

*These are the letters  
written before this  
messing*

Stuyvesant Road,  
Biltmore Forest,  
Biltmore, N.C., February 14, 1927.

*Basel*

Dear Pierre:

My mail accumulated so rapidly and I have had so little inclination to write any letters at all that I have simply written none, even those which I was most anxious to send promptly.

Now that I have some help, I must first send you a most inadequate line of appreciation of your bully letter and of the wonderful cuff links. I am so glad to have exactly what you sent me. They were not only a reminder of our association, for which no reminder is needed, but in my mind, being what they are, they emphasize what did so much to make our association and the work of the Bank successful, and that is the splendid tradition that you brought to it. It has been the happiest experience in my business life, and the Bank will never seem the same without you there.

Now I do wish you every possible success in Berlin. You will have a splendid lot of men around you, and with Gilbert and Shep Morgan there, you should feel at home. You made a great contribution to the success of the biggest enterprise the world ever undertook in economics, and I know the many thrills that it will give you.

As to myself, I am progressing slowly, but am still not allowed to take a particle of exercise beyond coming downstairs once a day. In another few weeks I expect to begin walking. Possibly by early April I shall hope to be back at the Bank. Phil and I are keeping house in a little cottage, Ernest is also with us here to help, and we have a good Southern cook, so we are comfortable and live very lazily.

Won't you give my best to Mrs. Jay, to Gilbert and to Morgan, and

2.

Mr. Jay.

2/14/27.

to any other of my friends whom you may come across, and every kind of good wish to you.

Faithfully yours,

Mr. Pierre Jay,  
c/o Transfer Committee,  
Reparations Commission,  
33, Luisenstrasse,  
BERLIN, Germany.

BS:M

Jay P  
Stuyvesant Road,  
Biltmore Forest,  
Biltmore, N. C.  
March 15, 1927.

Dear Pierre:

It is high time that I wrote you, although about the only matter that I can put in a letter is an account of myself, for I am still at Biltmore, climbing back to health.

You will certainly recognize this letter, if any that I ever write you seem familiar, because I am dictating it to Miss Holmes who is down here helping me catch up with mail, and generally making me feel that I am able to do a little work.

Phil and I have a little cottage which we find very comfortable. We have an excellent colored cook, a very stout lady who is the wife of a Methodist minister in Asheville, and Ernest does everything else.

I have so far gotten back to normal that I can keep up with my mail and take a walk of three quarters of an hour every day so long as I do not climb hills, and spend an hour a day at the dentist's. I have no temperature and no particular thing to remind me that I have been ill at all except that I cannot exert myself without some fatigue. Dr. Ringer, in whose care I am consigned by Dr. Miller, tells me that I have improved constantly, and all the signs are satisfactory. The last X-Ray picture was even better than the one Dr. Miller last took, which you saw. I shall be back on the job, I hope, before the end of April.

Everybody was delighted about McGarrah's decision. He will be a most satisfactory member of the family, but no one could have taken your place. The last word I had from Washington suggested that McGarrah would continue as a member of the Reichsbank

General Board, at least until his present term expires. I am very glad of this as I know he was reluctant to give up the interesting work, and I think the contact is one of value to us.

This letter is written partly to induce you to write me something of your work and how it goes, and especially how you feel now that you have had a chance to get your teeth in the new job. I also want especially to send my good wishes to Gilbert and Shep Morgan, and ask you to convey the same to all of your respective wives.

Do write me.

With many good wishes,

Affectionately yours,

Mr. Pierre Jay  
33 Luisenstrasse,  
Berlin, Germany.

PERSONAL

Stuyvesant Road,  
Biltmore Forest,  
Biltmore, N. C.,  
March 26, 1927.

Dear Pierre:

It was indeed a great delight to -day to have your letter of March 8. You anticipated a great many questions which I would have been asking you had you been here. I shahn't send you much in reply, except to comment on one or two matters you mention, and to report on my own progress.

Taking the latter first, I am really very much better. Of course, I am not playing golf yet, or doing any foolish things like that, but I am doing a regular amount of work, sleeping well nights, maintaining my weight, and I feel that the general nervous tension resulting from my illaess is very much lessened. The doctor gives me a good report, so I am returning next week to New York to have Miller examine me, and going immediately to Atlantic City for two or three weeks.

Except for ~~all~~ the developments in Poland and Serbia, and a possible development in Italy which is more remote, I agree that there are no prospects for stabilization programmes in Europe this summer. My trip abroad is still indefinite. I can understand why you deprecate the idea. Nor would the trip be in connection with anything like stabilization, but rather having to do with another development which is fast approaching but which probably cannot be dealt with until next year anyway, and that is the need for some attempt at devising a formula to regulate or control the operations now developing under what is <sup>we vaguely</sup> regularly known as the gold exchange standard. This is, of course, quite confidential. Some of our banking friends abroad are getting a bit agitated about it, and some of our directors are viewing the subject with some concern. I shall

not elaborate in this letter. In fact, my own ideas are still pretty vague. But the time is coming when, for our protection if not for the maintenance of our banking position in the world, something will need to be done about it.

What you write about the agitation in regard to Germany's capacity to pay under the Dawes Plan interests me very much indeed. It was played up pretty strongly over here, and in some of the press notices was represented as a deliberate effort to start an agitation in anticipation of demands to moderate the scheme of payments. Certainly this would be the worse possible policy just now, and I am glad to have the simple effective explanation you make of what has happened.

All the other matters you write about interest me so much that I am hoping you will develop the habit!

Speaking of interesting books, I don't know whether you can get it in Germany, but you certainly should read Ludwig's "Wilhelm Hohenzollern." If you haven't read it and can't get it there, let me know and I will see that one reaches you by hand. It is a tragic and pitiful picture. It gives one a great sense of depression, but every one should read the book.

The most recent developments in connection with filling the unfillable gap which you left are partly satisfactory and partly the reverse. McGarrah's acceptance, of course, was most satisfactory. He will be a fine cooperative and helpful colleague. The outlook in that respect is everything that we could wish. The less satisfactory development was apparently unofficial but due to some inspired statements in the press coming from Washington, that the Board proposed now to take advantage of the passage of the McFadden Bill and the

Mr. Jay

- 3 -

3/26/27.

extension of the charters to reorganize the scheme of management of the Reserve banks, kick out some of the Federal reserve agents, and replace them with stronger men, and exercise a more effective control of the System than had heretofore been possible. Of course, all sorts of exaggerated reports resulted, some of them appearing in print, many of them passing by word of mouth, and the reaction, naturally enough, has been very critical of any such proposal. I am told that Senator Glass has taken the matter up vigorously, and unless he can get satisfaction he is threatening to ask Congress to modify the powers of the Board when the Congress meets in December. Of course, this is all gossip, but is an indication that what you and I discussed and feared was very much in mind. My judgment is that it is in the minds of only two or three members of the Board, and the only result of the agitation will be to cause a certain amount of discredit on the management of some of the Reserve banks which will do none any good. The real misfortune growing out of this development is not so much in the public reaction, but in the disturbance which it has caused within the Reserve banks themselves. Mr. Case was here recently and told me that in a number of the Reserve banks there is a good deal of anxiety. So many of our good men have been induced to continue their work and decline attractive offers elsewhere - and this <sup>also</sup> applies to other banks than ours - that I fear if anything in the nature of a confirmation of this programme should develop we would lose some of the best men we have. This is where the possibility of a real calamity lies, and it gives point to your recommendation that I should stay home this summer, which I am indeed tempted to do even though the urge to make the trip and start something in the way of an understanding <sup>as above</sup> is liable to become fairly strong. I surmise that the decision in this matter rests more with Dr. Miller

Mr. Jay

- 4 -

3/26/27.

than with anyone else.

I was promised a picture of you and, as I recall, the bargain was clinched by Miss Bleecker delivering you a picture of me. I do not recall seeing the picture, although it might have arrived when I was so full of dope, disease and depression that I don't recall it. If I have not got one, - and I insist upon having one - I have a frame for it and a foremost place in my collection.

Now do write me again, and you can count on my keeping the ball rolling. *Best regards*

Faithfully yours,

Mr. Pierre Jay,  
33 Luisenstrasse,  
Berlin, Germany.



*Stearns July*

CONFIDENTIAL

July 21, 1927.

Dear Pierre:

It was fine to have your letter of June 22, and it has remained unanswered until the present moment simply because of lack of time while our visitors were here, as we were out of town almost continuously.

This letter is, of course, quite confidential, but I wish you would show it to Gilbert and then put it away safely, for I should like you both to know something of the talks which took place during this much-advertised visit.

The subjects discussed, with what might be described as an official background, were roughly as follows:

- (1) The position of the Bank of France vis-a-vis London and New York as to its immense holdings of devisen.
- (2) The extraordinary movements of gold between the markets.
- (3) The technical practice of our Treasury Department and the Reserve bank in buying gold.
- (4) A possible method of temporarily arresting shipments of gold to this country so as to avoid the addition of the expense of moving it to New York and back again to Europe.
- (5) The possibility that the return to the gold standard and the necessary policies of the banks of issue in that connection may be responsible for the recent steady decline of the general price level.
- (6) Central bank policies as to rates and relative levels of interest in respective markets under present conditions.

Of course, such discussions as the above cover an immense range of

6/21/27.

conjecture, and could not escape exploring pretty fully the possible developments of the next one or two years and the effect of those developments upon the Central banks and the gold standard. This discussion was rather informal and led into fields which are of only indirect concern to the central banks; namely, reparation, debts and the whole transfer problem.

I shall save any description of the first six topics discussed, for I want especially just now to write you about the Transfer problem, and at the same time ask you to reply as fully as you feel able or willing and give me your own views and Gilbert's if you can. I shall not attempt to quote the views of the others taking part in these discussions, which is always rather dangerous, but I should say that in general on the main point, as to the difficulty of effecting transfers, I think we were in more or less agreement. But, of course, Dr. Riet either did not take part in some of these discussions or expressed no opinion. In fact, such expressions as he did make were largely disclaiming responsibility in that matter and to avoid committing himself.

I assume that the transfers for the current reparations year ending September 1st have or will be provided for without difficulty.

Next year the total transfers, both in cash and kind, aggregate about \$450,000,000. I am anticipating little difficulty during the fourth year, and one influence in that conclusion is the fact that probably our Congress will dispose of the problem of returning the property held by the Alien Property Custodian which should have the effect of providing devises for almost if not quite one half of all of the fourth year's annuity. The Alien Property Custodian now holds about \$175,000,000 of invested cash, entirely in obligations of our Government, and in addition I believe there is due on shipping claims about \$50,000,000. This leaves out the miscellaneous assets not yet

liquidated, and which will doubtless be returned in kind. In the fifth annuity year \$825,000,000 must be transferred in cash or kind, less payments made within Germany. Naturally my interest in connection with the gold standard is as to the possibility of these transfers being made without difficulty, and I should like your comments upon the following views.

Up to date the entire amount which has been paid by Germany on reparations has been covered by foreign loans; that is to say, by the original loan of \$200,000,000 in 1924 and by the subsequent private loans made to German states, municipalities and industries. On top of that it is suggested that the German banks now owe abroad on short credits no less than \$500,000,000, offset possibly to the extent of \$300,000,000 by funds which they have one way or another invested abroad for themselves or for their clients. Loans such as have been placed in this country during the past three years by German borrowers may continue to be a resource for transfer purposes, but on the other hand they may dry up. If the moment arrives when the entire amount of the annuities cannot be transferred and funds begin to accumulate in the hands of the Transfer Agent, will it not then become impossible for German borrowers to negotiate loans in foreign markets in a large way? It seems to me to be likely, partly because of the doubt as to Germany meeting the service of the loans and partly because of the agitation and possible hostility which will be displayed by the principal reparation creditors to having the service of those loans met and transfers on account of reparations reduced or discontinued. Such a position by Germany's creditors may not accord with the terms of the plan and may not be just, but seems quite likely to arise, nevertheless. The obvious answer is that the principal of the loans were themselves the means originally of making reparation transfers, and the lenders should not, of course, be penalized after

having contributed so extensively to reparation payments. I would also apprehend that under those conditions short credits negotiated abroad by German banks will become troublesome and will be the instrument for immediate direct demands upon the reserves of the Reichsbank.

I think, in this connection, one must look at the whole picture of transfers, and in this connection please examine the enclosed schedules of the annuities due to our Government under the funding agreements now negotiated, including, of course, the French which has not been ratified. In order that you may get the picture complete I am also enclosing an estimate of the transfers required to meet the service of foreign loans negotiated in this market during the past few years, of which we have a record in the bank.

You will see, therefore, that in the fifth annuity year Germany will be called upon to pay her creditors \$625,000,000 and that the world will owe to American investors, say \$700,000,000 and our Government \$200,000,000. These transfers are somewhat offset because of repurchases by European investors of securities sold in our market, but I believe the estimated amount is exaggerated, and certainly cannot exceed 10 per cent. or 15 per cent. of the total.

These are staggering figures which indicate a long period of depressed European exchanges, rather high central bank rates and rather high interest rates for capital, if not for short money as well.

Now, I feel that much will depend upon two things., First, possibility of some sort of a general readjustment or moderation of transfers prior to the time of strain arising, and second, the attitude of the German Government towards effecting transfers. You will gather from this that I have no uncertainty as to the budget capacity of Germany to meet her obligations in marks, but that I do have considerable doubt as to the capacity of the world generally to make

these ultimate payments to the United States without a heavy strain upon the exchanges, upon the resources of the banks of issue, and ultimately upon the gold standard.

As to the first possibility, if there is to be any readjustment - and as to that of course I can have no judgment - it seems to me that it should be attempted as soon as possible. How it can be attempted is the difficulty, and who can raise the question? Can it be suggested in connection with further negotiations for the funding of the French debt to the United States, or can it be suggested by Mr. Gilbert? Certainly it is not likely to be suggested by the French. I do not find that there is any sentiment in this country justifying a belief that the question can be brought up successfully here, and certainly not before the elections, and then may it not be claimed that any suggestion coming from Gilbert is outside the scope of his responsibilities under the plan? This, of course, is sheer speculation. I would personally feel that the world would be safer and the possibilities of disorders be better avoided if early approach were made to this subject rather than to have it delayed until an atmosphere of doubt had been created and all the difficulties accompanying such conditions were allowed to develop.

As to the second point, the attitude of the German Government - I cannot help but feel that if Germany is willing to continue to collect taxes and make payments to the Transfer Agent and leave the subject of transfers entirely to the Transfer Committee, when doubt as to capacity of the transfer arises Mr. Gilbert would be in a position to say that the transfers cannot be fully made but that Germany has promptly met her engagements under the plan without demur. Then Germany will gain the support of the world and be in a better position to negotiate than if her Government were led to undertake any preliminary maneuvers or propaganda or make any other effort to deal with the question

Mr. Pierre Jay

- 6 -

7/21/27.

of transfers in advance. Your letter touches upon this point on page 3. If the German Government raises questions as to the budget capacity it will be fatal, in my opinion, to any negotiations. The budget record, record of borrowing by the states, record of extravagance, etc., all more or less a matter of common knowledge, as well as the records set out in Mr. Gilbert's reports, will all make a case against Germany if budget difficulties were advanced as the reason for any change in the plan. On the other hand, capacity to make transfers, raised by the Transfer Committee itself, will seem to afford good reason for this discussion, but I would hope that it might be taken up early rather than late.

There is a suggestion in your letter that the policy of the Reichsbank and Schacht's attitude, while not possibly raising obstacles in the way of an execution of the plan, may be designed to anticipate obstacles and advertise them. I am led to wonder whether these doubts in your mind may not be the product of the atmosphere in which you live. I had opportunity for a good discussion of this with Dr. Schacht and it struck me that his attitude was correct; that he saw the difficulties but had no intention to add to them or of exaggerating them or even of employing them as a maneuver. The loss of a billion marks of devisen during the first part of this year I can well see arose from the combination of shutting down completely on foreign borrowings at the same time that Germany had a very heavy adverse trade balance. The difference required by Germany to meet foreign payments and to finance the wild speculation in stocks beyond what was furnished out of the devisen account by the Reichsbank has undoubtedly been provided by short credits obtained by the German private banks abroad which is a serious menace to the position of the Reichsbank. Any doubt arising as to transfer capacity will precipitate withdrawals of these funds no matter what might be the interest profit from loans within Germany.

The German economic inquiry of last fall which produced Schacht's testimony was made some time prior to the extraordinary developments of last winter and the first part of this year which had so profound an effect upon the position in France, Germany and England. I should suppose that if he were asked the same questions to-day his answers would disclose quite a different situation and give rise to his expressing quite different opinions. His explanation of keeping his rate down seemed to be rather convincing, even though upon a false hypothesis. It was the speculation in stocks and the inducement of profitable rates which caused the flow of funds to Germany to some extent, and still higher rates with the Stock market still rising might well have induced further flow of funds, thereby greatly undermining Schacht's position.

You may take it from me that I am always inclined to discount statements which appear to have their origin in self-interest. The visit of these gentlemen here has resulted in my gaining a much better knowledge than I have ever had of the facts and putting those along side of the facts of our position shown in the enclosed statements, have confirmed the doubts which you know I have long held on the transfer question, and now I am wondering whether anything can be done to anticipate the strain or whether it must be courageously faced when it arises.

The election position does complicate matters. The French election occurs next May and obviously no Frenchman prior to the election can advocate anything in the way of an adjustment. The German election as well as ours, occurring next fall, makes it impossible for any German statesman to admit capacity to make full transfers, and most of them, I suppose, will be tempted to raise doubts and objections. In this country I can hardly see how any candidate could come out squarely for a revision of debt settlements before the election.

It may be that an interval will occur following the completion of all of the elections in the early part of the fifth annuity year when the real discussion can take place, but in the meantime we have a very difficult fifteen months with all of the exchanges hovering on the edge of the gold points which will move large quantities of gold to this country and possibly precipitate the very thing about which we all have some ~~great~~ apprehension. The responsibility resting upon us is, of course, considerable. We have the gold; we have a great capacity to extend assistance; we now have, I believe, an immense prestige; but we will be quite helpless to do anything to fortify the World's gold position in the face of the possible political reaction which will arise if the transfer difficulty became acute.

One thing has been apparent to me in discussing this with many people. They all refer in a general hazy undefined way to the fact that these great adjustments do successfully take place just as they did after the Napoleonic Wars and after our Civil War. Human beings are very adaptable; trade, commerce and credit are elastic and readjust rapidly to changing conditions, etc., etc., but none of those who are optimistic upon this score come forward with the cold hard facts.

