prove to be inflationary rather than the reverse. Certainly that tendency might be more likely to develop were we to establish, say, a 3 1/2 per cent. rate and at the same time to call in a considerable volume of money from the market, which would put the general market rates above what they now are.

Permit me to say personally that I think Mr. Case has accomplished a wonderful result in what has been above reported, and we expect to continue quietly along this line, using every effort to avoid any temporary or even more extended disturbance of money rates, and I have felt that we were fully meeting the views of the Treasury, especially as these matters have been put forth in such detail almost daily.

You may be interested in learning of the intention of certain of the officers of reserve banks to bring out a thorough-going discussion of this whole policy at the conference of governors which is to be held in Washington on the 10th



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of October.

As to the market generally for the government issues, while there has been a slight improvement for the last few days, for at least three or four weeks past there has been a constant decline and a really soft market. To illustrate: the Fourth 4 1/4 per cent. Liberty Loan Bonds have declined from high price 1 1/4 per cent.; that is, from 101.86 to 100.60. This we attribute to a variety of causes. One is the adverse exchanges, that is, the movement of funds to the West for crop purposes; another, somewhat more active commercial demands for funds; and undoubtedly the third is the apprehension that the bonus bill will become law and impose considerable borrowings by the Treasury.

We have constant evidence of a tendency on the part of institutions to liquidate securities which are paying the lowest rate of return, which have in the main been Treasury notes and Treasury certificates.

We are unable to lay out a definite programme, in fact have no authority to decide how rapidly the Reserve banks should liquidate their holdings of certificates and notes, but if you feel willing to take the responsibility of indicating at what rate you yourself would advise liquidating, upon telephone suggestion with the figures stated coming from you I could arrange with some of the Reserve banks to join us in carrying out such a programme. It would hardly be possible to do that, however, before the governors conference, at which time we hope to have a statement of earning assets and of respective earnings from all of the Reserve banks as an aid to consideration of this very matter.

Very truly yours,

*Ray Strong*

P. S. This letter was dictated by Mr. Strong, but in his absence, signed by Mr. Case.

Honorable S. P. Gilbert,  
The Undersecretary of the Treasury,  
Washington, D. C.

ES RAH



COPY-WITH

FEDERAL RESERVE BANK  
OF NEW YORK

PRIVATE AND CONFIDENTIAL

October 20, 1922.

Dear Mr. Gilbert:

The resignation of the British Cabinet is no more than I expected, and as I telephoned you a few days ago, it was forecast in a cable which I received intimating the probability of a further delay in negotiations for the funding of the British debt.

This delay will afford opportunity for the making of certain investigations which we discussed (if this work has not already been done), and I am taking the liberty of outlining something of what is in my mind in a letter to you rather than to Mr. Wadsworth because we have had opportunity to discuss it at length and I have not been able to do so with him.

While what I am writing is directed especially to the British situation, it applies in greater or less degree to the situation of all the debtor governments, and I refer only to the British debt because that happens to be the one which is next to be dealt with.

One of the most serious difficulties encountered by the French Government in dealing with the adjustment of reparation payments by Germany arises in my opinion from the fact that the people of France have never been fully informed upon the subject of reparations, that the sentiment exists in France that Germany can pay and must be made to pay, and that no government can remain in office which proposes a compromise or adjustment of reparations which does not in a general way conform to a well crystallized public opinion on that subject. In view of this political situation, the Government of France has been forced to resort to the threat of occupation of the Ruhr and other sections of Germany in the event of a default, a course which would be disastrous to the French because of the costs involved and because an army cannot collect reparations. My best opinion is that this situation has arisen almost entirely from timidity by the French Government which has led to an unwillingness to disclose the true facts and that it would have been wiser at the outset for the Government of France to squarely face the question of reparations upon the theory that Germany can be made to pay only within her capacity to pay and no more.

These remarks are intended to draw attention to the rather parallel situation in this country. Our people have been



led to believe (as the result of statements which are based upon inadequate data - and some of them inspired by political motives) that in general most of the debts owing to this country by the debtor governments are collectible. They cannot state the grounds for this belief, but are simply repeating what they have heard in a general way from various sources. It is certainly time that a careful painstaking investigation of the debt situation upon a basis of capacity to pay should now be conducted, and laid before the country at the proper time and in the proper way. In order to establish the basis of such an investigation, it is well to consider, first, in what way payments may be made. All students of this subject will agree that for a country like England, the making of external payments, such as this, can be accomplished only by the following means:

FIRST: Shipments of gold.

SECOND: Export of goods in excess of those imported.

THIRD: By substituting private loans in this country for the government loans.

FOURTH: By the liquidation of foreign investments owned by British private investors.

An investigation of these four possible methods of payment should disclose something of the capacity of the British nation to repay the debt now owing to our government and especially whether that capacity is equal to meeting the limitations imposed by the funding bill.

FIRST - As to gold shipments; the gold resources of Great Britain should be carefully examined and a study should be made for the purpose of disclosing to what extent, on the one hand, Great Britain can afford to part with gold and thereby indefinitely defer the reestablishment of the gold standard, and, on the other hand, to what extent it is safe for us to receive further shipments of gold without dislocation of our domestic credit situation. This investigation, it seems to me, should include an examination of the African gold production, of its present disposition, of the extent to which India can command gold from Africa and from England, and, as throwing some light upon gold movements, the history of gold shipments between England and this country should be reviewed together with their relations to prices, interest rates and trade balances.

Such an investigation I am certain will disclose that the possibilities of gold payment are exceedingly limited unless we are prepared to face a complete and long-extended breakdown of the gold standard in Europe and the rest of the world, and some real peril to our own monetary system.

SECOND - The extent to which England may be expected to repay by excess shipments of goods to the rest of the world over imports will be most difficult to ascertain, but some light may be thrown upon the subject by an examination of the British foreign trade prior to the outbreak of the war; the extent to



which the result of that trade as reflected in the visible movement of goods, plus the invisible balance of payments, may be expected to produce a net fund applicable to the service of the debt. In this connection, the new tariff should be studied to ascertain what effect it may be presumed to have upon those classes of commodities which we have heretofore habitually purchased in England.

THIRD - The extent to which the British Government may be able to borrow privately in our markets in order to repay loans to the Treasury will be governed not only by market and investment conditions here, but also to some extent by the degree to which we may consider such a policy desirable from our own point of view. For example, if the payment of interest and amortization of the principal necessitated the British Government borrowing from \$200 to \$300 millions a year in this market, would it be wise to permit or encourage them to do so? The various considerations to be weighed in this connection should be examined and discussed and it should be borne in mind that such a program applied to the entire debt owing to this country would ultimately result in such a vast interest by American investors in foreign government loans that might in the course of years have a profound effect upon our political relations with other countries.

FOURTH - The amount and character of British investments in foreign countries should be examined for the purpose of ascertaining the possibilities of payment by recourse to these investments, but obviously a study should be made as to the method by which such investment could be made available for the purpose. I think it would be safe to say that there are only two methods which could be employed to this end, both of which involve dangers of a very certain character. First, the British Government might expropriate them as was done during the war. Such a policy would arouse such bitterness of feeling that I very much doubt if it could be resorted to except under conditions where we would be obliged to admit that we had completely lost the sympathy and friendship of the British people. The other means would be less obvious to the public but equally dangerous to the restoration of stable economic conditions. If the pound sterling under the pressure of obtaining dollars in order to repay this debt became progressively depressed, as was the case after sterling was unpegged, there would gradually arise a premium upon foreign owned securities in the hands of British investors, which might lead to the sale of large amounts of them. But any such occurrence would be so disorganizing to commerce, including that of our own country, that one would hesitate to advocate such a policy of destruction.

I have written the above simply as suggestions for a course of investigation designed to throw some light upon various means of payment which exist, upon the extent to which they can be employed, and upon the effect of their employment. It will probably be found as the result of such an investigation that the repayment of the debt to this country by Great Britain can be safely accomplished through the employment of resources which will be



found available under all four of the means suggested, but that a period of 25 years will not be sufficient for the purpose, that the amount of payments must be small at first and gradually increased, and that in connection with the scheme of payments adopted, some element of flexibility must be introduced so that the rate of payment may be reduced in case the pound sterling becomes depressed and may be accelerated in case it should rise above parity with our currency.

May I take the liberty of suggesting that the additional time now afforded as the result of the change in the British Ministry can well be employed in an investigation along some such line as that roughly outlined above. The data already in possession of the Department of State, the Treasury Department and the Department of Commerce, and accessible to the Federal Reserve Board and the Federal Reserve Bank of New York can I believe be marshalled in the course of a few months. If, as I should hope, it resulted in a clearer view of what Great Britain is capable of paying and how long a period should be allowed for the payment, then it seems to me the Funding Commission could go before Congress with a definite report and recommendation which would in fact contemplate the entire repayment of the debt by the British Government, but not necessarily within the strict limitations of the funding bill, and here would be afforded opportunity for a possible and friendly solution of the problem as to the principle debtor.

Yours very truly,

(Signed) Benj. Strong

Honorable S. P. Gilbert, Jr.,  
Under Secretary of the Treasury,  
Treasury Department,  
Washington, D. C.

BS, MM



Gilbert

October 28, 1924.

Dear Mr. Gilbert:

My absence on a rather badly needed vacation and my being laid up, unfortunately, a considerable part of the time I was away, have delayed my writing you a letter which it has long been in my mind to send.

First, of course, I want to give you my heartiest good wishes for many years of happiness with your new wife. It would have been a great pleasure to me to have been able to attend your wedding and to have extended these good wishes to you and to her on the spot and verbally.

Also I want to congratulate you not only upon your appointment to one of the most responsible positions in the world, but upon your very good judgment in accepting the appointment. No question can be raised as to your qualifications, and no man, after <sup>knowing of your</sup> spending the many years you have in a patriotic service to his country, can doubt for a moment that you have undertaken this task in the spirit of a real patriotic service, and it is that spirit which will make it a great success. I do wish you a happy and successful career.

You do not need to have my assurance that everything at my command is always at your service. Write to us, cable us, or send for us, and we will always be willing and ready to help.

With every good wish, I am

Sincerely your friend,

Honorable S. Parker Gilbert,  
Agent General of Reparations,  
C. F. Morgan, Harjes & Co.,  
Paris, France.



J. P. MORGAN &amp; CO.

CABLE DEPARTMENT

NEW YORK. June 18, 1925.

COPY OF CABLE DESPATCHED TO MORGAN, HARJES &amp; CO., PARIS

63233. FOR S. PARKER GILBERT. Planning arrive Berlin early  
July. Bringing daughter and maid. Norman going also.

B. Strong

RCL



Grand Hotel Britannique,  
Spa, Belgium,  
July 23, 1925.

My dear Gilbert:

This is just a line to let you know how greatly we enjoyed our visit in Berlin, and especially the opportunity to have a good time with you and Mrs. Gilbert.

I was struck by how well you looked, and I had expected something rather different.

But what gave me especial pleasure was the universal satisfaction expressed by the Germans, as well as by your own colleagues, in your work at Berlin.

There is still some uncertainty about our plans. We leave Sunday for Brussels, and probably by Wednesday will be in Paris, where we are trying to get accommodations at the Plaza l'Athene Hotel in the Avenue Montaigne. But I shall have a mail address at the Bankers Trust Company anyway. After a few days in Paris, we shall likely run off to some place on the shore for a week or so, and I am just wondering whether you will be near Trouville then in case we should decide to go there. Then we could have some more visits.

Please give my warmest regards to Mrs. Gilbert, and to your Sister, and tell them that Mrs. Humphrey and I will both be much disappointed if we have to leave Europe without seeing all of you again.

With warmest regards and congratulations as well,  
I am

Faithfully yours,

S. Parker Gilbert, Esq.,  
Agent General for Reparation Payments,  
33 Luisenstrasse,  
Berlin, Germany.



*Gilbert*

Hotel Majestic,  
Paris, France,  
August 15, 1925.

My dear Mr. Gilbert:

Due to some delay in forwarding my mail, your letter of July 30 did not reach me until just before my return to Paris.

Thank you for your thoughtfulness in sending me a copy of Dr. Schacht's statement, the explanation of which you gave me verbally. Of course it is most interesting and helpful.

I am glad you feel as you do about our visit to Berlin. Gernor Norman and I both got a lot out of it, much of it being due to your courtesy and help.

Mrs. Morgan's sudden death may, of course, affect Dwight's plans, but I am not sure to what extent, so I am rather counting upon seeing you and him in Paris next Sunday. I am obliged to be in Switzerland on Friday, but will be back here Saturday evening, and if you are in Paris I hope you can give me a call at the Hotel Majestic (Room 380) so that we can have a chat, especially about the debt matters. The reports from home are rather discouraging, and I am a little anxious about it. It may well be that such a trip as you propose will be of the greatest importance.

Please give my warmest regards to Mrs. Gilbert, and the same to yourself.

Sincerely,

Mr. S. Parker Gilbert,  
Grand Hotel,  
Cabourg, France.



*Gilbert*

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

Dear Mr. Gilbert:

Yours of the seventeenth has just reached me, and this morning's papers at the same time advise of the successful conclusion of the Belgian negotiations along a line, so far as I can gather from the meagre account, which ought to be satisfactory to both debtor and creditor. Of course I am delighted, as I know you will be.

I am expecting to lunch with Simon today, and tomorrow shall have a visit with Robineau, and later in the afternoon with Caillaux. Possibly I can tell a little better after that what may be in the wind as to the French debt. And of course I will be delighted to see you and have a chance to talk it all over.

We are delighted to hear that you are enjoying Cabourg, and that the weather is good. Please give my best regards to Mrs. Gilbert, and the same to yourself.

Sincerely yours,

Mr. S. P. Gilbert,  
Grand Hotel,  
Cabourg, France.



PRIVATE

September 30, 1925.

My dear Mr. Gilbert:

Your letters of September 14 and 15 and the various enclosures reached me by the same mail. Under separate cover I am sending you the containers in which they came, as in both cases the seals were broken and the envelopes completely open. The marks on the envelopes indicate that they came by ordinary mail, and were posted from a Paris station located on the Avenue de la Perouse. So I have not made inquiry here as to their possibly having been mishandled, as they did not seem to come by pouch.

Of course, I am replying to your letters quite personally, as I gather you expect me to do, and I am expressing quite an unprejudiced view of the matters dealt with in your letters, as it has always been my opinion that our country has a greater interest in the success of the Dawes Plan generally than it has in the collection of the moderate amounts of money which the Dawes Plan might produce for the liquidation of indebtedness directly to be repaid by that means to the United States. This is, indeed, a small consideration compared to the great importance of financial and monetary reconstruction in Europe and the reestablishment of normal facilities for the conduct of trade between our country and the European countries affected by the Dawes Plan.

I am answering both letters in this, as the subjects are inseparable.

As to the statement of the Ministry of Finance: This recalls to my mind that after the principles of the Dawes Plan had been published, but before the adoption of the Plan, I wrote to Mr. Young pointing out to him that the



maintenance of the international value of the mark would depend in Germany upon the credit policy of the Reichsbank, just as in all other modern banking countries currency stability depends upon the policy of the central bank of issue. The degree of freedom or restriction imposed by the policy of the bank upon borrowing, and the extent to which it controlled the volume of currency and credit in use, would, in fact, be a vital factor in the success or failure of the plan. Furthermore, inasmuch as the scheme for accumulating mark balances by the Transfer Agent contemplated a possible maximum of 5,000,000,000 marks, with the right vested in the Transfer Agent to employ those balances in the money markets, the policy of the Transfer Agent was of importance equal to, if not greater than, that of the Reichsbank.

Very much to my surprise, when I was in Germany, the explanation of the methods employed by the Reich in the handling of the public funds, namely those of the State, of the Postal Authorities, of the Railway Company, and of the Insurance Office, indicated the possibility that the German Government was itself retaining direct control over an accumulation of revenues and funds which might develop to a volume where the Reich would itself become a factor in the credit market of such magnitude as to introduce a third element of uncertainty in the stability of the value of the mark, so far as stability would depend upon credit management within the borders of Germany. Your estimate of the possible amount of public funds, and the evidence that these have already accumulated beyond expectation, and that similar accumulations may be taking place in some of the German States, due to the surpluses of State revenues, all indicate to my mind that the most fundamental of all influences bearing upon the value of the German currency centers neither in the Reichsbank alone, nor in the Transfer Agent alone, nor, indeed, in a policy on the part of both which might be in accord, but now will depend, in fact, upon a triple arrangement between



three parties, the interests and purposes of one of which may be adverse to the others.

It has always been considered unsound public finance for a Government to accumulate unduly large surplus bank balances from taxation or borrowing, just as it has always been considered unsound public finance for the State to borrow heavily from the Bank of Issue.

The Dawes Plan specifically dealt with the latter possibility by limiting the power of the Reich to borrow from the Reichsbank. It may not be so specific in imposing restrictions upon the Reich as to accumulation of surpluses of revenue and the method by which those might be used. The language of the Dawes Plan is specific that the Reichsbank shall be the depositary of the State. Possibly the inference may also be drawn from this provision that the Reich was not expected to function as a bank nor to have power to become a money lender in the ordinary sense. I can see nothing but difficulty and confusion resulting from any such situation as now appears to exist. I have always appreciated the need for cooperation and understanding between yourself and the Reichsbank, but have also felt that failing cooperation, the power nevertheless rested in your hands to provide a counterbalance to either an unduly liberal or an unduly restrictive policy by the Reichsbank, because you would indeed be able on the one hand to offset a policy of restriction by yourself becoming a large lender, and you could likewise probably maintain a position where, in the face of too liberal a policy by the Reichsbank, you could counterbalance it by withdrawing loans from the market.

The existence of a large lending fund in the hands of the political officers of the Government, however, creates a complication which I can see will make for difficulty. Even in conducting your own transactions, whether in cooperation with the Reichsbank or as a counterbalance to its policy, your plans may be made



exceedingly difficult, if not fruitless.

There are doubtless so many elements in the local situation with which I am not acquainted as to make specific suggestion from me likely inapplicable. In general, I feel that if the Dawes Plan is capable of construction so that the Reich is actually denied the power to lend surplus balances, and that this extends also to the funds of the postal, railway and insurance services, that would be the natural and simple solution of the difficulty. It would place the management of all funds in the hands of the Reichsbank, to be handled in harmony with whatever policy you might be able to arrange with the Bank. If the Dawes Plan is not capable of this construction, and the German Government cannot be denied this right, then I should think the united efforts of your own organization and of the management of the Reichsbank, should be directed towards convincing the German Government that it was wiser, as a matter of policy, to adopt this program than to be responsible for the consequences of a disorganized situation.

What troubles me particularly is the evidence that the Transfer Agent is not in possession of sufficient information, as a matter of routine, to form his own judgment as to the extent of the influence of the present policy upon the operation of the Dawes Plan.

Specifically, as to the statement published on September 3, there are objections which doubtless have occurred to you.

In the first place, the Reichsbank is today rationing credit, a measure which is supplementary to a 9% bank rate, and one regarded as essential to the maintenance of a sound situation and the prevention of an increase in the general price level. The policy of the Reichsbank cannot be effective if the State exercises control over so large a percentage of the available credit resources of the Reichsbank as seems to be the case, and is willing to lend at rates below the Reichsbank rate and without regard to the general scheme of rationing which the



Reichsbank is now practicing.

Second; the monetary and credit system of Germany is such that the use of checks has almost disappeared and any expansion of credit by the Reichsbank will be accompanied by an expansion in its note issue. If the policy of the Reichsbank, as outlined to me by Dr. Schacht, is continued, and the ratio of its reserve should become greatly reduced because of expansion in its note issue, a continuance of his policy would require a still further rationing of credit in order to effect a reduction in the note issue to offset increases caused by loans of the Reich. Further, if we assume that the Reich made loans of, say, 2,000,000,000 marks, below the bank rate, and the Reichsbank should contract loans by a similar amount and the note issue correspondingly, the consequence will be to establish a system of loaning to those favored borrowers selected by the Reich, at rates below the Reichsbank rate, and not only would the rate of the Reichsbank be ineffective as to the volume of credit, but the operations of the Reich in the loan market would be almost certain to give rise to charges of favoritism to those interests which had political influence.

Third; my understanding of the situation when I was in Germany was quite different from that now indicated. Loans which were then being made for account of the Reich were, I was told, simply a transfer of some portion of the portfolio of the Reichsbank to the State; that is to say, the balances carried by the Reich with the Reichsbank were invested in bills which had already been discounted or purchased by the Reichsbank, presumably at bank rate. I had no idea that any other rate prevailed or would be established as to those loans, other than the regular Reichsbank rate. So again the policy of the Reichsbank vis-a-vis the policy of the Reich is shown to be in sharp antagonism so far as credit control is concerned.

Fourth; May it not be that this action of the German Government is inspired by an occurrence which Dr. Schacht mentioned when I last saw him? My



understanding was that the Chancellor had suggested that the Reichsbank rate be reduced to 7%; that Dr. Schacht had stated that he was unwilling to reduce it; that he had summoned the Directorium in meeting, submitted to them a statement which was subsequently published, outlining the policy of the Bank, and the Directorium had unanimously approved it.

Fifth; The comments in your letter of September 13 to Governor Norman indicate that the Reich is proceeding upon the theory that the cost of living can be reduced by reducing the cost of credit and (by implication) increasing the volume. That is an economic fallacy of the first order. Apparently those responsible for this policy overlook what has transpired in Germany and the causes which seem to underlie the recent tendency towards increased living costs. These, I think, may be briefly summarized as follows:

(a) The German people had been living for a long period under the influence of a depreciating currency, which aroused widespread distrust of its purchasing power, and led people to practice the habit of converting money into property or goods instantly it came into their hands. Those habits are difficult to eradicate.

(b) Since the Dawes Plan became effective, the Reichsbank reorganized, and the old currency retired, the natural craving of the people to satisfy the desire for many things, including luxuries, asserted itself at once and caused a period of extravagant spending.

(c) This was facilitated by the fact that traders from other parts of the world rushed into Germany as soon as evidence of currency stability became convincing, and undertook to sell goods on credit, placing at the command of the German people many things not formerly obtainable with which to satisfy a craving which had long been unsatisfied.

(d) Bankers, likewise, believed it safe to extend credits to Germany, and foreign investors began to take German loans, thus making large amounts (mostly of short credits) available for use in buying goods abroad.



(e) The natural consequence of this, with a high bank rate and high interest rates generally, was to drive a large amount of divisen into possession of the Reichsbank, and this had the consequence of again expanding the note issue, and again adding to the tendency of prices to rise.

(f) This condition continued until credits, both for goods sold and those extended by banks, fell due and had to be paid and the demands upon the Reichsbank for devisen were further aggravated by certain occurrences which disturbed the confidence of foreign lenders in German credit.

(g) The strain falling upon the Reichsbank to meet these payments abroad reduced its reserve of devisen, somewhat strained its ability to make foreign payments, and, as you know, when I was in Germany this development had reached a point where it threatened the secondary reserves of devisen, and suggested the need for an even more rigorous rationing of credit than was at that time prevailing.

If this picture of the situation is correct, the increase in the cost of living, of which complaint is now made, certainly cannot be corrected by a credit policy which may indeed reduce interest costs somewhat to some borrowers, but which may, at the same time, render nugatory such restraint as the Reichsbank has been able to exercise over unnecessary and unwise borrowing for speculative or unproductive purposes.

Of course this all has a bearing upon the ultimate capacity of the Reparation Agent to effect transfers, which is dealt with in your letter of September 15 and the documents accompanying it.

As to the legal interpretation of the Dawes Plan: After a careful reading of Mr. Frazer's opinion, and of your letter of March 11 addressed to Sir Otto Neimeyer, it seems to me that the arguments are so convincing and conclusive as to require no comment and justify no opposition.

The very important questions raised by your letter as to particular methods suggest certain practical questions of operation which must in any event be dealt with by broad rules of reason and experience rather than by restrictive legalistic interpretation.



Movements of goods between nations are largely seasonal because they so largely arise from the harvesting and marketing of crops within comparatively short periods of the year. This results in a seasonal supply, and conversely, a seasonal shortage of exchange. In former years, before the War, banking procedure had served somewhat to compensate for these seasonal movements of exchange and moderate the effect upon exchange quotations. For instance, American banks, in the Spring, were in the habit of drawing finance bills for ninety days (often with the privilege of one renewal) in anticipation of the movement of the cotton and other crops and the heavy demand for dollars which would arise in the fall and winter. Because the American money market is now the cheapest and for long loans the only available market, it has not been profitable, and may not be for some years, for American banks to draw finance bills on Europe in anticipation of this movement. Therefore the entire weight on the exchange for paying for cotton and other farm produce shipped in the fall must needs be felt at the time of shipment, without the offsetting influence of maturing finance bills drawn on Europe which would give rise to an offsetting demand for European currencies. In other words, one of the consequences of the war will be to temporarily accentuate seasonal demands for exchange as well as seasonal surpluses of exchange.

Another development growing out of the war is the existence of very heavy indebtedness between governments, calling for large payments which are likely to have a disturbing influence upon the exchange rates for which there is no compensating influence, such as ordinarily exists in demands growing out of trade. For instance, under existing funding arrangements, the service of the debts to the American Government will now exceed \$200,000,000 per annum, and, if the service of private loans is added to this, the total is probably \$450,000,000 per annum, or more.

These disturbing elements in the exchange market would seem to make it essential that the Agent General should have the power to accumulate foreign exchange



whenever market conditions favor his doing so; but they should equally restrain him from making final payments to creditor governments until he becomes satisfied that the supply of exchange which he has accumulated in the season of plethora will not result in a dearth of exchange at the season when the supply is short.