Related to this question is the important one of central bank policy. I personally believe that unless we can reduce somewhat our market rates bank rates must advance in Europe beyond their present level. It would be their way of protecting their gold reserves. We are all agreed that anything designed to deal with that situation will produce results that are only temporary, which may afford passing relief to one of the symptoms but will not be effective as to the fundamental trouble itself. Here we are faced with the possibility of another rampage of speculation on top of the gorge of the past year or two, and



while I personally do not think this should be the controlling factor in our policy it is one that gives rise to so much apprehension in so many important quarters that it has to be reckoned with.

I have just rambled along in this letter as though we were talking together, and it would be of the greatest possible service to me if you could write me quite as fully and frankly, and especially if you could do so after a talk with Gilbert.

My plans are rather indefinite. I am going to take it easy this summer and have some thought that towards the end of the year I would take an Italian boat, get off at Gibraltar, and spend some time at Algecires, which is a comfortable and quiet place and where all of my friends have promised to come and visit me if I do go. Should this plan materialize I hope Gilbert or you could come down there, or possibly both of you, for a chat. You need have no concern about publicity. The visit of our central bank friends, while tremendously advertised here, has, on the whole, produced a favorable reaction, and I believe the past years of advertising of our meetings have resulted in their being generally accepted as an evidence of progress and good order in world finance.

My best regards to you and to Gilbert and to all the rest in Berlin.

I hope to hear from you before long.

Faithfully yours,

Mr. Pierre Jay,  
33 Luisenstrasse,  
Berlin, Germany.

Enclosures: Memo - "Foreign Loans in the U.S." (returned to  
General Explanation of Fabulation. (C.L.H.)  
Table - "War debts due to U.S. gov't"  
Amts due Annually under Funding Agreements  
(returned to Mr. Warren)

CONFIDENTIAL:

August 4, 1927.

Dear Pierre:

Since writing my letter of July 21 dispatched through Higglesworth, I received a cable signed jointly by Gilbert and yourself which naturally raised the question as to whether some representation as to our talks had already been made to you; also possibly whether you might not feel that what I have already written is not somewhat influenced by views which may have been expressed to me while Norman and Schacht were here.

As to the first question, I think you know my feelings about this transfer problem; they have been unchanged from the start. The most I have ever hoped from the Dawes Plan was that it would put those concerned to bed for a rest cure for a period of years and that at the end of the cure the situation would have developed to a point (both economically and politically) where a final adjustment might be possible such as was entirely out of the question at the time the Dawes Plan was devised. As to the wisdom of the plan I have never had any doubts; as to its permanence I have never felt that the transfers could be fully and indefinitely effected.

My own concern with the situation arises principally as to probable strains upon the gold standard, and if the strain does arise within say two years, as to the extent to which our investors will by then have poured money into the lap of a debtor who may not be able to meet all of his engagements and will then have no choice as to which debts he shall meet.

As to the second possibility, - please dismiss it. I have always been

alive to the various interests and motives of some of our friends across the water!

There is one point which I failed to cover in my letter of July 21, and that is the oft repeated statement that a large amount of the foreign loans placed in this country has been repurchased by investors in the countries by which the securities were issued. If you will look over the tabulation sent you I think you will agree with me that securities so repurchased are confined to only a few of the borrowing countries such as the British, French, Swiss, Dutch, and to some extent the Germans. But if we lumped them all together and assumed arbitrarily that even 25% of all of these issues had been repurchased, the results would not be very greatly affected. There is no way of arriving at figures, and the complication of the cross currents of short time loans also somewhat obscures the picture. The probable fact is that the short credits owed by our country are very largely counterbalanced by the short credits we have extended abroad. If the whole short credit account could be reckoned up it would likely be found that we owe short time balances and investments to foreigners which are counterbalanced by short credits extended throughout the world by our own bankers which would not be much short of this total, and possibly might even exceed it. But of course this should exclude at least a part of the unusual French devisen.

I have time now to give you a very brief outline of the discussion of the first six topics mentioned in mine of July 21 and of course this is all most confidential, but I think you and Gilbert should know about it.

(1) The position of the Bank of France vis-a-vis London and New York as to its immense holdings of devisen: Their holdings of gold and devisen are certainly as large as the current published estimates. They have complete confidence in their ability to negotiate checks upon and get gold from New York to any amount desired. They do not feel so as to London. Means have been found to ease the position along with some slight assistance from us and now that the tide has at least partly turned and the purchases of devisen by the Bank of France have dropped to what might be regarded

as a normal figure I doubt if any trouble arises from this extraordinary development in the French position. They will be able to convert some sterling into dollars, buy some gold with sterling, and are quite willing to leave large balances in London.

(2) The extraordinary movement of gold between the markets: Everybody agreed that these gold movements are in the last analysis caused by the unusual weight of payments to this country (but to some extent by the temporary, and what some people describe as the "capricious" demands of the Bank of France). So long as this tendency continues and so many of the major exchanges hover at the point at which gold can be exported profitably to America, just so long will the possible menace to the gold standard be the cause of some general uneasiness and the possibilities of a gold inflation here be a possible menace to us. This was a subject on which information was exchanged, but nothing definite resulted.

(3) The technical practice of our Treasury Department and the Reserve Bank in buying gold: We are at a great disadvantage in this market in our gold practice and possibly some steps can be taken to remedy it. Under the law passed before resumption in '79, the Secretary of the Treasury is authorized to pay cash up to 98% of the assumed value of gold deposited with the Assay Office and ultimately to pay for the gold (after the assay is concluded) at exactly the same price at which gold is sold by the Treasury (excepting for the slight melting and alloy charge which is still imposed). All other markets pay a lower price than they sell at. In England, as you know, the difference between the buying and selling price is 1-1/2 pence an ounce. This difference is theoretically the equivalent of interest lost during the period for which payment is deferred, that is for the time required to convert the gold bullion into coin for payment to the depositor. The result is that our gold import point is a smaller differential below the par of exchange than is our gold export point above the par of exchange. As between London and New York it costs about 4 cents on a pound sterling to move gold to this country and then back to London, but roughly nearly two-thirds of this cost is represented

by the cost of exporting the gold and only about one-third by the cost of importing the gold. This is due partly to our identical buying and selling price, and partly to freight charges which are higher going east than west. If we adopted a practice similar to that of the Bank of England, which we feel is legally possible, it would be more nearly as expensive (as an exchange operation) to move gold to this country as it is to take it away. In other words the exchange would have to go somewhat below the present shipping point before gold could be sent to us profitably. While it appears simple on the surface to alter this practice it nevertheless involves various technical difficulties and details and it is impossible as yet to say whether our practice could be changed so as to make it as expensive for Europe to ship gold to us as it is to take it away.

(4) A possible method of temporarily arresting shipments of gold to this country so as to avoid the addition of the expense of moving it to New York and back again to Europe) Just for discussion I suggested a scheme for handling gold which struck me as being capable of development as a temporary measure to operate for say a year or two until the outlook was clearer. In brief it was this: If the principal banks of issue would purchase gold when attempts were made to withdraw it for export to the United States so that the intending exporter would realize exactly the same in dollars that he would get by shipping it to New York and it were assembled in one pool, we might then arrange to make advances on it at very low rates of interest to each of the banks which lost the gold and to carry it for a time until it might be possible for them to repurchase it without loss. Of course we could just as well buy the gold outright, but to do so would raise difficulties here, one of which is that if we purchased the gold outright we would furnish credit to our market exactly as though the gold were imported. In order to offset the effect of large purchases (and of advances as well) we would be obliged to liquidate our securities and thereby raise the old questions of earnings, etc. But even at a very low rate of interest for advances our earnings would likely be sufficient to minimize this argument against carrying the gold abroad and give us a much better earnings position so as to temporize with the gold movement in the hope that some day it will work itself out. The real ef-

fect would be to postpone having the gold come into this mouse trap where a cost of 4 cents or more per pound has to be made out of the exchange rate before we can export it before foreign banks of issue can buy it without heavy loss. Nothing has been done about the matter but it presents an interesting possibility and will be discussed again later. It is understood, however, that we will all endeavor to reduce or retard the physical movement.

(5) The possibility that the return to the gold standard and the necessary policies of the banks of issue in that connection may be responsible for the recent steady decline in the general price level: Of course no conclusion could be reached but the general feeling was that to some extent arguments could be advanced in support of this charge. My feeling has been that further price declines will make this issue one of vital importance to banks of issue and I am anxious that we in this country should have a good alibi. The only alibi is a low discount rate by the reserve banks and if our friends in Washington are willing to ignore the stock market as an influence upon our policies we may be able in the near future to establish the alibi. The reflex of this in Europe would be to at least prevent further advances in rates and even justify before long the establishment of lower rates than would be possible otherwise. This may prove to be their alibi.

(6) Central bank policies as to rates and relative levels of interest in the respective markets under present conditions: I think we all agreed that the differential between interest rates in New York and in London has been too slight to afford sufficient protection to European gold reserves in the face of the normal fall demands of buyers of our exports, which will arise as soon as our crops begin to move, not to mention the growing burden of debt service. This is particularly true this year when the Bank of France has skimmed all of the loose dollar exchange and all of the free gold off of the markets so that the usual accumulation of both New York exchange and of gold for use in the fall has not been possible in London.

Most of the matters discussed point very strongly to the necessity for doing what I had concluded was necessary even before any of these gentlemen arrived, and that is to establish lower money rates and a lower discount rate in New York. I have been ready and willing to attempt it whenever the time was propitious, but the money market needed a little attention first. By the time this letter reaches you matters will have developed much further; possibly even before it is dispatched.

This is the briefest possible sketch of the things we discussed and I am sending it to you for your own personal use and Gilbert's, but with particular injunction that it must go no further.

It will interest you to learn that our friends the Italians have been much concerned about our meeting and seemed first to have thought that they had been slighted. The Ambassador has twice discussed it with me and I have explained that the meeting was entirely fortuitous, being occasioned by my illness and that no matters were to be discussed with which Italy was concerned. And I explained besides that we have no relations with the Bank of Italy and it would have been rather unusual, and possibly not very polite, for us to have invited them to send a representative here to listen to discussions of matters in which they had no direct interest. This was of course expressed less bluntly than I have dictated it.

While discussion of reparation matters, especially of the transfer problem, was entirely a bi-product of the discussion of central banking matters, it is now impossible for any of us to have any views as to the future of the exchanges or of the gold standard or even of the policies of central banks without taking account of this great transfer problem. We none of us have any direct responsibility in the matter except as we suffer from the consequences of developments and of the way they are handled.

Again, please write me as fully as you can. Best regards to you all.

Faithfully yours,

Mr. Pierre Jay,  
33 Luisenstrasse,  
Berlin, Germany.

(see p. 7)

P. S. As I had expected in dictating the above, our directors today reduced our discount rate to  $3\frac{1}{2}\%$ . The same action had been taken already by Boston but the announcement was withheld until our directors had acted, so that the reduction in both Boston and New York is published today. Kansas City and St. Louis had heretofore reduced. We rather expect that Cleveland will follow suit. As to the others, - delayed directors' meetings and some differences of view may result in the 4% rate being maintained for a time, and possibly permanently elsewhere. But we can rely upon our rate change for the accomplishment of the main purpose and I am well content with the action taken.

It is interesting in this connection to note that the cables which we have received during the past few days indicate that had we deferred this action for a few weeks longer we would probably have had a  $5\frac{1}{2}\%$  bank rate in England, a  $7\%$  rate in Germany, a  $4\frac{1}{2}\%$  rate in Holland, and quite possibly a higher rate in Switzerland.



September 6, 1927.

Dear Pierre:

Thank you for yours of August 27. Gilbert arrived yesterday, but I was at Tuxedo visiting Mr. Baker and have not yet seen him. He is expected in to-day and we shall have a good clack.

Just a line to comment on your suggestion about our German colleague. I did not repeat in my first letter the substance of our conversation about reparations, but what I wrote in my second letter, which went by mail, I think throws some light on his attitude. He appeared to be impressed by what I have said, and I hear from some of my friends in Paris through Fraser that it certainly did make some impression on him. I hope it sticks.

With best regards to you all in Berlin.

Faithfully yours,

Mr. Pierre Jay,  
C/o The Transfer Committee,  
Berlin, Germany.

BS/RAH

October 8, 1927.

My dear Castle:

I hope you will be good enough to send the enclosed envelope to Mr. Gilbert in the pouch. I am anxious that it should be safely delivered without risk of loss as it contains confirmation of our various code messages.

Thanking you, I beg to remain,

Very truly yours,

Honorable William R. Castle,  
Assistant Secretary of State,  
Washington, D. C.

BS/RAH  
enc.

797 2

November 10, 1927.

Dear Pierre:

It was fine to have your long letter of October 24, and you need not have made reservations and apologies as to the views expressed or as to the way they were expressed, because, after all, the problems you are dealing with are none of them capable of being dealt with by mathematically accurate formula. They are all just questions of human judgment and I find the greatest possible aid to forming judgments is free exchange of views with such friends as you and Gilbert.

There are a few points in your letter which I would like to mention specifically.

(1) While it was unfortunate that Moreau could not come to our meeting, there were of course great advantages in having Rist. Moreau speaks no English and I notice has a strong tendency to drift into French when difficulties with English arise. This would have been unfortunate for me. The particular advantage in having Rist here was in the need for each of the three visitors to express views to me privately which they were unwilling to express in the presence of all of the others. It was a peculiar and at times difficult situation and really worked out as satisfactory as it did because of the full knowledge of English which all four of us enjoyed and the only language which we all spoke in common.

(2) Of course I agree as to artificial steps which might be taken to facilitate transfers, but the word artificial, like every other adjective in the language, introduces uncertainty more than it introduces definiteness. It can hardly be claimed that borrowing in our market is an artificial measure undertaken for the promotion of transfers any more than it can be claimed, or

I should say, charged that such borrowing in our market is undertaken for the purpose of defeating transfers. The really important question about these loans is to see that they are adequately controlled in Germany and are confined to those which are fundamentally good and which do not undermine the German economy but rather strengthen it, and I extend this observation to the point of saying that they may indeed undermine the German economy if they have the effect of enabling the German States or Cities to appropriate revenues for wasteful purposes which otherwise would be employed constructively and so reduce or avoid borrowing. Any artificial element in the transaction will be that arising in Germany and not in our market, and in my opinion will be mainly due to lack of adequate control, for which Germany is in part responsible, but for which the other creditor nations are also somewhat responsible if they fail to intervene if they see evidence of tendencies which will defeat the plan. I get somewhat impatient of the attitude altogether too common nowadays, and doubtless partly resulting from supervision by the State Department, that in some way or other American bankers are responsible for the consequences of these loans to Germany. The responsibility rests upon Germany, upon the German creditor nations, of which we are almost the smallest, and of course upon the Dawes Organization.

(3) While of course it is encouraging to feel that the Beratungsstelle may be induced or compelled to function more serviceably, I regret the need of pessimism as to this being promptly accomplished. It is really the crux of the whole affair. It would not surprise me to see our State Department entirely discontinue such slight supervision as has been exercised before very long. In this connection, the publication of Gilbert's note has undoubtedly raised sufficient doubts so as to make the outlook for further German borrowing in this market quite uncertain until some loan is attempted and the results are known. Most of the German listed issues sold

off slightly but very much less than was to be expected. I imagine they have all been more or less supported by the issuing houses. The one issue which not only did not decline but advanced slightly was the Rentenbank bonds and those have always been highly regarded, but I do not think that you and Gilbert can overlook the fact that the publication of this memorandum is likely to have somewhat the same consequences as would have resulted from the publication of his letter to the Finance Minister on the subject of the first Prussian loan, and it may be that German borrowing for a time will have an up-hill rocky road to travel.

Dr. Burgess will give you or Gilbert a report on the publicity and I believe he is sending all the clippings when they have been collected.

(4) Now as to the transfer problem. It is my recollection of the figures on Germany's trade for this year (the figures are not before me) that the excess of imports over exports is composed of

1. Raw materials	1,700,000,000 marks
2. Foodstuffs	550,000,000 "
3. Miscellaneous goods, chiefly manufactures	800,000,000 "

thus making up the trade deficit of 3,000,000,000 marks for the first three-quarters of this calendar year. They have largely increased their imports of such articles as copper and cotton from this country. This means of course that Germany is rebuilding the working capital of goods which are essential to the ultimate recovery of an export trade, and the bad trade figures of this year may not be as bad fundamentally as they appear superficially, but only time will tell. But I still believe, as stated in my earlier letter and in the memorandum sent you a week ago, that the problem of transfers is bound to arise within eighteen months and that it is possible that the test will now arise earlier than that if this publicity restricts our market for

German securities. What you say about the decline in the urge to export is illuminating and may prove to be a serious factor when the rest is overcome.

(5) You are quite correct. The \$200,000,000 owing to our Government is included as a part of the \$625,000,000. I used the figures by way of contrast simply to bring out that, while a billion dollars must be paid to our Government and investors each year, of this \$625,000,000 is theoretically to be provided by Germany and failure to effect transfers in behalf of German reparations is bound to raise the question of transfers to the United States both as a political matter and as an actual problem in the exchange market.

(6) This partly answers the first paragraph on your third page about the continuance of American investments in foreign securities, but it is only as to foreign securities as a whole that you may be right. In other words, if we and other lending markets, principally Great Britain, become concerned over German loans, our surplus savings for investment may go to all other markets but Germany and then the transfer problem will certainly arise. It was for this reason that I had expressed the hope that too much publicity about German credit would not occur just now. It hits the just and the unjust alike. We are probably in entire agreement and simply differ somewhat in our way of expressing it.

(7) I still think, and have no reason to anticipate any change in view, that we will have the cheap money market and most of the rest of the world fairly dear money for some time to come, barring of course such special situations as have arisen in France, but even that money market is an artificial one just now, and when stabilization becomes a fact, I would anticipate higher rates in France.

(8) I wholly agree as to Schacht's policy about the bank rate and I think I may have written you that I told him so when he was here. He

was too slow. But, on the other hand, I rather disagree with the argument in Gilbert's letter of May 29 to Governor Norman, and when I finish reading the papers which accompanied his letter I am going to write him a bit about the bank rate problem as we see it here. I think you were wrong about the effect of our bank rate. The sentimental effect of our reducing rather than London advancing was good both in this country and in Europe. The actual effect has been to maintain a somewhat wider differential between the two markets and to arrest gold imports to this country. It aided in arresting a loss of gold by London and the evidences of the result of that action and of cooperation between the banks of issue is shown in the fact that we have sold another fifty millions of gold to France, we are selling fifteen millions to Poland, have shipped thirty-one and a half millions to Argentina, are now shipping thirty-six and a half millions to Brazil, have sold a few millions to Belgium, and it is likely that no small part of this demand would have fallen upon London and to a smaller extent upon Holland and even Switzerland had we not reduced our rate, and of course had there been no understanding between the banks of issue. It is my personal opinion that the change in the rate transferred some hundreds of millions of short-time financing from European markets to the New York market as well as moving balances to London to take advantage of the high rates.

As to your suggestion that this also may be an artificial position and that our rates later might be advanced and Europe take care of itself by corresponding advances, I am not ready to admit that that is sound. A 5 1/2 per cent rate in London and relative levels on the Continent would mean that all commercial and industrial borrowers abroad would be paying from 5 to 6 per cent or even more for accommodation, with the exception of France. It would be a rather withering influence upon trade, not simply the interest cost, but the general psychological effect of this discouraging move. Maintaining our market at present levels, if it can be safely done, is the best

way that we know of to maintain our export trade. We have excellent crops this year, prices are much higher, and we want to see the surplus sold in foreign markets. Next January it will require a very slight manipulation of our investment account to insure the return of all of the holiday currency issues and still not force higher rates or promote artificially low rates. So far indeed the situation has worked out as perfectly as I believe it is possible.

(10) The last paragraph on page 4 expresses very much what I have said to Gilbert and what I believe I wrote you or him. I think Gilbert is the one to raise the question not only about transfers but about any sort of a settlement which must be made, if at all, in order to avoid a crisis. I am not looking forward with any comfort or satisfaction to the possibilities of any sort of a crisis, but this transfer problem is of a sort which usually cannot be solved without the influence or impact of some sort of a crisis. In fact I do not think that the French budget difficulty could have been solved at all had not the people of France been facing a catastrophe. This may be a similar situation involving all the important nations and I see no possibility of anticipatory action except through the intervention of Gilbert. Should he successfully intervene and some arrangement be effected to moderate transfers for a period of years, then we will never know whether a crisis would have arisen or not. But I believe in avoiding the risk if it can be done.

I was amused by your introducing the quotation from Kiddy's article in the Evening Post. It is exactly the statement that I made before the House Committee at the stabilization hearings last summer and I suspect, as Kiddy had shortly before received a copy of the testimony, that he may have gotten the ~~information~~ from there. Most of his notions he gets from Norman. Now and then he gets some from this side.



November 10, 1927.

If you have time to send me a few lines on receipt of this, I wish you would indicate just what sort of information you would like to have from me from time to time in these letters, that is what subjects you like to have covered. As for myself, we get very full reports on the money market. We also get Shepard Morgan's admirable weekly review. What I especially need is something to indicate all the relations of transfers to the movements of the exchange and the position of the money market. Expressing it differently, I would like, if possible, to be able to detect in the earlier stages any untoward development growing out of reparation transfers, and it is most important information for us to have.

We had a most successful conference of the Governors and Chairmen in Washington and a splendid development of our whole policy, and a much better understanding than we have ever had. You will be glad to know that Governor Young has captured everybody by his stalwart upstanding personality, by his tremendous industry, and generally by the punch that he is putting into things. It was a wise appointment and even<sup>yet</sup> the wisdom of it is not fully shown.

Please give Gilbert and Shep Morgan my best and the same to you.

Faithfully yours,

Mr. Pierre Jay,  
Transfer Committee,  
33 Luisenstrasse,  
Berlin, Germany.

KMC

December 7, 1927.

Dear Mr. Jay:

On account of the hurry and excitement of last week your letter to Mr. Strong of November 13 did not get answered. But Mr. Strong asked me to write you saying that he would reply to it as soon as he returned, and that, in the meantime, Mr. McGarrah and Mr. Harrison were reading it and also the copies of newspaper articles enclosed. The latter are voluminous, as you know, and as our people have not finished with them, they have not yet been shown to Messrs. Young, Sterrett and Fraser, but this will be done as soon as possible.

I have not heard from Mrs. Jay nor Louisa since they arrived. I hope they will call on us before they return. It would be pleasant to see some of the Jays again.

I am very happy working for Mr. Strong. And a year ago I did not expect to be so happy again, ever.

I am so glad you refer to your present secretary as "she."

Sincerely yours,

Mr. Pierre Jay,  
33 Luisenstrasse,  
Berlin, Germany.

Jay

S.S. "Mauretania",  
December 25, 1927.

PERSONAL

Dear Pierre:

Your letter reached me at Campden Hill just before I left, and again it made me feel that I had been deprived of the enjoyment of such a welcome visit from you in London simply because we were engaged every minute of the time, even to the extent of putting in a full day at the Bank on Sunday.

Since leaving, I have been kept fully posted about our Italian program by a series of wireless messages, and it now seems that all the banks of issue invited have joined in the credit and it has become a notable and impressive party. Cables from Rome and London are very definite that it has brought great rejoicing in Italy, and that is most desirable, as you realize, because final stabilization does dash some hopes on the one hand by the class which would benefit by a higher rate, just as on the other by a large class which would benefit by a lower rate.

I have just finished reading Gilbert's report and it is a splendid document, most dignified and restrained. I agree with you that it is desperately long, but hardly see how that could be avoided this time.

I read the report rather critically, especially where it touched on Bank policy, and find but one place where possibly the "pundits" might cavil a bit. It is next to the last paragraph on page 103. I don't think the statement is accurate that the import of credit is equivalent to an import of gold or that it provides a lawful basis for expansion, except the bank of issue is operating upon a gold exchange standard and acquires the valuta proceeds of foreign loans.

To be more specific, if the total volume of currency and "bank funds" in Germany amounted to say 25 billion marks and the German States and communes borrowed a total of the equivalent of a billion marks in dollars, they would of course proceed at once to sell the dollars in order to get marks. If the Reichsbank purchased the dollars, it would increase its reserve, would issue an equivalent of marks either as currency or bank credit, and this would start the erection of the credit structure which the report suggests. On the other hand, assuming the existence of a given volume of currency and bank funds, if these dollars are sold in the market and do not reach the Reichsbank, the amount of mark currency is unaltered and a basis of expansion does not arise. This is assuming that there is no occasion for a reduction in the total volume of mark credit, for in case need for such reduction existed, it would have to be brought about by the Reichsbank and doubtless would be irrespective of the influence of foreign borrowing. On the other hand, if the commercial banks acquire the valuta and place the proceeds to the credit of the States and communes, I do not see how the expansion of credit or currency can take place without again involving the use of Reichsbank credit or currency. This furnishes, to my mind, the explanation of Schacht's policy in declining to buy the valuta and reducing their price of gold. It strikes me that the sentence would be bomb-proof only if it coupled the assertion as to expansion with the gold exchange standard and a word of qualification to the effect that this expansion may occur and is certain to do so under the impulse of rising prices, speculation or over-spending.

There is another point in the paragraph above about which I am

3.

Mr. Pierre Jay.

December 25, 1927.

rather uncertain. It is hard to believe that the amount of exchange has been very closely related to the differential in rates for bills between Berlin and New York. It seems to me much more likely that the curve of exchange rates is directly and possibly entirely associated with the volume of foreign borrowing by Germany and the rate at which valuta is converted into marks by the borrowers. I am not certain enough of this to more than suggest the possibility, because when there is so great a disparity in rates as exists between Berlin and New York on bankers' bills, a difference of  $\frac{1}{2}$  of 1% or 1% even in the spread strikes me as likely a slight influence in the movement of bank funds.

We have had a fairly comfortable trip home, and I am dictating this letter on Christmas Day, which is beautiful and clear and smooth. The most important event on the ship so far was the arrival of two new passengers last night, in the shape of twins in the third cabin.

Please give many good wishes to the family and my friends at Luisenstrasse, and certainly to Dr. Schacht, and my very best to you as always.

Sincerely yours,

Mr. Pierre Jay,  
33, Luisenstrasse,  
BERLIN.

BS:M

Jay

January 3, 1928.

Dear Pierre:

The copy of Ludwig's "Bismarck" did not reach me on the Mauretania, but has just arrived, and I am so grateful to you for keeping me in your mind around Christmas time. This Christmas, I regret to say, I was completely knocked out as to any shopping, and in the rush let everything go. I know you will understand, but it does give me no end of pleasure to get this gift from you and know that I am still in your mind as of yore.

A very happy and prosperous New Year to you, my dear Pierre, and to all the family my greetings.

Faithfully yours,

Mr. Pierre Jay,  
33 Luisenstrasse,  
Berlin, Germany.

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*Jay*

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Send the following Cablegram, subject to the terms on back hereof, which are hereby agreed to

February 7, 1928.

**Jay**  
**33 Luisenstrasse**  
**Berlin, Germany**

Thank you. Now up part of each day. Hope to go Atlantic City in ten days.

Strong

*Jay, Penn*

Hotel Brighton,  
Atlantic City, N. J.,  
March 2, 1928.

Dear Pierre:

This is a very belated acknowledgment of your letter of November 13, explained, as you know, by the fact that I have been ill. It was not a very serious illness, but it came near enough to duplicating the one of a year ago to make me pretty cautious, so I have been getting back to work very slowly.

About Roy Young: His appointment has turned out to be in every way ideal. It may be that some of the folks consulted felt that his rather determined and sometimes arbitrary Scotch-Irish disposition would make difficulties. I never feared that. He is a straight-shooter, and plays cricket according to the rules. As I told Mr. Mellon, while he had much to learn he could be counted upon to learn it and to get command of the situation just as rapidly as he did acquire the necessary knowledge. This has proven to be more than true. When he doesn't know a thing or is uncertain, he frankly says so, and until he does know he makes no bluff or pretense of knowing. The result of this is perfectly obvious in the fact that he has already gained the moral and intellectual control of the Board such as no other governor has ever had. He has Mr. Mellon's entire confidence, and all who have intimate relation with the Board's affairs comment enthusiastically upon the revolutionary change that has taken place. He made an immense sacrifice to do this, cutting his income in half. But he says that it is really his wife who made the sacrifice and he hopes to make it up to her later. The fact is that he is a fine gallant fellow who deserves our support and is bound to get it.

So much for that question raised by your letter.



3/2/38.

I am much interested in the second page of your letter. As for Schacht, you fellows are mighty lucky to have him in that position. I have a great deal of confidence indeed that he will stand by his guns for sound principles but, of course, there are many occasions when he will be seriously embarrassed between loyalty to the plan and public opinion at home. I was rather disturbed this morning to see a newspaper article indicating that efforts would be made to repeal the tax of 10 per cent. imposed upon foreign loans, which is the basis of control exercised by the Reich. If that should go and nothing effective be substituted it might mean trouble.

There is no doubt that the publicity resulting from Gilbert's statement and the annual report has had a far-reaching effect upon loans in this country. My absence has prevented my getting a reliable report on the success of the two issues which have been attempted since then, but at the first I heard that it was not very successful.

This seems to be almost unnecessary as a news letter, because McGarrah sails to-day, and you will get everything directly from him. But at least I can send you direct word that I am very much improved and hope to be back at work on part-time very shortly. Then I want especially to thank you for sending me the clippings.

With best regards to you all,

Sincerely yours,

Mr. Pierre Jay,  
33 Luisenstrasse,  
Berlin, Germany.

Washington, D. C.,  
March 26, 1928.

Dear Pierre:

This is really my first opportunity to give any consideration to your letter of February 27 and many others like it, although I did read it when it arrived and am really writing now at the very first opportunity.

First, about myself. You will have heard all the news from McGarrah. I am about well again, although still a little weak, and have to go rather slowly in resuming work at the bank. There has been a multitude of arrangements necessary in connection with my plan to get away this summer, but it now boils down to a hope that I shall sail May 5. The Governors' conference occurs on April 30. It will be an important one, and I must be here to attend. Besides that, the weather earlier in the year is not suitable. I shall go directly to Paris for a short stay and then possibly to the south of France to Beau Vallon, which is between Toulon and San Rafael. It is very quiet but delightful at that season. Some of my friends have promised to visit me there. After a few weeks there I hope to do the same thing at Evian where I stayed two years ago with Mr. Mellon. Possibly, I shall feel equal to traveling to Rome before going to Evian, but it depends upon how I feel. Evian is favorably situated for some of our other friends to visit, and from there I would hope to go at least to Berlin, to Warsaw if possible, thence back again, stopping possibly at Amsterdam and Brussels and so to London. Another visit to Paris would depend upon developments. I do not feel equal to making an extended trip through Middle Europe, nor would time permit if, as I anticipate, Phil is to be married late in August.

This will give you a rough idea of the project, all depending, of course, upon what happens between now and then and how I feel.

I was much interested to learn of Nancy's engagement. This may bring you home for a wedding, unless you propose to have it in Berlin. What are the chances?

All that you write about financial and fiscal matters is most interesting

Mr. Pierre Jay

- 3 -

3/26/28

indeed. I am so glad to have these first hand pictures of how matters are going.

I shall show your letter to Mr. Case and Mr. Harrison.

Your handwritten, confidential postscript and the enclosures I read with keen interest.

Gilbert's memorandum strikes me as a statesmanlike, fine document. These questions will only be satisfactorily settled as the result of a strong leadership by someone who has a definite clean-cut theory to work on, and certainly Gilbert's talents run in just the direction needed in this very difficult reparation problem. I shall write him separately about the memorandum, which he also sent me, and you will get another batch of letters from me which go at the same time to Shepard Morgan.

Now, a word about things over here. We have been having a rampage of speculation, as you notice. At the same time that we have experienced very heavy exports of gold, a considerable portion being out of bank reserves and not earmarked gold, and we have also sold \$150,000,000 of Government securities. Member bank borrowings from the System are now over \$500,000,000, but, unfortunately, the lode-stone of the Stock Exchange seems to have drawn enough funds to New York to keep the banks pretty well out of debt to us. It looks as though we would have to do some hard sledding and possibly put the screws on quite a bit tighter. For a time after the turn of the year when we were exporting gold and selling securities, and when we put our bank rate up, the volume of credit showed a tendency to decline, but in the last two or three weeks it started going up again, so I am dictating this letter on the train going to Washington where we should have a meeting to discuss the situation to-morrow. The outstanding development in certain respects lies in the export of a certain amount of gold as an exchange transaction. When one considers that this is in face of a favorable trade balance of \$600,000,000 last year and without any very great business recession, I think the conclusion is inevitable that we are lending more money to the rest of the world than they need for trade purposes. Part of the loans are being used in the stock market, and a part in buyin

gold. I hope we are not forced to go still higher with our discount rate, especially in a year surcharged with politics and at a time when there has undoubtedly been some business hesitation. The position of the foreign exchanges is now such, however, that some pressure on money rates is much safer from an international point of view than at any time in the last two or three years.

I was called before the House Banking and Currency Committee again to discuss the eleventh revision of the sixth revision of Congressman Strong's bill to stabilize prices. Confidentially, there is quite a joke about that. He got very discouraged at the attitude of the Reserve System and thought we were rather stubbornly opposing his plans. It resulted in a situation where I finally drew the bill for him, very different from the one which he had introduced. When I had it completed I was obliged to tell him that I did not approve it in all particulars, but that it expressed his views in a form which eliminated some very fundamental objections which had not been discussed; but that I could not support the bill as the attitude of the System to the bill would be determined by the Federal Reserve Board. At the time of my appearance Governor Young was present and was called first. He said that he was not very well acquainted with this subject, so Dr. Miller and Mr. Goldenweiser would appear later in the Board's behalf. One of the members of the committee asked him if the Board favored the bill, and he replied that the Board was opposed to it. That was all that he said. I was called next and tried to make an impartial statement about the bill, weighing the various considerations raised by the bill without committing myself as being in favor or against it, but nevertheless, rather strongly emphasized some of the objections. After the hearing, which only took about an hour and a half, everyone in the room was convinced that my statement had killed the bill with the committee. So here is a case where I have had the curious experience of drawing a bill for Congressman Strong and then killing it in the committee. Of course, this expresses it rather broadly, but it is what happened and could not be avoided. I hear a similar fate is in store for Senator LaFollette's bill proposing to deal with stock

Pierre Jay

- 4 -

3/26/28

speculation.

I can send you little news from the bank as I have only been there twice since returning from Europe to attend important directors' meetings, and all the work I am doing has either been up-town or in Washington. On returning from this trip I will try and get more in touch with what is going on.

Best regards to you all in Berlin.

Sincerely yours,

Mr. Pierre Jay,  
33 Luisenstrasse,  
Berlin, Germany.

Grand Hotel,  
Grasse, June 4, 1928.

PERSONAL

Dear Pierre:

Your letter and the supplement dated May 18th and May 20th were handed me by Wigglesworth in Paris, and I would send you something like a complete reply at once, were I not determined upon loafing for a time before attempting any mail of consequence. It is not so much that I am not able to do a bit of work, but this last complication that I encountered has made it desirable for me to use my eyes rather sparingly, and I want to go another week or two before doing very much reading. You can appreciate what a deprivation this is.

Dr. Stewart and Norman met me at Cherbourg on arrival there, and I stayed over two days for a visit with them, and then motored to Paris, taking two days for the trip. In Paris I had some nice visits with the officers of the Bank of France, and by good fortune Gilbert was there at the same time that Jack Reynolds turned up and I have rarely had so satisfactory a visit with Gilbert as I did then. He certainly is in good form, and the same can be said of Grandma without reserve.

After about a week in Paris I motored down here, selecting Grasse on the advice of Dr. Rist, brother of our friend in the Bank of France, and this was a lovely drive. We took three days to make it, and I felt better on arrival than when I left Paris.

Despite prophecies to the contrary, and I believe largely due to my friends in Paris, we have so far escaped a lot of newspaper nonsense. This will probably surprise you.

Just now Cecil Lubbock is here with me, and as I have kept the motor, we are covering the country about here, lunching at different places and enjoying it immensely.

My plan is to stay here during June, and as it gets rather hot after that, I shall probably go to Evian for July and sail for home on August 1st, as Phil's wedding will take place the end of August or early September. I shall miss him greatly.

I do hope you can arrange a visit before I return. Understanding that you have become a great traveler, you might feel like running up to Evian. I would certainly go to Berlin, were it not that I am advised to reduce traveling about to a minimum. I expect quite a number of visitors at Evian, but we can fit it in some way, and by that time I will be equal to a party.

Please give my best to all the folks at Luisenstrasse, and the same to your goodself.

Affectionately yours,

Mr. Pierre Jay,  
33, Luisenstrasse,  
BERLIN.

ES:M

I received a parchment scroll with nice things engraved on it. Well, I only hope I may get down to earth when I reach Berlin!