My understanding is that the British Government has so far met this situation by accumulating dollars at seasons when the supply of dollars is at the maximum, so that it will have no need to make purchases during the season when British importers of cotton and food stuffs require dollars to make their payments.

All of this is suggested by your letter, but there is another possible complication to which you do not refer, but which it seems to me may arise later. If the German Government, or any of the German establishments, place loans abroad for the express purpose of meeting reparation payments, (such, for instance, as a sale of the railroad bonds abroad) it would seem to be necessary for the Reparation Agent to take over the proceeds of such loans, make deposits in banks in the countries where the loans were placed, and distribute the proceeds over later months or even years. The distribution might be made to a number of countries which are to receive distribution under the Dawes annuity, but which bought none of the bonds. As a practical matter, no other procedure might be wise or possible. If, say, \$100,000,000 of railroad bonds were placed in this country, and the Reparation Agent had no power to open an account here for the proceeds, then the entire amount would first have to pass into the Reichsbank before the Reparation Agent secured possession. Would it then be wise to permit the proceeds to lie in the Reichsbank untransferred and undistributed with the possible influence which that might have upon the operations of the Reichsbank? This suggests a wide field of possible complications in the policy of the Reichsbank and of the Transfer Agent, as well as ultimate complications in actually effecting transfers of a fund which might specifically be appropriated to reparations.



Practically I can see difficulties arising in connection with the distribution of your account unless it can be conducted along the lines indicated in your letter. And I will be greatly interested in learning Sir Otto Neimeyer's attitude on the whole subject. There may, of course, be arguments with which I am not acquainted.

We can discuss all of this much better when you are in this country, and, meantime, I will be turning over in my mind the general question of German balances here and the mechanism of transfer. It is not a matter on which I would like to commit myself without opportunity for further discussion with you. There are a variety of things which might be done, but possibly all that I should say now is to call your attention to the increasing likelihood of an accumulation of German balances abroad in the event of uncertainty developing as to the successful operation of the Dawes Plan. The experience of the German people with a depreciating currency and a disorganized foreign exchange market is so recent and the great advantage to be gained by having reserves in gold standard countries must be so obvious to them, that this is a danger which should be confronted frankly and dealt with long before the development arises, if it ever becomes likely. It will not be capable of immediate discovery, and will arise from a very large number of small accumulations undetectable in the ordinary operation of the exchanges, and uncontrollable except by measures comparable in severity with those which were adopted after the Reichsbank was reorganized. It is further complicated by the fact that there are a number of countries which are now practically on a gold basis, with stable currencies; that is, the United States, Great Britain, Holland, Switzerland, Sweden, Austria and Hungary, not to mention some smaller ones, with all of which Germans have a large trade, and with all of which the opportunity to accumulate balances will be ever present and the temptation equally strong.



I am not at all certain to what extent it would be appropriate for us to go, officially, in assembling information of the sort that you will need, but this also I will consider and discuss with Mr. Jay, who is absent just now for a week.

Diverting from this a minute; I have been rather concerned at the universal complaint which I hear on my return as to the way in which the negotiations for placing German loans in this market are being handled. Except for the original Dawes Plan loan, I do not think there is a single instance of a loan placed here by a German municipality, or even by private corporations, which has not given rise in one or another phase to some dissatisfaction. The consequence of this was naturally to have almost all of the loans but partial successes. The only notable successes that I know of, were the Dawes Plan loan, the loan just placed for the reorganized Rentenbank, through the City Company, and the loan of the City of Bremen, placed by the Guaranty Trust Company and Dillon, Read & Company.

The last loan (Bremen) as well as the Rentenbank loan, were both splendid successes in distribution. But even these negotiations, as you know, gave rise to some dissatisfaction among the American negotiators. In the case of the Bremen loan, definite assurances had been given to the representative of the Guaranty Trust Company that approval of the Advisory Committee of the Reich Treasury could be had in a few hours. This was to be given at a meeting which was held on Friday, the eighteenth instant. But late Friday, or early Saturday morning, a cable was received to the effect that after a long meeting, the committee had withheld its approval, but that they would meet again the following Monday afternoon. Arrangements had been concluded for an offering in Holland, Switzerland, and New York on Tuesday. The syndicate had been organized; the printing had been done; and the preliminary publicity had been issued. The bankers were able to extend the time one day, to Wednesday the 23rd, pending an appeal by me to Dr. Schacht to secure approval in time



to prevent the whole transaction being cancelled. This issue, as you know, was partly to refund an issue of short notes maturing, I believe, in December. While the cancellation might not have embarrassed Bremen in meeting the note issue, it would have caused serious criticism, and I believe would have impaired the ability of German borrowers to negotiate subsequently with these bankers. It was the first German loan placed in this market by the Guaranty Trust Company and they only undertook it after considerable persuasion with some of their directors, who were not favorable to having the Guaranty Trust Company do any German business.

It would not be fair to charge the entire responsibility for this dissatisfaction to the German negotiators. I am conscious of the fact that Germany has been somewhat overrun with representatives of American banks eagerly seeking and competing for business, and that the officers of the German Government and of German municipal and business organizations have had little, if any, experience as borrowers in foreign markets. But between the keen competition of American bankers and the difficulties encountered with the German negotiators, the net result in this market has been widespread dissatisfaction, and certainly injury to the German interests in the only market where they can now borrow in considerable amounts.

All of these developments give me some discouragement as to the extent to which I can be of any real service in promoting constructive plans. My relations with Dr. Schacht have been in every way satisfactory, and I left Germany with a high opinion of his ability and of his purposes. But naturally if a time should come when our relations became important, despite the good opinion of that institution and of Dr. Schacht which I might hold, I could not help but be influenced by the knowledge that there were influences at work, possibly those of a political nature and associated in one or another way with the German Government, which would require me to inform our directors of difficulties and doubts in my



mind which might make it impossible to recommend cooperation. This applies to all of the matters touched upon in our correspondence.

You will, of course, understand that I am writing you most frankly and personally, and quite unofficially. You have asked me for my opinion, and that is always at your disposal. You will, I know, use it with the utmost discretion.

Sincerely yours,

Honorable S. Parker Gilbert,  
33 Luisenstrasse,  
Berlin, Germany.

ES:WSE



September 30, 1925.

My dear Mr. Gilbert:

Enclosed are the containers referred to in Governor Strong's separate letter of this date, which were received open, having apparently come by regular mail.

Very truly yours,

Secretary to the Governor.

Honorable S. Parker Gilbert,  
33 Luisenstrasse,  
Berlin, Germany.



October 2, 1925.

Dear Gilbert:

My reply to your letters of September 14 and 15 is going forward by pouch and should be delivered to your office by hand. I hope you will be on the lookout for it at the same time that this reaches you, or shortly afterwards.

My best to you, as always,

Sincerely yours,

Honorable S. Parker Gilbert,  
33 Luisenstrasse,  
Berlin, Germany.



October 5, 1925.

My dear Gilbert:

I am starting a few inquiries about foreign exchange men who have had experience in actual operation of accounts.

The enclosed is not intended to be a final report, but to make suggestions to your mind, and, if there are any names on this list which appeal to you, I will be very glad indeed to put the men through the "third degree" and see whether I cannot form a pretty definite opinion myself of their capacity.

Mr. Schmid was one of my men in the Bankers Trust Company, and he is very able, but he is a little difficult to get along with. I think he speaks German.

The salaries of these men are not included in the report, but I could ascertain them, and I should say they run from \$8,000 or \$9,000 in the case of the lowest paid, to a maximum of, say, \$20,000 in the case of Schmid.

Let me know what you would like to have me do.

With best regards, as always

Sincerely yours,

B. S.  
msb

Honorable S. Parker Gilbert,  
33 Luisenstrasse,  
Berlin, Germany.



J. P. MORGAN &amp; CO.

CABLE DEPARTMENT

6 pm

NEW YORK.

November 2, 1925.

COPY OF CABLE DESPATCHED TO MORGAN, HARJES &amp; CO., PARIS

63401. Please convey the following message to S. P. Gilbert:

Cable 83983, October 31st, through J. P. Morgan & Co.,  
transmitted to Strong in Washington who sends following reply:

Various protests have been made to Department objecting to  
letter and raising question as to its wisdom and propriety.  
Schacht is here co-operating in effort to develop a new plan  
by which discrimination in German State and Municipal borrowing (S)  
will be effected in Germany under supervision of Beratungs-Stelle.  
The plan seems satisfactory in Washington so far and we are  
awaiting preparations <sup>of</sup> and procedure in detail. Will write  
immediately on returning to New York.

STRONG.

RCL



FOR TRANSMISSION OVER J. P. MORGAN'S PRIVATE WIRE.

To S. PARKER GILBERT

November 2, 1925.

Cable 83983 October 31 through J. P. Morgan & Co. transmitted to Strong in Washington who sends following reply.

Various protests have been made to Department objecting to letter and raising question as to its wisdom and propriety. Schacht is here cooperating in effort to develop a new plan by which discrimination in German State and Municipal borrowing will be effected in Germany under supervision of Beratungs-Stelle. The plan seems satisfactory in Washington so far and we are awaiting preparations and procedure in detail. Will write immediately on returning to New York.

STRONG



November 7, 1925

Dear Mr. Gilbert:

So far I have had no final discussion with Dr. Schacht in regard to the policy of the Reich in using its balances for loans in the market.

Those talks that I have had with him all indicate that he feels more reassurance on this subject than I have yet developed myself. But I am expecting to have another talk with him, and I hope to come more nearly to an understanding of what we regard as a sound position for the Reichsbank to be in. I may be able to do something of this upon my return to New York, after further discussion with him and with Mr. McCarrah.

Sincerely yours,

BS.  
ms/B

Honorable S. P. Gilbert,  
33 Luisenstrasse,  
Berlin, Germany.



PERSONAL AND PRIVATE

November 7, 1925.

My dear Gilbert:

Your letter of October 18 reached me some days ago, but could not be answered sooner owing to my continued absence in Washington. Of course you understand that my reply is purely personal and unofficial, as I am unable in any way to speak for any Department of our Government.

This whole matter of which you have written me, however, has such a vital bearing upon the return to the gold standard, plans for which are now progressing so actively in Europe, and upon the maintenance of gold payment once it is established, that I feel justified in writing you privately in detail.

You know that I have always felt that any attempt by our government to exercise a supervision or control over loans made by its citizens abroad in time of peace is without warrant of law and of doubtful wisdom except in those cases where possibly some great national interest is to be served which has to do with the affairs of our government. This may be a proper exception in the case of loans to governments, or even to their citizens, where those governments owe money to our government, which debts they have neither recognized nor made a serious attempt to refund. There may be other exceptions. Let me refresh your memory as to the development of this extra-legal procedure from its inception.

Early in President Harding's administration, I think in 1921, a member of the Cabinet recommended that our bankers be asked to refrain from handling issues of bonds of foreign countries, or of their establishments, unless the borrower entered into an obligation, to be stated in the prospectus, that the proceeds of the loan would be spent in the United States. There was such obvious objection to this, (principally that it would effect a definite restriction of our foreign trade instead of promoting its expansion) that the project was abandoned.

The proposal was thereupon advanced, that even though no attempt at restraint was to be exercised, the bankers be asked to report those loans before concluding contracts for their purchase. This the bankers rather generally agreed to do. And it is my recollection that in some cases - probably very few - objection was made to loans which were understood by our government to be desired for wholly unproductive purposes, possibly for military purposes.

But in general, while our bankers have been reporting these loans, objection to their being placed was not generally made until, within the past year, it has been the policy of the Department of State to withhold assent to loans to those governments, or their political subdivisions, which have not funded their debts to our government. This was notably the policy in the case of Belgium and France. While the express wishes of the Department of State have not invariably been followed by our bankers, they have, on the whole, been very generally respected.



This was the situation until very recent months. Due partly to representations made by our representatives abroad, and partly to the existence of some doubt in the minds of some officials as to the capacity of Germany to effect the necessary transfers in order to meet the service of loans to German States and Municipalities, which were assumed in some cases to be for purposes that were not wholly necessary, assent has been given in the form enclosed. There was, indeed, a considerable increase in these offerings, no one of the loans being very large, but the aggregate showing a tendency to increase.

Without any preliminary warning, so far as I am aware, either to the German Government, or to you, or to the American bankers, and certainly without any notice to me, a different form of letter was adopted, at a date of which I am uncertain, but probably within the last two or three months, a portion of which was enclosed in your letter of October 18. In some cases a different form of letter has been used, of which I enclose a copy (Marked "A").

While no New York banker brought to my attention any letter in the form enclosed in your letter, within the last few weeks I have received protests from a number of New York bankers as the result of receiving letters from the Department of State as per the copy which I enclose.

As Dr. Schacht was here at the time, we at once took the matter up with Secretary Mellon, and later with Secretary Kellogg, and Dr. Schacht discussed the matter with the German Ambassador. The State Department seemed to be convinced that some restraint must be exercised upon the placing of these loans. It was admitted by all parties that no department of our government was capable of exercising discrimination between those which were desirable and those which were undesirable. Dr. Schacht and I then joined in a recommendation to the Treasury Department, which we also explained to the State Department, that the situation could be met if our State Department should require from the American banker submitting the loan proposal, the concurrent submission of approval of the loan, probably made jointly by the Beratungs-Stelle and by the Reichsbank. This proposal the German Ambassador conveyed to his government, and, in reply, received a cable, translation of which is enclosed herewith (Marked "B").

Upon receipt of this cable, we explained the situation to both the State Department and the Treasury Department, and prepared a form of letter to be sent to American bankers which we thought might meet the situation. A copy of this is also enclosed (Marked "C").

It now develops that the Department of State feels that it has no request from the German Government for a procedure along these lines. And furthermore that the letter in the form suggested appears to subordinate the judgment or decision of our government to the judgment or decision of a foreign government, and that some other form of communication will be required. Just at this point the representatives of a foreign government have arrived in this country to negotiate the settlement of their debt, and the heads of all three departments who have been concerned with this matter have been too closely engaged to give further consideration to our proposal.

This is simply an historical statement of what has taken place. Now permit me to express a few personal views. There is considerable danger at the moment that one of these letters of the Department of State, especially one of the type which I



enclose herewith, may be published. If it is, I fear that it will unsettle American confidence in German loans and close our market entirely. In fact the discussion which has so far taken place may already have that effect to a considerable extent upon the bankers who are concerned. Also many serious practical difficulties arise.

In the first place, there is no means here of determining whether a loan is desirable or not, and, in those circumstances, the same letter must be sent in reply to every application, which means that no German loans can be made. On the other hand, application may be made for Municipal loans for the development of harbor or other improvement works which are of highly productive and necessary character. But there is, nevertheless, no means available here for determining whether such improvements could not be effected out of the revenues of the Municipality from taxation, and thus avoid foreign borrowing entirely.

Then again, there are cases where a portion of an issue has been purchased and sold to the public under the former form of approval, and now, when options are being exercised on additional amounts of the same issue, our bankers have notified the Department and received a letter in the form enclosed, which has the effect not only of tempting them to withhold exercising options, but even to forfeit contracts already made, and somewhat unsettles the minds of the bankers as to the propriety or goodness of the loans already placed.

The situation is bound to develop an increasing number and variety of embarrassments. And I find that such urgent representations have been made to both the State and Treasury Departments that there is no doubt that some modification of the present procedure will soon be undertaken. Just what it will be, I cannot say.

You will pardon a few references to your own position in the matter. As you know, I have always agreed that it was quite impossible for you to undertake juridical interpretations of the Plan and of the London Protocols, where provisions were made for such review and interpretation by other methods. Furthermore, it has always seemed to me that anything in the nature of an interpretation on that point by the Transfer Committee would be nothing less than creating priorities, which were hostile to the whole scheme of the Dawes Plan.

On the other hand, it is manifestly to the advantage of Germany, and on that account of advantage to Germany's creditors under the Plan, that Germany, economically, should develop along sound lines, and that that development, including the restoration of her capacity to produce and export goods, would depend for some time in a measure upon the capacity of German undertakings, of a productive character, to borrow in foreign markets. Undertakings of a productive character in Germany are not confined to private industry, but in some instances are undertaken by the German States and Municipalities. If the impression becomes general that all loans to Germany or to German industry are jeopardized by the Dawes Plan, then the success of the Dawes Plan, which is dependent upon Germany's success in developing production, is itself jeopardized by any restriction upon the extension of credit to Germany which might be productive and helpful; and we must bear in mind that this country is the only market where large loans can be negotiated outside of England, and even there, I believe, the market is or shortly will be limited from natural causes.

From the above you will gather that my own feeling is that we must not close our doors to Germany; that we cannot exercise the discrimination required in order to insure that the loans placed in this country are essential and productive; that



reliance must be had upon the German Government for this discrimination; that no such discrimination can be undertaken by you without your entering into moral obligations which are tantamount to establishing priorities; and, finally, that where borrowing is undertaken by German Municipalities and States, the determination of whether the loans are justified or not must depend not only upon an examination of the direct purpose of the loan, but also upon whether the undertaking could not be accomplished out of the revenues, thus making a foreign loan unnecessary.

The matter reaches us particularly because of the expectation which is so generally felt that when circumstances permit, the Federal Reserve Bank of New York will do its part in endeavoring to establish and maintain the gold standard. It seems to me that there are two pressing questions as to Germany which must be definitely decided before we can determine what our attitude will be. The first was fully discussed in my former letter to you as to the policy of the Reich in employing its funds directly in the money market. And the other is whether Germany shall be permitted to borrow in this country for proper purposes, but restrained by the German Government from borrowing for unnecessary purposes, so that when the Transfer question arises, if it does, it can be demonstrated that the normal economic development of Germany and the capacity to effect transfers have not been impaired by improvident borrowing, but have rather been improved by insuring that the borrowings have been for productive and useful purposes.

These two episodes leave me in a great state of uncertainty as to what the attitude of our bank should be. And, at the time of dictating this letter (on the train back from Washington) my own feeling is that there is little aid that we can render to the Reichsbank until both matters are satisfactorily settled.

It would be very helpful indeed to have you here, so that we could discuss these matters, but I fear that your visit will be delayed until after this matter has been settled one way or the other.

November 16, 1925.

Since dictating the above, I have received your letter of October 29, and read it with much interest.

I don't want you to feel that I am unreasonably critical of the attitude of the Department in Washington. They certainly are inspired by motives which cannot be questioned, that is, some sense of duty that they should protect American investors. But I fear every type of interference of this sort, and after all, the judgment of the bankers themselves is the judgment which must be relied upon in the last analysis.

After dictating the above also, I have read your recent letters to McGerrah, and have had many talks with Dr. Schacht on the subject of the management of the funds of the Reich. Notwithstanding what appear to be contradictions in the reports which have reached you, I still retain the confidence which I expressed to you, that he is endeavoring by various means to put this matter in satisfactory shape. Clearly, you see that he is in a very difficult position. He must not and cannot afford to be accused of conspiring to defeat the policy of his own government. The



delicacy of the situation is such that he may at times have found great difficulty in expressing his views to those with whom he needs to exercise caution, and this is especially true, no doubt, where difficulties of language and idiom always open the door to possibilities of misunderstanding.

Dr. Schacht desires to develop and strengthen relations between his institution and ours, and we are prepared to consider his proposals, as I have explained to him verbally and set out in a private memorandum, which I have handed to him; but always subject to some satisfactory solution being found of the management of the funds of the Reich and the control of German borrowings in this country. He raised no objection to the position I have taken, and in fact tells me frankly that it will strengthen his hand at home.

His attitude in all of our discussions has been particularly correct, thoughtful and considerate as to the attitude of his own Government, but very definite as to his own views that there cannot be three Reichsbanks in Germany. I think he feels that he can get along with you and work out satisfactory arrangements as to policy; but the introduction of this third element of uncertainty is confusing and dangerous, and he hopes to have it corrected. He was most enthusiastic in his satisfaction when word came that arrangements for the transfer of a large portion of the funds of the railways had been or were about to be concluded.

Now I have written you very frankly, and as you will understand, most confidentially and privately, because I feel almost as much interested in the success of what is being undertaken by your organization as I do in the work of this bank. In order that it may reach you securely, I am taking the liberty of forwarding it to London and leaving it to my friends in the Bank of England to have it conveyed to you privately.

Please write me freely and I shall hope at all times to answer quite as freely myself. I am looking forward most keenly to your visit.

With cordial regards, believe me,

Sincerely yours,

B. S.  
MSB

Honorable S. Parker Gilbert,  
33 Luisenstrasse,  
Berlin, Germany.

Encs.  
BS. MSB



December 24, 1925.

Dear Mr. Gilbert:

Enclosed is a letter just received from Shepard Morgan, in reply to one which I recently wrote him, of which a copy is enclosed also.

I examined the envelope carefully when it arrived, and found that the gum had adhered so lightly, that it would be very easy to break open the envelope and examine the contents if the wax seals had become broken in the usual rough handling of mail. In fact, I think the whole envelope might have broken open just in the course of handling.

On the other hand, there will always be suspicion when a letter arrives in that condition, and when the contents are of such a character, that someone has tampered with it. I am sending Morgan's letter because of his suggestion that you may wish to mention it in Washington.

So long as suspicion exists, we are liable to embarrassment, and I hope the boys in your Paris and Berlin offices can be persuaded to give particular attention to sealing these envelopes and to the character of the envelopes used.

I would much appreciate your wiring me just when you plan to be in Washington, after you have finally decided, and I will certainly endeavor to be there at the same time. Governor Norman will go too, but he has not heard from Secretary Mellon about visiting him and, of course, he would not expect to go there unless he did hear; so we may both go to an hotel or possibly both go to Winston's. I will await some word from you before making any plans.

This is also to wish you and Mrs. Gilbert a very Merry Christmas.

Sincerely yours,

Honorable S. Parker Gilbert,  
Crestwood Park, Louisville, Ky.

BS  
mjb



*This copy lodged  
with Code Dept. during  
Mr. Gilbert's stay -  
Returned 1/25/26  
M.S. Blecher*

SPECIAL DELIVERY:

December 28, 1925

My dear Mr. Gilbert:

There follows the text of an open cablegram  
received for you today, which, however, it seems wiser to  
transmit in this form than by telegraph:

"S. Parker Gilbert, Federal Reserve New York.

Sterrett asks me to transmit following code names

Schacht	-	Zaca
Bruins	-	Zace
Leverve	-	Zaci
McFaydean	-	Zaco
Strong	-	Zacu
Fraser	-	Zada
Norris	-	Zade
Breck	-	Zadi
Morgan	-	Zado
Sterrett	-	Zadu
Reich	-	Zaba
Finance		
Ministry	-	Zabe
Luther	-	Zabi
Stresemann	-	Zabo
Karlowa	-	Zabu

Fraser." Paris 28 5:19 P

Very truly yours,

*M.S.B.*  
Secretary to the Governor.

Mr. S. Parker Gilbert,  
Mr. Ross Todd,  
Cherokee Park,  
Ky.



January 4, 1926.

My dear Gilbert:

Enclosed is a copy of a letter just received from  
Shepard Morgan, which relates to those letters of yours which  
came with the seals broken.

Very truly yours,

BS  
MSB

Honorable S. Parker Gilbert,  
c/o Honorable Gerrard E. Winston,  
Treasury Department,  
Washington, D. C.

Enc.  
BS.LS



*Gilbert*  
April 20, 1926.

My dear Gilbert:

I should have answered yours of February 26th some time ago, but great pressure of work has prevented my doing so. Now I am sailing on the "Majestic" Friday, expect to be in London for about ten days, and the middle of May to go to Rome. After a holiday in Italy, I am planning to work around towards Berlin, reaching there, I suppose, some time in June - probably late in June. I hope you will be there, or if not there that we can meet somewhere else. If there is any chance of your being in London before say the 10th of May, we could have a visit there.

I have just received your cable of the 20th through the Department of State, and hope to get a reply off, so far as one is possible, before I sail. In the meantime, I will talk over these matters fully with Mr. Morgan, so please consider this merely an interim acknowledgment.

Sincerely yours,

*BS*  
*msh*

Honorable S. Parker Gilbert,  
Agent General for Reparation Payments,  
33, Luisenstrasse,  
Berlin, Germany.

BS:M



Hotel du Cap d'Antibes,  
Antibes, June 21, 1926.

Dear Mr. Gilbert:

Thank you for yours of the 19th with the copy of the Interim Report, which I shall read with much interest.

Norman has joined me at this delightful place, and we were only saying last night, how fine it would be if you could join us here. We shall be here about a month, so if your thoughts lean in this direction, let me know.

Sincerely yours,

Hon. S. Parker Gilbert,  
Agent General for Reparation Payments,  
18, Rue de Tilsitt,  
PARIS.

BS:M



Hotel du Cap d'Antibes,  
Antibes, July 11, 1926.

My dear Gilbert:

Yours of July 3rd enclosing a copy of the report of the German Railway Company has just come, and I shall read it with a great deal of interest, as I did your own report, for which you deserve congratulations of the first order.

Today the Governor and I are really in mourning, we are so tremendously disappointed and troubled by the news you send us about Grandma. Logie will arrive this afternoon and give us more detail. I do hope that she escapes serious illness and an operation. Tell her that a couple of old fellows are thinking about her down here with much anxiety and affection. If there is anything in the world that either of us can do, you have only to ask for it.

I am awaiting word from New York as to Mr. Mellon's program. He sails on the 14th, and I rather imagine will go directly to Paris. If he does, I am arranging to go to Paris to meet him, which will be about the 20th or 21st, and if Grandma's illness keeps you there, then I shall only hope that we can talk over some of the matters of mutual interest with him.

Please give Grandma my love, and my best to you as always.

Sincerely yours,

Hon. S. Parker Gilbert,  
18, Rue de Tilsitt,  
PARIS.

ES:M



Princess Hotel,  
Paris, August 26, 1926.

Dear Mr. Gilbert:

Enclosed are a couple of clippings that may interest you, if you have not seen them. They may also be of interest to Mr. Mellon. It seems that James Bruce is the brother of Ailsa's husband, and he and Ben are associated in the same office.

I am telegraphing you today about Mr. Mellon's plans for the return, as either Mr. Warren or Mr. Moore are ready to go to Evian to accompany him back.

Best regards to you and the rest of the party.

Sincerely yours,

Hon. S. Parker Gilbert,  
c/o Royal Hotel,  
EVIAN-LES-BAINS.

BS:M



NEW YORK 1287 47/46 10 65 ip

S. PARKER GILBERT

AGENTREP

BERLIN

33 STRICTLY CONFIDENTIAL REGRET DELAY IN REPLY OCCASIONED BY  
AWAITING LETTER FROM ROME WHICH JUST ARRIVED STOP I CANNOT ADE-  
QUATELY EXPRESS MY APPRECIATION OF THE HIGH HONOUR OF POSSIBLE SERVICE  
WITH YOU AND THE STRONG APPEAL IT MAKES STOP HAVE CAREFULLY CONSIDERED  
MATTER AND FEEL SURE IF I WERE TO ACCEPT I SHOULD BE PREPARED TO REMAIN  
ABROAD SEVERAL YEARS WHICH UNDER EXISTING CIRCUMSTANCES APPEARS TO ME  
MOST INADVISABLE STOP THEREFORE MUST REGRETFULLY DECLINE YOUR INVITA-  
TION STOP PLEASE ACCEPT MY BEST THANKS AND GOOD WISHES STOP HAVE CON-  
VEYED THIS INFORMATION TO MCGARRAH.

CASE



Paris, September 2, 1926.

(Sent through Mr. Gilbert's office in Paris)

Private Agentrep

Berlin

Have reserved passage for Mauretania sailing September 18th and greatly regret probably unable visit Berlin at all unless unexpected developments detain me longer (stop) Case just returned from months vacation (stop) My letter was of such character that I hesitate to cable for any reply which he might interpret as indicating that I was suggesting his changing his decision (stop) Think it most unlikely he will do so anyway.

- Strong .



Paris, September 3, 1926.

( For transmission through Mr. Gilbert's office in Paris )

PRIVATE  
AGENTREP

BERLIN

Agree with your conclusion regarding Case and doubt if I hear from  
him before sailing STOP

See no reason why you should not approach Jay who sails for Europe  
September eleventh STOP

As you know my other suggestions were Stewart Miles and Close  
Last named returns New York permanently Wednesday or Saturday next week STOP

He is only one having advantage of adequate independent means STOP

Regards .

- Strong .



Princess Hotel,  
Paris, September 3, 1926.

PERSONAL

My dear Gilbert:

I am afraid you will think my message of today rather cryptic and possibly not very clear, but I had some little hesitation in sending a message through your Paris office in regard to possible changes in your own organization.

We have fully discussed Mr. Jay, and I think probably covered Dr. Stewart adequately in our talks, and you are in position to form a pretty good notion of their qualifications. Jay is sailing for Europe on the 11th of this month, but I have no knowledge of his plans nor of the boat. As soon as I hear, I will drop you a line. Of course you know in what high regard I hold him and what a terrible loss it would be for us if we should lose him. I feel pretty certain that the suggestion will tempt him very greatly, because of the interest in the work, but will have no attractions whatever financially. He is now receiving more than you could afford to pay him, and in all of our talks about his plans, he has always emphasized his desire to get into something where he could really make some money for his family before he is too old; so I doubt if there is even a possibility.

As to Basil Miles, I am not sure how much you know about him. He had a splendid education in America, I think at the University of Pennsylvania, and he subsequently attended Oxford and, I believe, for a time Heidelberg. He was for a while an instructor at Groton, then he went into the diplomatic service, held some posts - I think the longest one in Russia - and he was also Third Assistant Postmaster-General in the Republican Administration. As I recall, he negotiated one of the early Postal Union contracts. He was Secretary of Mr.



Root's mission to Russia when Kerensky was in power. Then he acted as Secretary for the International Disarmament Conference in Washington, and Secretary Hughes told me that he did a magnificent job. For a period he was in the Chamber of Commerce of the United States in Washington, and then accepted this position over here which he now occupies.

He has married recently and has no children and very little money of his own. He speaks German and French fluently. I know him very well indeed and know that he is absolutely dependable and a fellow with a great deal of ability, but he is, in my opinion, a fish out of water in the present organization and doing the type of work which he does. Of course, it has made him pretty familiar with European affairs. He has got a fairly good knowledge of economics and a great fund of all-around information. He writes very well indeed. I am not sure how good he is at office work and such matters as accounting. He is an indefatigable worker. On the whole, I should say that his principal defects for what you have in mind would be lack of a thorough office training and lack of technical knowledge of banking, finance and exchange. While his theoretical knowledge is good, he has had no practical experience. He is at least a possibility, and it might well be that in an organization such as yours, his obviously excellent qualifications in some respects would make up for his lack of experience in others. I am very fond of him, believe in him and believe in his capacity to develop into an organization successfully.

As to Close, I have known him for nearly 25 years. He was a youngster in the Bankers Trust Company when I first went there, immediately after it was organized, and has grown up with the company and held very responsible positions there. I would class him as a thoroughly well qualified, experienced banker, with a good knowledge of domestic and international finance. He speaks no



September 3, 1926.

German and not very much French, although I imagine he has acquired quite a little during his stays in Paris.

Frank Close has certain qualities of shrewdness and good business judgment which you would find of great value. He has an independent fortune which he has made himself and is quite independent of salary. He has one married daughter and a boy about twelve, and he has a very charming wife. He has had the responsible management of the Paris office for a year, and also for two earlier periods of a year each. I should imagine that he may have reached a point where, feeling that he was independent of salary and being much interested in public work, the position might have some appeal for him. The only way to find out is of course to ask, and the way to get up-to-date knowledge of his capacity would be through the offices of the Bankers Trust Company. I have been out of contact with him now for a dozen years and cannot speak from personal contact.

Please let me know if there is anything further that I can do.

I am leaving Tuesday noon for London, where I will *stop* with Korman at Thorpe Lodge, and where you can always reach me through the Bank of England. I shall sail home on the "Mauretania" on September 18th, unless in the meantime something very unexpected and important delays my return.

My best to Grandma, and the same to your goodself.

Sincerely yours,

Hon. S. Parker Gilbert,  
c/o Royal Hotel,  
EVIAN-LES-BAINS.

BS:M



Princess Hotel,  
Paris, September 6, 1926.

My dear Gilbert:

Many thanks for your note of the 4th and for the copy of the press statement summarizing the Agreement about supplemental contributions. You are to be congratulated! It takes another "bone" out of the arena and gives the needy creditors more money, which is all to the good.

Sincerely yours,

Hon. S. Parker Gilbert,  
c/o Royal Hotel,  
EVIAN-LES-BAINS.

BS:M



Mr. and Mrs. James Ross Todd  
request the honour of your presence  
at the marriage of their daughter

Louise

to

Mr. Seymour Parker Gilbert  
on Wednesday, the eighth of October

[1924]

at four o'clock in the afternoon

at the Warren Memorial Church

Louisville, Kentucky



# POST OFFICE TELEGRAPHS

TELEGRAMS  
for INLAND addresses may  
be handed to the messenger  
who delivers this form.

The Post Office accepts telegrams by telephone.

No. \_\_\_\_\_  
Office Stamp  
SEP 17 1939  
ST. LOUIS, MO.

RECEIVED  
SEP 17 1939  
M

Prefix. Time handed in. Office of Origin & Service Instructions. Words. 80

56 BGS Berlin 17 2.0 pm

SENT  
At.....M  
To.....  
By.....

Strong love Blodgerite Ldn  
A. G/389 stop much appreciate  
your letter of september 3rd stop  
I have not hitherto approached Jay  
but am now writing him and hope  
to see him personally during this

# POST OFFICE TELEGRAPHS

TELEGRAMS  
for INLAND addresses may  
be handed to the messenger  
who delivers this form.

The Post Office accepts telegrams by telephone.

No. 2731  
Office Stamp  
SEP 17 1939  
ST. LOUIS, MO.

RECEIVED  
SEP 17 1939  
M

Prefix. Time handed in. Office of Origin & Service Instructions. Words.

SENT  
At.....M  
To.....  
By.....

May stop grandma sends love  
and joins me in best wishes  
for a good trip  
Gilbert





FILES DIV.

JUN 28 1922

FEDERAL RESERVE BANK  
OF NEW YORK

THE UNDERSECRETARY OF THE TREASURY

WASHINGTON

ACKNOWLEDGED

JUN 28 1922

R. S.

June 24, 1922.

X741

My dear Governor:

X

I received your letter of June 22, 1922, with the enclosed copy of the address of Mr. Eugene Meyer, Jr., Managing Director of the War Finance Corporation, before the Convention of the Associated Advertising Clubs of the World, on the subject of "Farm Financing and Business Prosperity". I had already read this speech, but, needless to say, neither the Treasury nor the Federal Reserve Board was consulted before it was delivered. Incidentally I am calling your letter to the Secretary's attention and giving him a memorandum of my own views, a copy of which is enclosed for your confidential information. The suggestions which Mr. Meyer makes as to possible amendments to the Federal Reserve Act, while going somewhat further than anything previously suggested by responsible officials, are, nevertheless, not entirely unlike the suggestions which Governor Harding made last Fall, as you will recall, to Senator Capper and Congressman Strong. These suggestions found their way into Bills (S. 2640 and H. R. 8906) introduced respectively by Senator Capper and Congressman Strong, copies of which I am enclosing for your ready reference.

I cannot quite make out what is happening to the various Bills to provide for agricultural credits, but apparently the House of Representatives is satisfied to take a long recess next week without



FILES DIV.

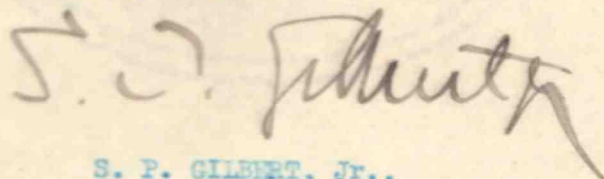
- 2 -

JUN 28 1922

FEDERAL RESERVE BANK  
OF NEW YORK

having taken any action on any of these Bills, and I gather from this that the pressure for further legislation is disappearing. As a matter of fact, I take it that both the Treasury and the Federal Reserve Board authorities have felt all along that as the readjustment proceeded it would become evident that the necessary credits for agriculture could, for the most part, be provided through existing banking facilities, without additional machinery. I believe it would be helpful to have additional machinery along the lines of the Bill proposed by the Joint Commission of Agricultural Inquiry, in order to meet such emergencies as may arise in the future, but apparently there is very little interest in a Bill of this character.

Very truly yours,



S. P. GILBERT, Jr.,  
Under Secretary.

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

3 enclosures.





THE UNDERSECRETARY OF THE TREASURY  
WASHINGTON

ACKNOWLEDGED  
JUL 10 1922

July 6, 1922.

*enclosed*

My dear Governor:

In view of our previous correspondence on the subject of agricultural credits, I am enclosing for your information a copy of the Secretary's letter of July 5, 1922, to the Governor of the Federal Reserve Board with respect to the Bill introduced by Mr. McFadden which was suggested by the War Finance Corporation. I am enclosing also a copy of the report (H. R. No. 1174) from the Joint Congressional Committee on Short-time Rural Credits, which makes recommendations which may prove to be dangerous unless action is taken in good season to provide legislation on sound lines for such further agricultural credit machinery as may be necessary. I think this report emphasizes the necessity of getting together on some workable measure, and I hope that, with the Treasury willing to take the initiative, some real progress may be made before long on legislation to provide the necessary facilities.

Very truly yours,

*S. P. Gilbert Jr.*

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

S. P. GILBERT, Jr.,  
Under Secretary.

2 enclosures.



16 February 1925.

FEDERAL RESERVE  
OF THE U.S.

FEB 26 1925

RECEIVED  
GOVERNOR'S OFFICE

MEMORANDUM for the Agent General.

A.

"According to the provisions of the Experts' Plan, are the payments collected in Great Britain under the British Recovery Act subject to the control of the Transfer Committee?"

B.

"According to the provisions of the Experts' Plan, may the Agent General, upon the advice and consent of the Transfer Committee, open and maintain accounts in foreign currencies in banking institutions outside Germany?"

You desire a response to the foregoing questions based upon a juridical examination and interpretation of the Experts' Plan and such other documents as may be pertinent. I have made such an examination, and I have the honour to respond in the affirmative (for reasons hereinafter set forth) to each of the questions put.

QUESTION A.

Are the proceeds of the British Recovery Act subject to the control of the Transfer Committee?

The affirmative answer to this question is necessitated not merely by the specific, clear, terms of the Experts' Plan describing the powers and duties of the Transfer Committee and



referring to the British Recovery Act, but also by a consideration of the fundamental purpose of the Plan as a whole and the Transfer Committee's relation to the realisation of that purpose.

The Experts were invited by the Reparation Commission to "consider the means of balancing Germany's budget and the means to be taken to stabilise the currency of Germany". In so inviting the Experts to prosecute investigations and to make recommendations the Reparation Commission was not exclusively motivated by pure philanthropy; it was acting within the scope of its powers under Part VIII of the Treaty of Versailles with a view to securing on behalf of its principals a resumption of the flow of reparations within realisable economic limits and an uninterrupted continuity of that flow if resumed.

The Experts replied that a sine qua non of such reparation payments was a "permanently stabilised currency", that "it is easier to estimate the burden that Germany's economic and fiscal resources can bear than the amount of her wealth that can be safely transferred abroad", that although the new Bank of Issue, the International Loan and the balancing of the budget would temporarily stabilise the currency, no permanent stabilisation could be assured (and consequently no permanent reparation receipts) without "some kind of co-ordinated policy with continuous expert administration in regard to the exchange which lies at the root of the Reparation problem".

Hence the Experts distinguished with clarity between the problem of collection inside Germany and the problem of getting these collections over the exchange either in the form of commodities or in cash. In order to determine from time to time the amount of Germany's wealth that could be safely transferred abroad the experts, instead, they said, of hazarding a guess, recommended the establishment of a new body which, so far as reparation payments were concerned, would "safeguard



external payments in accordance with "experience", "realities", and the "exact economic position as it develops in fact" - i.e. the Transfer Committee. "We estimate the amount which we think Germany can pay in gold marks by consideration of her budget possibilities; but we propose safeguards against such transfers of these mark payments into foreign exchange as would destroy stabilisation and thereby endanger future reparation". The Plan emphasised the fact that the payments contemplated therein and to be controlled were all-inclusive and represented the totality of Germany's obligations to the Allied and Associated Powers because of all Treaty costs.

In other words, the fundamental proposal of the Experts' Plan to maintain currency stability and thus secure some reparations was the future regulation of all external payments on account of reparation by the "continuous expert administration" of the Transfer Committee.

No such important external payment as the proceeds of the British Recovery Act can be deemed to have been omitted from the operation of this fundamental proposal of the Experts' scheme unless there be a clear and unmistakable provision in the terms of the Plan to the effect that this payment received on account of reparations is sui generis and is to be excepted from the "co-ordinated policy with regard to the exchange" which the Experts considered to lie "at the root of the Reparation problem". Remembering that the Experts' Plan was conceived and drafted on economic and not on political grounds, and remembering that other Allies had the right to enact Recovery Acts, one would be surprised to find provisions establishing an exception so subversive of the general principle and so capable of extension as to render the whole control of transfers nugatory. The text, however, contains no such surprise, but on the contrary provides, with consistency, that all transfers to the Allies are to be co-ordinated and controlled



by one body, the Transfer Committee, as will appear from the following enumerated references and the deductions therefrom.

- (1) "This Committee (Transfer) will regulate the execution of the program for deliveries in kind and the payments under the Reparation Recovery Act in such a manner as to prevent difficulties arising with the foreign exchange". (Section XIII Part I)
- (2) The Transfer Committee will regulate the program for deliveries in kind in order to avoid exchange difficulties. (Section XI, Part I); (Article IV Annex VI).
- (3) The Transfer Committee will control the transfer of cash. (Section XIII, Part I).
- (4) The proceeds of the Recovery Act are certainly either a cash transfer or a delivery in kind. In both events they fall under the control of the Committee.
- (5) "The Committee shall have power, and it shall be its duty, to apply such bank balances for payments for deliveries in kind and payments under the Reparation Recovery Act in accordance with the program established periodically by the Reparation Commission after consultation with the Transfer Committee as to the character and amount of such deliveries; ..... the foregoing powers to be exercised to the extent to which in the judgment of the Committee the foreign exchange market will permit". (Article IV, Annex VI).
- (6) If it be suggested that part of the foregoing language is possibly susceptible of the narrow technical construction that the programs periodically established relate only to "such deliveries", as distinguished from payments under the Recovery Act, that assumption is at once eliminated by the provisions in other parts of the Report which state that Recovery Act



payments wherever spoken of are assimilated to deliveries in kind. Moreover, quite irrespective of any technical question concerning the function of the Transfer Committee with regard to "establishing programs" for payments under the Recovery Act, the language just quoted makes it clear that after programs have been adopted the payments under the Recovery Act are to be made by the Committee only to the extent to which the foreign exchange market will in its judgment permit.

(7) "Section XIII. How the Payments are to be Received.

The use and withdrawal of the moneys so deposited will be controlled by a committee consisting of the Agent for Reparation Payments ..... and five persons skilled in matters relating to foreign exchange and finance". The funds so deposited are all the funds payable under the Plan (Section XII) for all Treaty charges and hence the Transfer Committee controls the use and withdrawal of all the funds which can be transferred to the Allied and Associated Powers.

(8) If it be suggested that the language just quoted is perhaps susceptible of the narrow technical construction that the Transfer Committee can control only gold mark receipts "so deposited" in the Reichsbank, and has no control over funds collected in Great Britain, the answer is not merely that so technical a construction would render even a control of the gold mark deposits impractical because of their inextricable relation to the sums collected in England, and not merely that such a decision is incompatible with the whole fundamental groundwork of the Plan, but the answer is more categorically and directly given in the broad, unqualified sentence which immediately follows the sentence empowering the Transfer Committee to control the use and withdrawal of all monies deposited: "This Committee will regulate the execution of the program for deliveries in kind and the payments under the



Reparation Recovery Act....."

The Plan indicates, then, both by its general spirit and by its precise stipulations, that the British Recovery Act proceeds are subject to the control of the Transfer Committee. The question arises whether a Plan containing such provisions is binding upon Great Britain and is inconsistent with the terms of the British Recovery Act, 1921.

The provisions of the Plan are binding because the Agreements signed in London, August 30, 1924, by His Britannic Majesty's Government, and others, including Germany, state in their preambles that the Experts' Plan has been "accepted" by each of the interested powers and that said powers are "anxious to provide for the complete fulfilment so far as they are concerned of the Plan presented by the First Committee of Experts". Although normally the control of funds collected by the operation of municipal law would not come within the sphere of some external body, His Britannic Majesty's Government, in the interest of the success of the Plan, the rehabilitation of Germany and the continuation of future reparation payments, specifically stipulated in an International Treaty its readiness to depart in this instance from the usual sovereign control of funds internally collected. This International Treaty operated inside Great Britain as the law of the land, and being posterior to the Recovery Act of 1921 (which was passed as a result of a prior agreement with the German Government) prevails over the terms of that Act in so far as they are inconsistent therewith.

On the basis of the London Agreements and the acceptance of the Experts Plan an international loan was made, made in large measure because of the protection afforded to that loan by the machinery set up in the Transfer Committee and reconsecrated in the London Agreements. For example, Annex II to the Protocol indicates the greatest solicitude in maintaining utterly intact the powers and duties of the Transfer Committee. Although arbitration is provided on certain aspects of the program of



...ries in kind, and upon the question whether a defeat  
ists in the technical working of the Experts' Plan, it is  
ited that such arbitrations may not, however, pass in any  
y upon the powers of the Transfer Committee or relate to  
atters wholly and solely within their competence. The funda-  
ntal object of these exemptions from arbitration is clearly  
preserve unhampered and unsubject to external impediment the  
omplete control of the Transfer Committee on the entire problem  
the transfer of all funds.

Consequently I am of the opinion that under the terms of  
e Experts' Plan and the London Agreements the Transfer Com-  
tee is entitled to control the proceeds of the British  
covery Act, and that the British Government has agreed to  
is control by its acceptance of the Experts' Plan and by  
a agreement to provide for its "complete fulfilment". Any  
her conclusion, especially when it is remembered that other  
untries may enact recovery legislation at similar or higher  
es, would mean that the protection of the Transfer Committee  
German exchange is illusory, that the Plan is so thwarted  
the exception as to contain at the outset the seeds of its  
destruction, and that the exercise of the fundamental duty  
the Transfer Committee, which cannot be submitted even to  
dicial or expert arbitration, may in reality be defeated at  
y time by the explicit advance sanction of the Experts' Plan  
self.

#### Question B

May the Agent General, upon the advice and consent of  
the Transfer Committee, open and maintain accounts in  
foreign currencies in banking institutions outside  
Germany?

Under the Experts' Plan all payments made by Germany for  
account of reparation were to be "first" deposited in the



new Reichsbank to the credit of the Agent General for Reparation Payments (Section XII, Part 1; Article 1, Annex VI).

As indicated above the Experts distinguish between the problem of collection of funds in Germany and the problem of getting them out. On the former question they laid down detailed rules, fixed amounts, outlined administrative methods and presented a complete working scheme for the future. One of the details of the code of collection was that all incoming payments should "first" be deposited in the new Bank.

But when they turned to the second half of the problem they frankly stated that inflexible rules could not be laid down, nor amounts fixed, nor administrative details finally regulated. "Our proposal adjusts itself automatically to realities". "Experience and experience alone", "continuous expert administration" were, in the Committee's view, the only possible practicable solution of the exchange problem of the future. Hence this unsolved question was entrusted to the Transfer Committee with powers purposefully undefined to the last detail, and above all not hampered in advance by regulations as to the administrative mechanics of the discharge of duties by their very nature discretionary. To have acted otherwise would have contradicted the stated views of the Experts that the exchange problem could not be solved by a priori conclusions but only by continuous expert administration and an elastic machinery taking account of the changing lessons of experience. Considering this aim of the Experts and the general function of the Transfer Committee as described in the Plan, is it to be thought that the Experts decided for all time that the Committee must keep all its accounts in the Reichsbank and the Reich bank alone, that incoming funds "first" deposited there must always remain so deposited until actually distributed, quite irrespective of the expert views of the Committee, of future experience and adjustment to realities".



The answer is in the negative, as a matter of inevitable inference from the purpose and spirit of the plan, and as a matter of reasonable construction of those parts of the plan which describe the objects and functions of the Transfer Committee:

(1) The Transfer Committee will "generally so act as to secure the maximum transfers" (Section XIII). This is their fundamental duty. It is discretionary. To carry it out, the Committee must have the powers available to that end. As an incident to that end if they deem the creation of a bank account abroad helpful or necessary they must be enabled to open such an account; otherwise the words "generally so act as to secure the maximum transfer" become empty; and discretion and expert administration cannot be exercised on a subject which is primarily one of administration and discretion.

(2) "The use and the control of the monies so deposited will be controlled by the Committee" (Section XIII) "under conditions and safeguards which would adequately protect the German exchange and the interests of the creditor nations". (Section VI). The Transfer Committee is here charged not alone with the control of monies but with their use, and that use is to be in the interests of the creditors with due regard to the protection of German exchange. If the interest of the creditors or protection of German exchange requires the exercise of such an elementary discretion as the selection of the place of deposit or the use of the funds by the creation of foreign credits then the power to take such a step must be implied, if it is not indeed express, in order that the Committee may realize its primary objects.



(3) "The Committee shall have power "to convert these bank balances into foreign currencies from time to time, and, after conversion, to remit them in accordance with the instructions of the Reparation Commission" (Article IV, Annex VI).

The question arises whether this language, on a sound construction, is inconsistent with the possibility of converting funds into foreign currencies for deposit abroad, and whether it means that funds must be converted exclusively and only for immediate remittance to the Powers. It will be observed at the outset that there is no stipulation in the language that there must be no lapse of time between conversion and remittance. Indeed, if there were no instructions from the Reparation Commission and an excellent opportunity to convert occurred, it would be extraordinary to learn that the Transfer Committee must lose that opportunity on some theory that it cannot hold foreign currencies abroad. If, in the long run, more foreign currencies could be secured and more reparations transferred by the holding of some foreign currencies abroad under the control of the Committee, it would also be extraordinary to learn that the Committee was unable thus to assist the creditor Governments. It will also be observed that there is no stipulation in the language just quoted as to where and how the conversion is to take place. The mechanism is left to the business commonsense of these experts skilled in foreign exchange. In truth Article IV of Annex 6 must be read in the light of the fundamental purposes of the Transfer Committee as stated above and interpreted as subserving that purpose, not as antagonistic to it.



The Plan must be given a chance on the broad lines of the true intent of its authors and upon the assumption that they intended to grant powers adequate to the responsibilities and obligations imposed. Even doubts must be properly resolved in favour of the efficient operation of the Plan and above all it must not be searched for isolated provisions which, by a technical and over-narrow construction, might be employed to render the success of the Plan more difficult.

The suggestion that the Reichsbank is the exclusive depository of the funds is based upon a failure to discriminate between that part of the Plan which relates to the receipt of funds (which all go to the bank) and that half of the Plan which covers the use and withdrawal of funds and vests that function and the exercise thereof to the Transfer Committee; in that part of the Plan, and in the provisions concerning the Reichsbank itself, there is no statement or unmistakable intimation that the Reichsbank is the exclusive depository, or the exclusive medium, through which foreign exchange transactions must be handled. Indeed, having regard to the recognition of the possibility of financial manoeuvres, it would seem strange if the Allies deliberately foreclosed themselves from employing the machinery of their own banking institutions and left the whole subject in the hands of the Reichsbank.