But, really, however undeserved many of the statements of fact are, <sup>they</sup> have made a very happy ending of my association with you and with all the people who go to make up the Bank. They have shown that something of what I have felt for you and for the bank has been felt for me in return, and that, of course, makes



ON BOARD S.S. "MAJESTIC"

Jan 2.

Dear Ben.

I have been thro' an extraordinary experience these last two weeks and though you have been absent throughout, yet at every one of the occasions which has gone to make up the experience you have spoken by telegram or letter and have thus taken part in the occasion. Your letter at the first dinner, your telegram at the second, your telegram to the



steamers were all  
very much appreci-  
ated, as I wrote you  
about the first men-  
tioned. The greatest  
surprise of all was  
on Friday when I  
lunched with the  
officers council and  
Harrison handed me  
from you the gold  
cigarette case with  
an inscription inside  
that I value fully  
as much, if not a great  
deal more than the  
case itself. What  
with the ivory humidor  
the lovely gold watch  
& knife, your gold  
cigarette case and

a wonderful brocade  
dressing gown from the  
teachers at the Brearle,  
King Solomon will have  
nothing on me as I  
enter Berlin, with  
these things and the talk  
that has gone on, begin-  
ning with your news-  
paper interview, any  
shreds of the modesty  
you pinned on me  
have gone out of the  
window, & I can strut  
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the Christmas party of  
the F.R. Club, which by the  
way was a very successful  
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spontaneity & personal  
element of last year.



ON BOARD S.S. "MAJESTIC"

We feel very happy - The spirit of the Bank is wonderful - there is no place like it - and you have made it for all of us; and if you ever leave it, which as you know I hope you never will, you will get a blast which will blow you clean out of the water!

As to the gold case you sent me, that is something I never aspired to and it pleases



me greatly to have it. I shall get lots of solid enjoyment from it and from that familiar script inside, and I thank you a thousand times for it.

Nelson Perkins & family are on board, & I'm getting lots of back-pounds from him.

I hated to go off with the chairmanship still unsettled, but believe it was well to have it go over till all delay questions were out of the way. Then it can be calmly discussed. By this time it may be decided, but at any

rate Harrison is with you & you know all there is to know.

I expect to be in London in the first part of Feb. & shall be hearing from N. all about you which I hope will be all good. With my affectionate regards & hopes for your complete recovery,  
Yr P.J.

COPY of longhand note from Jay to Gov. Strong

ON BOARD S. S. "MAJESTIC"

January 2, 1927

Dear Ben,

I have been through an extraordinary experience these last two weeks and though you have been absent throughout, yet at every one of the occasions which has gone to make up the experience you have spoken by telegram or letter and have thus taken part in the occasion. Your letter at the first dinner, your telegram at the second, your telegram to the steamer were all very much appreciated, as I wrote you about the first mentioned. The greatest surprise of all was on Friday when I lunched with the Officers' Council and Harrison handed me from you the gold cigarette case with an inscription inside that I value fully as much as, if not a great deal more than, the case itself. What with the ivory humidor, the lovely gold watch and knife, your gold cigarette case, and a wonderful brocade dressing gown from the teachers at the Brearley, King Solomon will have nothing on me as I enter Berlin. With these things and the talk that has gone on, beginning with your newspaper interview, any shred of the modesty you pinned on me have gone out of the window, and I can strut lying down. Even at the Christmas party of the F. R. Club, which by the way was a very successful one, tho' lacking the spontaneity and personal element of last year's, I received a parchment scroll with nice things engraved on it. Well, I only hope I may get down to earth when I reach Berlin!

But, really, however undeserved many of the statements of fact are, they have made a very happy ending of my association with you and with all the people who go to make up the Bank. They have shown that something of what I have felt for you and for the Bank has been felt for me in return, and that, of course, makes me feel very happy. The spirit of the Bank is wonderful -- there is no place like it -- and you have made it for all of us; and if you ever leave it, which as you know I hope you never will, you will get a blast which will blow you clean out of the water!

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I expect to be in London in the first part of Feb. and shall be hearing from N.[orman] all about you, which I hope will be all good.

With my affectionate regards and hopes for your complete recovery.

Yrs.,

P. J.

THE TRANSFER COMMITTEE

LE COMITÉ DES TRANSFERTS

BERLIN  
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TELEPHONE: NORDEN 11900-11910  
TELEGRAMS: AGENTREP, BERLIN

PARIS  
18 RUE DE TILSITT  
TÉLÉPHONE: WAGRAM 2122-2125  
TÉLÉGRAMMES: REPAGENT, PARIS

BERLIN March 8, 1927.

Benjamin Strong, Esq.,  
Stuyvesant Road,  
Biltmore Forest,  
BILTMORE. N.C.

Dear Ben,

Just as I was hearing about you from Norman, who was here last week, came your letter of February 14th, which indicated to me that you were getting back on the map again, because you evidently have a secretary, and can thus let off without too much effort a little of that ever flowing current of spirits, intellectual, human and otherwise, which even in your sickest moments never seems to stagnate.

I had been frankly a good deal disturbed by the preceding long-hand letter which you had written to me, in which you spoke of your nerves being so shot to pieces as a result of your illness, but your typewritten letter speaking of returning to the bank by early April, and what Norman told me of his visit to you, were very reassuring. It is true he admitted that you were nervous, but then you always are a bit nervous, and he reported you as being in pretty satisfactory shape for one who has gone through such a siege.

He came here fresh from Paris and reported that Moreau had recently received a good letter from you in which you spoke of coming over here again this summer, with the idea, I suppose, of helping to "finish the job", to use an expression of our Victory Loan.

As far as the job is concerned, I think everyone over here is agreed that as far as stabilisation goes, 1927 is likely to be a blank. The time for it in France was last summer when you were over there. But that moment ~~passed~~ and what with the attitude of the French Government, and the big speculation <sup>in France</sup> for the rise from Amsterdam and elsewhere, the French have gotten for the time being into a very very strong position. Consequently, stabilisation is out of fashion for the moment, and as long as Congress is adjourned till December, and the Debt Funding Commission has dissolved, it seems quite unlikely that Poincaré will even think about debts until the very end of this year. Meantime the French are postponing gradually their floating debt, and expect by the end of the year to have it all on at least a one year basis, possibly some of it on an even longer basis. Meantime <sup>also</sup> I gather that Italy is not likely to make any move independently of France. All of this is of course disappointing, but I believe it reflects accurately the present prospects.

Since the foregoing was dictated ter Meulen has been in and expressed the view that the French will not be likely to take up stabilization until the middle of 1928, after their periodical elections.

There are also elections in Germany in 1928. They come towards the end of the year, but might very likely be anticipated by a few months: so, all things considered, it looks like a quiet time ahead with regard to all of the things that are brewing, unless something unforeseen should turn up.

During the past three weeks we have been through an interesting cycle. The Finance Minister, in representing his budget, about which he was quite pessimistic, and rightly so, expressed serious doubt about the ability of Germany to meet the increasing Dawes payments. You doubtless saw this comment in the American papers. Of course, the Nationalist papers here took the cue at once and vociferously agreed with the Minister's statement. The New York papers attached great importance to it, and the Nationalist papers attempted to assert that this was propaganda of the Agent General. The French papers took little notice of the statement however, and the other German papers did not comment very fully upon the incident. However, notice was evidently taken of it by the authorities here in Germany, and inside of two or three days the Finance Minister gave a statement to the Associated Press in which he said that the sentence casting doubt on Germany's ability to pay should be read in connection with his statement that it was the Treasury policy loyally to endeavour to carry out the Dawes obligations. I met the Minister out at lunch last week and he brought the subject up, saying that he could not understand why so much had been made of his remark in the papers, that of course he was for the policy of fulfilment, and had recently given an interview to the "New York World" which made this clear. Indications have come from various sources that the whole question of fulfilment has been thoroughly discussed again in authoritative circles, and an unequivocal attitude has been reassumed looking towards fulfilment. So that the incident, which did not look very good at the time, has had the result of bringing the new administration face to face with the subject early in its existence, and I think the remark is to be considered as having been a blessing in disguise.

The budget is quite an unsatisfactory one. It can only be balanced by borrowing some 500 million marks: it contains a lot of unnecessary grants and subsidies; it does not deal with perhaps 200 or 300 million marks of unemployment payments which must be made: it includes as income 190 million marks seignorage on minting coins already redundant: a settlement of the taxation problem between the Reich on one side and the States and Communes on the other is definitely postponed for one year, with the possibility of two years. It looks to me, in view of the existing unemployment, as if they went too far last year in reducing taxation.

Except for coal, production seems to be keeping up at a high rate, and the movement of freight is very heavy, even heavier than at this time last year, notwithstanding the falling off in coal. Imports are increasing quite heavily, one of the items being cereals, to make up for the crop shortage last summer. Our Economic Service estimates that in the first half of 1927 Germany will have to import 300 million marks more of cereals than last year.

With regard to the total balance of trade the situation is not so clear, because foreign loans are seldom being made just at present, and this fact, together with the money ease here, and the placing of a good deal of German money abroad for a temporary or longer investment led to a great outflow of Devisen between the middle of January and the end of February, and about 400 millions in all flowed out. This amount represents just about the gain in Devisen between September and the end of the year. In the last fortnight, particularly over the end of the month, money hardened quite a bit, and it looks as though it would not return to its former low level. The banks had to come into the Reichsbank for something over 500 millions at the end of February, one of the lightest of the months, and Schacht has been taking them to task for it, with the result that there was a meeting of the Clearing House a day or two ago to discuss the situation and arrive at some understanding. Just what was done I have not yet heard. Of course, there is an immense amount of money used in stock speculation here, and after the tremendous rise in 1926 in the stock market, stocks went up on the average about 35 points more during the first six weeks of this year. I know nothing about the companies or the values, but German bankers all say that generally speaking stocks here are at absurd levels.

Unemployment seems to me likely to be a long job in Germany. In the first place, there are  $3\frac{1}{2}$  million more people in industry, or in employment generally, than before the war: second, there are a lot of refugees from the territories which Germany lost: and third, and most important, there is the constant attrition of the rationalization plans which is constantly spreading and is likely to become more and more intense as the years go on. The other night I sat next to Meinhardt, head of the Osram Works, whom I saw quite a little of here in 1924. I asked him how his programme of economy was getting on. He said that in 1924 when I was with him he had 23,000 workpeople and that now he had only 10,000 and was getting 20% more output. Of course this is exceptional, being an industry that lends itself peculiarly to organisation of labour-saving machinery. "But", said Meinhardt, "our payroll has decreased very little".

It looks as though there would be quite a general increase in wages this spring. Rents are to go up 10% on April 1st, and another 10% on October 1st. This in itself is bound to raise wages. The raising of wages will doubtless still further stimulate the rationalisation movement, but of course it should increase consuming power on balance.

As to my own job there seems to be a good deal of reading to be done in it in keeping up with the current affairs in Germany, and to some extent in Europe. What with that and going out a good bit at night, and taking German lessons in the morning, I do not seem to have much leisure time for writing letters or reading. I have however been reading some of "The Charterhouse of Parma" which you sent me for Christmas, and which arrived a few weeks ago, and I am enjoying it greatly. I wonder how you happened to hear of it. It is such an unusual kind of book, and both written and translated in such a delightful style. I am greatly obliged to you for it, and as for the cigarette case, it is an hourly satisfaction.

Your friends here, as well as in Paris where I spent a week, and in Brussels where I spent a day, have asked anxiously after you, and I have been delighted to be able to give them optimistic reports. I think, however, from what Norman told me, and from your own letter, that you will have to count on

going at half speed for a while after you return to the office, and hope you will be able to readjust yourself accordingly.

With regard to your proposed trip to Europe this summer, I must say that I cannot help questioning it both from the point of view of your health and from the point of view of the bank. I mention the bank on account of the really serious feeling which developed in New York, and I think to some extent in Washington, about your long absence abroad last summer. You probably weren't back long enough before you fell ill to sense this feeling. At any rate, it probably wouldn't be very fully expressed to your face. But in view of the fact that there isn't any stabilisation programme in sight this year, there would seem to be no necessity for your coming over, and it would seem to me to be an excellent summer from every point of view for you to be at home and perhaps let Harrison do what travelling over here may seem desirable. He could go about without creating any publicity or comment, and keep you posted on everything that is going on, and you could always be in readiness to come over if necessity arose, and you will doubtless agree that it would be very developing for Harrison to make a round of visits, and inform himself at first hand of the situation in the various European capitals. There is another point of view which I mention with some hesitation, namely that, as you were over here so long last summer, and talked with so many people about stabilisation, your presence here again this summer, particularly in France where the Government attitude is all against stabilisation, might possibly be regarded as an effort to stir up stabilisation again. I am sure, however, you will take all this in the spirit in which it is meant.

Speaking about the office naturally brings me to the subject of Chairmanship, and I hope most sincerely that you feel entirely happy about it. All the letters I have had indicate this is the case. From the point of view of the public it is better than your original suggestion, although internally the contribution will not be so important, but I personally feel very happy about it, and I only hope that you do. Also that you do not mind the change in the Chairmanship of the Executive Committee, which after all is only a logical thing. I had an extremely nice letter from Owen Young the other day on the whole subject, and am looking forward greatly to seeing McCarrah, who, I believe, sails tomorrow.

My family are getting over here in detachments. No. 3 arrived in early February, and we have been keeping house together. No. 2 arrived in France a fortnight ago, and is now touring southern Europe with three college class-mates. No. 4, with Loulie, are due to arrive at Hamburg on Sunday. I shall be very glad to get them all together here. We have a furnished apartment till October 1st about three doors from where Sterrett lived, about a block off the Tiergarten.

However interesting it may be, it seems very queer to be tackling an entirely new job, in a foreign country, and in entirely strange surroundings, and I miss greatly my long and daily association with you and with the other officers of the bank, where I felt so much at home in every phase of the work. The more I look back on it all the more wonderful and happy an experience those twelve years seem to be. I only hope they will continue to be so for you for many years to come.

Hoping most earnestly that your expectation will be realised, and that you will be well enough to get back to the bank early in April, and with my best regards,

*To your Phil*  
I am,

Faithfully yours



THE TRANSFER COMMITTEE

BERLIN  
33 LUISENSTRASSE  
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LE COMITÉ DES TRANSFERTS

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TÉLÉPHONE: WAGRAM 2122-2123  
TÉLÉGRAMMES: REPAGENT, PARIS

BERLIN, June 22, 1927.

CONFIDENTIAL.

Dear Ben:

Your letter of March 26th reached me at Easter time and I have had it in mind to write you a decent letter in reply but the fact is that immediately after Easter I began to work on the Report, which has just come out, and have refrained from writing any letters or doing anything else except the work on the Report, save for cases of absolute necessity.

I was delighted with the tone of your letter, particularly as it related to yourself, and the news I have since heard from Case, and others, all seems to bear out your gradual and steady return to health and activity. I am sure that nothing will be more tonic for you than getting back on the job. Indeed, when I was in Paris last week Moreau told me he was getting daily telegrams from you and thus I see that although you are not over here you are keeping your fingers pretty closely on the European pulse and that, I am sure, is the best kind of an after cure for you.

I was interested in the third paragraph of your letter of March 26th with regard to the tendency of foreign central banks to invest so freely in our markets. This subject was discussed quite a bit at our Directors meetings last November and December and of course is a matter of

first-rate importance. Doubtless you will be able to discuss it quite effectively at the forthcoming conference with London, Paris and Berlin which is about to take place in New York. I only learned of this conference last week while in Paris and want to tell you how opportune it seems to me. First, that the conference was to be held, and, second, that it was to be held in the United States. Particularly in view of the involvement of the Reserve System in the proposed central banking arrangements between London and Paris, it is important that our Directors and the Reserve Board, and the officers of the other Reserve Banks, all of whom may have to become involved in these transactions, should have personal contact with the European central bankers interested and should learn from them at firsthand of the situation rather than that you alone should take the responsibility of explaining the situation at the American end. It will be a great relief to you, and I am sure a great satisfaction to the others at home, to be able to talk about these things face-to-face with the European principals. Furthermore, there is the attitude, several times expressed in our Board of Directors during 1926, that when Europe has something it wants of America the natural place to discuss it and negotiate it is in America.

In connection with this forthcoming meeting it has occurred to me that in case the subject of reparations should come up you would like to be posted on the latest developments in regard to the functioning of the Dawes Plan, that is why I am going to write you fully and frankly, and confidentially, what may prove to be a pretty long letter.

(1) Attitude of Germany.

As I wrote you in my letter of March 8th, the Finance Minister's remark in his February budget speech that he did not see how even with the best of good will Germany could find the money for the increasing payments under the Dawes Plan started active discussion of the subject in Parliament and in the press. This discussion continued right up to the Easter recess when the budget was finally adopted and Parliament adjourned for awhile. When the budget was being finally discussed early in April a leader of the Center Party made a long statement about the unbearableness of the Dawes burden, and as is customary here the floor leaders of each of the other Parties followed with a statement on the same subject. This came pretty close to being a consensus of all Parties, but too much significance should not be attached to it as once the question was raised no Party would want to be off the bandwagon in decrying the Plan. There was some suggestion that under the circumstances the German Government should make an official statement, reaffirming its position on the matter which, by the way, it had done privately to Gilbert in February after the Finance Minister's speech. The German Government, however, considered it inadvisable for reasons of internal politics to make such a statement at the time but on May 2nd the Finance Minister made a long speech before the Association of Berlin Merchants and Industrialists on the budget question which was very good as far as it went, and in which he said of the Dawes Plan:

"I have reason to believe that nobody in authoritative circles doubts the loyalty of the Government of the Reich".

Officially, then, the German Government is entirely loyal and all payments are made promptly. On the other hand, the fact that the Plan is being fulfilled does not seem to prevent individuals in or near the Government from

critically discussing the Plan and its effects on the German economy. The public and the newspapers continue to discuss the subject freely.

(2) The Budget Situation.