I conclude, therefore, that in the interest of the Allies and with a view to securing maximum transfers, the Transfer Committee may open such accounts in foreign exchange in foreign banking institutions as it sees fit and may use funds accruing from Germany to establish and replenish these accounts.

(Signed) IRON FRASER.



THE AGENT GENERAL FOR REPARATION PAYMENTS

Berlin  
33 Luisenstrasse

Telephone: Norden 11900-11910  
Telegrams: Agentrep, Berlin.

Paris  
18 rue de Tilsitt

Telephone: Wagram 2122-2123  
Telegrams: Repagont, Paris.

Berlin, 11th March, 1925.

My dear Niemeyer:

I received in due course your letter of February 16, 1925, with respect to your position on the Recovery Act, and communicated the substance of it to the Transfer Committee at its meeting on the 18th of February. In so far as the British share of the Annuity is concerned I think you need have no fear of misunderstanding on the part of the Committee. Everybody has assumed that the position would have to be adjusted in that regard during the course of the year, and most of us have felt that, in view of the recommendations of the Finance Ministers' Conference, it ought to be done currently, from month to month. The arrangements which have been made in respect to the March programme have cleared the air materially on that point, and have more or less covered it for the time being.

The real question is as to the position of the Transfer Committee, and on that I have been waiting for the issues to develop somewhat more clearly before writing to you. In the meantime I have, of course, been in touch with Finlayson, and I assume that through him you have been keeping acquainted with what is going on, including, first, the action taken by the Transfer Committee at the meeting on February 18th, and, second, the progress of the negotiations with the German exporters as to the possibility of getting a group of them to provide the necessary amount of sterling to satisfy the requirements of the Recovery Act.

I gave a copy . . . . .



of the Transfer Committee resolution to Finlayson on the day of the meeting, but I am enclosing an additional copy herewith to complete your records in case it has not already come to your attention.

It has become increasingly clear to everybody here that under present conditions, or even under conditions as they are likely to be for some time to come, there is little or no possibility of being able to work out an acceptable system of realizing on a reichsmark credit for account of the British Government through the sale of reichsmark bills in London or through operations of the Reichsbank here. The fundamental difficulty is that German exporters are still invoicing the bulk of their exports to England in sterling rather than in reichsmarks and will probably continue to do so for a long time to come. It may be possible gradually to restore the practice of invoicing in reichsmarks, but it cannot be done over night and at the best it would take months or possibly years. Until it is measurably restored the market in London would certainly not be broad enough to absorb the necessary quantity of reichsmark drafts of the kind that was proposed without endangering the exchange, and anything that might be done from this end, through the Reichsbank, could hardly avoid having the character of a cash transfer. That, I think we agree, must be avoided.

This leaves us with only two practical possibilities for handling the Recovery Act. The first is set forth at some length in the resolution adopted by the Transfer Committee, and the second is the plan on which Finlayson has been working, whereby the present system of collections under the Recovery Act would be suspended on the basis of an undertaking on the part of the principal German exporters to supply



each month the amount of sterling needed for the Act. It looks to me if one or the other of these alternatives would have to be adopted, and either of them necessarily raises the question of the deposit of sterling to the account of the Agent General for Reparation Payments with the Bank of England. This is, of course, inherent in the first alternative, which contemplates that the Transfer Committee would authorize continued reimbursement to the German exporter under the Recovery Act only if the proceeds of collection are regularly deposited in sterling to the credit of the Agent General for Reparation Payments and under control of the Transfer Committee. And it is equally inherent in the second alternative, since it presents exactly the same question of reimbursement to German exporters. Manifestly this proposal would only be feasible if the Agent General undertakes to pay an equivalent sum in reichsmarks to the group of German exporters who furnish the sterling, and under the Transfer Committee's resolution an undertaking to this effect could only be given if the Transfer Committee were assured control over the sterling resulting from the transaction.

The question of the deposit of sterling to the credit of the Agent General with the Bank of England is thus squarely presented, and I am therefore writing you quite fully and frankly about it, as I see it, from the point of view of the Agent General and the Transfer Committee. I fully appreciate your desire to be helpful and your unwillingness to raise questions about the powers of the Transfer Committee which may be embarrassing. I cannot escape the conclusion, however, that whether we like it or not circumstances have already raised the issue in this case and that since it has been raised it might as well be settled now as later.



To my mind the issue is presented in two aspects, first, the narrower issue as to the control of the Transfer Committee over the payments under the Reparation Recovery Acts, and, second, the broad question as to the power of the Agent General, under the authority or by direction of the Transfer Committee, to establish and maintain balances abroad in foreign currencies for the purposes of the Plan. Both of these questions are quite fundamental, and the second one may become absolutely vital to the operations of the Transfer Committee.

The questions presented cannot be considered simply from a legal point of view, but they do raise questions of interpretation under the Plan and the first thing I did, therefore, was to request the legal opinion of Mr. Fraser, who is acting as head of the Legal Service under the Co-ordinating Board. I received this opinion under date of the 16th of February, 1925, and it seems to me to cover admirably the legal aspects of the matter. It was circulated among the members of the Transfer Committee at the last meeting, and I am enclosing a copy of it herewith for your information.

To take up first the question of the payments on account of the Recovery Act, it seems to me that from a legal point of view the Transfer Committee's jurisdiction is perfectly clear, and Fraser's legal opinion to this effect has recently been reinforced by the more specific statement which he made in my behalf before the Permanent Managing Committee of the Reparation Commission at its meeting on February 27th, a copy of which is enclosed herewith in the form of extracts from the Minutes. The difficulties with respect to the March programme, which came before the Commission at this meeting, illustrate admirably the necessity of



bringing the Recovery Act payments into harmony with the rest of the payments under the Plan, and at the same time show how ineffective the control is for all practical purposes under the present system. The Transfer Committee even now has absolute control in the sense that it could at any time refuse to continue reimbursement to the German exporters, which would in turn bring about either a revision or suspension of the operation of the Recovery Act in Great Britain. This form of control, however, is too drastic to be useful for ordinary practical purposes. It could be exercised effectively enough to force a stoppage of the Act, but even then it would be at the expense of a considerable shock to trade and commerce, and it is not the kind of control that can be administered in an orderly manner from month to month.

As I understand the arrangements which have been made in Paris, the Reparation Commission's approval of the March programme was conditioned upon the undertaking of the British Government to repay to the Agent General at the end of the month any excess which may have been collected under the Recovery Act over and above the amount allotted to the British Government for the month. My understanding is that this repayment will be effected by the deposit of the equivalent amount in sterling to the credit of the Agent General for Reparation Payments with the Bank of England. This arrangement I was willing to accept as a compromise to meet the practical necessities of the moment, but it would not be sufficient as a basis for future operations. For obvious reasons I could not accept the principle of reimbursement for the purposes of doing business with the Powers, and, as Fraser pointed out in his statement to the Commission, it is clear that voluntary repayment



at the end of the month of any overpayment which the British Government may have collected during the month does not in any proper sense give the Transfer Committee the control over Recovery Act payments which was contemplated by the Plan. It does not give the Transfer Committee the opportunity to exercise its admitted jurisdiction, and it puts the whole question on the wrong basis. It confronts the Transfer Committee and the Agent General with an accomplished fact, namely, that the British Government by direct action, and without consultation with the Transfer Committee, has taken the amount of sterling which it desires each month out of German exports to England, leaving the Agent General with a resulting obligation to reimburse the German exporter in reichsmarks and with no protection except an agreement of the British Government to restore any excess over its allotted share. If the only problem involved in administering the Experts' Plan were that of keeping the various Governments within their respective percentages of the Annuities it might be possible to defend this as a rough and ready compromise. But the fact is that it begs the fundamental question of the Transfer Committee's control, and, within the limits of the British share, takes the administration of the Plan out of the hands of the duly constituted authorities. This last aspect of the matter is not without its practical aspects, for the time is coming, owing to the irregular nature of the Annuity payments, when the income accruing to the Annuity in a given month may not provide sufficient funds to cover the normal monthly programme, and in that event the effect of permitting the Recovery Act to operate on its present basis would be to give the British Government a preference over everyone else, and perhaps to create a real shortage of funds.



The so-called lag in the payment of vouchers does not give any answer to the difficulties. Whether or not there is a lag, the fact of the matter is that the British Government has collected the sterling in England and, therefore, has the money. This gives rise to a corresponding obligation on the part of the Agent General to make reimbursement to the German exporter of the equivalent sum in reichsmarks, and this sum has to be carried as an accrued liability in the Annuity accounts even though the vouchers have not actually been presented for payment.

In these circumstances I see no alternative left except to put the sterling to the credit of the Agent General for Reparation Payments and under the control of the Transfer Committee. This makes it possible for the Transfer Committee to exercise the same control over Recovery Act payments that it already exercises over deliveries in kind, thus carrying out faithfully the provisions of the Plan to the effect that payments under the Recovery Acts are to be regarded as deliveries in kind. It does not seem to me that under such an arrangement the British Government would lose anything to which it is rightfully entitled under the Plan. In the ordinary course of events the practice would be, as set out in the resolution of the Transfer Committee, to make payments out of this sterling at regular intervals to the British Government, within the limits of its share of the Annuity. This would always be subject to the decision of the Transfer Committee as to how far the payments could be made without endangering the German exchange, but this is a condition applicable to all payments under the Plan including deliveries in kind as well as payments under the Recovery Acts. I do not see, therefore, that its application



could in any sense operate to the prejudice of the British Government.

As I understand your position you have two principal objections to the deposit of the sterling to the credit of the Agent General for Reparation Payments, the first being that it involves you in legislative difficulties in view of the provisions of the existing Reparation Recovery Act. I cannot see that this is a valid objection. All of us have assumed from the first that any of the changes under discussion with respect to the Recovery Act might involve some modification of the existing Act, and I should think that whatever modification may be necessary to cover this point could be made without additional difficulty. I am not able, of course, to give any useful opinion as to the construction of a British statute, but even the present law seems to me to contemplate something not very different from what the Transfer Committee proposes, for it speaks in terms of depositing the collections to a "special account", in such manner as the Treasury may direct, and earmarks the funds as being intended to discharge the reparation obligations of Germany. If, as I understand you feel, this paragraph has to be modified I should think it would be a perfect answer to any parliamentary objection to point out that since the enactment of the Recovery Act the British Government has signed the London Agreement, which constitutes in effect a new treaty and supersedes the provisions of the Recovery Act in so far as inconsistent therewith. To state it in a slightly different way, the London Agreement regulates the reparation obligations of Germany by setting up the Transfer Committee and endowing it with broad powers over the transfer of German payments, and any change that may be needed in the law in order to bring the Reparation Recovery Act into



harmony with this new definition of Germany's obligations raises no new question but is merely a step taken by the Government in order to carry out an already existing commitment.

As I understand your other objection it arises from your feeling that the Transfer Committee has no power under the Plan to authorize the Agent General to open and maintain accounts abroad in foreign currencies. This raises the second and broader issue to which I referred at the beginning of this letter, and on this question also it seems to me that Fraser's opinion is quite conclusive. It is hardly necessary for me to add to the legal arguments which he advances, but since your letter indicates a good deal of doubt on this point it may be just as well for me to make a few remarks, first, on the question of law, and, second, on the business aspects of the matter.

From the legal point of view I do not personally see how there can be the slightest doubt about the construction of the Plan. The provision which you paraphrase from Annex 6 reads as follows:

IV. The Committee shall have power, and it shall be its duty:

- (b) to convert these bank balances into foreign currencies from time to time and, after conversion, to remit them in accordance with the instructions of the Reparation Commission.

Elsewhere in the Plan it is stated to be the duty of the Transfer Committee to secure "the maximum transfers without bringing about instability of the currency". Moreover, the provision above-quoted from Paragraph IV (b) is followed by a general provision which you do not quote, reading as follows:

"Both the foregoing powers (a) and (b) to be exercised to the extent to which in the judgment of the Committee, the foreign exchange market will permit, without threatening the stability of the German currency".



It seems to me that these several provisions indicate, as clearly as it is possible for language to indicate, that there are two independent processes involved in the operation, that is to say, first, the conversion of mark balances into foreign currencies, and, second, their remittance after conversion. It is expressly provided the power is to be exercised to the extent to which, in the judgment of the Committee, the foreign exchange market will permit, and this must mean that the Committee is free to stop with the first step, that is to say, the conversion into foreign currencies, if in its judgment it is not safe to proceed with the final step of distributing the funds among the Powers.

To speak in more general terms, the Transfer Committee has been entrusted by the Plan with the duty of securing the maximum transfers that can be made without bringing about instability of the German currency. The language of the Plan about maintaining balances and converting marks into foreign currencies must be construed not as being restrictive but as being intended to give the Committee the facilities which it manifestly needs in order to discharge its responsibilities. This is almost the first principle of construction. The language used is not in the least ambiguous or uncertain, and I do not see any basis for giving it a restrictive construction.

From a practical point of view the case is even clearer. The Plan expressly provides, as I have said, that the Transfer Committee is intended to secure the maximum transfers without bringing about instability of the German currency, and I should suppose it was desired that the Committee should accomplish this result to the best of its ability. It is manifest

.....



that the Committee cannot do this if it is hampered in its operations by never being able to take but one position in respect to the exchange market, or, in other words, if it must <sup>always</sup> be a seller and can never be a buyer of German exchange. To put the case more specifically, it must be clear to anyone having experience with the foreign exchanges that the Transfer Committee will necessarily have to feel its way in making cash transfers, and that in general its policy will always have to be put just enough, but not too much, pressure on the German mark. To do this safely it must have some margin of safety in the form of reserve balances abroad in foreign currencies out of which it could buy marks if at any time the transfers seemed to be endangering the stability of the German currency. To adopt your construction would mean that the Transfer Committee could never make a conversion into foreign currencies except for the purpose of immediate and final payment to the Governments, or, in other words, that the Transfer Committee's action in converting marks into foreign currencies would always be irrevocable. As a practical matter this would put the Committee in an impossible position. On the one hand it would be helpless to discharge its very great responsibilities in respect to the German exchange if it were deprived of all means of protecting itself against mistakes of judgment or unforeseen contingencies. On the other hand, the Committee would not be able to discharge to the full its responsibilities in respect to the Allied and Associated Powers, for the reason that if the Committee must always be a seller and can never be a buyer of German exchange it will be instinctively and inevitably more hesitant in making transfers. It would be deprived of all opportunity to test out the market, and would have to regard all its purchases of foreign



currencies as final irrevocable. Altogether, therefore, it seems to me that the position which you suggest would work directly against the interests of the Allied and Associated Powers, for it is sure to reduce the capacity of the Transfer Committee to make transfers and to cut down the amount of cash transfers available to the Governments.

There is another <sup>practical</sup> consideration which points in exactly the same direction. If the Transfer Committee is going to secure the maximum possible transfers it has got to do what everyone else in a similar position must do, namely to buy foreign currencies with its mark balances as and when the market permits. The foreign exchange market is necessarily subject to many influences not under the control of the Transfer Committee or of the Governments, and its movements cannot be expected to synchronize exactly with the needs of the Allied and Associated Governments or with the schedule of payments under the Annuity. It must be the policy of the Transfer Committee, therefore, to buy foreign exchange whenever it is available, whether or not it is to be used for immediate disbursement to the Allied Governments, and in doing this the Committee will naturally have to follow the same policy which anyone else with large needs for foreign currencies would follow, namely, to accumulate foreign currencies abroad against the day when they will be needed for disbursement. I do not know, for example, the course of your operations with respect to the debt to America, but I suppose that your Treasury follows exactly this policy in accumulating the funds needed for the semi-annual payments on account of interest and amortisation. It is only by pursuing substantially the same tactics, and getting foreign exchange whenever it safely can, that the Transfer Committee will be able to secure the maximum transfers.



This being the case, the effect of holding to your position against the establishment of foreign accounts to the credit of the Agent General is to play directly into the hands of the Germans. If there are to be any substantial cash transfers somebody will have to accumulate the foreign currencies for the purpose, and if you adopt a construction under which the Agent General cannot accumulate these balances for the Transfer Committee the inevitable result is to throw the Agent General and the Transfer Committee completely into the hands of the Reichsbank, for if the Transfer Committee cannot accumulate the balances itself it will have to depend upon their accumulation by the Reichsbank. I should suppose that, generally speaking, the Allied and Associated Governments would prefer to have their own representatives handle the funds than to rely on the Reichsbank to make the accumulation for the purpose.

Another point that must be kept in mind is the relation of this question to the service of the German External Loan 1924. Both the Agent General and the Transfer Committee have assumed very definite responsibilities in relation to the service of the Loan, and practically the whole service has to be accomplished in foreign currencies. The total amount involved is about 92,000,000 goldmarks a year, and from time to time special measures will undoubtedly have to be taken that will involve the establishment and maintenance of foreign balances, either with a view to arranging the service of the Loan more conveniently or with a view to protecting the service against various contingencies. It is manifest that the Agent General and the Transfer Committee must be free to use whatever facilities may in their judgment be necessary for discharging the responsibilities which they have undertaken in reference to the Loan, and if this involves the establishment of foreign



balances from time to time in the name of the Agent General I do not conceive that anyone can properly offer objection.

These conclusions seem to me inevitable, and I have arrived at them only after much study on my own part and a good deal of consultation with people having practical experience in such matters. The other members of the Transfer Committee have all indicated the same opinion whenever the question has come up, and, as you probably know, Mr. Henry Bell has written a letter to Governor Norman stating the same conclusions with respect to the transfer problem, and particularly with respect to the necessity of having balances abroad in foreign currencies. I attach the greatest importance to his opinion because he speaks not merely as a member of the Transfer Committee but also with the practical judgment of a banker of unusually wide experience. I have also discussed the question at some length with Governor Norman, and with Sir Robert Kindersley and Sir Josiah Stamp, and I understand them all to be in full accord.

To put this all in a nutshell, the situation is that the Experts' Plan has set up a Transfer Committee with a far-reaching powers and responsibilities, in an effort to reach a satisfactory solution of the so-called transfer problem. That problem is in many ways a new one and it presents unique difficulties. The world has never known the problem before in anything like this magnitude, and under the most favourable conditions it is one of unexampled intricacy and difficulty. It is the keystone of the Experts' Plan, and the ability of the Transfer Committee to work it out is going to determine very largely the success or failure of the Plan. Manifestly the provisions of the Plan relating to the functions of the Transfer Committee must be given an interpretation that will make them effective, and must be construed as giving to the Committee the



- 15 -

ordinary powers needed for the discharge of its responsibilities. I believe that this is the natural meaning of the language used, and that the other construction which you suggest is much too constrained and restrictive. It might even be destructive.

I think you will agree that this is not the kind of question to be settled by arbitration or similar proceedings. The practical way is to thrash it out thoroughly in the beginning and come to an understanding about it. With this in view I hope you will think the whole thing over most carefully and let me have your further thoughts about it as soon as you conveniently can.

Sincerely yours,

(Signed) S. PARKER GILBERT.

Sir Otto E. Niemeyer,  
Treasury Chambers,  
Whitehall,  
London, England.

3 enclosures.



EXTRACT FROM MINUTES OF 5TH MEETING OF TRANSFER COMMITTEE,

BERLIN, FEBRUARY 18, 1925.

FEDERAL RESERVE BANK  
OF NEW YORK

SEP 26 1925 10 57 AM

RECEIVED  
GOVERNOR'S OFFICE

The Transfer Committee, at its meeting on the 18th February 1925, took the following action, by unanimous vote, on the subject of the Reparation Recovery Acts:

The Committee took note of the efforts that had been made to find a satisfactory substitute for the present system of collection under the British Reparation Recovery Act, on a basis that would permit the payment of the tax on a statistical basis through periodical credits in reichsmarks on the books of the Agent General for Reparation Payments, and noted further that after canvassing all the possibilities there seemed to be little or no likelihood of being able to work out at this time an acceptable method of realising on the reichsmarks thus credited for account of the British Government, in view of the general practice among German exporters to invoice their exports to England in sterling rather than in reichsmarks.

It was the sense of the Committee, assuming that the present system of collection under the Reparation Recovery Acts is to continue, that the Transfer Committee would itself be in position to authorise continued reimbursement to German exporters under the Acts only if the proceeds of collection by the respective Governments under their Reparation Recovery Acts are regularly deposited, in the foreign currencies, to the credit of the Agent General for Reparation Payments, so as to place them under control of the Transfer Committee, as contemplated by the Experts' Plan, and assure to the Committee the same control over Recovery Act payments as it already exercises over payments for deliveries in kind, the understanding being that the funds thus deposited would in turn be available, in so far as may be possible in the judgment of the Transfer Committee without endangering the German exchange for payment at regular intervals to the respective Governments on account of their respective Reparation Recovery Acts, within the limits of their respective shares of the annuities under the Plan.



**MORGAN, HARJES & CO.**

(Reg. Comce. Seine No 33562)

Paris,

24/6/40

Europe  
19/25

(code)

of Telegram despatched to

Messrs. J.P. Morgan &amp; Co.

New York,

Monday

83.839 -

For Benjamin Strong from S.P. Gilbert.

Glad to have message. (stop) Looking forward  
to having you here.

000-00000

L



THE AGENT GENERAL  
OF REPARATION PAYMENTS

BERLIN  
33 LUISENSTRASSE  
TELEPHONE: NORDEN 11900-11910  
TELEGRAMS: AGENTREP. BERLIN

L'AGENT GÉNÉRAL  
DES PAIEMENTS DE RÉPARATIONS

PARIS  
18 RUE DE TILSITT  
TÉLÉPHONE: WAGRAM 2422-2423  
TÉLÉGRAMMES: REPAGENT. PARIS

PERSONAL AND CONFIDENTIAL.

BERLIN, June 5th, 1925.

*See Cable 6/18/25*

My dear Governor:

I have just heard from Governor Norman that there is a chance of your coming to Europe within the next month or two, and that if you do come Norman is planning to make a trip to Berlin with you.

I hope very much that you will decide to come. I should love to see you and talk things over, and I am sure you would find the trip interesting from your own point of view. It is really necessary to see Germany in order to get a picture of the situation over here, and I should particularly like to have you meet and get to know Schacht. Norman already knows him well. It would be a first-rate thing all around if Schacht could also establish contacts with New York, particularly with the Federal Reserve Bank.

I hope you will let me know, by cable if possible, whether you are coming over and, if so, when you are likely to be in Berlin. If you prefer, the cable could come by code either through the American Embassy here or through Morgan, Harjes. When you do come I hope also that you will plan to stay with us. We can give you the spare room and put you up just as quietly as you would like to have it.

With best regards, I am,

Sincerely yours,

*S. E. Tilsitt*

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



J. P. MORGAN & CO.  
CABLE DEPARTMENT

6 53 23

*Gilbert*

7:45 A.M.

NEW YORK.

June 24, 1925.

OF CABLE RECEIVED FROM MORGAN, HARJES & CO., PARIS

83839.

For Benjamin Strong from S. P. Gilbert.

Glad to have message.

Looking forward

to having you here.



*Geckert*

THE AGENT GENERAL  
FOR REPARATION PAYMENTS

L'AGENT GÉNÉRAL  
DES PAIEMENTS DE RÉPARATIONS

BERLIN  
33 LUISENSTRASSE  
TELEPHONE: NORDEN 41900-41940  
TELEGRAMS: AGENTREP. BERLIN

PARIS  
18 RUE DE TILSITT  
TÉLÉPHONE: WAGRAM 2122-2123  
TÉLÉGRAMMES: REPAGENT. PARIS

BERLIN, July 30, 1925.

*ack - 8/15/25*

My dear Governor:

I am glad to have your letter of July 23, 1925, and to know how your plans are developing. I hope that they will ultimately lead you to Cabourg, for it would be great fun to be able to play together there for a few weeks.

We are all leaving here on Sunday, August 2nd, and expect to arrive in Paris early Monday morning. Mrs. Gilbert and I are then planning to go by Tuesday night's train to Biarritz to spend three or four days there with the Morrrows. I expect that we will reach Cabourg about Monday, August 10th, and that we will settle down there for three or four weeks. Mrs. Gilbert's father and mother arrive at Cherbourg on August 12th, and will join us at Cabourg.

I have never seen the place personally, but from all accounts it ought to be quite perfect. At any rate it is said to have an exceptionally good golf course, as well as good bathing and good tennis. We are going to the Grand Hotel, which I understand is the only hotel there. It is said to be a really quiet place, and I do hope you will all decide to come.

Our address in Paris will be the Hotel Crillon, and there may be a chance of seeing you next Monday or Tuesday. Do not forget that my Paris office, on the 5th floor at 18 rue de Tilsitt, is there for you



to use if you would like it, and I want you to feel free to call on it for anything that it can do to help you.

I cannot tell you how happy I am about the results of your visit here. It has done a world of good to have you and Norman make such a visit to Schacht, and I think that the relationships which have now been established will be of the greatest assistance in keeping things on an even keel. Among other things, it has given Schacht a much broader point of view, and, at the same time, has enormously strengthened his position at home. I can tell you more about this when we meet again, but in the meantime it may interest you to know that his position is showing consistent improvement these last few days and that he is much more cheerful about it. It may interest you also to have the enclosed copy of the statement which he made a day or two ago before the Central Committee of the Reichsbank.

Thanking you again for your letter, and hoping to see you all soon, I am,

Faithfully yours,

*S. Parker Filbert*

Benjamin Strong, Esq.,  
c/o Bankers Trust Company,  
3 & 5, Place Vendome,  
P A R I S.

1 enc.



around seven o'clock. I  
do not know the exact  
time of arrival, but there  
seems to be a good train  
leaving Trouville at around  
three o'clock and I shall  
come that way.

The news about the  
Belgian negotiations does not  
look good, though I know no  
more than the newspapers  
have to say about it. Perhaps

S. P. G.

Gilbert  
Cabourg, August 17.  
1915

My dear Governor.

Your letter  
arrived this morning, and  
I am glad to hear how  
your plans are developing.  
I shall plan to come up  
to Paris on Sunday, August  
23<sup>rd</sup>, arriving there some time



the trip that Mellon and  
Smoot are making to Plymouth  
may change the picture. I  
should be really concerned if  
the negotiations came to a  
complete breakdown, and it  
would bring many complications  
over here. Having forced the  
negotiations at just this time -  
even down to the precise dates,  
the Administration has, it seems  
to me, an unusually heavy  
responsibility to make sure that

a settlement is made, and  
almost an obligation to do  
everything in its power to  
facilitate a settlement.

Cabony is turning out quite  
well. I was under the weather  
the first few days, but now  
am really enjoying it. It is not  
a perfect place, but the weather  
couldn't be better and there  
is very good bathing, tennis  
and golf.

Best regards, and au revoir  
until Sunday - S.D.S.



C O P Y

Berlin, September 10, 1925.

  
PRIVATE

My dear Governor: *[Handwritten signature]*

I was much surprised to find, on returning to Berlin, that the German Government had just issued a statement to the effect that public funds will be loaned to the banks at  $7\frac{1}{2}\%$ , and that even the rate on long-term funds of the Postal Administration has been reduced to 8%. This announcement took the form of a statement from the Ministry of Finance, and I am enclosing a copy of it herewith for your information. As you will notice, the statement defines public funds to include not only funds of the Reich Government but also funds of the Postal authorities, the German Railway Company, and the Insurance Office of the Reich. As you will also notice, the statement says that the reduction in rates is being taken "with the co-operation of the Reichsbank."

Schacht has not yet returned, but if it is in fact true that this action has been taken with the cooperation of the Reichsbank, I can hardly account for his not having mentioned it in the conversations which we had in London on Monday. As a matter of fact, while Strong was present, I asked him particularly whether he now had satisfactory control over all the various public funds, and he replied categorically that all these funds were now deposited with the Reichsbank and that he was entirely satisfied. If, on the other hand, the German Government has taken this action without consulting the Reichsbank, the situation seems to me even more serious, first, because it is a clear indication that there are still important Government funds which are not yet deposited with the Reichsbank as contemplated by the Experts' Plan, and, second, because the Government's readiness to loan out these funds at  $7\frac{1}{2}\%$ , or thereabouts, is a definite attempt on its part to undercut the Reichsbank and make the Reichsbank's discount rate and credit policy utterly ineffective.

I regard the Government's action as in violation of both the spirit and the



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letter of the Experts' Plan and as calling for action accordingly on the part of the General Board of the Reichsbank and on my part as Agent General. It seems to me that it also has a direct interest to you and the other central banks, for it is certainly difficult, if not impossible, to regard the Reichsbank as a proper central bank so long as its position is subject in such a way as this to the action of the Government.

In view of the interest which Sir Charles Addis has taken, I am also sending him a copy of the Finance Ministry's statement, and am writing him in a somewhat similar vein.

Faithfully yours,

S. Parker Gilbert.

The Honorable  
Montagu C. Norman,  
Governor of the Bank of England,  
Threadneedle Street, E.C.2,  
London.

1 Enc.



9th September, 1925.

The Berlin morning papers of September 8th published the following:

"The Ministry of Finance of the Reich publishes the following communiqué:

"In order to carry out the contemplated measures to lower prices, the Government of the Reich recently decided to administer the public funds of the Reich in such manner that not only no danger of an increase in private rates for money should occur, but that, on the contrary, the stimulus for their lowering should be given. Therefore, with the cooperation of the Reichsbank, an agreement has been reached between those offices which loan public funds - i.e., between the Ministry of Finance of the Reich, the Postal Authorities, the German Railway Company and the Insurance Office of the Reich - that when funds are loaned to those banks which are entrusted with the further distribution of public funds the interest rate may not exceed at present  $7\frac{1}{2}\%$ . The interest rate for long term funds of the Postal Administration has been reduced to 8%. The banks entrusted with the further distribution of public funds have undertaken to cause the benefit of this reduction of interest to be passed on in full degree to their customers, and, furthermore, to restrict their interest margin to the lowest possible measure. Definite agreements have been made on this point."

According to the "Berliner Tageblatt" of September 9th (morning edition), the Berlin Stempel-Vereinigung held a meeting yesterday to discuss the question of how this organization could participate in the action to reduce prices. It was decided that the Stempel-Vereinigung should reduce their credit commissions but leave the interest rate unchanged.



Berlin, September 12, 1925.

From: The Agent General for Reparation Payments.

The Finance Minister of the Reich, Berlin.

Dear Mr. Minister:

I have noted with much interest the statement from the Finance Ministry of the Reich which appeared in the Berlin morning newspapers of September 8, 1925, summarizing various recent changes in the administration of the public funds of the Reich. I notice with particular interest that the offices which the statement describes as lenders of public funds are the Finance Ministry of the Reich, the Postal Authorities, the German Railway Company and the Insurance Office of the Reich.

The situation created by this accumulation of public funds is in many ways unique; and while the size of it in common report may be exaggerated, any measures which you may be taking to deal with it are of high interest, and necessarily have an intimate relation to all activities concerned with the German economy.

I am accordingly moved to ask you for certain additional information, supplementing what was given in your newspaper statement. I should appreciate, first of all, your best information as to the total volume of funds controlled by each of the offices mentioned above, and as to the amounts which will be available in each case for employment under the programme which has been announced. I recall that last February, when the methods of placing postal funds were revised, a procedure was made public in outline showing how the postal funds were to be employed, and through what agencies they were to be placed. I should much appreciate it also if I might receive now a similar outline in such detail as possible, showing in what forms of investment the various lending offices referred to intend to employ their funds, and through what banking or other agencies the funds in question will be placed.

Respectfully,

(Signed) S. Parker Gilbert  
Agent General for Reparation Payments.



PRIVATE

September 13, 1925.

My dear Governor: [Hornum]

In view of my letter of September 10 about the statement recently issued by the German Government as to the distribution of public funds, it may interest you to know that evidence seems to be accumulating to the effect that the Government is following a well defined policy of putting pressure on the Reichsbank to reduce its discount rate and loosen up its credit policy. I hear privately that Schacht was furious that the Government should have issued the statement which I have already sent you and that this statement actually was issued without consulting him. I gather that to some extent at least the statement is a political maneuver on the part of the Government, designed to put some of the burden for the increasing cost of living on the banks, and particularly on the Reichsbank. It may not in fact mean much change in policy, but it makes Schacht's position all the more uncomfortable.

Yesterday morning, for example, the Tageliche Rundschau, the official organ of the People's Party (which means Stresemann) carries the move a little further with a new article explaining the various measures which the Government is supposed to be taking to bring about a lowering of the cost of living, and stating among other things that the Reich Government is now approaching the States and Communes with a view to causing them to follow, in the administration of their funds, the same principles as those announced by the Finance Ministry in the statement of September 8. The article goes on to state that the Reichsbank intends to adjust its discount policy to the measures of the Government, and that it will shortly reduce its official discount rate by one per cent. I can hardly believe that this last statement is true, for this is certainly not the time for the Reichsbank to lower its discount rate. As a matter of fact, I should say that if it does anything it ought to raise its discount rate, particularly if there is going to be any suggestion that the Transfer Committee ought to take steps to reduce to some extent the scale of deliveries in



kind and recovery act payments. My information is that Schacht is actually thinking of putting some such suggestion on the Agenda of the next meeting of the General Council.

Incidentally I hear that part of the pressure in Government circles for a lower discount rate comes from the recent lowering of the discount rate in Austria and the rather definite prediction from Reisch that there will be a still further reduction in the Austrian discount rate in the near future. I must say that it seems a little surprising even to me that the Austrian rate should come down so much at just this time, and it is, of course, almost impossible for the German mind to understand how Austria could be able to have a lower bank rate than Germany.

The most unnatural thing in the German situation, it seems to me, is the enormous accumulation of funds in the hands of the Reich Government, the States and Communes, and other semi-public institutions such as the Post Office and the German Railway Company. Estimates differ as to the total of those funds, but I understand that according to the Reichsbank's latest estimate the aggregate amounts to over two milliards of marks and I have heard of estimates running as high as three and one-half milliards. Even at two milliards such an accumulation is of the utmost significance. It means, in the first place, that the Governmental authorities are taking out of productive uses an enormous fund of liquid money, at a time when the liquid capital of Germany is at an exceptionally low level and the greatest need of the country is for more working capital in production. It also means that the Government, in its various forms, controls the largest aggregation of liquid money in Germany, and is thus able to undermine the Reichsbank and make the Reichsbank's policy meaningless. One of the worst things about the whole business is the general lack of frankness in dealing with it. There is, for example, a most astonishing lack of public information as to what is going on, and it is almost impossible for anyone to find out what the various funds amount to or how they are being handled. The first step which I have taken, therefore, is to make inquiries of the Finance Minister as



.....#3

to what his statement means, and as to where and how he is planning to put out the money. I have done this by a formal letter of September 12, 1925, and am enclosing a copy of it herewith for your private information in the thought that it may be interesting to you to have it.

I am writing Sir Charles Addis substantially to the same effect in order that he may be informed as to developments.

Faithfully yours,

S. PARKER GILBERT

The Honorable  
Montagu C. Norman,  
Governor of the Bank of England,  
Threadneedle Street, E.C. 2,  
LONDON.

1 Enc.



THE AGENT GENERAL  
FOR REPARATION PAYMENTS

BERLIN  
33 LUISENSTRASSE  
TELEPHONE: NORDEN 11900-11910  
TELEGRAMS: AGENTREP. BERLIN

L'AGENT GÉNÉRAL  
DES PAIEMENTS DE RÉPARATIONS

PARIS  
18 RUE DE TILSITT  
TÉLÉPHONE: WAGRAM 2122-2123  
TÉLÉGRAMMES: REPAGENT. PARIS

BERLIN September 14, 1925.

PRIVATE

My dear Governor:

It is difficult at this distance to keep you currently advised as to the developments in the situation here, but one rather striking thing has happened within the past week and I think it will be helpful for you to know about it. It took the form of a statement issued by the Finance Ministry on the 8th of September, announcing a new system of distributing public funds at relatively low rates of interest. I am enclosing a copy of the statement herewith for your information, together with copies of two letters dated September 10th and September 13th, 1925, which I sent to Governor Norman in order to give him the picture as I see it.

As you will notice the Finance Ministry issued its statement while Schacht was in London. I think that to some extent it is a bluff, and that in this sense it is designed to help the Government in its difficulties about the increasing cost of living. The statement none the less seems to me of the utmost significance, and I think it shows the Government's hand perhaps more than the Government itself intended. As a matter of fact, the present Government has done nearly every thing in its power during the time which it has held office to raise the level of prices and increase the cost of living in



Germany. The credit policy of the Reichsbank has been practically the only factor working for deflation and lower prices, and I believe that there is in consequence a growing divergence between the Reichsbank and the Government. The inevitable effect, it seems to me, of the Government's announced policy as to the distribution of public funds would be to make the Reichsbank's policy meaningless and contribute materially to the raising of prices rather than to lowering them. I imagine that this, in fact, may be the Government's intention.

I am planning a rather heavy attack on this whole business in my next Report, which is due to come out about the middle of October. In the mean time, there is sure to be some discussion of the subject at the next meeting of the General Council of the Reichsbank, which falls on September 30th, particularly if there should be any suggestion at that meeting about reducing deliveries in kind or recovery act payments on account of the position of the Reichsbank. It is quite possible, also, that I may have to move directly on the Government if the situation continues to develop on its present lines. I have already taken the first step in this direction by sending a formal note of inquiry to the Finance Minister, a copy of which I am also enclosing for your information, asking for his best information as to the volume of public funds available for distribution and the ways and means by which they will be distributed. As soon as there are any other special developments in the situation I will let you know.



It was good to see you again in London, and to have the opportunity of talking things over with you and the others at the Bank. I hope that you have had a good trip back and have been able to snatch a little rest en route.

With best regards, I am,

Faithfully yours,

*S. Parker Gilbert*

Benjamin Strong, Esq.,  
Governor, Federal Reserve Bank,  
NEW YORK, N. Y.

4 encls.



PRIVATE

September 17, 1925

My dear Governor: *[Dawson]*

I have just received your private letter of the 14th of September, 1925, in answer to my letter of the 10th of September about the statement issued by the Finance Ministry. I have since written you two other letters, and I understand that Bruine has also sent you a copy of his letter of the 15th of September to Sir Charles Addis, all of which will make the situation somewhat clearer.

I have no reason to think that Schacht has not been acting quite fairly in the whole matter. On the contrary I think his position has been perfectly sound, and I strongly sympathize with it. The fact is nevertheless that Schacht is acting under heavy pressure, arising primarily from the rather serious divergence between the policy of the Reichsbank and the policy of the Government. This naturally puts him under some restraint.

I think it becomes increasingly clear, as I have already written you, that the statement issued by the Finance Ministry was largely a political manoeuvre, and that the statement itself may not mean much actual change. On the other hand, it will not do to ignore what the German Government is actually doing, and from this point of view the chief significance of the statement, and in fact its chief value, is that it shows the Government's hand much more than, I think, it intended to do. There is no doubt at all that the Seehandlung (The Prussian State Bank) and the Reichskreditgesellschaft are doing an extraordinarily large business, much of ~~which~~ it with public funds. The Seehandlung probably operates chiefly with funds of the Prussian State and of the Reichs Post, while the



Reichskreditgesellschaft is entirely owned by the Government of the Reich and certainly depends, directly or indirectly, on the funds of the Reichs. No one seems to know, or at least, no one is willing to tell, what the exact facts are, either as to the nature of the various funds at the disposal of these two institutions, or as to the amounts which are being handled through them. The Reichskreditgesellschaft, for example, never issues a statement of its condition, though it is supposed to be doing a business about as large as that of the Disconto-Gesellschaft. Its officials, for example, are openly boasting of doing one of the largest banking businesses in Germany, and have even been saying recently that the Reichskreditgesellschaft stands in the same relation to the Government of the Reich that the Seehandlung holds in relation to the State of Prussia. As nearly as I can find out, moreover, it seems to be the practice of the Reichskreditgesellschaft to act as a kind of rediscount bank for the other German banks, and I understand that it occasionally makes rather large rediscounts even for some of the "D" banks. The Seehandlung does occasionally publish a statement, but not a specially informative one. According to its latest statement its deposits are at a very high figure and have increased by several hundred million marks during the past three months. Generally speaking, the management of the Seehandlung seems to be thoroughly bureaucratic, and frequently stupid.

I am writing you this much in detail because there may be a tendency, perhaps even on Schacht's part, to maintain that everything is all right and that there is no danger to the Reichsbank in this situation. There has already been, for example an amazing amount of quibbling about what are or are not public funds and you can be almost sure that any one here who makes a statement about the disposition of public funds does it with mental reservations as to what the term means. That, in fact, is the one great beauty of the Finance Ministry's statement of last week, for it does



frankly include the principal categories of public or semi-public funds under the definition. From the point of view of transfer, the question is manifestly of the utmost significance. I do not see, for example, how I can be expected to regard the Reichsbank as the Central Bank for purposes of forming a judgment about the possibilities of transfer when the German Government is using at least two or three other institutions to perform central banking functions and leaving the Reichsbank to act as the guardian of the country's reserves of gold and foreign devisen, while depriving it of its natural resources and of the necessary control over credits. In letter and in spirit the policy that the German Government is following, violates, it seems to me, the provisions of the Plan, and it comes dangerously near to amounting to a "financial manoeuvre" within the terms of the Plan and the London Agreement.

From every point of view, it seems to me of the utmost importance now that the issue has been more or less openly raised, to explore as completely as possible the facts in the situation and to take appropriate action to correct the German Government's policy.

Sincerely yours,

(signed) S. PARKER GILBERT

The Honorable  
Montagu C. Norman,  
Governor of the Bank of England,  
Threadneedle Street, E. C. 2,  
LONDON

SPGMC

PS: I am treating this letter as entirely private to you, and am not sending anything of the sort to either Addis or Bell.



THE AGENT GENERAL  
FOR REPARATION PAYMENTS

BERLIN  
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L'AGENT GÉNÉRAL  
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TÉLÉGRAMMES: REPAGENT. PARIS

PERSONAL

BERLIN September 15, 1925.

My dear Governor:

In accordance with the conversations which we had over here, I am sending to you herewith a copy of my letter of the 11th of March, 1925, to Niemeyer, with its enclosures, on the subject of the Reparation Recovery Act.

As you will notice, the difficulty with Niemeyer at this stage of the proceedings was that he seemed determined to raise the question of the Transfer Committee's power to carry balances of any kind abroad, except for purposes of immediate transfer to the creditor Powers. I think I told you in London that I answered this question immediately by opening accounts abroad with both the Bank of England and the Federal Reserve bank in New York, and I am now carrying an account also with the Bank of France. Niemeyer was also forced to concede the point in the settlement which we finally reached on the Recovery Act, for the agreement for amending the methods of its administration expressly provides for the opening of an account with the Bank of England in the name of the Agent General for Reparation Payments, from which withdrawals are to be made by the Agent General on the direction of the Transfer Committee.



This disposed of the Recovery Act difficulties with Great Britain but, as you will also note, I was obliged in arguing the thing out with Niemeyer to go rather deeply into the broader questions both of the Transfer Committee's powers and of the methods which it might follow in securing foreign exchange for purposes of cash transfer. I have no real doubt about the question of power, and that is fully covered by Fraser's memorandum of the 16th of February and my own letter of the 11th of March.

The other question, as to the practical means of carrying on the exchange operations, is now the really live question, and I should be very grateful if you would be thinking it over, with a view to a more definite exchange of opinions in the near future. I have in mind, for example, that we might go over it pretty fully around the first of the year when I hope to be in New York and that in the meantime you and Mr. Jay might be figuring out, first, what information you could arrange to make available to me on the subject of German balances in New York and German exchange operations through New York, and, second, what means on our part, would, in actual practice, be best adapted to the handling of actual cash transfers. For the present and the immediate future, when purchases of foreign currencies will be small and will be chiefly for the service of the loan, I am pretty well satisfied to handle the business from this end through the Reichsbank, but it seems to me that it would be a great mistake to let this be the only channel of operations for the future.

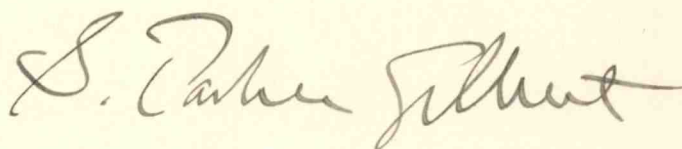


I should like very much, for example, to explore the ways and means of getting at the exchange from the other side, - that is to say, through operations in New York and London.

One of the most helpful things, I should think, would be the development of a more central foreign exchange market in New York. I am particularly interested in what you said in London about what seems to be the growing tendency to create something like a market at the Federal Reserve Bank.

I should much appreciate any suggestions that either you or Mr. Jay may have to offer on any of these matters, and I shall look forward particularly to talking them over with you more fully when we meet again.

Faithfully yours,

A handwritten signature in cursive script, reading "S. Parker Gilbert". The signature is written in dark ink and is positioned to the right of the typed name.

Benjamin Strong, Esq.,  
Governor, Federal Reserve Bank,  
NEW YORK, N. Y.

encs.



THE AGENT GENERAL  
FOR REPARATION PAYMENTS

BERLIN  
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L'AGENT GÉNÉRAL  
DES PAIEMENTS DE RÉPARATIONS

PARIS  
18 RUE DE TILSITT  
TÉLÉPHONE: WAGRAM 2422-2423  
TÉLÉGRAMMES: REPAGENT. PARIS

BERLIN, October 15, 1925.

My dear Governor:

I received your secretary's letter of September 30, 1925, enclosing the envelopes in which my letters of September 14th and 15th were received. I am making an investigation, and am writing separately to you about both this question and the various questions covered by your letter of September 30th to me. I received this letter in due course by pouch, and shall send my reply through the same channel.

Sincerely yours,

*S. Parker Gillett*

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



THE AGENT GENERAL  
FOR REPARATION PAYMENTS

PRIVATE

Berlin, October 16, 1925.

My dear Governor: *[McGarrick]*

I am preparing a more comprehensive letter to you on the subject of public funds and the Reichsbank's policy, but it will not be ready for another day or two. In the meantime, it may be helpful to you to have copies of a few additional exhibits. I am accordingly enclosing, for your confidential information, copies of the following documents:

- (1) My letter of September 17, 1925, to Governor Norman, indicating my innermost thoughts about the situation, particularly in so far as concerns Schacht's attitude. (I have not hitherto sent a copy of this letter to anyone, but it still holds good, and it may be useful for you to have it in connection with Schacht's visit.)
- (2) A speech which Schacht delivered at Karlsruhe on October 5, 1925, as reported in the Frankfurter Zeitung. This, of course, is not confidential. As you will notice, it takes quite a strong position against municipal borrowing abroad.
- (3) A memorandum which Finlayson, the Financial Attache at the British Embassy, has prepared for Lord D'Abernon, summarizing a conversation he had with Dr. Schacht on the morning of October 7, 1925.

The memorandum from Finlayson is particularly interesting. It is quite characteristic, for example, for Schacht to have said that he could not be expected "to conspire against his own Government." As a matter of fact, it is the cue to the chief weakness in his position. It is natural enough that Schacht should be embarrassed in relation to the Government, for it is his own Government which is doing its best to circumvent the Reichsbank's credit policy by carrying on an independent credit policy of its own. Schacht might be expected to fight this policy of the Government fairly and - - - - -



merely, whether there were a reparations problem or not. It would seem to be necessary in his own interest as a Central banker. But the effect on Schacht is rather to encourage him to try riding both horses, and he sometimes gets mixed up in the stories he tells to different people, and even to the same person on different dates. For example, on the question of the Finance Minister's statement of September 8, 1925, he told me a few days afterwards that he was thoroughly disturbed by the statement, and everything he said and did for a few days indicated clearly to those around him, as, for example, Bruins and the Members of the Direktorium, that he was perfectly furious that the Finance Minister should have issued such a statement. About two weeks later, when the meeting of the General Board of the Reichsbank was approaching, he spent half an hour telling me that he had seen the Finance Minister's statement before it was issued and had approved it, on the theory that if it was issued it would put the Finance Minister more or less in his power by reason of the admission on the part of the Government that it was willing to take as low as 7 1/2 or 8 per cent on its funds, thus leaving it open to Schacht to offer as high a rate to them through giving them bills out of the Reichsbank's portfolio. Schacht spent about an hour at the General Board meeting telling the same story. To a certain extent it is true, of course, that the Finance Minister's statement may help in forcing the Government's hand on the question of interest, but I cannot believe that Schacht's analysis of it from this point of view is anything more than an afterthought.

One thing that may attract your attention in Finlayson's memorandum is the statement, attributed to Schacht, to the effect that I have



power under the Plan to deal with the Verkehrskreditbank situation. I wish this were true, but Schacht knows as well as anyone that the legal position is just the reverse. The Experts' Plan did provide, in so many words, that the bank account of the Railway Company should be carried with the Reichsbank. The Organizing Committee, however, which prepared the Railway Law deliberately omitted this provision from the Law and included the following statement from its Report:

"The special Railway Annex, Article VII., provides that 'the bank account of the railways shall be kept at the New Bank'. We are not clear as to the precise intention of the Experts on this matter. The Concession as we have drafted it provides that the payments for the service of the Reparation Bonds and the proceeds of the Transport Tax shall be paid into the "New Bank." But we have not thought that we were in a position to recommend the enactment of positive legislation which would have the effect of depriving the Company of all control over the banking arrangements which it might be convenient to make, and which could only be altered hereafter by a very cumbrous procedure."

The result is that the Railway Law contains no provision on the subject, and as a legal proposition the Railway Company is bound only by the terms of the Law. Both the Railway Company and the German Government have taken this position from the outset, and Fraser advises me, after an exhaustive study of the question, that there is not a Chinaman's chance, from a legal point of view, of requiring the Railway Company to carry its account with the Reichsbank. That forces me to fall back on general considerations which I am quite prepared to press with vigor but which it is difficult to press to the limit in the absence of a legal basis.

You are quite at liberty, by the way, to show both this letter and the enclosures to Governor Strong, and to Mr. Sterrett, if he should still be in New York. I am having the letter mailed from London so as to avoid - - - - -



any danger of its being tampered with in the post.

Faithfully yours,

(Signed) S. Parker Gilbert

Gates W. McGarrah, Esq.,  
Chairman of the Board,  
Mechanics & Metals National Bank,  
20 Nassau Street,  
New York, N. Y.

3 encls.

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THE AGENT GENERAL  
FOR REPARATION PAYMENTS

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L'AGENT GÉNÉRAL  
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PARIS  
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TÉLÉPHONE: WAGRAM 2122-2123  
TÉLÉGRAMMES: REPAGENT. PARIS

PERSONAL.

BERLIN , October 18, 1925.

My dear Governor:

I received your letter of October 2, 1925, and have already sent you a note acknowledging the receipt of your letter of September 30th, which came safely by pouch. It is most helpful, and I am writing to you separately about it. I am glad that in the meantime you will be having a good opportunity to impress upon Schacht the really vital importance of clearing up the question of the public funds. I cabled McGarrah along these lines a week or so ago, and I assume that he has already shown you a copy of the message.