The budget for the present financial year, ending March 31, 1928, includes the first five months of the fourth Annuity year in which the Annuity increases considerably, largely out of the funds provided from the German budget. It is discussed very fully in the Report of June 10, 1927, but I think it may be useful for me at this point to insert the following table from page 25 of the Report, from which you will see that the big jump of 750 million marks in the budget contribution between the fourth and fifth Annuity years is, when translated into terms of budget years, spread over two years, so that the incidence of these payments on the German budget is not nearly so abrupt as it appears to be under the Plan itself:

:	: Annuity years, ending :		: Budget years, ending :	
	: August 31st :		: March 31st :	
: Contributions from :	: Budget con- :	: Transport :	: Budget con- :	: Transport :
: the German Budget :	: tribution :	: Tax :	: tribution :	: Tax :
:	: proper (1) :	:	: proper (1) :	:
:(in millions of gold :	:	:	:	:
: marks) :	:	:	:	:
: 1924-25.....:	None	: None	: None	: None
: 1925-26.....:	250	: 250	: 145.8	: 145.8
: 1926-27.....:	410	: 290	: 276.4	: 261.7
: 1927-28.....:	500	: 290	: 529.5	: 301.7
: 1928-29.....:	1,250	: 290	: 937.5	: 290.0
: 1929-30.....:	1,250	: 290	: 1,250.0	: 290.0

(1) Subject to increase from 1929-30 onward, depending on the index of prosperity described in the Plan.

On the other hand, early in December, 1927, the Finance Minister must submit to the Reichsrat the budget for the financial year 1928-29 in which the total budgetary contribution will increase about 400 million marks and will start the discussion going again. As you know, there was considerable difficulty in balancing the 1927-28 budget, and loans of 466 millions had to be authorized. The question of balancing the 1928-29 budget with its increased reparation charge will be interesting to say the least, but if labor conditions continue to improve and the Minister is rigid about expenditures, it should not prove too difficult.

I was very glad to see from your letter of March 26th that you agreed with me that it would be a shortsighted policy for Germany to attempt to agitate so far in advance for a revision of the Plan. I am sure that her best course lies in going straight ahead and making her payments and not crying until she is really hurt. She will get much more sympathy in my opinion by pursuing such a course, and then if she has shown evidence of conducting her affairs with reasonable prudence (which you will note from the recent Report is not yet proved) and under these conditions finds it extremely difficult to make her payments, that would be a good basis for asking for a revision. But the recent wide-spread discussions have raised a big question mark on the subject through Europe and have certainly tended to impede negotiations with France on evacuation and other problems.

(3) Reichsbank Policy.

Perhaps one hardly needs to read between the lines of the last Report to see that one of the factors in the Reichsbank policy in recent months has been the evident desire to make the situation not too favorable for the execution of the Dawes Plan. Indeed Schacht, who, as you know, is quite mercurial, practically admits that much. In order that you may not have the trouble of looking for it in the Report I quote here a paragraph from Schacht's

testimony before the German Economic Inquiry last autumn, which is reproduced on page 64 of the Report:

"These stocks of devisen which the foreign credits bring into the country at present accumulate at the Reichsbank to an extent which is far too great for the cover of our note circulation. We do not need this cover. Consequently if I were to be asked by the Agent General for Reparation Payments, 'Can you now produce devisen for transfer purposes?', I could only answer 'yes'. It would not be possible for me to say to him, 'The German currency cannot stand it'. The German currency would remain intact even though a great part of the devisen of the Reichsbank were to be withdrawn to-day. The position therefore is that at the present moment we are making display of a capacity not only to pay but to transfer, which must in the natural course diminish and totally disappear at the moment when the position is reversed and we have the other side of the medal. The capacity to transfer which we at present display, will beyond a doubt have ceased to exist after a certain time. As however we shall then have also to make interest and redemption payments on our foreign borrowings, the position is that we are creating an advantage for a political creditor today at the cost of a private creditor in the future".

Whatever other factors there were which induced him to keep his rate down until June 10th and partly thereby to lose in a few months over 1,000 million of devisen, there is no doubt that the loss gave him satisfaction from the point of view that it reduced the facility of making transfers. I can't help feeling that he may be a bit imbued with the attitude of the newspapers and the public men already referred to who do not wish to have things seem too good in Germany for fear it will help the execution of the Plan. On the other hand, the President of the Reichsbank, in the Experts' report, is specifically enjoined to cooperate in the execution of the Plan in the following words:

"The German Government and the (Reichs) bank shall undertake to facilitate in every reasonable way within their power the work of the (Transfer) Committee in making

transfers of funds, including such steps as will aid in the control of foreign exchange. When the Committee is of the opinion that the Bank's discount rate is not in relation to the necessity of making important transfers, it shall inform the President of the Bank".

I cannot escape the conviction that any attempt on the part of the German Government or the Reichsbank to lead, as it were, a double life by failing to do what is the best thing for Germany for fear that that may in some way help the carrying out of the Dawes Plan will in the end prove disadvantageous to Germany. In the first place, the German budget and the German credit situation, both need the soundest possible management in the interest of Germany itself, and anything less than the soundest possible management is a detriment to Germany, and, in the second place, any attempt to manoeuvre is certain to be found out and made public and lose sympathy for Germany when the time comes for a settlement. On the other hand, the soundest possible management of the German budget and of the German credit provide conditions under which the fairest trial may be made of the whole reparation question. This was the whole purpose and spirit of the Dawes Plan.

(4) The British Attitude.

As you probably know, intimations come from time to time from British sources that a breakdown of the Plan would cause no grief in England. British trade prospects may have some influence on the British attitude. Presumably the idea is that the sooner a breakdown comes the sooner the chance would arise for a revision of debt settlements as well, and inasmuch as England apparently only cares for reparations to the extent that they are needed in paying its debts to the United States, perhaps there is some logic in their attitude. On the other hand, England

is the only Power which has any such attitude. I think Norman has as little of this as any one, but, as you know, he is very fond of Schacht and may be a bit inclined to take his point of view in such matters instead of advising him for the more straight out course which I have discussed in Paragraph 3. I add this Paragraph, No. 4, merely to give you a little of the background and atmosphere.

(5) Elections.

Parliamentary elections occur in both France and Germany in 1928 and their influence on talk about the Dawes Plan in both countries cannot be overlooked. Even Reinhold, who was Germany's Finance Minister for most of 1926 and until the end of January 1927, with whom Gilbert's relations were of a very understanding nature, is now making speeches, in anticipation of next year's election, in which he decries the Dawes Plan. It is going to be as popular a thing to talk against as the railroads and trusts used to be in our elections at home, but there is no indication whatever that it will be an is-  
sue in the elections.

(6) Conditions in Germany.

These are covered pretty fully in the Report, of which you have received a copy by this time. The one condition which is disquieting at the moment is the steady import balance which in the past seven months has aggregated about 1,800,000 marks. On the basis of the seasonal movement in exports before the war the last six months of the year should show a rising volume of exports. Particularly should this be true in 1927 after the great increase in imports of raw materials of the last six months. Also, should the German harvests be normal we should see a falling off in the imports of foodstuffs, which have been unusually high in the past nine months owing to last year's poor harvests.



I regret greatly not having a chance to have had a good talk with Harrison when he was over here and it looks as though the next visitor from the Federal Reserve circles will be Platt, who writes that he may run over here for a week-end during the first half of July. I do not know whether Owen Young is coming through Germany on his way to Stockholm or not. If so, I shall hope to hear a little from him about how everything is going. However interesting the work is here, you can well understand, I am sure, that I shall never cease to have the most vivid interest about anything that relates to the Reserve System, and when one morning last week I spent an hour with Quesnay talking central bank matters it brought back a flood of delightful memories. Now that the Report is over I hope soon to write some letters - to answer a lot of letters from people in the Bank and elsewhere at home which I have neglected during the past six or eight weeks. In the meantime, give my regards to all and tell Messrs. Woolley and Whitmarsh that I hope they haven't changed their plans to come over here this summer and that I shall hope to see them both.

After reading over what I have written I want to reiterate that it is not written with the idea that you should bring up the subject in the forthcoming discussions which, I assume, are not related to the question of reparations; but in case some one should bring the subject up I thought you might like to have a line from me on the general background. Needless to say, I have shown this letter to Gilbert.

With best regards to you and to all of my friends in the Bank, I am,

Faithfully yours,

*Peirce*

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

2 encls.

A YEAR OF INVESTIGATION INTO THE STATE OF BUSINESS.

The Institut für Konjunkturforschung publishes to-day the first of its quarterly publications for this year on the investigation into the state of business. It confirms that the hesitating upward movement reported in the last volume continued at a more rapid rate. "Economic activity" has reached a point which has already led to a certain amount of friction and indications of tension, which are characteristic of a phase of recovery approaching maximum tension." It cannot, however, be stated with certainty when economic life will enter this phase, "particularly as the duration of the individual phases cannot be calculated at present. A relaxation of tension might even occur next." It is rightly declared that the reaction on the Bourse is in no way the signal for a decline to be anticipated in business life. Curiously enough, however, the following sentence is added: "The weakening of stock quotations is probably rather a result just of the greater productive activity and merchandise trade." Further, it is stated that the German economy has attained almost everywhere greater consolidation since 1925. The reconstruction of mobile capital is spoken of with a certain amount of justice. Progressive improvement is noticeable also on the merchandise side. Production, employment and turnovers have greatly increased particularly in the past few months.

M. J. Jay

June 20, 1927.

According to the Berlin newspapers this afternoon, the French Prime Minister, M. Poincaré, spoke yesterday at Lunéville upon the occasion of the dedication of a war monument. The Prime Minister reviewed the relations between France and Germany since 1913 and then stated that France had offered her hand to Germany on condition that no attempt be made to deprive her of the fruits of her victory. All France demanded was the security of her boundaries and the reparation payments to which she was entitled.

But while there was a spirit of reconciliation on the part of France, the same could not be said of Germany. For instance, Germany still maintained a battleship called the "Elsass". Moreover, on November 1 and 3, 1925, not the least important member of the German Cabinet had declared that Germany's renunciation of armed force was dictated merely by the fact that she had no longer any armed force at her disposal. The Berlin Government must not believe that such interpretation of the Locarno Agreements corresponded to the ideas of France. Why, on the other hand, were high financial authorities in Germany even now indicating that Germany would demand a revision of the Dawes Plan within two years and no longer make the payments contemplated under it? Were these really words of wisdom and reconciliation with respect to the two questions which France must consider vital? A few weeks ago, M. Poincaré continued, when he had publicly insisted upon reparations and security, the few words he had chosen were distorted in many German newspapers and commented upon with bitterness. But the fact was that France wanted nothing more than peace and the execution of treaties. These she would continue to demand.

The Day

THE OFFICIAL GROUNDS FOR THE RAISING OF THE  
DISCOUNT RATE

An attempt to justify the policy hitherto followed by the  
Reichsbank.

(Handels-Zeitung des Berliner-Tageblatts  
No. 272 of June 11 1927)

Dr. Prie. The grounds for the raising of the discount rate at yesterday's meeting of the Central Committee of the Reichsbank ~~will~~ now <sup>be</sup> announced. Accordingly the President of the Reichsbank, Dr. Schacht, made the following statement:

"After the rates of interest on the open money market had - mainly as a result of the continual inflow of foreign loans during the whole of 1926 - for a long period on end remained considerably below the official bank rate, the Reichsbank was obliged on January 11, 1927, to reduce its discount rate to 5 per cent. It was emphasised in this connection that further developments in the national economy itself would show whether this level could be maintained for a long period or whether circumstances would soon make it imperative to restore the old rate. At the same time ~~it was stated that~~ the reduction in the discount rate was expected to have the effect of checking the inflow of foreign short-term monies. It was clear that the reduction of the bank rate to 5 per cent could not and was not intended to create a new level of interest for the investments market, if only from the fact that the rate for

advances against collateral charged by the Reichsbank (7 per cent) was maintained. As a matter of fact, during the first two months after the reduction of the discount rate considerable amounts of foreign loans flowed back into the countries from which they had come. After that, however, calls were made upon short-term foreign money to a larger extent than before by the German banking world at rates which were independent of the discount rates of the Reichsbank; this money was extensively used for financing purchases of securities. Although the Reichsbank, when it explained the reasons for the reduction of the discount rate in January, pointed out that thenceforward German capital should more than ever be employed in the most economical manner possible, the effects of this warning ~~had been~~ <sup>also were</sup> counter-acted by exaggerated speculation on the Bourse. Short-term foreign indebtedness and Bourse commitments mainly based on credit ~~had~~ further reduced the necessary economic liquidity. When the measures taken by the banks on May 12 for limiting speculation were ~~had been~~ introduced, and the neutralisation of a defective discount policy by means of calls upon foreign monies for Bourse purposes ~~had been~~ reduced, the discount policy of the Reichsbank regained a natural basis.

It is nevertheless evident, how little liberty of action is even yet enjoyed by the Reichsbank in its decisions on discount policy. It cannot mainly depend on a money market operating with its own resources; on the contrary the highly developed German economy still requires foreign capital, as a result of the shortage

with the help of credits. The latter course merely entails however a temporary postponement of the balancing of payments which must be finally effected sooner or later as the foreign credits must be reimbursed and interest paid in foreign currency. This inevitably leads us to exercise the very greatest caution in making calls upon foreign credits and only to take up such credits from abroad as serve to increase German production, and on the other hand, to further the accumulation of German savings capital and employ it as economically as possible for the benefit of German production.

The position of the Reichsbank as at June 7, 1927, studied in the light of these general considerations, shows the necessity of raising the discount rate from 5 per cent to 6 per cent. The rate for advances on collateral will for the present be maintained at 7 per cent.

The total capital invested in bills and cheques, loans on collateral and securities increased from RM. 2 004 millions at the end of 1926 to RM. 2586 millions at the end of May 1927, February 23 marking a point of relative depression with RM. 1 353 millions. After that the demand rose again, reaching (with certain fluctuations), during the last week of May alone an increase in total investments of roughly RM. 600 millions. The fall during the first week of June was but slight. On June 7, 1927, the total investments still amounted to RM. 2 486 millions. The great increase in investments is almost exclusively due to the increase in the amount of bill holdings, which was on June 7, 1927, shown at RM. 2 338 millions. Foreign bills have practically disappeared from the portfolio. There have been no considerable changes in securities and collateral account

It is also noteworthy that the average due dates for discounts have been not inconsiderably extended during the last few months. The figures are as follows:

	<u>Altogether</u>	<u>Handed in by <del>for</del> banks in Berlin</u>
January, 1927	26.1 days	9.9 days
February, 1927	24.2 days	18.4 days
March, 1927	32.2 days	24.5 days
April, 1927	27.4 days	19.0 days
May, 1927	35.3 days	26.7 days

The total foreign exchange holding of the Reichsbank has diminished since the beginning of the year by about RM. 1 milliard. On the other hand, the circulation of Reichsbank notes has not appreciably changed, because the foreign exchange reserve has for the most part been replaced by German bills. The circulation of Reichsbank notes amounted at the end of last year to RM. 3 736 millions and on May 31, 1927, to 3 719 millions. Thus, although the note circulation has remained about the same, the composition of the cover has changed."

3. ry.

M. J. ay

NOTED  
22 JUN 1927  
P. J.

Vossische Zeitung.  
June 20, 1927.

EXPLANATION OF THE BI-MONTHLY BALANCES.

According to our information, the Reichsbank has to-day sent a circular to the members of the Berliner Stempelvereinigung as well as to all other banks which draw up bi-monthly balance sheets. This circular requests the banks to make explanations of their bi-monthly balance sheets in the future. This information, it is pointed out, is merely for the internal use of the Reichsbank. The explanations of the banks are to be made according to the following scheme:

- I. The assets contain the following credits for transactions in stocks and bonds or against stock and bond cover:
  - 1. Contangoes and lombards against stocks and bonds dealt in on the Bourse
  - 2. Debtors in current accounts covered by stocks
  - 3. Miscellaneous (booked, for example, under uncovered debtors or under bills, or under metal transactions)
  
- II. Under liabilities items, the obligations to foreign countries<sup>x</sup>:
  - 1. in foreign currency
  - 2. in German currency
  
- III. Aside from the items under II, we have received the following additional sums of foreign money<sup>xx</sup>:
  - 1. through the sale, discounting, lombarding or holding of bills drawn on Germans with a currency exceeding that indicated on heading,
  - 2. through lombarding stocks and bonds or transferring them for purposes of safety
  
- IV. Our total claims against foreign countries (in the form of the bank's own credit in foreign countries, foreign notes, stocks and bonds, participations, etc., amount to .....
  
- Of this sum there are due .....

<sup>x</sup>The figures under II, 1 and II,2 may, if otherwise not possible, be given together.

<sup>xx</sup>The sums under III,1 and III,2 may, if otherwise not possible, be given together.



x x x

Not only the Reichsbank but also the entire public has long desired a change in the form of the bi-monthly balance sheets, and especially a more detailed specification of the individual items. Negotiations on this matter had been going on for weeks between the Reichsbank and the representatives of the banks. The course of the conversations showed that a change is not possible in the near future because a settlement by Reich law would be necessary for this. Furthermore, a current detailed specification would necessitate a change in the book-keeping methods of the banks. For this reason, the Reichsbank long desired an internal elucidation of the individual items in the balance sheets. It must be mentioned here that the banks belonging to the Stempelvereinigung have, on the basis of a voluntary agreement with the Reichsbank, always furnished such information, upon request, in the past in order to give the Reichsbank some basis for judging the financial position of the bank in question. But it was always only a rough basis, and it is comprehensible in view of the events of the past few weeks that the Reichsbank desires a broader basis for its judgment.

The filling out of this questionnaire is not compulsory. But the Reichsbank assumes that the overwhelming majority of the banks will furnish the desired statements, and, according to our information, some banks have already furnished the information desired. The more serious the decisions which the Reichsbank must make with regard to its credit policy, or, more exactly, the greater the deciding influence which the Reichsbank tries to exert on the credit policy of the banks, the more necessary is it for the Reichsbank to have really accurate and detailed information.

OFFICE FOR REPARATION PAYMENTS.

PRESS SERVICE

No. 140

BERLIN, June 20, 1927.

GERMAN PRESS OF JUNE 18/20, 1927.

I. DAWES PLAN - REPARATIONS.

a) Mr. Parker Gilbert's interim report is the object of lengthy comments in some papers of June 19, dealing more particularly with the chapter on the budget and the financial policy of the German Government.

The Deutsche Allgemeine Zeitung says that the chapter on the budget of the Reich constitutes an exceedingly clear and well-formulated statement. The observations contained in this chapter form an extremely harsh criticism, which is always polite and sometimes ironical. Mr. Parker Gilbert chiefly criticises the constant growth of expenditure. This year again fresh expenditure is to be expected as a result of the revision of the salaries of officials, compensation to war victims, etc.... The criticism of the complex structure of the budget and of the policy pursued by the Government as regards expenditure, are of special interest. The Agent General is however extremely optimistic as regards the future development of the German budget, an optimism which in our view should be queried, whereas very useful and important lessons may be learnt from his criticisms. The Deutsche Allgemeine Zeitung fails to see how Germany can obtain sufficient funds to cover her own requirements and to meet payments under the standard annuity.