Sincerely yours,

*S. Parker Fillet*

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



THE AGENT GENERAL  
FOR REPARATION PAYMENTS

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PARIS  
18 RUE DE TILSITT  
TÉLÉPHONE: WAGRAM 2422-2423  
TÉLÉGRAMMES: REPAGENT. PARIS

PRIVATE.

BERLIN, October 18, 1925.


My dear Governor:

I have received your letter of October 5, 1925, and thank you for giving me the results of the inquiries you have made about practical foreign exchange men. I have read over the memorandum which you enclosed, and am rather better impressed with Klingsmith and Palmer than any of the others. I think that for the time being, however, the best thing is to let the matter rest, until we know a little more at our end just what kind of a man is likely to be needed. For the present, of course, there is not much actual foreign exchange work to do, and there would not be enough to keep an active man busy.

I should appreciate it, however, if you would keep the matter in mind, and we might then talk it over further in New York, perhaps in connection with the more general question as to the practical methods to be followed in handling cash transfers. I might even take the opportunity at that time to see personally one or two of the most likely men, in order to have some good possibilities in reserve for eventualities.

With best regards, and many thanks, I am,

Sincerely yours,



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



THE AGENT GENERAL  
FOR REPARATION PAYMENTS

BERLIN  
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L'AGENT GÉNÉRAL  
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PARIS  
18 RUE DE TILSITT  
TÉLÉPHONE: WAGRAM 2422-2423  
TÉLÉGRAMMES: REPAGENT. PARIS

PRIVATE.

BERLIN, October 18, 1925.

My dear Governor:

In view of the various conversations which we had in the matter while you were abroad, I think it may interest you to have copies of (1) a cablegram which I sent on October 16, 1925, to the Secretary of State on the general question of the Transfer Committee's attitude toward German loans that may be floated abroad, and (2) a copy of a letter of this date which I have written to Winston, on the broader question of the Administration's policy. I think I am free to send you also a copy of Winston's letter of September 29, 1925, to me, and I am accordingly enclosing it herewith. It explains some of the references in my letter to him, and I trust you will treat it as personal and confidential.

Sincerely yours,

*S. Paul Sillit*

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

3 encls.



CABLEGRAM FOR THE SECRETARY OF STATE, FOR TRANSMISSION THROUGH THE  
AMERICAN EMBASSY, BERLIN.

October 16, 1925.

FOR SECRETARY OF STATE:

For your information, I have been receiving repeated inquiries within past few days from representatives of American banking houses as to attitude of Transfer Committee toward service of German loans floated in United States STOP Practically all these inquiries have duplicated inquiries on the same point which were made nearly a year ago and one banker has said that occasion for renewed inquiry was that the State Department had advised his New York office to make such inquiries of the Agent General for Reparation Payments STOP He said further that State Department has included advice to this effect in its formal letters to bankers indicating Department's attitude toward several recent German loans STOP If Department is in fact giving this advice to bankers I should very much appreciate sample text by cable STOP Our consistent answer to all such inquiries, from the beginning of operations under the Experts' Plan, has been that neither the Agent General nor the Transfer Committee can give any assurances whatever with respect to the service of loans which may be floated abroad by German States or municipalities, or industrial or other undertakings, and bankers and others interested have been referred to the Experts' Plan and the London Agreement for a statement of the powers and responsibilities of the Agent General and the Transfer Committee in respect to the foreign exchange and the transfer of reparation payments STOP There has been no change in the situation so far as the Transfer Committee is concerned, and its attitude in the matter remains unchanged.

GILBERT,  
AGENT GENERAL.

(INITIALED) S. P. G.



COPY

THE UNDERSECRETARY OF THE TREASURY  
Washington

September 29, 1925.

Dear Parker:

I have your letter of September 9th. We are in the midst of the French negotiations and I shall not write you at length. As a matter of fact, the Administration's policy in this matter is not yet fully determined. I enclose a copy of the form of letter which the State Department has been using on German loans. There is a general feeling here in Washington that the bond houses which were short of stuff to sell to their customers were becoming very reckless in what they were buying. They seemed to think that if you made a showing that the borrower had sufficient assets, that was the only inquiry to be made. We felt, however, that in some way the attention of the underwriting houses should be called to the fact that theirs was the responsibility to determine that when the principal and interest of a dollar loan was to be paid, the borrower would have some opportunity of obtaining the dollars and that it was up to the underwriter, representing his future clients, to pass judgment on the ability of the proposed loan to pay its way, not only in marks but in exchange into dollars.

Personally, I feel that the present method of the Administration in handling this foreign loan situation puts a responsibility on the Administration which it should not take. The purpose of the form of letter on German loans was an effort to remove some of this responsibility.

Don't you think Europe is borrowing too much?

Sincerely yours,

(Signed) Garrard Winston.

Hon. S. Parker Gilbert,  
Agent General for Reparation Payments,  
33 Luisenstrasse, Berlin, Germany.

Enclosure



It is presumed that in considering the disposal of these securities to your American clients you have made sufficient investigation into the purposes to which the money proceeds will be devoted to assure yourselves that the loan will increase the productivity of Germany in an amount at least sufficient to furnish, directly or indirectly, the exchange necessary for the service of the loan and to facilitate payments under the Dawes plan. It is also presumed that, in connection with the proposed loan, you have considered the provisions of the Dawes plan relating to the control of the transfer of German payments made pursuant to that plan. The Department of State does not wish to express any view at this time as to the interpretation and application of these provisions or as to their effects if any upon the service and repayment of loans such as that in question, and the Department of course reserves full liberty to take such action if any in the matter in the future as may be appropriate. The Department feels, however, that it should call these matters to your attention.



PERSONAL.

. October 16, 1925.

Dear Garrard:

I have your letter of September 29, 1925, in answer to my letter of September 9, 1925, and thank you for sending me the copy of the form letter which the State Department has been using in connection with German loans.

Since writing to you, I have heard that the State Department has made another change in its form letter, and one banker told me on Friday that it was now including a specific recommendation, or perhaps request, that the bankers should make inquiries of the Agent General for Reparation Payments as to the attitude of the Transfer Committee toward the service of German loans which might be floated abroad. This led me to make an immediate inquiry, by cable, of the State Department, and I am enclosing a copy of it herewith for your information. Incidentally, as you will notice, I have taken occasion to state the attitude which the Transfer Committee has taken on the question. This has been its attitude from the beginning, and, so far as I am aware, there is no occasion for misunderstanding about it.

I have not yet had an answer from the State Department and am, therefore, without definite information as to what it is doing. But if it is actually following the policy indicated I must say that the performance seems to me too strange for words. I should have thought that the



least the State Department would do, if it was planning to make such suggestions as these to issuing bankers, would be to ascertain first what the attitude of the Transfer Committee was. It might have been expected also that as a matter of ordinary courtesy, it would have gone a step further and advised me that it was adopting this policy in dealing with the bankers. But the fact is that I have had no word at all from the State Department, and have never had even an inquiry from them as to what the Transfer Committee's position might be. I suppose there may be some theory that advice of this sort to the bankers might smoke out the Transfer Committee, but if so, the tactics seem rather unnecessary. There is no mystery as to the Transfer Committee's attitude. The Committee considered the question at its very first meeting in October, 1924, and has held consistently ever since to the position which it took at that time. I have personally stated the position, in substantially the words that I have now cabled to the State Department, to at least two hundred American bankers and American banking representatives, and there is certainly no misunderstanding about it on their part.

On the more general question which you mention, I have felt from the beginning that the State Department was assuming far more responsibility than it realized in attempting to regulate foreign borrowing in the United States, and that sooner or later it would drift into an impossible position. From all that I can see and hear, it has already come dangerously near to that point, and I am inclined to interpret some of its recent moves, particularly in connection with German loans, as symptoms of



some discomfort. It must be a little difficult, for example, for the State Department to explain to the French why it is that the Germans, or the Poles, can borrow as much as they please in the United States while no French loan can be floated on any terms. And in retrospect, it would be interesting to consider what the State Department could have said for itself if it had been attempting to follow a similar policy toward European loans in 1915-1916! I should think that, as things stand now, the State Department had "a bear by the tail", and that one of the first things the Administration would want to do would be to re-examine the whole policy, with its various implications, and map out a new course. One thing, at least, is clear, namely, that if the Government is to continue its regulation of foreign borrowings in the American market, it ought to make up its own mind first as to the basis on which it is going to act, and then give a clean-cut and effective administration of whatever policy is adopted, seeking legislative authority for the purpose, if that should be thought necessary.

As for Europe and its borrowing, I am inclined to agree with you that it is borrowing too much, and sometimes rather badly. There is no necessity, for example, for most of the loans to German States and municipalities, and it would be better if the field were reserved for more productive loans to industry. But it is easy to over-emphasize this point of view, and a large share of the fault, at any rate, is at our end of the business. Part of the responsibility rests with the American bankers, many of whom have been in reckless competition with each other and whose representatives, in consequence, have been running wild all over Europe. But a rather large share, it seems to me, rests with our own National policy, which is gradually



forcing the rest of the world to borrow more and more from us. With our high tariff and our restrictive policies with respect to immigration and other things we are making it increasingly difficult for other countries to pay us in goods or services, and we have already got about all the gold we can stand. And at the same time, we are pressing our debtors abroad to pay us, and are building up an enormous annual charge on the foreign exchanges, for the service of the interallied debts and other obligations owing to us. The rest of the world must find some way of meeting these payments, and the ability of our market to take foreign securities furnishes one of the chief means of relief. Even that, however, does not give any permanent answer, and I should say there were a good many difficulties ahead if we continue too long on our present course.

Sincerely yours,

(SIGNED) S. PARKER GILBERT

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

SPG/AMM



THE AGENT GENERAL  
FOR REPARATION PAYMENTS  
L'AGENT GÉNÉRAL  
DES PAIEMENTS DE RÉPARATIONS  
BERLIN  
33 LUISENSTRASSE

PRIVATE

6146

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

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ACKNOWLEDGED

PRIVATE.

NOV 16 1925

BERLIN, October 29, 1925.

B. S.

My dear Governor:

In view of my letter of October 18, 1925, I am sending you herewith for your information copies of the following additional papers: (1) The text of the specimen letter which the State Department is using in advising bankers interested in German loans, as cabled to me in response to my cable of October 16, 1925; (2) a copy of a further cablegram, dated October 28th, which I have sent to the State Department, inquiring whether this form of letter is still in use; and (3) a copy of a further letter of this date which I have written to Winston. I have had no comment at all from the State Department, and, of course, there has not yet been time for a reply from Winston. I am, however, receiving a steady stream of inquiries from American banking representatives, most of whom give signs of acute bewilderment.

I think the State Department's letter to the bankers is a most remarkable piece of work. As Shep Morgan says, it ought to be set to music, and it is on such a high moral plane that nothing less than a pipe organ would do for the purpose.

Sincerely yours,

*S. Parker Tillot*

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

Encls.



CONFIDENTIAL

EXTRACT FROM THE U. S. STATE DEPARTMENT LETTER TO BANKERS  
IN CONNECTION WITH THE FLOTATION OF GERMAN LOANS IN THE  
UNITED STATES.

Since the flotation of the German External Loan provided for by the Dawes Plan, offerings of German loans in the (United States?) have aggregated, according to the information before this Department, more than 150 million dollars, and it appears that a considerable volume of additional German financing is now in contemplation. In addition to the public offerings referred to above, the Department is informed that a large amount of private bank and commercial credits has been extended to German interests during the past year.

In these circumstances, the Department believes that American bankers should examine with particular care all German financing that is brought to their attention, with a view to ascertaining whether the loan proceeds are to be used for productive and self-supporting objects that will improve directly or indirectly the economic condition of Germany and tend to aid that country in meeting its financial obligations at home and abroad. In this connection I feel that I should inform you that the Department is advised that the German Federal Authorities themselves are not disposed to view with favour the indiscriminate placing of German loans in the American market, particularly when the borrowers are German municipalities and the purposes are not productive.

Moreover, it cannot be said at this time that serious complications in connection with interest and amortisation payments by German borrowers may not arise from possible future action by the Agent General and the Transfer Committee. While the Department of State does not wish to be understood as passing upon the interpretation or application of the provisions of the



Dawes Plan or upon their effect, if any, upon loans such as the one now under consideration by you, it desires to point out that there is no clear indication of what the attitude of the Agent General and the Transfer Committee would be towards such loans in the event of a scarcity of available foreign exchange embarrassing their operations in effecting the transfers necessary to the execution of the Dawes Plan. It seems to the Department, therefore, that before issuing such loans you should inform yourselves whether the Transfer Committee will place any priorities or obstacles in the way of transferring funds for the payment of principal and interest, and that you should make clear to your clients the full situation.

These risks, which obviously concern the investing public, should, in the opinion of the Department, be cleared up by you before any action is taken. If they cannot be definitely eliminated, the Department believes that you should consider whether you do not owe a duty to your prospective clients fully to advise them of the situation.

While the foregoing considerations involve questions of business risk, and while the Department does not in any case pass upon the merits of foreign loans as business propositions, it is unwilling, in view of the uncertainties of the situation, to allow the matter to pass without calling the foregoing consideration to your attention. In reply to your enquiry, however, I beg to state that there appear to be no questions of Government policy involved which would justify the Department in offering objection to the loan in question.



CABLEGRAM

Berlin, October 28, 1925.

FOR THE SECRETARY OF STATE:

Have received from Ambassador October 19th copy of your telegram quoting specimen letter used by Department in addressing bankers interested in German loans STOP Should appreciate word as to whether Department is still using this form of letter STOP Am receiving continued inquiries here from representatives of American banking houses most of whom interpret Department's letter as designed to discourage all German loans whether productive or unproductive STOP Am replying to all inquiries that State Department has been informed of Transfer Committee's position and that position remains unchanged.

GILBERT

AGENT GENERAL



October 29, 1925.

PRIVATE

Dear Garrard:

Since writing you my letter of October 18, 1925, I have received, through the American Ambassador here, a copy of a State Department cablegram quoting the text of the letter which the State Department is using in connection with German loans. This came October 19th and I suppose that you have already seen it. I have now sent another cablegram to the Department, inquiring whether it is still using the same form of letter. This cablegram went forward this morning through the American Embassy, and I am enclosing a copy of it herewith for your information.

The State Department's letter more than confirms everything that I had heard, and I can only repeat that the whole performance seems to me too strange for words. It creates an impossible situation, and I honestly do not see how any one could send out such a letter in good faith without first inquiring of either the Agent General or the Transfer Committee to see what their attitude was. The situation becomes still more incomprehensible if the Department continues to use the letter after knowing what our position is.



The letter itself leaves the bankers in an impossible position. It raises questions which nobody can answer, and suggests doubts which no one can settle, except by the test of actual experience. And then after giving the bankers a highly moral lesson on the importance of protecting their clients, the Department proceeds to relieve itself of all responsibility by a closing sentence to the effect that, no question of Governmental policy being involved, it raises no objection! What a wonderfully little tail for all that "dog". It is all very well for the State Department to say, for example, that "these risks which obviously concern the investing public should, in the opinion of the Department, be cleared up by you before any action is taken", along with other high-sounding advice to the same effect. But the fact is that there are risks inherent in the situation, and the Department must know as well as anybody that they cannot be "cleared up" by action on anyone's part, least of all the Transfer Committee or the bankers. It must also know that these risks are not different in kind from the risks that exist in connection with any foreign loan, and that bankers and investors who buy foreign bonds always have to form a judgment as to the importance of these risks before they go ahead. These are questions of business judgment, and already find expression, for example, in the rates of interest on German and other foreign bonds, German State and city bonds, for example, would not be yielding an 8 per cent return, or thereabouts, if there were not some risks involved. I should be interested to know, in this connection,



whether the State Department is giving similar lessons in foreign investment and business practice in reply to inquiries about Polish loans, or Czechoslovak loans, or loans to any one of a dozen other foreign countries that one might name. There is a first-class chance, for example, that the Polish Government might at some time step in and forbid or suspend the purchase of foreign currencies for the service of foreign loans, and even that it might have to do this as a means of protecting Polish exchange. This is a power that all Governments have and it is a risk inherent, theoretically at least, in all foreign loans. If the Department is not making similar remarks about other foreign exchanges, I think its letter to the bankers about German loans is open to very serious question as being a plain discrimination against German borrowing.

The whole performance gives me the impression of a studied effort on the part of the State Department to avoid the responsibility resulting from its policy of regulating foreign loans by raising a hue and cry in this case, about the Agent General and the Transfer Committee. In doing this it fools nobody but itself, and it makes its own position untenable. If continued, it may result in stopping all German borrowing in the United States, good as well as bad, so long as the reparations problem continues to exist. Perhaps that is the object, as it is certainly the tendency, of the advice which it is now giving to bankers.



I ought to add one bit of information which may interest you in this connection, - namely, that there has never yet been a single inquiry from any but American sources as to what the Transfer Committee might do with the service of German loans abroad. This, it seems to me, is not without significance, for Holland, Switzerland and even London are all more or less actively extending credits and making loans to Germany.

Sincerely yours,

(SIGNED) S. PARKER GILBERT

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

1 enc.

SPG/AMM



J. P. MORGAN &amp; CO.

CABLE DEPARTMENT

COM

9.09AM

NEW YORK. Oct. 31, 1925.

COPY OF CABLE RECEIVED FROM MORGAN, HARJES &amp; CO., PARIS

83983. Denkstein for Benjamin Strong from S. P. Gilbert.

Referring to my letter of Oct. 18th, have heard, informally, that joint representations have recently been made to the U. S. State Department by New York bond houses, protesting against terms of U. S. State Department letter about German loans. Should very much appreciate confidential word, by cable, whether this is true and, if so, whether it has brought any results. If written protest made, should be much interested in having copy by mail, if available. Have already written you further this morning.



THE AGENT GENERAL  
FOR REPARATION PAYMENTS

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DES PAIEMENTS DE RÉPARATIONS

PARIS  
18 RUE DE TILSITT  
TÉLÉPHONE: WAGRAM 2122-2123  
TÉLÉGRAMMES: REPAGENT. PARIS

PERSONAL AND CONFIDENTIAL.

BERLIN, November 4, 1925.

My dear Governor:

On the chance that you may not have seen them personally, I am enclosing herewith two pages from the October 20, 1925, issue of our Credit & Financial Summary, dealing with the depreciation of the Goldmark as compared with the reichsmark. It seems to be due largely to the methods prescribed in the London Agreement for calculating the value of the Goldmark. This makes the Berlin quotation of sterling the main factor in determining the value of the Goldmark, and under present conditions it leads to rather weird results. It means, among other things, that there is a fairly substantial loss to the creditor governments on each payment I get from the German Government, since I am bound, under present conditions at least, to accept the reichsmarks at a premium of nearly  $\frac{1}{2}$  of 1 per cent. As you will see, this means a considerable loss on a payment of 50,000,000 or 100,000,000 marks.

I do not myself see much escape from this anomalous situation at present, but if anything occurs to you, I should appreciate it if you would let me know. I have thought that possibly something might be done in London, and with that in mind I have written rather fully to Governor Norman, explaining the situation to him. I have just had a letter from him saying that for the present at least he sees no way of doing anything to correct the situation.

The present state of affairs suggests one broader problem which



seems to me has not yet had enough attention. Schacht, as you know, still keeps the reichsmark pegged to the dollar, at a fixed rate of 4.20 to the dollar, and he maintains this rate by being willing, on the one hand, to buy dollars for reichsmarks at the fixed rate, and, on the other hand, to sell dollars for reichsmarks at the same rate. This obviously creates an artificial situation, and I think its continuance is a source of danger. It probably accounts for some of the difficulties which Schacht has already had with his devisen, and it must be an appreciable factor in determining the flow of foreign money in and out of Germany. There may be reasons why Schacht feels that he may have to continue this artificial status for sometime longer, but I should think it would greatly strengthen the Reichsbank's position, and in the long run greatly support the stability of the currency and exchange, to let the dollar rate fluctuate "between the gold points" in accordance with what would be the normal condition of the exchanges.

It may very well be that until the public funds situation has been cleared up, and Schacht has brought them unequivocally under his control, it would be unwise, and perhaps even impossible, to take such a step. But I should think the possibility of taking it ought to figure rather more in his calculations than it apparently has up to this time.

Sincerely yours,

*S. Parker Tillot*

Benjamin Strong, Esq.,  
33, Liberty Street,  
New York, N. Y.

Enc.



DEPRECIATION OF THE GOLD MARK.

The gold mark is now at a discount to the reichsmark of nearly one-half of 1 per cent. This is of material importance because under the terms of the London Agreement all payments made by Germany in accordance with the Experts' Plan are paid to the Agent General in gold marks, "or their equivalent in German currency". Inasmuch as the gold mark is a hypothetical currency, payments are actually made in reichsmarks.

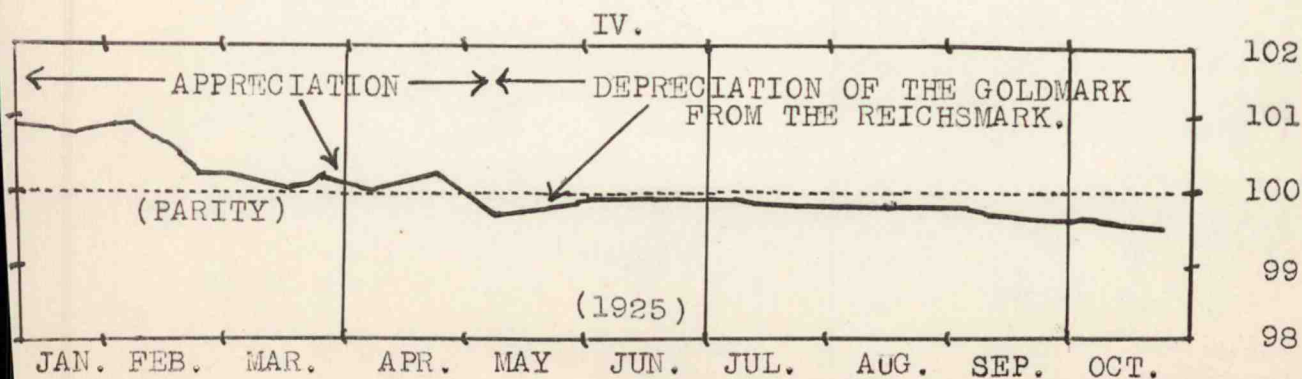
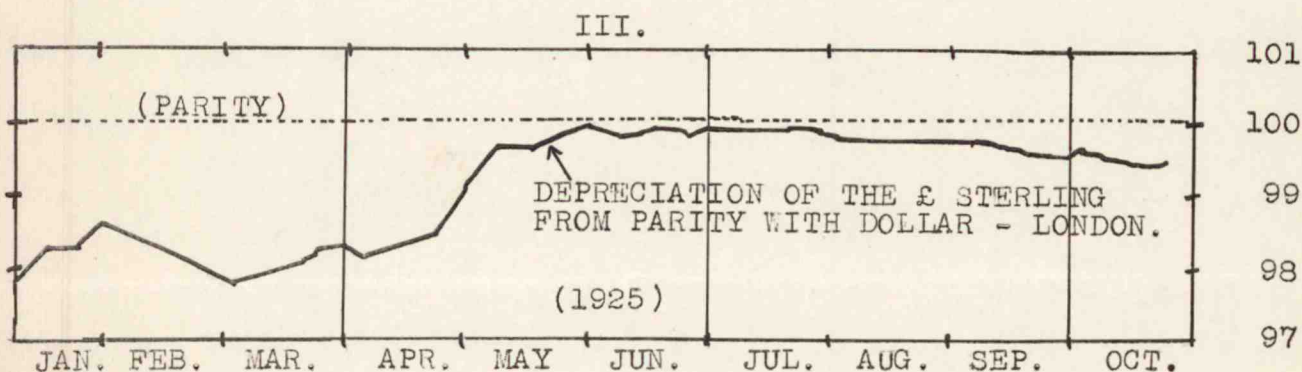
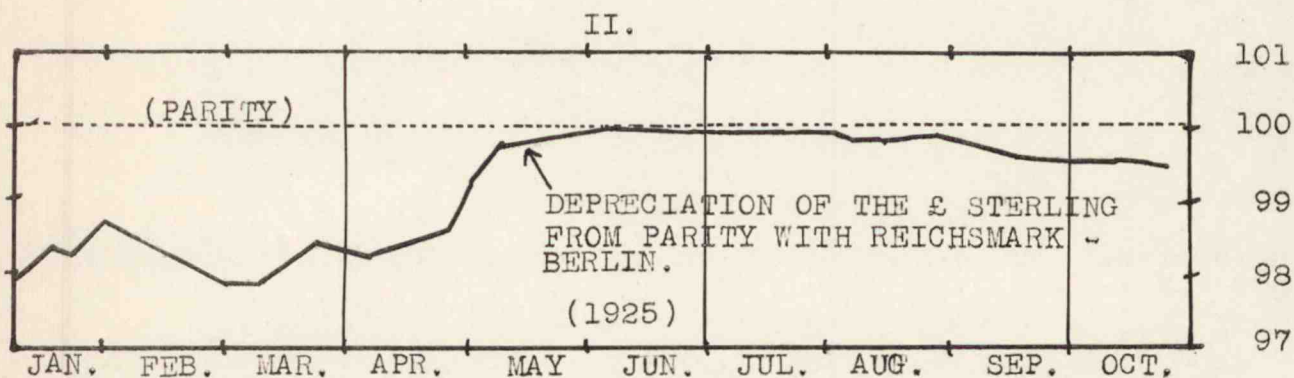
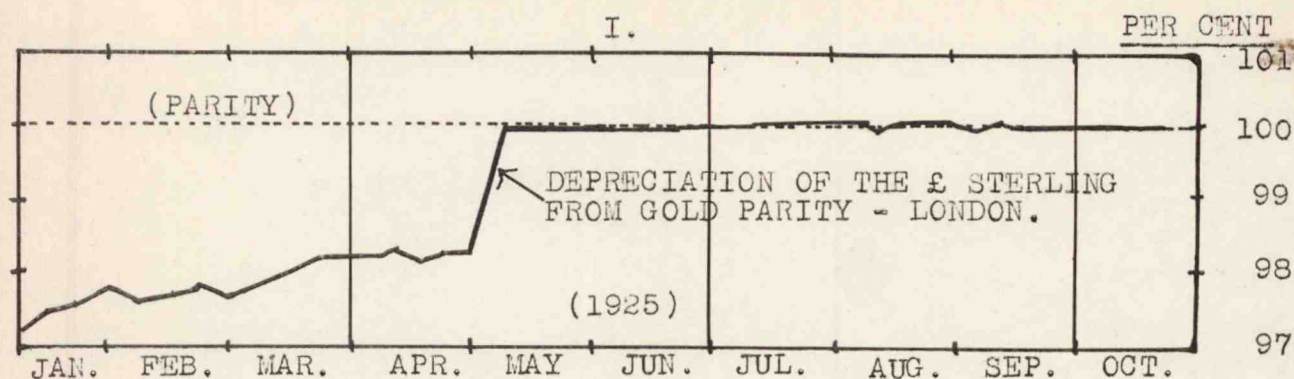
The reason for the present depreciation is attributable to the methods of calculation prescribed in the London Agreement. There are two elements: first, the price of gold in London; and, second, the rate for sterling on the Berlin Stock Exchange. Since the return of Great Britain to the gold standard the price of gold in the London market except for short intervals during the summer has been at the practical equivalent of the Bank of England statutory selling rate per ounce of fine gold, namely 4s.11 1/2d, as is reflected in diagram I on the next page.

The main factor, however, in determining the value of the gold mark under present conditions is the Berlin quotation of sterling. As will be observed by comparing diagrams II and III, the Berlin-London rate moves very closely with the London-New York rate, owing to the fixed relation between the reichsmark and the dollar.

Since the early part of May the depreciation of the gold mark from the reichsmark, as illustrated in diagram IV, compares closely with the depreciation of sterling in terms both of the reichsmark and the dollar. It will be observed, however, that during July and August when sterling was slightly above parity with the Bank of England selling rate, the gold mark suffered correspondingly, reflecting both the fall in the price of gold and the depreciation of sterling in the exchanges.



Elements in the Value of the Gold mark.





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TÉLÉGRAMMES: REPAGENT. PARIS

BERLIN November 5, 1925.

PERSONAL AND CONFIDENTIAL

My dear Governor:

I have just received, through Morgan, Harjes & Co., your message of November 3, 1925, with respect to the letter which the State Department is using in connection with German loans. Under the same date I received a cablegram from the State Department stating that it was still using the same form of letter. I am glad to see from your cablegram, however, that some progress is being made, and that it is taking the form of controlling the matter more effectively through the German authorities. The Beratungstelle, by the way, is already exercising a fairly good control, and I am enclosing herewith, for your information, a copy of a report given by its Chairman to the Chancellor, under date of October 12, 1925, summarizing the situation up to that date.

On the question of the State Department's attitude, I received yesterday a letter dated October 15, 1925, from Garrard Winston, which seems to me in many ways the most amazing exhibit of all. I am replying to it today, and am enclosing herewith for your confidential information a copy both of Winston's letter and of my reply. I have not sent any comment to the State Department itself, as it never does much good to suggest to the Department that it may possibly be wrong.



For the moment, the practical effect of the State Department's letter is probably not particularly bad, for it may throw cold water on a lot of State and municipal loans that had better not be made anyway. But the real test of the position is going to come in the case of some really productive industrial or agricultural loan, and then, it seems to me, the State Department will have to climb down from its present position and either drop the matter entirely or else write a sensible letter.

Sincerely yours,

*S. Parker Tillot*

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

3 encls.



November 5, 1925.

PERSONAL

Dear Garrard:

I received your letter of October 15, 1925, and thank you for sending me a copy of the sample letter which the State Department is now sending out to bankers interested in German loans. I had already received a copy of this letter by cablegram, and have written you rather fully how I feel about the whole business in two letters dated October 18, 1925, and October 29, 1925. I am surprised, and somewhat disappointed, to hear that the State Department's letter is one that had been adopted by Messrs. Kellogg, Mellon, and Hoover, and approved by the President, but I think it remains an impossible letter, and that the position it takes is both short-sighted and ill-advised.

I think you recognize this yourself in your letter of October 15, 1925, when you say that you confess you do not know where you are "going to draw the line when it comes to German industrial or farm loans." This goes to the root of the matter, for the doubts which the State Department says to the bankers must be "cleared up" by them before any action is taken, are doubts which would apply to German industrial and agricultural loans quite as much as to State or municipal loans. These doubts, moreover, if pressed in the spirit that the State Department seems to have adopted, will tend to disable



Germany from all borrowing in the United States so long as there is any such thing as the Experts' Plan, or, indeed, any such thing as the reparations problem. Perhaps this was the intention, for I really do not see anything in the problem of German State and municipal loans that made it necessary, as the State Department is now doing, to cloud the whole situation. The State and municipal loans, in other words, presented a special problem, and what the State Department is saying about the Transfer Committee and the transfer question has nothing to do with this special problem but applies to all German loans. The transfer question, moreover, as applied to German loans, is not different in kind from the transfer problem that exists in connection with all foreign loans, and as I said in an earlier letter, if the State Department is going to give lessons in foreign investment on German loans it really ought to do the same for other foreign loans. Why not, for example, suggest on Japanese loans, that the bankers warn their clients in the prospectus that there might be another earthquake, or on Central American loans that there might be more revolutions.

I am afraid I do not understand, either, the point of view which seems to be embodied in your statement that "We have finally done what is the proper thing, that is, to pass the buck to the bankers in a way they cannot avoid." I had never heard of any request from the bankers that the "buck" should be taken away from them in the first place. What the State Department has done is to take the question out of the hands of the bankers, and then, after confusing the issue more or less completely, to hand it back to the bankers with the statement



that there is no question of Government policy involved. It may be, of course, that the State Department is going into the business of protecting American investors against unwise investment in foreign securities, but if that is what it is trying to do, I should think it would first have to provide some kind of a Blue-Sky Law, with perhaps a Federal Blue-Sky Commission and all the necessary accessories.

I should be glad, in accordance with your suggestion, to try to make some helpful suggestions and give you my own views as to the policy to follow, but I really think it is quite impossible to do so unless and until the Administration makes up its own mind as to what is the object of its policy. Is it to force foreign governments to fund their debts to the United States, or to get recognition for the claims of the United States at the Paris Conference, or to realize on the American share in the Annuities under the Dawes Plan, or to protect American investors, or for still other objects? Besides, it is a little difficult to make suggestions after the Administration has actually embarked on a policy approved by the Secretary of State, the Secretary of the Treasury, the Secretary of Commerce, and the President. I think I have already said enough in these different letters to indicate how I feel, and it may be anyway that the State Department will be using a different form of letter before you could hear further from me.

Generally speaking, I had thought that the letter which was in use before, a copy of which you sent me with your letter of September 29th, was in quite good shape, and that it met all requirements pretty



well. In actual practice I should have thought that it could have been quite effectively supplemented by the informal co-operation of American bankers and the efforts of the German authorities themselves.

For the moment the practical effect even of the present State Department letter may not be bad, for it may discourage or prevent the issue of many State and municipal loans that had better not be made anyway. To some extent these loans have even been operating to weaken the Reichsbank's control over credit, and it was on this account that I cabled Gates McGowan, as a director of the Reichsbank, so as to bring this aspect of the situation to his attention. I should have been the last to suggest, however, that the State Department attempt to meet this special situation by raising a general issue about the attitude of the Transfer Committee. For one thing, I have had to spend about half of my time for a month in answering perfectly unnecessary inquiries inspired by the State Department's letter, on a question which I supposed had been appreciated from the beginning.

As far as the Transfer Committee's position is concerned, I had stated that as fully and frankly as I could in a personal letter that I sent to Mr. Mellon last December and which I presume you have seen. This was necessarily a personal and unofficial communication, but I thought it would give you all a sufficiently clear picture of the problem. As for the practical position of the Committee in dealing



with bankers interested in German loans, I think Mr. Sterrett has stated that very well in a letter which he wrote to the State Department under date of October 25, 1925. You may already have seen it, but I am enclosing a copy of it herewith, in any event, to complete your files. There is one thing, by the way, that I think all of you in Washington tend to forget, namely, that the Transfer Committee is not composed wholly of Americans and is not an American Committee. It is an international body, formally created by Treaty between the Allied and German Governments, and apart from the two American members it includes an Englishman, a Frenchman, an Italian and a Belgian, all of whom are independent and responsible people and several of whom are bankers with wide international experience.

I should not say that any of them were much impressed by the State Department letter. And I should not be surprised if some of them, at least, were interested to see that at the same time that our Government seems to be following a more restrictive policy, the Chancellor of the Exchequer in England is announcing the removal of the embargo on the flotation of foreign loans in the London market.

I am much interested in what you say about the Reichsmark credits which are being held for account of the United States Government, though I hope you are not going to propose using them to pay off the German private owners of property still held by the Alien Property



Custodian. That is still another question. But the reichs-  
mark credits with the Agent General do not carry interest for  
any of the powers, and I do not see any possibility of giving  
you interest upon them.

Sincerely yours,

(SIGNED) S. PARKER GILBERT

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

encs.

SPG/MC



C O P Y

THE UNDERSECRETARY OF THE TREASURY

Washington

October 15, 1925.

Dear Parker:

I wrote you that there might be some change in our policy in dealing with the foreign loan situation, particularly the German financing. I enclose for your confidential information a form of letter which has been adopted by Messrs. Mellon, Kellogg, and Hoover, and approved by the President. We have finally done what is the proper thing, that is, to pass the buck to the bankers in a way they cannot avoid. I confess that if I were attorney for Speyer and Company, I wouldn't let them offer the bonds without publishing a pretty clear statement of the business risks, and, of course, if they published such a statement they would never sell the bonds.

I had the opportunity of seeing your cablegram to Gates McGarrah on this situation. It appears that our particular action may be helpful to you. I confess, however, I do not know where we are going to draw the line when it comes to German industrial or farm loans. You may wish to let me have your views on this entire subject.

I appreciate what you have to say about making arrangements to withdraw the American mark balances now on deposit with you. We are trying, however, to come to some understanding of the disposition of alien German property. Since this decision may have an effect on the disposition



of these funds, and since they are not very large anyway, we will wait another few weeks before we decide anything. Is there any way in which the funds can be made to earn interest in the meantime?

Sincerely yours,

(Signed) Garrard Winston

Hon. S. Parker Gilbert,  
Agent General for Reparation Payments,  
33 Luisenstrasse,  
Berlin, Germany.

1 enclosure.



Copy

FINANCE MINISTRY OF THE REICH

CHAIRMAN  
OF THE  
ADVISORY BOARD FOR FOREIGN  
CREDITS

V c 15951

Berlin, October 12, 1925.

FROM: Ministerialrat Norden,

TO: The Secretary of State in the Chancery of the Reich, Berlin.

In the course of the discussion with the Premiers of the Federal States over which the Chancellor of the Reich presided in the Chancery of the Reich on October 2, 1925, the President of the Reichsbank spoke on the lack of discretion observed by the Communes in the contracting of foreign loans and the difficulties in the way of intervention by the authorities of the Reich in the matter; in this connection, on a basis of provisional estimates, he mentioned that, of all the loan proposals submitted to it for approval up to the present, the Advisory Board for Foreign Credits had given its consent to about 85 per cent of the applications made.

The President of the Reichsbank had no data at his disposal regarding the composition of the amount approved and the proportion of that amount actually issued; he accordingly gave no further details. I therefore think that further information on these points will be desired and would first point out that the approved amount does not only include the foreign loans of Communes; up to the present the Advisory



Board has considered in almost equal proportions the loans of the Communes on the one hand and those of the States and of agricultural and industrial undertakings on the other hand, which were subject under the Regulations to its approval.

The loan proposals up to the present submitted to the Advisory Board total approximately 690 million marks, and of these about 581 million marks (or 84 per cent) have been approved. This amount includes:

a)	agricultural loans (Rentenbank Credit Institution and Bavarian agricultural Cooperatives guaranteed by the Bavarian State)	115 million marks
b)	industrial loans of undertakings run or guaranteed by the State (Badenwerk, Sächsische Werke, Rhein-Main-Donau A.G.)	99 ..
c)	Loans of the Federal States	126 ..
Total		340 million marks

This leaves applications from the Communes for 350 million marks and an approved total of 241 million marks. The proportion in the case of Communal loans is thus 68 per cent.

Of the loans approved (Communal and other loans) to the amount of 581 million marks in all, loans to the amount of only 466 million marks have been issued: this figure includes the options reserved. The 466 million marks are distributed as follows:



a) agricultural loans (as above)	115 million marks
b) industrial loans (as above, excluding Badenwerk)	88 million marks
c) loans of the Federal States (as above)	126 million marks
	<hr/>
Total	329 million marks.

This leaves only 137 million marks, or 39 per cent of the loans proposed by the Communes, for loans actually placed on the market, that is, barely 20 per cent of the total submitted for approval by the Board.

I should be glad if you would bring this letter to the notice of the Chancellor of the Reich after his return and would at the same time submit to him the enclosed statement.

The President of the Reichsbank and the Minister of the Reich for Economic Affairs have received copies of this letter.

(Signed) NORDEN

From the German  
Translated - BWS  
Checked - RB



W.T. 11.1 50M 1-25

FEDERAL RESERVE BANK  
OF NEW YORK

# TELEGRAM

COMMERCIAL WIRE—INCOMING

TRANSLATION COPY

WIRE TRANSFER  
DIVISION

*Gilbert*

DECODED \_\_\_\_\_

CHECKED \_\_\_\_\_

COMPANY \_\_\_\_\_

ATTENTION \_\_\_\_\_

79PO PF 25 LOUISVILLE KY DEC 28 1925

BENJAMIN STRONG.

MANY THANKS FOR LETTER AM GOING TO WASHINGTON

VIA CHICAGO AND WILL ARRIVE WASHINGTON THURSDAY

MORNING AT NINE OCLOCK HOPING TO SEE YOU BOTH THERE.

PARKER GILBERT. 510PM



THE AGENT GENERAL  
FOR REPARATION PAYMENTS

BERLIN  
33 LUISENSTRASSE  
TELEPHONE: NORDEN 11900-11940  
TELEGRAMS: AGENTREP. BERLIN

L'AGENT GÉNÉRAL  
DES PAIEMENTS DE RÉPARATIONS

PARIS  
18 RUE DE TILSITT  
TÉLÉPHONE: WAGRAM 2422-2423  
TÉLÉGRAMMES: REPAGENT. PARIS

Washington, D. C.,  
January 5, 1926.

My dear Governor:

I have your letter of January 4, 1926, with the enclosed copy of Morgan's letter of December 19th, with further reference to the envelopes from my Berlin office which came to you with their seals broken. I have also received a copy of the letter from Fraser to which Morgan refers.

I should not be surprised if the principal trouble were with the envelopes themselves, and I am satisfied that the thing to do is to substitute an entirely new line of envelopes. This seems to be a matter of greater difficulty in Europe than one would suppose, and I am accordingly inclined to try to get a stock over here before I return. Our first experience in Berlin was that all the envelopes were too thin, and nearly always arrived completely torn to pieces, while the ones now in use seem to be so thick that most of the envelopes open themselves while in transit. With a view to getting a supply of the right kind of envelopes I am looking over some samples here, and when I get back to New York I should like to go into the matter also with your people. I could then go ahead and place an order immediately.

I am sending a short cablegram to Berlin to this effect, in order that the office there may be informed. I am not, of course,



- 2 -

saying anything to the State Department about the condition in which the envelope in question arrived. The chances are that it was not the fault of the State Department, and I see nothing to gain by mentioning it anyway.

Sincerely yours,

*S. Parker Gilbert*

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



*Gilbert*

THE AGENT GENERAL  
FOR REPARATION PAYMENTS

BERLIN  
33 LUISENSTRASSE  
TELEPHONE: NORDEN 11900-11910  
TELEGRAMS: AGENTREP. BERLIN

L'AGENT GÉNÉRAL  
DES PAIEMENTS DE RÉPARATIONS

PARIS  
18 RUE DE TILSITT  
TÉLÉPHONE: WAGRAM 2122-2123  
TÉLÉGRAMMES: REPAGENT. PARIS

BERLIN, February 26, 1926.

*Confidential*  
*Personal*

My dear Governor:

I have just sent to Winston a rather long letter dated February 23, 1926, on the question of the plans for dealing with the German property in the United States, and, incidentally, on the question of the American share in the Annuities under the Experts' Plan. I am sending a copy of it to you herewith, in the thought that you will be interested to have it, particularly in view of the conversations which we had on these subjects in New York.

Faithfully yours,

*J. Parker Gilbert*

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

1 enc.



PERSONAL

Berlin, February 25, 1926.

Dear Garrard:

I am sorry to have had to leave without seeing you again. I had hoped to have at least a good talk over the telephone from New York but, as it turned out, the last three or four days were frightfully crowded with appointments, and I did not even succeed in finding enough time at the Federal Reserve Bank to get Washington on the telephone.

As a matter of fact, I think that our conversations at Washington had covered almost everything of importance that was on my mind, except perhaps some further observations in connection with the plans for dealing with the German property in the United States, and indirectly on the question of the American share in the Annuities under the Experts' Plan. On the very day that I left Washington I spent some time with Secretary Kellogg at his house and had a long talk with him and Leland Harrison on the question of the American share. I gave you the substance of this conversation over the telephone before leaving Washington, and I assume that you have since had the story in detail from Leland Harrison. I emphasized particularly the importance from every point of view of taking practical steps to realize on the American share without further delay, and reiterated the suggestion that this could best be done by means of three-cornered arrangements with American importers and German exporters, under which the American importers would settle in dollars with the Treasury and I would pay the German exporters in reichsmarks out of the American share in the Annuity. This would assimilate the transactions as nearly as possible to the procedure for deliveries in kind and would raise



the least difficulties from the point of view of the Transfer Committee as well as from the standpoint of the other Powers. I understood that both Secretary Kellogg and Leland Harrison agreed, and that the State Department would immediately institute negotiations through the proper channels. I have not heard as yet whether anything definite has been done along these lines, but I hope that something is actually under way.

On the question of time, I said to Secretary Kellogg that it seemed to me important to proceed with realizing on the American share without waiting for the development of the plans for dealing with German property in the United States. I pointed out, first of all, the general desirability of going ahead without any further delay, in view of the difficulties that might arise with the other Powers in connection with the distribution of the Annuities, and particularly if there should be any suspension or reduction of transfers. I have already emphasized the importance of these considerations in my earlier letters to you. In so far as the plan for dealing with the German property in the United States is concerned, it could do no possible harm and might even do much good to have the American share actually in process of realization. It would provide some cash, in dollars, to put the plan in motion, and it ought to help with Congress. Then, too, from the point of view of negotiations with the Germans, the very fact that the question of returning the German property is still pending manifestly puts real pressure on them to facilitate in every way the practical realization of the American share. It ought to be obvious to the Germans that there is little or no chance of getting their property back unless Germany on its part does everything possible to help the United States in realizing on its share in the Annuities. The American share is relatively small, and I have always thought



that with the right kind of pressure the Germans could complete arrangements on a week's notice that would enable us to get full realization on it by means of three-cornered transactions with American importers and German exporters. There is always the possibility also that Congress will take some time to settle the question of returning the German property, and it would be unfortunate from every point of view to let the question of realizing on the American share remain indefinitely in suspense.

In so far as the practical arrangements are concerned, I should think that the Section of Investments, which has been organized under Hand's general supervision would be well equipped to handle the work of dealing with the American importers and of keeping the necessary accounts. Once started, this work ought not to present any special difficulties.

Altogether, I should be inclined to put all the emphasis now on getting a realization of the American share, and to be rather philosophical about any delays there may be in getting Congress to act on the question of the German property in the United States. I have always felt strongly that the German property ought to be returned, and returned in full, and I am still strongly of the same opinion. On the other hand, it will not do any harm for the Germans to wait a little while longer, and to give practical evidence in the meantime of their willingness to carry out in good faith their obligations under the Experts' Plan. I do not mean to imply that Germany has not been carrying out the Plan faithfully up to this time, or that I am expecting any default in the near future. But it is characteristic of the Germans to take a great deal for granted, and I think that on this Alien Property question their tendency is to be very much "on the make".



I even hear a certain amount of conversation in German circles to the effect that the United States "must" act with reference to their property before the end of the present session of Congress and that there would be very bad feeling between the two countries if it does not!" At the same time the German newspapers are full of talk, almost entirely from Nationalist sources, about the "intolerable burden" of the Exports' Plan and the inability of Germany to perform her obligations under it. This talk is more or less irresponsible, and is largely for the purposes of domestic politics, but it has been going on and I suppose that it has been more or less reprinted in the United States, as in other countries. The attitude of the German Government itself has been correct enough, but I think it might have quite a healthy effect if its representatives in Washington, who are so much interested in getting the German property returned, were told that there would naturally be some delay in getting the necessary legislation through Congress, even after a plan is agreed upon, and that the kind of talk which has been coming out of Germany during the past couple of months is not calculated to facilitate the adoption of the plan and is almost certain to make additional difficulties in Congress, perhaps to the extent of delaying the whole question for some time to come. I think the reaction here would be immediate, and that it would help in getting the question of the American share satisfactorily settled.

Passing to the question of the return of the German property in the United States, I assume that the plan that was announced in November will be undergoing revision along the lines of the conversations that I had with you and Mr. Mellon, and that it will be late March or early April before it



begins to take definite shape again. I hope very much that it will be possible to get away entirely from any issue of guaranteed bonds, and that the tax receipts in March will indicate a sufficient surplus to take care of the American claimants without raising the question of a bond issue. In this connection, it occurs to me that it would greatly simplify your problem if you could separate the question of paying the American claimants from the question of compensation to the German shipowners, instead of lumping all of them together as was done in the original plan.

There ought to be a distinction, it seems to me, between the German property in the hands of the Alien Property Custodian and the German ships and radio stations that were seized by the United States. As I understand it, the seized ships and possibly the radio stations might have been kept by the United States as prizes of war without any question of compensation to the German owners, and they do not, therefore, present the same considerations of respect for private property that are involved in the question of returning the German property held by the Alien Property Custodian. If this is true, it would simplify the whole situation if the two problems were separated, and the question of compensation for the ships and radio stations treated as a problem by itself. The German property in the hands of the Custodian does raise the question of respect for private property on land. This is a principle of the greatest importance to the United States, particularly in view of our own position as a creditor nation. It is of fundamental importance, therefore, to return this property unequivocally, and it would not do to keep the property and make the Germans take marks out of the Experts' Plan in exchange for it. As I see it, however, there is not this difficulty with the seized ships and radio stations. The United States is not making any pretense



of returning these ships or stations, and the only question, therefore, is one of compensation to the owners. For this purpose, an appropriation out of the United States Treasury would be fully justified, for the United States has, in one way or another, received the benefits and should pay for what it has received. At the same time, it might quite as well pay the German owners in reichsmarks as in dollars, and there is no reason why it should not be able to use the reichsmarks accruing to it out of the Annuities for the purposes of making the settlement. From the point of view of the German owners, these reichsmarks would be just exactly as good as any other reichsmarks, and ought to be entirely acceptable. The principal question would be one of time, so as to make the payments harmonize with the credits accruing to the United States under the Exports' Plan. As I recall it, the total value of the seized ships and radio stations is, at the maximum, about 100 million dollars, or say, about 400 million reichsmarks. It may prove to be something less than this when the valuations have been completed. Assuming, however, a figure in the neighborhood of 400 million marks, I should think that it would not be difficult to work out an arrangement with the Germans under which the payment for the seized ships and radio stations would be spread over a reasonable number of years, on a schedule that would, in effect, permit it to be financed entirely out of the American share in the Annuities.

In the third year of the Plan, as you know, the share of the United States becomes considerably larger by reason of the allowance for the old costs of the Armies of Occupation, and the combined share in the third year would be in the neighborhood of 75 million goldmarks. The combined American share for the first two years would amount to about 35 million goldmarks, or a total for the first three years of around 110 million marks. Of this three-year period



almost half has already elapsed, so that you could figure in terms of having 110 million goldmarks available under the Experts' Plan within another year and a half. In the fourth and fifth Annuity years the American share would become somewhat larger, as the Annuity itself increases in size, and it would only be a matter of waiting for the end of the fifth year, or perhaps the early part of the sixth year, before the whole amount necessary to cover the seized ships and radio stations would be made available for payment to the German owners. In view of all the circumstances, this would not be an unreasonably long time to expect them to wait, and I do not believe that you would have any serious difficulty in getting them to accept such a spreading of the payments. Among other things, the Germans are not in a good position to object to the delay, for the very reason for spreading the payments is to adjust them to the German payments under the Experts' Plan. And I should not be surprised if it were the German Government rather than the shipowners who did some of the waiting. The shipowners, in fact, have already had rather large advances from the Government for shipbuilding purposes, and some of these, at least, may have to be repaid out of any compensation received from America. As I understand it, moreover, the shipowners are likely to put whatever funds they get into new construction, and their own expenditures for this purpose will naturally be made chiefly in reichmarks and will also be spread over a considerable period.