The Börsen Zeitung of June 19, writing under a pseudonym Valentinus, says that the Agent General's view of Germany's financial position appears to be derived from serious misunderstandings. In his report the Agent General bases his arguments on hypotheses which are mostly false. The fact must not be lost sight of that during the last few years the burden of taxation has continually increased despite the policy pursued by the former Finance Minister, Dr. Reinhold, who had a contrary end in view. Owing to the proportions assumed by taxation a false impression has been created abroad as regards Germany's taxable capacity and her ability to pay reparations. In a State built up as Germany has been and carrying a heavy burden, the administration is necessarily complex. The over-organisation of the administration would soon disappear in parts if the Reich were freed from the excessive pressure of reparations. By treating the financial relations between the Reich, the States and the Communes as a point of international importance from the point of view of reparations, critics entirely fail to recognise the nature of these relations. The latest account published by the Agent General has none the less proved a set back for the Reich in the struggle to secure a reduction of Dawes payments.

Elsewhere the Börsen Zeitung declares that it is not very agreeable for the Government of the Reich to be accused of exercising insufficient care as regards economies and a strict inquiry into fresh expenditure. Not until this accusation has lost its force will it be possible to offer a direct proof that the Dawes Plan must be revised.

In the Welt am Montag it is asserted that Mr. Parker Gilbert's report contains observations the publication of which must be very disagreeable to the present German Government. Without pretending that all the accusations are justified, it may nevertheless be stated that the criticism made in the report is accurate as regards a number of important points.

The Montag Morgen writes that the verdict pronounced by the Agent General may be condensed into the following formula: things cannot go on in this way any longer.

The Leipziger Neueste Nachrichten (June 18) "takes the liberty of continuing the criticism of the Agent General from where he leaves off, that is to say at the point at which it should pass from a discussion of economic and financial policy to a verdict on the Dawes Plan and the possibility of its execution." The interim report gives no evidence of such possibility. On the contrary it must be admitted that the Dawes Plan has entered on the critical stage and that the prospect of its execution dwindles day by day. Not only will Germany be unable to pay the standard annuity, but the difficulty of transfer will be insurmountable. The Dawes Plan crisis is at hand, just as the German and foreign experts expected, a little before the expiration of the third year. What does the German Government think of doing?

b) The negotiations between the representatives of the Rhenish-Westphalian Coal Syndicate and the French authorities have not yet terminated. In view of the mutual desire to reach an understanding it may be hoped that they will be concluded this week to the satisfaction of both parties.

c) The labour union of the association of German war victims complains in the papers of the inadequate rates of compensation proposed by the Finance Ministry in the Bill which will shortly be submitted to the Reichstag.

## II. CREDITS - BANKING.

a) The conclusion of a new loan by the Rentenbank Kreditanstalt has been rumoured in New York. According to the Börsen Courier, this report is premature.

The Deutsche Landesbankzentrale has opened preliminary negotiations with the National City Bank on the question of a foreign loan of 5 million dollars.

The Deutsche Allgemeine Zeitung believes that in view of the large number of applications for foreign loans made to the Advisory Board by mortgage banks, the Board will fix a quota for credits.

THE TRANSFER COMMITTEE

BERLIN  
33 LUISENSTRASSE

TELEPHONE: NORDEN 11900-11910  
TELEGRAMS: AGENTREP, BERLIN

LE COMITÉ DES TRANSFERTS

PARIS  
18 RUE DE TILSITT

TÉLÉPHONE: WAGRAM 21.22-21.23  
TÉLÉGRAMMES: REPAGENT, PARIS

Paris, August 27, 1927.

~~XXXXXX~~

Dear Ben,

I have just been in Paris for yesterday and today, in the middle of my vacation, for a meeting of the Transfer Committee, and have received your letter of July 21.

I have, as you suggested, shown it to Gilbert who is sailing for New York on the 30th, in fact, on the very boat by which this letter will go.

He is taking a copy of it with him and will doubtless discuss it all with you at much length.

However, some of the points which you raise we have already discussed here in a preliminary way.

I am leaving in an hour or so for Ragusa to finish out the remaining fortnight of my vacation, and shall not attempt to write you a letter in reply until I get back to Berlin the middle of September. Indeed, I doubt if I shall write you until after Gilbert comes back, when I shall have the advantage of his conversations with you on the subject of your letter. He will doubtless tell you of the present attitude of your German colleague, which is very different from what it was in June, and I think the conversations you and he had have been very beneficial.

Your proposal of a rest at Algeceras sounds very pleasant, and if I could arrange it I should like greatly to see you there or elsewhere during your stay in Europe. Your letter indicates to me that you are in your usual good mental form, and I hope the same is true physically.

Best regards.

Faithfully Yours,

*Piney*

Mr. Benjamin Strong,  
33, Liberty Street,  
New York.

## THE TRANSFER COMMITTEE

BERLIN  
33 LUISENSTRASSETELEPHONE: NORDEN 11900-11910  
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## LE COMITÉ DES TRANSFERTS

PARIS  
18 RUE DE TILSITTTÉLÉPHONE: WAGRAM 21.22-21.23  
TÉLÉGRAMMES: REPAGENT, PARISCONFIDENTIAL

BERLIN

October 24, 1927.

Benjamin Strong, Esq.,  
Federal Reserve Bank,  
33 Liberty Street,  
NEW YORK.

Dear Ben,

No sooner had I gotten back from my vacation and Gilbert returned from America two or three days later, than the Prussian Loan discussion arose and the preparation began of the memorandum on economic conditions in Germany which Gilbert presented to the Finance Minister on on the 20th instant. The result of these was that we have all been working at high pressure, and I have had only the most meagre opportunity for talking with Gilbert of his discussions with you on the subject of your two letters while he was in America recently. And tomorrow we must start in full steam ahead, on the preparation of the annual report, which is due to appear on December 1st. So I see no opportunity of any further discussion with him at the moment, and will take this brief respite to send you some views, which I am afraid will not be very well put together.

In the first place let me thank you for your statements of the subjects which you discussed at the Central Bank Conference and of the general consensus of views which prevailed upon them. It sounds extremely interesting and it was unfortunate in many ways that Moreau was not there instead of Rist. Schacht is the only one I have seen since the Conference and his attitude with regard to transfers, as I think I have already written you, seems to have changed quite radically since before your Conference. He now seems to feel, or did quite recently, that the one thing that Germany mustn't do is to let transfers break down. This agrees entirely with the views expressed on page 3 of your letter of July 21 and it seems to me an entirely sound view, although only if carried into effect in a reasonable way. That is to say, it seems to me that no artificial steps should be taken to facilitate transfers, but on the other hand no obstacles should be interposed to hinder transfers. In other words, the German economy should conduct itself in such manner as will best promote its own sound development, irrespective of transfers, on the theory, which Gilbert stated in his last report, "that what is in the interest of the German economy is also in the interest of the execution of the Plan". If the German public bodies borrow their heads off abroad it facilitates transfers for the moment, but on the other hand stimulates over-spending and a rise in prices at home which cannot help hindering the development of Germany's export trade, on which, in the long run, she must depend to pay her various reparation obligations.

*foreign**Not in letterbook [do this file 24K]*

Benjamin Strong, Esq.,

October 24, 1927.

- 2 -

(3)  
MRT

Since Schacht came back from the United States he has been making strenuous efforts to get a reform of the Beratungsstelle which passes on foreign loans. He has had a certain measure of success. By agreement with the Government the Beratungsstelle must now consider not only whether the loan is productive but whether it is advantageous for the German economy as a whole to have the borrowing done. On the other hand, the composition of the Beratungsstelle is not changed, but it is provided that when a vote is not unanimous, ~~the vote~~ in the first instance, in which the assistants of the five members do the voting, appeal may be taken to the same body, but on such appeal the principals themselves must sit. This latter arrangement is not much of an improvement, and I understand that Schacht is not at all satisfied with it.

(4)

Now as to the Transfer question, I would be the last one to attempt to prophesy since the Plan, which is our bible, wisely said that only experience can show the amount that can be transferred. I agree that the transfers have been largely covered by foreign loans. How long Germany will continue to want to borrow abroad to recreate her liquid capital and make improvements in excess of her own savings is very difficult to say. Furthermore, how long foreign countries will continue to want to lend to Germany is another equally unfathomable consideration. It is quite conceivable that a general settlement might be made a year or two hence in which, under present <sup>transfer</sup> conditions, ~~it~~ <sup>largely based</sup> foreign borrowing, she might undertake to pay abroad somewhere around the amounts now being paid; and then, say, five years later, should her need for foreign loans greatly slacken, find that her exports were quite incapable of meeting her transfer obligations. On the other hand it is certain that the present uncertainty as to the ultimate amount of Germany's reparation debt, and <sup>as to</sup> the number of years for which she must go on paying, creates an atmosphere unfavourable to a united effort on the part of the ~~general~~ <sup>German</sup> economy to make its maximum performance in respect of exports. Particularly at the present moment is this true, when the stimulated internal buying power is creating such a home demand that manufacturers are feeling much less of an urge to export. An important German industrialist said to me the other day that he thought the worst thing that had happened to Germany was the British coal strike, because just at the moment when German industrialists were tightening their belts and starting on a programme of urgent rationalization the British coal strike prematurely eased and stimulated things in Germany in such a way that the reform was not fully carried out, and the industrialists became more interested in volume, than in cost, of production.

(5)

The foregoing suggests some of the unknown factors, which you yourself have doubtless thought of, which make it almost impossible to make forecasts of present possibilities. The amounts of international transfers are certainly staggering as you have indicated on page 4, and in this connection you do not mention the various governmental war indebtedness to England. It would seem to me, referring to your figures, that the \$200,000,000.- owing to our Government is included in the \$625,000,000.- that Germany owes her creditors. I have always been rather sceptical myself about the ability of countries to transfer to other countries huge sums representing loans which did not represent value received, as is certainly the case with all these war debts. Any settlement of the reparation question seems to me likely in the last analysis to result, as far as America is concerned, in placing German obligations in the hands of American investors in place of English, French and other Government obligations <sup>now</sup> in the hands of our Government. As to the non-war obligations of foreign

6

countries and industries now held by Americans, the service of which is now running at \$700,000,000.- a year, as long as our present prosperity keeps up at home it seems to me that there will be no difficulty in our re-investing abroad an amount roughly equal to the service of the foreign obligations we hold. My reasoning on this proceeds from the experience of our mutual savings banks at home, which, except possibly for panic years, show that the total savings deposits increase at an annual rate at least equal to the amount of interest created during the year. In other words, the millions of people who have these billions of savings do not use the interest on them but leave it to accumulate. I think the experience of England before the war, with relation to her foreign investments, was quite similar. Thus it seems to me that taking foreign investments as a whole, now that we have begun to make them and provided that they prove satisfactory we are going to continue making them, and are going to increase them whether in the form of bonds or of shares to an amount on the average, and in the long run, of not less each year than the amount of the interest, dividends and sinking funds we receive on these investments. This, of course, assumes that the American ~~Ambassador~~ <sup>investor</sup> doesn't have serious disappointments with foreign investments, although in the case of England even such experiences did not seem to chill the British ardour for foreign investments.

If the foregoing is at all a correct forecast, it would seem as though the necessity of receiving \$700,000,000 or more a year would not create serious transfer difficulties, or necessarily endanger the gold standard. But as to Germany itself, a single country, transferring out such huge amounts as its reparation obligations and the service of its non-war obligations, <sup>involve</sup> that is another question about which I cannot attempt a forecast. I think the time will come when Germany will not want to borrow anything like what she is borrowing now, and I therefore think the service of Germany's foreign obligations will probably result in foreigners gradually taking over large amounts of German shares as Germany's industries become strong and flourishing. Of course present share prices are at a ridiculous level considering present returns. They have discounted the future quite heavily. When the rate of return comes down to an attractive level I see no reason why our people should not buy German shares quite freely.

7

✓ This brings me to another of your points, page 4 of your letter of July 21, in which you say that these "staggering figures indicate a long period of depressed European exchanges, rather high central bank rates, and rather high interest rates for capital if not for short money as well". I remember the first time I met Norman and he discoursed to me upon his theory of <sup>the</sup> international relationship of central bank rates, he said that the country which had the largest amount of gold or liquid funds for the time was entitled to have the lowest rate, which seemed perfectly reasonable and logical. Presumably the converse would in a general way be true. Viz-a-viz the United States I should think that the European countries, particularly those which suffered most from the war, would have high rates for a considerable length of time. Particularly would this be true, I should say, with countries whose liquid capital was so largely lost by inflation. Higher rates stimulate saving at home and draw funds from abroad. Both of these movements are necessary for a prolonged period while reconstruction of the credit system is going on. Germany it seems to me must look forward for many years to relatively high rates. The 5% bank rate of last winter and spring was due to an exceptional combination of circumstances, and



October 24, 1927.

- 4 -

8

certainly was justified for not more than a couple of months. Some similar combination of circumstances might temporarily reduce it again, but it looks to me as if the German rate would for some years have to fluctuate between say  $5\frac{1}{2}\%$  and  $7\frac{1}{2}\%$ , while our rates at home might fluctuate between  $3\%$  and  $4\frac{1}{2}\%$  save under exceptional circumstances. But these higher rates may not always mean very depressed European exchanges, nor will the level of American rates always have a controlling influence on the state of the exchanges or the level of European bank rates. On page 7 of your letter of August 4 you say that if you had deferred reducing the rate for a few weeks longer you would probably have had a  $5\frac{1}{2}\%$  bank rate in England, a  $7\%$  rate in Germany, a  $4\frac{1}{2}\%$  rate in Holland and quite possibly a higher rate in Switzerland. Now the fact is that you have got a  $7\%$  rate in Germany and a  $4\frac{1}{2}\%$  rate in Holland, in spite of your reduction. And nearly all the exchanges of stabilized countries, viz-a-viz the dollar, have so advanced that they do not any longer indicate gold imports into the United States. How much of this movement is due to your rate action I have no means of knowing, but comparing August 1 with June 1 it looks as if the appreciation of many of the European exchanges had begun before you took your action.

9

I have always believed that it was desirable, in making our rates, to take into consideration their probable effect on conditions in other countries and broadly on the gold standard as a whole. But I think that this consideration should only be a side light, and that the main consideration should be what is our own interest under the circumstances. If it is to our own interest, to prevent gold from coming in or otherwise, to have a  $3\frac{1}{2}\%$  rate, I think we should have it. But I do not think we should have it <sup>only</sup> for the ~~only~~ purpose of enabling other countries ~~from~~ keeping their rates from going up, whether or not such action on their part may lead to a fall in <sup>the</sup> price level. The advantage of the gold standard it seems to me is that it automatically forces each country which had adopted it to take such action internally as will protect that standard, and as I have already indicated, 50% of the eventualities which you thought on August 4 had been avoided by your rate action have already materialized. In this connection I am sending you a very brief enclosure which I took from a Federal Reserve Bank blue sheet which has come on to my desk to-day, and which expresses in rather a nutshell what I have just been discussing.

10

One other topic which you take up at some length in your letter of July 21 was the desirability of a moderation of the volume of transfers prior to the time of strain arising (see pages 4 and 5). In this connection I was interested to notice a sentence on your letter of September 24 to Gilbert on the subject of the Prussian Loan as follows: "This will precipitate the test of the Dawes Plan at least earlier than it seems to be desirable and possibly necessary". I do not know what conversations you had with Gilbert on the subject while he was in America but I judge you may have had a good many. Personally I do not think one can say when the question will come up. Should it come up in the normal way through transfer difficulties it would seem to me that possibly the Transfer Committee would be the best agency through which to have the question of a general settlement raised, inasmuch as it is an international body and the body which is primarily charged with responsibility in the matter. My own belief is that matters will jog along for another 12 months or so, and that no opportunity will arise to take up the question of settlement until the winter of 1928-29.

Not in  
letterbook

[in Strong files  
H. C. H. R.]

Benjamin Strong, Esq.,

October 24, 1927.

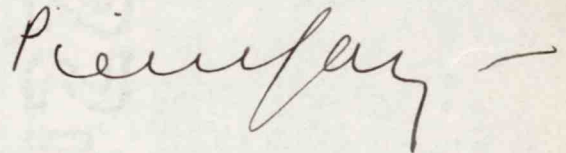
65 -

Now it is 7.30 p.m. and I must stop in order to give my secretary a chance to write this and get it off by tonight's mail.

I have not touched on lots of things I should like to have written about and having whetted my appetite, by this discourse, for a further talk with you, shall hope to continue it in the course of the next few days on some of the more personal happenings of the past few weeks in and out of the Reserve System. I am not writing anything about the memorandum recently submitted because I understand that Gilbert is writing you briefly and sending you a copy of it by this same mail.

With my very best to you and all my friends among the directors and officers and others in the bank, I am,

Faithfully yours,



P.S. As I stop dictating I am conscious that this is a very rambling letter, and as I read it over for any possible stenographic mistakes I shall doubtless feel that some of what I have said may not be very sound. But I am going to send it along all the same with the feeling that you will recognise that some of the thoughts may be merely "happy thoughts".

2. Bankers most conversant with the workings of international finance may well be excused for seeking co-operation wherever it is unmistakably advantageous. Of course, it goes without saying that first and foremost each central bank must consider the requirements of its own country and neither the monetary authorities in New York nor those in London which have to answer for public opinion in their respective countries are likely through any excess of international courtesy to shape their policy on lines conceived to be adverse to local interest. (Arthur W. Kiddy, By mail, Sept. 23, Eve. Post Oct. 8 #2, p. 5)

## THE TRANSFER COMMITTEE

BERLIN  
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## LE COMITÉ DES TRANSFERTS

PARIS  
18 RUE DE TILSITTTÉLÉPHONE: WAGRAM 21.22-21.23  
TÉLÉGRAMMES: REPAGENT, PARIS*recd. ackn  
12/1/27*

BERLIN

November 13, 1927.

Benjamin Strong, Esq.,  
33 Liberty Street,  
NEW YORK.

Dear Ben,

This is just a brief line written on Sunday afternoon in the midst of the annual Report preparation period, in regard to which both Morgan and I are sitting at 33 Luisenstrasse, waiting for Gilbert to turn up in order that we may discuss with him a draft of his reply to your cablegram, which I understand that he dictated this morning. It certainly raises a very fundamental question in a very urgent way.