It is difficult to get precise information here as to the status of the shipowners, but there are some pretty good practical checks on the situation. I saw Dr. Kiesselbach in Washington, for example, and questioned him quite specifically about the ships and radio stations. I was interested to find that he admitted, more or less reluctantly, that there ought to be



no difficulty in settling these claims in reichsmarks. As bearing on the expectations of the shipowners, it is also interesting to see the course which the stocks of the two principal shipping companies have taken on the Berlin Stock Exchange. The quotations for both the Hamburg-Amerika and North German Lloyd have gone up about 100 per cent since the plan was announced last November, as against a relatively small increase in the average of security prices. This more fully appears from the enclosed table; and there is not the slightest doubt that most of the increase in the shipping shares is due to the anticipation of unexpectedly large compensation from America.

Settlement for the seized ships and radio stations in reichsmarks over a period of years has the additional advantage of raising no difficulty of transfer, and I do not see that there would be any possible objection to it from either the Transfer Committee or the other Governments.

Assuming that the ships and radio stations could be taken care of on some such basis, there would, of course, remain the question of the American claims. With these claims, of course, there cannot help but be the problem of transfer, as there is no escape from paying them in dollars and if the German property in the hands of the Custodian is to be returned, the only way of getting the dollars from Germany is by means of the Experts' Plan. This will take a considerable time, at best, and particularly so if the American share of the Annuities under the Plan were to be used for the first five years or so, in paying for the seized ships and radio stations. The only possible way of financing payments to the American claimants in the meantime is by using cash out of the United States Treasury or by using the credit of the United States, in the form of an issue of bonds. The most direct way, of



course, would be to spend cash out of the Treasury, under a special appropriation from Congress, and for the Treasury then to reimburse itself in the course of years out of the receipts subsequently accruing to it under the Experts' Plan. I have the impression that even with the new tax bill the probabilities are that for the current fiscal year the Treasury will show a surplus of something over 100 million dollars. If this should prove to be the case, it would be possible to pay practically all of the American claims that could be presented this year without running the danger of showing any deficit in the year's accounts. There would be some objection in Congress, I suppose, to making an appropriation for the purpose, and I notice that even Senator Reed, of Pennsylvania, has been talking in terms of being unwilling ever to appropriate money out of the United States Treasury for paying claims against Germany arising out of the sinking of the "Lusitania". But as between paying the American claimants under an appropriation and using the credits of the United States through an issue of guaranteed bonds, I should think that Congress would prefer to make the appropriation, and it would certainly be better practice from the point of view of the Treasury. It is also to be remembered, and could very well be pointed out to Congress, that, after all, the United States has actually got the seized ships and radio stations, and is either using them or has disposed of them for its own purposes. To this extent, therefore, our Government is already in the position of having received value, and might perfectly well expect to have to make an appropriation for the payments to be made to the owners of the seized ships and radio stations. The fact that the appropriation is asked for the purpose of paying the American claimants instead of for the purpose of paying for the ships and radio stations means simply that there is, in effect, an adjustment between



-10-

the two accounts for the sake of reducing, as far as possible, the transfer difficulty.

This letter is already too long, and there would be no point anyway in going into further detail unless and until your plans are in more definite shape. But I hope that these suggestions will be of some use, and that when you do get to the point of drawing up a revised plan you will give me an opportunity to look it over before it is announced to see whether it is all right from the point of view of the Transfer Committee.

With best regards, I am,

Sincerely yours

(Signed) S. PARKER GILBERT

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

Encl.

SPG/LWM



# Berlin Stock Exchange Prices

Date approximately the middle of	Norddeutscher Lloyd	Hamburg- Amerika	General Index
			(157 shares)
August 1925	45	47	67.3
September "	67	63	74.0
October "	65	61	69.2
On October 20 public announcement was made in Germany of the proposal to reimburse owners of German property sequestered during the war by means of payment part in cash and part in United States Bonds.			
November 1925	74	70	62.2
December "	91	89	62.0
January 1926	101	99	(146 shares) 64.1
February "	130	128	73.6



Letter from Mr. Parker Gilbert - 30th April, 1926.

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I am leaving Berlin on Sunday, May 2nd, to spend a couple of weeks at my Paris office, winding up with meetings of the Co-ordinating Board on May 14th and of the Transfer Committee on May 15th, both in Paris. I could quite easily come over to London for a few days shortly before the 14th, or shortly after the 15th, if either of those times would be convenient for you. Schacht I know will be with you the first part of next week, and I assume that Strong will be in London for perhaps a couple of weeks, so that your time is likely to be fully occupied, but if you do have a little free time and will drop me a line to Paris indicating what would be the best time, I shall be glad to make my plans accordingly.



THE AGENT GENERAL  
FOR REPARATION PAYMENTS

BERLIN  
33 LUISENSTRASSE  
TELEPHONE: NORDEN 11900-11910  
TELEGRAMS: AGENTREP. BERLIN

L'AGENT GÉNÉRAL  
DES PAIEMENTS DE RÉPARATIONS

PARIS  
18 RUE DE TILSITT  
TÉLÉPHONE: WAGRAM 2422-2423  
TÉLÉGRAMMES: REPAGENT. PARIS

PERSONAL AND CONFIDENTIAL.

Paris, May 8, 1926.

My dear Governor:

I received your letter of April 20, 1926, and am glad that you are now on this side of the water. There are many things to talk about, including one special matter that I want very much to see you about. Perhaps it may even be a good time to get started on plans for stabilization.

I had been hoping to come over to London next week, to see Norman and the people at the Treasury, and had thought that this might also give an opportunity for some good talks with you. There seems to be no point in coming to London, however, in the midst of a general strike, and I am planning accordingly to return direct to Berlin from Paris.

I gather from your letter that you may be coming to Paris around the middle of May, and I hope very much that this is still your plan. I have meetings of the Co-ordinating Board and the Transfer Committee in Paris on the 14th and 15th of May, and will be here at least through the 15th. I can readily enough stay a few days longer if there is a chance of seeing you here, and if you will let me know what your movements are likely to be I shall try to adjust my plans accordingly.

As for Berlin, I am almost sure to be there for practically



the whole of June, and I am counting very much on seeing you then.

With best regards to you and Governor Norman, I am,

Faithfully yours,

*S. Parker Gilbert*

Benjamin Strong, Esq.,  
c/o The Right Honourable Montagu C. Norman,  
Governor of the Bank of England,  
Threadneedle Street,  
LONDON.



THE AGENT GENERAL FOR REPARATION PAYMENTS

BERLIN  
55 LUISENSTRASSE  
TELEPHONE: NORDEN 44900-44910  
TELEGRAMS: AGENTREP, BERLIN

PARIS  
18 RUE DE TILSITT  
TELEPHONE: WAGRAM 2422-2423  
TELEGRAMS: REPAGENT, PARIS

~~BERLIN~~  
Paris, June 19, 1926.

My dear Governor:

I am enclosing herewith, in the thought that it may interest you to have it in this form, an advance copy of the interim Report on the operation of the Experts' Plan which I am presenting today to the Reparation Commission.

Sincerely yours,

Encl.

*J. Parker Gilbert*

Governor Benjamin Strong,  
Hotel Cap d'Antibes,  
Cap d'Antibes, France.



THE AGENT GENERAL  
FOR REPARATION PAYMENTS

BERLIN  
35 LUISENSTRASSE  
TELEPHONE: NORDEN 11900-11910  
TELEGRAMS: AGENTREP. BERLIN

L'AGENT GÉNÉRAL  
DES PAIEMENTS DE RÉPARATIONS

PARIS  
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TÉLÉGRAMMES: REPAGENT. PARIS

*Personal*

BERLIN, July 1, 1926.

My dear Governor:

I received your letter of June 21, 1926, in the same mail with a personal note from Norman on the general subject of Antibes.

I have since written him a long personal letter about our plans, and assume that he has shown it to you. I have also sent him a telegram through my Paris office which will probably have arrived before you get this.

The fact is that Louise and I would like nothing better than to come to Antibes while you are both there. My negotiations about the supplemental contributions will have reached either a conclusion or a deadlock by the first of next week, and assuming that your plans have not changed, I think we will leave here either Sunday or Monday, with a view to arriving in Antibes on July 7th or 8th. I hope that nothing will happen to shorten your stay, though I imagine that there is already the greatest pressure on both of you to come to Paris.

I hope to have a chance soon to talk to you again about Case. As you probably know, I have recently had a cablegram from him declining the invitation with regret, and am enclosing a copy of it herewith in case you have not already seen it. I still feel that Case would be the best choice for the place, and I have not quite given up hope that he may possibly change his mind. If, however, his decision is final, I



shall shortly have to look around for someone else, in order to avoid being caught in a jam at the end of the year. Confidentially, McGarrah and our friends at the corner have unanimously suggested Jeremiah Smith, Jr. It is an admirable suggestion from many points of view, but I should like very much to talk it all over with you before doing anything definite, even in that direction.

With best regards, I am,

Faithfully yours,

*S. Parker Filmer*

Benjamin Strong, Esq.,  
c/o Hotel Cap d'Antibes,  
Antibes, France.

1 enc.

P. S. I have had one intimation from New York that Case had inquired about the possibility of his getting a leave of absence from the Federal Reserve Bank in order to take the appointment over here, and that informally he was told that this would be impossible. I do not know what the ruling would be on this point, and I mention it only as indicating a possible way of meeting the difficulty.

*SOS*



THE AGENT GENERAL  
FOR REPARATION PAYMENTS.

BERLIN  
33 LUISENSTRASSE  
TELEPHONE: NORDEN 41900-41910  
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DES PAIEMENTS DE RÉPARATIONS

PARIS  
18 RUE DE TILSITT  
TÉLÉPHONE: WAGRAM 2422-2423  
TÉLÉGRAMMES: REPAGENT. PARIS

BERLIN, July 3, 1926.

PERSONAL.

My dear Governor:

I am sending you herewith a copy of Note No. 24, containing a translation of the most important parts of the recent Report of the German Railway Company for the business year 1925. A copy of this Note has probably gone forward to you in regular course, but I think it is worth bringing to your special attention inasmuch as it constitutes the first official record of the results accomplished by the German Railway Company since its organization. This record is important not only from the point of view of the development of the Plan as a whole, but also because of its relation to the question of selling the Railway Bonds.

Sincerely yours,

*J. Parker Sillit*

Benjamin Strong, Esq.,  
c/o Hotel du Cap d'Antibes,  
Antibes, France.

1 enc.



THE AGENT GENERAL  
FOR REPARATION PAYMENTS

BERLIN  
33 LUISENSTRASSE  
TELEPHONE: NORDEN 11900-11910  
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L'AGENT GÉNÉRAL  
DES PAIEMENTS DE RÉPARATIONS

PARIS  
18 RUE DE TILSITT  
TÉLÉPHONE: WAGRAM 2122-2123  
TÉLÉGRAMMES: REPAGENT. PARIS

Paris, July 15, 1926.

PERSONAL.

Dear Governor:

The other day I came across an interesting passage in John Bassett Moore's Digest of International Law, and I cannot resist sending you the enclosed copy of it.

It does seem more than a coincidence that this particular statute should be known as the "Logan Act".

Faithfully yours,

*S. Parker Illert*

Benjamin Strong, Esq.,  
c/o Hotel du Cap d'Antibes,  
Antibes, France.

1 enc.



8. SELF-CONSTITUTED MISSIONS.

§ 631.

In 1798, after the rupture of diplomatic relations between the United States and France, Dr. George Logan, of Philadelphia, a gentleman of fortune and education, a member of the Society of Friends, and a Democrat in politics, who had served in the legislature of Pennsylvania, and who was afterwards a United States Senator, made a journey to France with the ostensible object of pursuing certain scientific investigations, but mainly, it seems, with a view to improve the relations between the two countries and prevent an open war. He had numerous interviews with Talleyrand and with members of the Directory, and was "hailed by the French newspapers as a messenger of peace;" but in the United States, although the benevolence of his motives was generally recognized, his unauthorized interference in international affairs was unfavorably received. By Washington his course was strongly condemned, while by Pickering, who was then Secretary of State, it was keenly resented. Congress at its next session passed, under Pickering's inspiration, a statute, which was approved January 30, 1799, and which was commonly known as the "Logan Act," for the purpose of rendering such self-constituted missions in the future illegal. This statute, as it now appears in the Revised Statutes, reads as follows:

"Sec. 5335. Every citizen of the United States, whether actually resident or abiding within the same, or in any foreign country, who, without the permission or authority of the government, directly or indirectly, commences or carries on any verbal or written correspondence or intercourse with any foreign government, or any officer or agent



thereof, with intent to influence the measures or conduct of any foreign government of any officer or agent thereof, in relation to any disputes or controversies with the United States, or to defeat the measures of the President within, the United States, and not duly authorized, who counsels, advises, or assists in any such correspondence, with such intent, shall be punished by a fine of not more than five thousand dollars, and by imprisonment during a term not less than six months, nor more than three years; but nothing in this section shall be construed to abridge the right of a citizen to apply, himself or his agent, to any foreign government or the agents thereof for redress of any injury which he may have sustained from such government or any of its agents or subjects."

As to the mission of Dr. Logan, see Foster, *A Century of American Diplomacy*, 226-231; Lawrence's *Wheaton* (1863), 1003; 8 *John Adam's Works*, 615; 9 *id.* 243, 244, 265, 293, 307; *Randall's Life of Jefferson*, II. 467; *Wharton's State Trials*, 20, 21; 1 *Wharton's Crim. Law*, § 274; *Am. State Papers*, *For. Rel.* II. 242.

As to Pickering's subsequent violation, when out of power and in opposition, of the statute the enactment of which he had inspired, see *Adam's History of the United States*, IV. 236 et seq.

No conviction or prosecution is known to have taken place under this act, although it has on various occasions been invoked, officially or unofficially, as a possible ground of action against individuals who were supposed to have infringed it.



THE AGENT GENERAL  
FOR REPARATION PAYMENTS

BERLIN  
33 LUISENSTRASSE  
TELEPHONE: NORDEN 11900-11910  
TELEGRAMS: AGENTREP. BERLIN

L'AGENT GÉNÉRAL  
DES PAIEMENTS DE RÉPARATIONS

PARIS  
18 RUE DE TILSITT  
TÉLÉPHONE: WAGRAM 2122-2123  
TÉLÉGRAMMES: REPAGENT. PARIS

Paris, July 15, 1926.

PERSONAL.

Dear Governor:

I received your letter of July 11, 1926, and am glad to know you found the German Railway Report interesting. I do not know whether you have also seen the recent Report of the Railway Commissioner, but I am sending you a copy of it under separate cover, since it makes an interesting supplement to the Report of the Railway Company.

Owing to Louise's illness I have had to settle down in Paris for a few weeks, and I expect now to be here almost uninterruptedly until the 31st of July, when I have a meeting of the Transfer Committee in London. I note from your letter that you are expecting to get to Paris yourself about the 20th or 21st of July, and I shall be looking forward very much to seeing you. I doubt, however, if Mr. Mellon will come to Paris at all, unless he has changed his plans within the past few days. I had a cable from him early in the week saying that he would sail on the Majestic on July 17th, and would land at Cherbourg but avoid Paris. I understand that he is planning to motor all the way from Cherbourg to Rome, and that he is likely to stop for a couple of days on the way at La Rochelle, near Bordeaux. I have not yet heard definitely about this, but if, in fact, he follows this plan I shall probably go down to La Rochelle to see him.

Louise is feeling rather better, and has been much touched by



all your messages and flowers. The diagnosis, however, seems pretty clearly to indicate appendicitis, and I think there is nothing to do but to have the operation. The risks otherwise are too great, particularly with anyone who has to travel about as much as we do. Our plan now is to have the operation sometime toward the end of next week, which will give her Father time to arrive here first. He has already sailed on the Berengaria, and will, therefore, reach Paris about the 20th or 21st.

Logie, I imagine, could not give you much news, either about Grandma or about my own movements. I have not, in fact, seen him for a month or so, and only heard by accident that he was planning to go down to see you. I have been so much disgusted by the intrigues and manoeuvres that he has been carrying on for the past year or so that I can hardly stand the sight of him, and I have come as close as possible to striking him off the list completely.

Hoping to see you soon in Paris, and with best regards as always,  
I am,

Faithfully yours,

*S. Parker Gilbert*

Benjamin Strong, Esq.,  
c/o Hotel du Cap d'Antibes,  
Antibes, France.



THE AGENT GENERAL FOR REPARATION PAYMENTS

BERLIN  
13 LUISENSTRASSE  
TELEPHONE: NORDEN 11900-11910  
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PARIS  
18 RUE DE TILSITT  
TELEPHONE: WAGRAM 2122-2123  
TELEGRAMS: REPAGENT, PARIS

BERLIN Paris, June 22, 1926.

My dear Governor:

Supplementing my letter of June 19, 1926, I  
am now enclosing herewith a definitive copy of my in-  
terim Report dated June 15, 1926, covering the operation  
of the Experts' Plan during the first nine months of the  
second Annuity year. This supersedes the advance copy  
enclosed with the previous letter.

Sincerely yours,

*S. Parker Gillert*

Encl.

Governor Benjamin Strong,  
Hotel Cap d'Antibes,  
Cap d'Antibes, France.



# THE AGENT GENERAL FOR REPARATION PAYMENTS

BERLIN

55 LUISENSTRASSE

TELEPHONE : NORDEN 11900-11910

TELEGRAMS : AGENTREP, BERLIN

PARIS

18 RUE DE TILSITT

TELEPHONE : WAGRAM 21.22-21.25

TELEGRAMS : REPAGENT, PARIS

PARIS , August 14, 1926.

My dear Governor,

I enclose a cutting from the Paris edition of the "New York Herald" under date of August 9, 1926, which may be of interest to you. I do not know who inspired it, but it is not a bad sample of the kind of thing that has recently been leaking into the German Press.

Faithfully yours,

*H. Parker Gillett*

Benjamin Strong Esq.,  
c/o Morgan, Harjes & Co.,  
Place Vendome,  
P a r i s.



This article is protected by copyright and has been removed.

The citation for the original is:

“Bank President Sees U.S. Reserve Man.” New York Herald [Paris Edition], August 9, 1926.



CODE TELEGRAM RECEIVED SEPTEMBER 1, 1926.

Berlin, August 31, 1926.

REPAGENT

PARIS

AG 354 STOP

PLEASE DELIVER FOLLOWING MESSAGE TO GOVERNOR STRONG AT HOTEL PRINCESS QUOTE  
FOR YOUR INFORMATION I AM NOW IN BERLIN AND EXPECT TO REMAIN HERE UNTIL  
FRIDAY NIGHT SEPTEMBER 3rd OR AT THE LATEST SATURDAY EVENING SEPTEMBER 4th.  
GRANDMA IS STILL AT EVIAN AND I EXPECT TO       ?       HER THERE ON SEPTEMBER  
5th AND TO REMAIN AT EVIAN UNTIL ABOUT SEPTEMBER 12th WHEN WE SHALL BOTH  
RETURN TO BERLIN BARRING UNEXPECTED DEVELOPMENTS WE SHALL THEN STAY IN  
BERLIN UNINTERRUPTEDLY UNTIL ABOUT OCTOBER 10th WHEN WE HAVE TO LEAVE FOR  
TRANSFER COMMITTEE MEETING IN ROME. I HOPE THAT IF YOU ARE COMING TO  
BERLIN YOU WILL BE ABLE TO COME AT A TIME WHEN WE ARE HERE AND THAT YOU  
WILL LET ME KNOW A FEW DAYS IN ADVANCE OF YOUR COMING. INCIDENTALLY I SHOULD  
LIKE VERY MUCH TO KNOW IF YOU HAVE HAD ANY FURTHER WORD FROM MR. CASE.  
IF NO WORD HAS COME I SHALL PROBABLY CABLE HIM DIRECTLY IN ORDER TO GIVE  
THEM (HIM) A LAST CLEAR CHANCE BEFORE APPROACHING ANYONE ELSE.

GILBERT

UNQUOTE.



Berlin, September 2, 1926  
(Received Sept. 3rd)

Repagent

Paris

AG 362 (stop)

Please transmit following additional message to Strong quote

Many thanks for your message. I agree with you that Case is not likely to change his mind and I personally hesitate press him too hard.

Assuming that Case is not coming have I your permission approach Pierre Jay  
for  
with same offer. It may be equally impossible/him to consider it but I think he would meet the situation admirably and I should like to make him the offer .

- Gilbert unquote



THE AGENT GENERAL  
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TÉLÉPHONE: WAGRAM 2122-2123  
TÉLÉGRAMMES: REPAGENT. PARIS

BERLIN, Sept. 4, 1926.

PERSONAL

My dear Governor:

The Agreement about the supplemental contributions has now been formally concluded, and I think it may interest you to have the enclosed copy of the press statement that I have issued summarizing the terms of the settlement. It has been well received here, and it should prove to be one of the most important steps in the progress of the Experts' Plan.

Faithfully yours,

*S. Parker Sillit*

Benjamin Strong, Esq.,  
c/o Morgan, Harjes & Co.,  
14, Place Vendome,  
P a r i s.

1 enc.



For Release Morning Newspapers,  
September 3, 1926.

September 2, 1926.

PRESS STATEMENT NO. 34.

The Agent General for Reparation Payments announces that, with the approval of the Reparation Commission and the Governments concerned, he has now concluded an agreement with the Finance Minister of the Reich liquidating by a lump-sum payment the two supplemental budgetary contributions payable by the German Government in respect of the third and fourth Annuity years. The new arrangement substitutes for a total contingent liability of 500 million gold marks a fixed payment of 300 million gold marks, all of which is to be paid during the third Annuity year, which began September 1, 1926, and ends August 31, 1927.

Under the provisions of the Experts' Plan the reparation Annuity payable by Germany for the third Annuity year would amount to 1 200 million gold marks, and for the fourth Annuity year to 1 750 million gold marks. Of these payments the Plan provided that the German budget would contribute 110 million gold marks for the third Annuity year, and 500 million gold marks for the fourth Annuity year. At the same time, however, the Plan and the London Agreement provided that these budgetary contributions should be subject to modification by amounts not to exceed 250 million gold marks for each year, depending on the yield of the controlled revenues. If the aggregate yield of the controlled



revenues were to exceed or fall short of 1,000 million gold marks during the Annuity year 1926 - 1927, or 1,250 million gold marks during the Annuity year 1927 - 1928, the budget contributions of the next succeeding years, respectively, were to be increased, or reduced, as the case might be, by an amount equivalent to one-third of the excess or deficit in the controlled revenues, but not to exceed 250 million gold marks for either year. In actual experience, the aggregate yield of the controlled revenues during the first Annuity year (1924 - 1925), amounted to 1706 million reichsmarks, and the estimates indicate for the second Annuity year (1925 - 1926), aggregate returns of over 1900 million reichsmarks. On this basis, the yield from the controlled revenues in the third and fourth Annuity years was likely to bring the contingency into operation, and to make the German budget liable, in all probability, for supplemental contributions on account of both years. The agreement which has now been concluded replaces the two contingent annual contributions, which might otherwise have risen to a total of 500 million gold marks, with a single definite payment of 300 million gold marks, which Germany is to make during the third Annuity year.

The result is an important change in the arrangement of the Annuities payable under the terms of the Plan. Without the new agreement, the Annuities would have risen from 1200 million gold marks in the third Annuity year (1926 - 1927), to 2000 million gold marks in the fourth Annuity year (1927 - 1928), and 2750 million gold marks in the fifth Annuity year (1928 - 1929),



assuming that the maximum supplemental contributions had become payable. This would have meant an increased burden on the German economy of 800 million gold marks in the fourth year, as compared with the third, and a further heavy increase in the fifth year as compared with the fourth. The new arrangement, on the other hand, means that the third Annuity will amount to 1500 million gold marks, as compared with 1220 millions in the second Annuity year, while the fourth Annuity will stand at 1750 million gold marks and the fifth at 2500 millions. The result is a better arrangement of the Annuities, which will reduce the danger of undue strain on the German economy and facilitate the even flow of deliveries and payments.

The agreement as a whole will contribute substantially to the smooth operation of the Experts' Plan, and, incidentally, will facilitate its administration by eliminating factors of uncertainty that might otherwise be troublesome. One further effect will be to increase by a substantial amount the funds available for deliveries in kind during the third Annuity year.

This settlement of the question of the supplementary budgetary contributions has been made by the mutual consent of all the parties, in the conviction that it will facilitate the operation of the Experts' Plan and promote the best interests of all concerned. It is thus a further evidence of the spirit of friendly accommodation, and a new earnest of the good-will and mutual understanding that lie at the basis of the Plan itself.



THE AGENT GENERAL  
FOR REPARATION PAYMENTS

BERLIN  
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L'AGENT GÉNÉRAL  
DES PAIEMENTS DE RÉPARATIONS

PARIS  
18 RUE DE TILSITT  
TÉLÉPHONE: WAGRAM 2122-2123  
TÉLÉGRAMMES: REPAGENT. PARIS

BERLIN, December 11, 1926.

*Mr. Harrison  
to me  
MSB*  
Returned by  
C.L.# 9/19/27 too late for Ack.  
MSB

PERSONAL AND CONFIDENTIAL.

Dear Governor:

*Peace returns*

I am enclosing herewith, in the thought that it may interest you, a copy of a memorandum which I have had prepared by the Economic Service of the Transfer Committee in order to give comparative figures for reparation payments and Inter-allied debts. The figures are based on the agreements already in force, or awaiting ratification, and cover a twelve-year period, running back about two years to the beginning of the Experts' Plan and extending about ten years into the future.

The memorandum is intended only to present the figures. It has not been prepared for general circulation, and I should, therefore, appreciate it if you would regard it as confidential.

Sincerely yours,

*S. Paul Tillett*

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

1 enc.

*International Payments  
Resulting from the  
War*