When I wrote you two or three weeks ago I said I was going to write you another letter soon on personal matters. What I really had in mind was to say how very pleased I was to learn of Young's appointment as Governor, and to express the hope that, if all the resolutions you had in the spring of 1926 with regard to your own relations to the System did not disappear during your illness, ~~I hope that~~ the appointment of Young as Governor has definitely put an end to them. It seems to me a splendid choice, and while I understand you suggested, as well, our friend the ex-Congressman from Minnesota, I think the selection actually made was better if for no other reason than that an officer of the System was chosen as the head of the Board. This is a precedent which I hope will often be followed in future. Some time when you have an opportunity do drop me a line as to how Young showed up during the conference, and how things seem to be lining up in the Board under his leadership. The more I think of it the more it seems to me to have been the best possible solution.

Benjamin Strong, Esq.,

November 13, 1927.

- 2 -

*In Library*

Apropos of the Memorandum, it occurs to me to send you quite a batch of translations of articles from the German papers on the subject. I had not meant to send you so many and asked my secretary to look them through in regard to interesting ones. She reports that she thinks they are all interesting, so I am sending them along to you with the suggestion that you ask Burgess to read them over and give you the ones that he thinks will interest you. When you have read them I suggest that you show them to McGarrah, and if you both feel like doing so, ~~you~~ also show them to Owen Young, Sterrett and Fraser. Of course if any others might be interested there is no reason they shouldn't see them. I have some of the translations at home, and will therefore mail them in a separate envelope.

One of the jokes going round German banking circles is that it would be a good thing for Germany if Gilbert were Finance Minister and Köhler were Agent General ! But don't report this as coming from me.

One of the results of the Memorandum and the Government's reply is that Schacht, who, until a month or so ago, was rather a voice crying in the wilderness, feels that the wind is now blowing with him and is going to make a strenuous effort to get the Beratungsstelle not only to establish an effective control over foreign borrowings, but to exercise considerable influence on the financial policies of the States and communes. He is preparing an important speech to be made at Bochum about a week hence.

The following appears to me to be the net result of the Memorandum and the Government's reply. The Memorandum was a document attempting seriously to warn the German Government of the effect of certain tendencies. These were:

- 3 -

1. The tendency of the Reich to over-spend. To this the Government replies that the extraordinary budget (through which the over-spending was done) will be compressed almost to the point of suppression. The Government's policy having been to cover extraordinary budget expenditures by borrowing and keeping the ordinary budget strictly in balance, this will mean that hereafter the consolidated budget <sup>should</sup> will be kept in balance, or nearly so. Of course they are committed to some of the extraordinary budget expenditures of 1926-27 and 1927-28 and will have several 100 million marks to borrow on this account when the market will permit it, but they are evidently going to steer pretty clear of borrowing for any budgetary purpose hereafter.

2. The tendency of the States and communes to over-spend, and the necessity for <sup>Reich</sup> right leadership in these matters. In reply to this the Government, while claiming that State and communal borrowing has been largely productive, nevertheless say they will take a strong stand for economy.

3. The handling of public funds, at times in opposition to the Reichsbank, has created ineffect two credit policies, an impossible situation. The Government admits that governmental policy and Reichsbank policy must be unified, and will take steps to this end.

4. The need for administrative reform. The Government admits this need and will take active steps to endeavour to bring it about.

I have picked out these four points from the Memorandum because they seem to me, while many other incidental points were mentioned, to cover the principal things necessary to be done to make the under-lying financial

Benjamin Strong, Esq.,

November 13, 1927.

- 4 -

condition in Germany sound, and on all four of them the reply of the Government, when you strip it to its essentials, is satisfactory. But of course to be effective the decisions they take must be translated into action, and the question is whether they will be effectively put into practice or not. On that point only time will tell. The difficulty of course is that there isn't any one outstanding man in the Government to see them through.

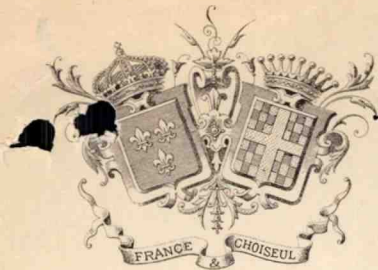
The Transfer question was only raised in the Memorandum incidentally and as a part of the whole picture.

Referring to your telegram about Dewey, of course we shall be delighted to see him here, where he must in any event come en route to Warsaw.. The preparation of the annual Report, which is somewhat behindhand on account of the Memorandum and its consequences, will keep all hands here, at least during November and until the Report appears. It is scheduled to appear December 1st.

With best regards to you and McGarran and my other friends in the Bank to whom you are at liberty to show any or all this letter in accordance with your judgment, I am,

Faithfully yours,

*Piney*



jay  
Hôtel  
de France & Choiseul

239-241, Rue St. Honoré

(Place Vendôme)

Adresse télégraphique:

Franceul-Paris

REGISTRE DU COMMERCE  
SEINE 58057

Dec. 19 1927

↑  
Tél. Central 41-92

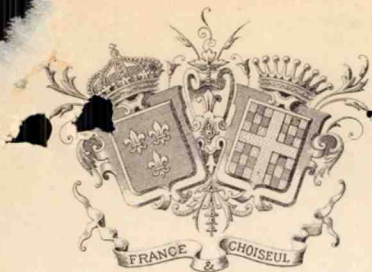
Dear Ben.

I saw Moreau  
this morning, also Rist, &  
gave them your messages  
about not coming to Paris  
but as they did not mention  
the matter for which you  
came over I did not either,  
in accordance with your  
wishes. But I noticed that  
<sup>(Haitian)</sup>  
Nogara, I write for Indus-  
trial Debentures at Berlin,  
whom I saw in our office here  
this am., & who had just come  
from Rome, said Struiger had  
been in London for 2 or 3 weeks



arranging for stabilization!  
However, perhaps its just as  
well not to quote him to  
stringher! Moreau had just  
received your letter, & said  
nothing to me about its  
contents. I only stayed a short  
time & we discussed mostly  
gilbert's report, which seems  
to have disturbed the French  
because it mentioned  
the total amount of repar-  
ations, & Bevinger is out  
with a big statement.

As to the suggestion  
you made the other morning  
regarding a possible job, I  
was so surprised that I har-  
dly knew what to say - as  
I think I made it clear, I am  
greatly interested in my  
present work and have not  
been giving any thought what-  
ever to the future, though  
I realize fully that the future



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will someday have to be faced. The idea of a job that might have a little elbow room in it, as far as income goes, would be something I have never experienced and would have an undoubted attraction for me. So if anything materializes I should be very glad if I might hear about it and have a look at it; and in any case I appreciate heartily your thinking of me in regard to it.

It was great to see you again, for even so short a time, & find you in such good

form - Altogether it gave me  
more satisfaction than any  
experience I've had out  
here. It seemed like old  
times + as if there hadn't  
been any interruption of  
our association.

With my best regards  
to all my friends in the  
bank - Yours as ever  
Pierrefay -

Looking forward to seeing you  
in Berlin in the Spring.

HOTEL de France et Choiseule

239-241, Rue St. Honoré  
(Place Vendome)

Francheul- Paris

Dec. 19, 1927

Dear Ben,

I saw Moreau this morning, also Rist, and gave them your messages about not coming to Paris, but as they did not mention the matter for which you came over, I did not either, in accordance with your wishes. But I noticed that Nogaro (Italian), Trustee for the Industrial Debentures at Berlin, whom I saw in our office here this A. M., and who had just come from Rome, said Stringher had been in London for two or three weeks arranging for stabilization. However, perhaps its just as well not to quote him to Stringher! Moreau had just received your letter, and said nothing to me about its contents. I only stayed a short time, and we discussed mostly Gilbert's report, which seems to have disturbed the French because it mentioned the total amount of reparations, and Beringer is out with a big statement.

As to the suggestion you made the other morning regarding a possible job, I was so surprised that I hardly knew what to say. As I think I made it clear, I am greatly interested in my present work and have not been giving any thought whatever to the future, though I realize fully that the future will some day have to be faced. The idea of a job that might have a little elbow room in it, as far as income goes, would be something I have never experienced and would have an undoubted attraction for me. So if anything materializes, I should be very glad if I might hear about it and have a look at it; and in any case I appreciate greatly your thinking of me in regard to it.

It was great to see you again, for even so short a time, and find you in such good form -- altogether it gave me more satisfaction than any experience I've had over here. It seemed like old times, and as if there hadn't been any interruption of our association.

With my best regards to all my friends in the Bank.

Yours as ever,

(Signed) PIERRE JAY

Looking forward to seeing you in Berlin in the spring.

THE TRANSFER COMMITTEE

BERLIN  
33 LUISENSTRASSE

TELEPHONE: NORDEN 11900-11910  
TELEGRAMS: AGENTREP, BERLIN

LE COMITÉ DES TRANSFERTS

PARIS  
18 RUE DE TELSITT

TÉLÉPHONE: WAGRAM 21.22-21.23  
TÉLÉGRAMMES: REPAGENT, PARIS

BERLIN

February 27, 1928.

Benjamin Strong, Esq.,  
Federal Reserve Bank,  
33 Liberty Street,  
NEW YORK.

Dear Ben,

I was very much disturbed and worried at hearing that you landed in bed after your trip to London and appreciated very much Harrison's letter of January 16th telling me of your satisfactory progress. But just about the same time a report came to us through Holland that you were not so well again, so I sent a cable to Harrison and was delighted to get a cable from you yourself saying that you were on the mend and hoping to go to Atlantic City before long, of which I got a confirmation from McGarrah in a letter of February 15th, received to-day, saying that on February 16th you were to make your first visit to the Bank and then go soon to Atlantic City. I was sorry to learn from McGarrah, however, that you had indefinitely postponed your trip to Europe, although he did not give any inkling as to the reason; that is, whether it was on account of your health and wanting to stay near the doctor, or on account of some Congressional action, or other Federal Reserve reason. Whatever it is I hope it will prove to be a good decision and shall look forward to hearing from McGarrah in person about the reason for it.

Over here things have been going along fairly quietly, except in our family where we have been quite excited over our second daughter, Nancy's, engagement which we learned of by cable about ten days ago. Loulie knows the boy slightly and likes him. I met him once a couple of years ago, but cannot recall just which one he was. However, all contemporary opinion from home seems to be to the

*For the case of  
Mr. Harrison's  
return to B.S.*

Benjamin Strong, Esq.,

February 27, 1928.

- 2 -

effect that it is a very satisfactory engagement, so we are correspondingly pleased and happy.

The German Government Coalition, which had been groggy for some weeks if not months, was officially dissolved about a fortnight ago, but on the urgent representation of President Hindenburg decided not to break up the session of Parliament, if it could be managed, without first passing the budget and one or two other pieces of legislation. The elections are to come about in the middle or latter half of May and naturally with agriculture, particularly in Prussia, in very poor shape after two or three years of bad harvests, there is a great demand for emergency relief and the various parties are vying with one another to be good to the farmers. The Government will apparently give about 150 million RM of grants and perhaps guarantees on second mortgages of an equivalent amount. The Finance Minister feels that they have done pretty well in holding these expenditures down to this figure because the pressure has been very great. The returns from taxation are remarkable. In the first ten months of the financial year ending March 31, the revenues were 702 millions greater than the estimated revenues for the entire year. The prospect is that February and March, the last two months of the year, will bring the excess up to between 750 to 800 millions over the estimates, making about 10% increase. That is almost as good proportionately as the way our taxes have kept rolling in at Washington. But there is no difficulty in spending the money and that is the real trouble. They are not really holding down their expenses. The unemployment has begun to decrease a trifle. After running up about 1 million above the low point of the early autumn. On the other hand, the great bulk of the increase is in the building and agricultural fields and represents, to a considerable extent, people who were always heretofore unemployed but hadn't before, under the rules, gotten on the unemployment lists. Indeed, in

Benjamin Strong, Esq.,

February 27, 1928.

- 3 -

the building trade, wages have always been adjusted to a high per diem basis on the expectation that the workers would have a good many weeks or months of unemployment in the year. But, with the unemployment insurance scheme they get very high wages and then, during their unemployment, get relief in addition. So that they are pretty well off and not to be pitied. With the agricultural labourers, they always expect some unemployment, although I don't believe their wages were ever very good. But the same is true in every country. However, with the unemployment relief payments they are certainly much better off than before. Business seems to be going on at a pretty steady clip without much sign of any immediate important set-back. The big wage controversy in the machine industry affecting 850,000 workers was settled, though not to the satisfaction of either side, by an increase of a trifle over 6% in their wages. The prospect is that this will be reflected in somewhat higher prices. There are a great many wage contracts coming up for settlement this Spring and this was looked upon as rather a test case by both sides. If they can get away with new agreements on a 5% increase basis it won't be so bad. The adverse trade balance continues and in January was the highest I think since stabilization. Exports are nearly always low in January, and the imports were swelled to some extent by technical accounting reasons. In spite of this and of the very small amount of long term loans recently floated, and in spite of our transfers, of which you in the Reserve Bank have the practically complete picture, exchange keeps very strong indeed which indicates, as we know to be a fact, that short money is coming into Germany again.

At the Reichsbank the situation is quite satisfactory and the currency, which has continued for the past two or three years to run somewhat over 500 milli  
level  
in excess of the/ of the previous year, is now running along only a little over

Benjamin Strong, Esq.,

February 27, 1928.

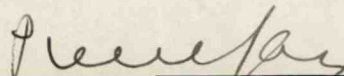
- 4 -

400 millions over <sup>the</sup> corresponding months of 1927. The 200 millions of Railroad preference shares with dividend guaranteed by the Government, which were offered here, were very well subscribed for and I understand, very well distributed. Of course, the papers made a great deal of talk about the amount of foreign subscriptions as a crack at Gilbert, but in the allotments the foreign subscriptions were cut down pretty low and did not amount to more than 10% to 15% of the total 200 millions. I do not understand that the American subscriptions were very large. In fact, most of the foreign applications came from Europe. Earlier in this month the Treasury issued 40 millions RM of treasury bills, of which, confidentially, 25 millions were taken for the investment of the reserve of the Commissioner of Assigned Revenues. The remainder went into the banks, but naturally you cannot make much of a market on 15 millions. Later on the Government will doubtless have to issue more and then we all hope an endeavour will be made to develop a real market. On the other hand, Schacht doesn't know much about doing it, and the German tradition is all against having an open market in treasury bills. Schacht and his wife are away now for a month in Sicily, but should be back next week.

We are planning to go to Paris about the middle of March for a month, so that I can get better acquainted with the people there, and I am looking forward to it very much. I am enclosing herewith for your confidential information a copy of a memorandum which Gilbert sent to the Reparation Commission a few days ago, which speaks for itself. But I think you will be interested in reading it, and I am sure that Gilbert will be quite ready to have you show it to Case and Harrison.

With very best wishes for one of your good, strong come-backs, I am,

Faithfully yours,





THE TRANSFER COMMITTEE  
Berlin  
33 Luisenstrasse

Feb. 27, 1928

Dear Ben,

This is just a line to supplement my dictated letter, and to say that the talks Gilbert had in Paris on his way back from America last month were most satisfactory. The attitude was entirely reasonable and understanding and a readiness was expressed to give consideration to serious proposals if made, though naturally France was not the party to make them. Through these conversations, too, progress was made on the idea of dealing with the reparation question on its own merits instead of as a reparation-debt joint question. In Brussels, the attitude was also similar. Other centres have not yet been visited. In Germany, the attitude has been very restrained, both in public speeches and in the newspapers. So that it appears as if the suggestion in the last report and the ensuing discussions and conversations had led to a distinct clarification and progression in the views of important people as well as, to some extent, of the public generally.

## THE TRANSFER COMMITTEE

BERLIN  
33 LUISENSTRASSETELEPHONE: NORDEN 11900-11910  
TELEGRAMS: AGENTREP, BERLIN

## LE COMITÉ DES TRANSFERTS

PARIS  
18 RUE DE TILSITTTÉLÉPHONE: WAGRAM 21.22-21.23  
TÉLÉGRAMMES: REPAGENT, PARISConfidential

BERLIN

Feb. 27

Dear Ben.

This is just a line to supplement my dictated letter, & to say that the talks Filby had in Paris on his way back from America last month were most satisfactory. The attitude was entirely reasonable & understanding and a readiness was expressed to give consideration to serious proposals if made, though naturally France was not the party to make them. Through these conversations, too, progress was made on the idea of dealing with the reparation question on its <sup>own</sup> merits instead of as a reparation - debt joint question. In Brussels the attitude was also similar. Other centres have not yet been visited. In Germany the attitude has been very restrained, both in public speeches & in the newspapers. So that it appears as if the suggestion in the last report & the ensuing discussions & conversations had led to a distinct clarification and progression in the views of important people as well as, to some extent, of the general public.

good. So here's hoping you're really going to rest over on this side, & not work your head off at least till you've got the machine well oiled & running again.

Aside from greetings this letter is to tell you a bit of our <sup>private</sup> affairs here, by way of bringing you up to date since Filbert returned from New York in January.

In Paris he had a long talk with the Finance Minister and they reached without any difficulty a meeting of minds on the idea of a settlement in the not too distant future, ~~but~~ without a crisis. But, naturally, it was not for the creditor to bring the subject up.

Filbert also had

a most satisfactory session with the Rep. Com.; also with the Foreign Minister.

From Paris he went to Brunel & had an equally satisfactory time there.

About the middle of March he went to London for a week and had very good talks with the Prime Minister, the Chancellor & others, Norman being absent. From London he came to Paris at the end of March for a Transp. Com. meeting & at the Finance Minister's request went to see him again. He found that in the interval, since January, things had been developing a bit in the F.M.'s mind, and you doubtless saw what

he said, a day or two later,  
in his speech at Carcassonne  
on the subject of Reparations.  
It created a good deal of  
a sensation in both France  
& Germany.

From Paris Filbet  
went to Rome for a week  
& had several long talks  
with Volpi, & one short  
one with Mussolini as  
a result of which I gather  
they are most cordial to  
the idea of an early settle-  
ment & ready to use their  
influence in this direc-  
tion when the time comes.

Thence J. went  
to Baden Baden for a 3 wks  
rest, & returned about  
10 days ago more rested &  
refreshed than I have  
seen him since I came

THE TRANSFER COMMITTEE  
BERLIN  
35 LUISENSTRASSE  
TELEPHONE: NORDEN 11900-11910  
TELEGRAMS: AGENTREP, BERLIN

Jay  
LE COMITÉ DES TRANSFERTS  
PARIS  
15 RUE DE TILSITT  
TÉLÉPHONE: WAGRAM 2122-2123  
TÉLÉGRAMMES: REPAQENT, PARIS

BERLIN May 18<sup>th</sup> 1928

Dear Ben.

This is a line of per-  
sonal welcome & to wish you a  
good recuperation over here from  
the trials you've had since  
you sailed in December.  
Aside from general state-  
ments about your health  
I've had two specific glimps-  
es of it, one from Burger  
who told of your testimony  
on the Strong bill, which  
sounded as if your tail was  
up & scraping the sky; &  
the second just now from  
Fraser, who told what he'd  
heard of your feeling rocky  
at a recent directors' meeting  
which rounded our thing but

in Europe has increased  
immensely. In Paris &  
Rome I believe it is  
little short of remarkable.

He is planning  
to go to N.Y. (as yet very  
Confidential) about June  
15 for a few weeks. Mor-  
row will be there, the  
campaign will be taking  
shape, & an estimate  
can be formed, very likely  
as to what the prospects  
are for a liberal attitude  
next winter should any  
proposals be made.

Morcanis trip  
here was an excellent thing  
from every standpoint.  
You have doubtless heard  
from him of the result  
of it. <sup>Schacht</sup> He has written

or is about to write M-  
a letter giving his  
position which is  
cooperative, but with  
reservations about  
Rumania's attitude  
towards Germany which  
must first be met.  
Now I remember that  
the letter has been  
sent, & a copy forwarded  
to Norman, because  
I understand that  
Stamp who was here  
last week expressed  
the view that he thought  
Schacht's position reasonable.  
You have doubtless  
been in touch with Nor-  
man & know his plans.  
I only know that when I

think I can help. fairly fully young

saw him in London a month ago I thought he looked badly, & I thought he would have to go away for a good long rest. I hope you & he can have it together somewhere.

Don't think of bothering to answer. I will get your plans & your address from D. Jay & try to keep you in touch with things here. I hope you haven't brought a secretary over.

With best wishes for a good rest & recovery, & if there is any thing you want to be informed on be to telegraph, if you

Just now he is planning a <sup>short</sup> visit to Paris & attends the Rep. Com. meeting of May 26, & possibly present to them a memorandum carrying a bit further the ideas re settlement which he expressed in the memo of February of which you received a copy. It is likely that the conclusions to the report we are now preparing will contain some further thoughts on the subject, tho' that is not yet decided. (all this of course is private)

But as a result of the position taken in the last report & the visits since made to London Paris Brussels & Rome the influence of Gilbert

TRANSFER COMMITTEE  
Berlin  
33 Luisenstrasse

Copy of longhand letter to Strong from  
Pierre Jay

May 18, 1928

Dear Ben:

This is a line of personal welcome and to wish you a good recuperation over here from the trials you've had since you sailed in December. Aside from general statements about your health, I've had two specific glimpses of it, one from Burgess who told of your testimony on the Strong Bill, which sounded as if your tail was up and scraping the sky; and the second just now from Fraser, who told what he'd heard of your feeling rocky at a recent directors' meeting, which sounded anything but good. So here's hoping you're really going to rest over on this side, and not work your head off, at least till you've got the machine well oiled and running again.

Aside from greetings, this letter is to tell you a bit of our private affairs here, by way of bringing you up to date since Gilbert returned from New York in January.

In Paris, he had a long talk with the Finance Minister and they reached without any difficulty a meeting of minds on the idea of a settlement in the not too distant future, without a crisis. But, naturally, it was not for the creditor to bring the subject up.

Gilbert also had a most satisfactory session with the Rep[aration] Com.; also with the Foreign Minister.

From Paris, he went to Brussels and had an equally satisfactory time there.

About the middle of March, he went to London for a week and had very good talks with the Prime Minister, the Chancellor, and others, Norman being absent. From London he came to Paris at the end of March for a Transfer Com. meeting and at the Finance Minister's request went to see him again. He found that in the interval, since January, things had been developing a bit in the F. M.'s mind, and you doubtless saw what he said a day or two later in his speech at Carcassonne on the subject of Reparations. It created a good deal of a sensation in both France and Germany.

From Paris Gilbert went to Rome for a week and had several long talks with Volpi, and one short one with Mussolini as a result of which, I gather, they are most cordial to the idea of an early settlement and ready to use their influence in this direction when the time comes.

Thence Gilbert went to Baden Baden for a 3 weeks' rest, and returned about 10 days ago more rested and refreshed than I have seen him since I came over.

Just now, he is planning a short visit to Paris to attend the Rep. Com. meeting of May 26, and possibly present to them a memorandum carrying a bit further the ideas re settlement which he expressed in the memo of February of which you received a copy. It is likely that the conclusions to the report we are now preparing will contain some further thoughts on the subject, tho' that is not yet decided. (All this, of course, is private.)

But, as a result of the position taken in the last report and the visits since made to London, Paris, Brussels, and Rome, the influence of Gilbert in Europe has increased immensely. In Paris and Rome, I believe it is little short of remarkable.

He is planning to go to New York (as yet very confidential) about June 15 for a few weeks. Morrow will be there, the campaign will be taking shape, and an estimate can be formed, very likely, as to what the prospects are for a liberal attitude next winter should any proposals be made.

Moreau's trip here was an excellent thing from every standpoint. You have doubtless heard from him of the result of it. Schacht has written or is about to write M.[oreau] a letter giving his position which is cooperative but with reservations about Rumania's attitude towards Germany which must first be met. Now I remember that the letter has been sent, and a copy forwarded to Norman, because I understand that Stamp who was here last week expressed the view that he thought Schacht's position reasonable.

You have doubtless been in touch with Norman and know his plans. I only know that when I saw him in London a month ago I thought he looked badly, and Stamp thought he would have to go away for a good long rest. I hope you and he can have it together somewhere.

Don't think of bothering to answer. I will get your plans and your address from Dean Jay and try to keep you in touch with things here. I hope you haven't brought a secretary over.

With best wishes for a good rest and recovery, and if there is anything you want to be informed on, be sure to telegraph, if you think I can help.

Faithfully yours,

(Signed) PIERRE JAY



TRANSFER COMMITTEE

Berlin  
33 Luisenstrasse

Copy of longhand letter to Strong from  
Pierre Jay

May 18, 1928

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From Paris Gilbert went to Rome for a week and had several long talks with Volpi, and one short one with Mussolini as a result of which, I gather, they are most cordial to the idea of an early settlement and ready to use their influence in this direction when the time comes.

Thence Gilbert went to Baden Baden for a 3 weeks' rest, and returned about 10 days ago more rested and refreshed than I have seen him since I came over.

Just now, he is planning a short visit to Paris to attend the Rep. Com. meeting of May 26, and possibly present to them a memorandum carrying a bit further the ideas re settlement which he expressed in the memo of February of which you received a copy. It is likely that the conclusions to the report we are now preparing will contain some further thoughts on the subject, tho' that is not yet decided. (All this, of course, is private.)

But, as a result of the position taken in the last report and the visits since made to London, Paris, Brussels, and Rome, the influence of Gilbert in Europe has increased immensely. In Paris and Rome, I believe it is little short of remarkable.

He is planning to go to New York (as yet very confidential) about June 15 for a few weeks. Morrow will be there, the campaign will be taking shape, and an estimate can be formed, very likely, as to what the prospects are for a liberal attitude next winter should any proposals be made.

Moreau's trip here was an excellent thing from every standpoint. You have doubtless heard from him of the result of it. Schacht has written or is about to write M.[oreau] a letter giving his position which is cooperative but with reservations about Rumania's attitude towards Germany which must first be met. Now I remember that the letter has been sent, and a copy forwarded to Norman, because I understand that Stamp who was here last week expressed the view that he thought Schacht's position reasonable.

You have doubtless been in touch with Norman and know his plans. I only know that when I saw him in London a month ago I thought he looked badly, and Stamp thought he would have to go away for a good long rest. I hope you and he can have it together somewhere.

Don't think of bothering to answer. I will get your plans and your address from Dean Jay and try to keep you in touch with things here. I hope you haven't brought a secretary over.

With best wishes for a good rest and recovery, and if there is anything you want to be informed on, be sure to telegraph, if you think I can help.

Faithfully yours,

(Signed) PIERRE JAY

THE TRANSFER COMMITTEE

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BERLIN

May 20, 1928.

Benjamin Strong, Esq.,  
C/o R.B. Wigglesworth, Esq.,  
18 rue de Tilsitt,  
P A R I S.

Dear Ben,

I have two recent letters from you unanswered, those of March 2 and March 26, the first from Atlantic City and the second from Washington. Also I have just received from Sheperd Morgan a letter you dictated on the "Mauretania" on Christmas Day. Let me first run over these letters and see what there is to answer in them. First of all you speak of your plans to spend some time in Beau Vallon. I hope that you are still planning to go there, or somewhere else of that sort. I shall expect to see you somewhere over here during your stay, but as our organization may be pretty thin during the next two months, owing to absences in America, I may not be able to move around very freely. I am proposing to go home at the end of August for a few weeks. The occasion of it is Nancy's wedding early in September, but it will give me a welcome opportunity to pick up threads with my friends, with whom I am a bit out of touch because, as you know, I am not a good correspondent.

Your letter of March 26 dealt to a considerable extent with home affairs and conditions in which I was, of course, greatly interested. It is too bad that the Stock Exchange has intervened so strongly of late in the credit situation, but of course, the only thing to do was to meet it by a rate increase, and the outflow of gold vis-a-vis the rate situation has thus far been an ally. Should

Benjamin Strong, Esq.,

May 20, 1928.

- 2 -

France stabilize in the next few weeks as many people think she will, the effect on the exchanges, particularly sterling, might be interesting. Stewart, with whom I talked in London a month ago, felt that sterling would not be greatly affected. I have heard other observers express the view that it would depress sterling a couple of points if the franc became tied to gold rather than to sterling. My own belief is that there are so many counter-currents that no-one can accurately predict what the effect of stabilization in France would be.

Here in Germany the money rates keep pretty high and the market for new issues is again pretty well congested after showing signs of life during the late winter and early spring. The quarterly average of securities placed in 1925 was 258 million marks; in 1926, 818 millions, and in 1927, 723 millions. In the first quarter of 1928 it was 974 millions, which included 200 millions of railway preference shares. In April the States, cities and girozentrale placed 226 million of loans on the domestic market, but about the end of April the market, never very broad, became congested. A large volume of these loans placed in the domestic market were either purchased on order from foreign countries, or were re-offered in round lots by issue houses in European countries. In one way this is an evasion of the efforts at control by the Beratungsstelle, for of course, the effect on German credit abroad, and on the German exchange, is largely the same as if they were placed abroad. On the other hand, the readiness of foreign countries to invest in mark obligations seems to me quite the most important development in German relations with the rest of the world since the establishment of the Dawes Plan in view of the confidence that it indicates in the German currency. Also it is a much healthier medium for the inflow of foreign credit than the medium of short banking and other credits which were used in the preceding months. On the other hand, it is a medium which is only practicable when the internal issue market is

Benjamin Strong, Esq.,

May 20, 1928.

- 3 -

showing signs of life. Just at present, as I have indicated, the spark of life is not very strong. In the meantime, as you will have observed, the German exchange naturally keeps amazingly strong.

Business on the whole is good though somewhat spotty, and the prices of consumers' goods have increased slightly, and are likely to increase still further, owing to the epidemic of wage increases averaging from 5% to 8% which have been going the rounds due, in the main, I should guess, to the effect of the Reich salary increase. As you know, an increase in railroad rates, due primarily to the same cause, is also pending. Possibly these wage increases, like ours in 1922, can be absorbed without affecting prices seriously, but I doubt if the psychological and other factors are here to cope with it as we did. Unemployment is following almost precisely the same curve of seasonal decrease as last year, but with the total number of unemployed running about 100,000 less. The tax revenues in the fiscal year ending March 31, 1928, were amazing. They increased about 18% over those of the preceding year, and a still further, though much smaller increase is foreseen in the present year. This has enabled the Government to navigate and assume additional burdens without borrowing, and my guess is that by economizing on expenditures, provided no economic set-back occurs, they will also be able to balance their budget next year when the Annuity reaches its maximum. A little over a year ago this looked like an impossibility.

The Government has taken a firm stand for the control of foreign borrowing. By dint of much conversation Gilbert has gotten them to recognize their responsibility in this matter, and they are going at it full tilt. No Reich or State borrowings abroad, and only a very limited communal borrowing abroad, is the announced programme, and I think they will stick to it. The declining curve of unemployment in view of

Benjamin Strong, Esq.,

May 20, 1928.

- 4 -

the lessened activities of the communes, due to lack of money, is accordingly all the more encouraging.

Coming back to your letter from the "Mauretania" and its discussion of the December report, I note your comment on its length which was desperate, but it didn't seem practicable to reduce it and at the same time deal fully with the situation. Furthermore, it was greatly lengthened by the three annexes representing the correspondence between Gilbert and the Reich. This June we are working towards a 75 page report, which would be about one half the length of the December report.

I was much interested in your comment on certain remarks in the credit section, in which the import of credit was likened to an import of gold as providing lawful basis for expansion. I have also seen your subsequent correspondence on the subject with Morgan, this being his particular part of the report although of course we all go over all parts of the report carefully before they are published. I think the difference between you and us is small, and as you yourself indicate, it is largely a question of whether a bank is operating on a gold standard or a gold exchange standard. The Reichsbank is certainly, in part, operating on a gold standard, and any portion of these valuta that came to it and stayed with it, it seems to me formed a basis for currency expansion. The statement would doubtless have been better if qualified as you suggest, by indicating that the expansive effect was potential rather than automatic. At any rate, whatever the primary cause may have been, the total volume of circulation in the country has been expanding almost steadily since stabilization. Throughout 1926 and 1927 currency expansion kept about 500 million marks ahead of the level of the preceding year. In 1928 it is running about 450 million marks ahead, and the Reichsbank from time to time has had

Benjamin Strong, Esq.,

May 20, 1928.

- 5 -

to convert some of its devisen into gold, or to purchase gold, in order to maintain the legal ratio of gold to circulation.

To-day is election day and tomorrow morning we shall be hearing something about the composition of the new Reichstag, and of the new Government, which will naturally be of great interest for this organization.

Faithfully yours,

*Wingate*

*From B Strong* 10/12/28

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BERLIN, November 5, 1928.

Benjamin Strong, Esq.,  
C/o International Acceptance Bank,  
52 Cedar Street,  
NEW YORK.

Dear Ben,

In my radio message to the Bank on learning of your father's death I sent a message of sympathy to you and your brother and sister, and now that I have gotten back and a bit caught up with my work I want to write you to say what a great shock and wrench it was to me to learn that your father had had a sudden relapse and was actually gone. Humanly speaking, the world seems to me quite a different place with him out of it. The close association and friendship we have had for 14 years has been one of the best things in my life, and the years together with him in the Federal Reserve Bank have been by far the most interesting.

I have already seen from the newspapers and periodicals the expressions of appreciation you have had from various people, and the utterances of bankers and others on the value of the great services he has performed both nationally and internationally. While associating myself with all of these tributes to his achievements, I have no intention either of reiterating them, or of elaborating them, as I could very well do. I only have it in mind to write down a few things that have occurred to me about his personal characteristics, which, after all, you know much better than I.



Benjamin Strong, Esq.,

November 5, 1928.

- 2 -

First of all, his courage, both officially and personally. He never hesitated to tackle anybody or any job that needed attention, and always did it promptly, directly and in the most workmanlike fashion, while personally, of course, his whole life since 1916 has been one long exhibition of determination, courage and overcoming of what would have hopelessly discouraged most men. I don't know whether I mentioned to you in New York something that Dr Stewart said to me at the time your father's tongue was infected some years ago and had to be operated on; discussing the operation and all the circumstances, Dr. Stewart said "that is the finest piece of whalebone I ever cut into".

His orderly mind and his clearness of expression were remarkable. You seldom asked him a question about some problem without his replying, apparently without previous reflection, "there are three (or more) points to be borne in mind", and then he would proceed to elaborate these points one by one in his clear, terse way. His memory too, was amazing. He never seemed to forget anything. I remember after the first conference of Governors in Washington lasting a couple of days, the entire body was called before the Federal Reserve Board, and your father was asked to make some report on their proceedings. Jim Curtis, who was present, told me that for an hour and a half, without a note, he outlined the whole proceedings of the two days, covering a number of subjects, giving the points of view of the individual Governors on each of the topics, together with the general conclusions reached. Curtis regarded it as a most remarkable feat of memory and clear exposition he had ever listened to. The same qualities made him equally remarkable in argument and his testimony before the Banking Committee of Congress on three different occasions was not only informative in the minutest detail, but was complete-

ly convincing, and what was equally important, gave the members of the Committee a great respect for his frankness and clearness.

In his relations with people in Europe he left the same impression. Count Volpi, whom I went to see two years ago when he was still Finance Minister of Italy, started at once to talk about your father. He said, as nearly as I can remember it, "I have a wonderful regard for Governor Strong. I have met a great many men in various walks of life, but I have never met anyone who combined in such a remarkable way a broad understanding of the principles of finance, a complete disinterestedness, friendliness, and an earnest desire to be helpful"

After all, it was his human relationships, combined with his other qualities, which made possible many of the things which he accomplished. His own magnetic way, his affection for his friends and associates, whether Ministers of State or clerks in the Bank, called forth loyalty and responsiveness. Governor Moreau and Dr Schacht, whom I went to see soon after I landed to tell them personally about his last illness, both expressed their affection for him as a personal friend. Ten days ago, two code girls from the Reserve Bank came over here to work in this organization for a while, and naturally we talked together about his death. "We never felt in awe of him", they said "we were only clerks, of course, but he was so interested in us all that we felt as if we were a big family of his children"

As far as it went, he certainly had a wonderful life. He achieved great things, he was everywhere respected and admired, and he had a constantly increasing circle of interesting, important and loyal friends. But I had always hoped, and when I left New York was still hoping, that he would have some good years of retirement in which, relieved from his responsibilities,

Benjamin Strong, Esq.,

November 6, 1928.

- 4 -

he could settle down in some agreeable place, suited to his health, enjoy life as such, with occasional studies of contemporary problems, and occasional trips, and in this way develop the many tastes he had but which, for lack of time, opportunity and energy, necessarily remained largely latent. In this connection I think particularly of the expansive influences of the trip you and he took to Japan, Java and India in 1920, which, however, were somewhat held in check by his eager desire first of all to master the financial problems of these countries.

Finally, let me say how glad I am that I was in New York last month and had a chance of seeing him several times, and was able to join the little group at the hospital the morning he was operated on, and to learn something of what the future had in store for him had he lived. As far as his work went, it was finished, but the failure to realize this future was the really desolating thing about his death.

With my warmest sympathy to you and your Mother and to Phil and Catherine, I am,

Sincerely yours,

Pierre Jay