

February 24, 1925.

Dear Mr. Morgan:

It was a real pleasure to have your letter of January 23, written in the style which I understand, appreciate and enjoy as coming from the mind and heart of a good friend.

Your quotation on the first page is wonderfully enlightening in more respects than one, and amusing to all of us here who labor under the shadow of possible political attacks and other calamities, 99 per cent. of which never happen.

Whether Dr. Schacht's administration of the bank is a success or not, I must say that he started by methods which aroused my admiration and respect, because of the vigor and courage with which he dealt with a situation which needed that courageous kind of treatment more than anything else. While I have never believed in the theory of rationing credit at times when a reasonable abundance of credit makes it capable of proper regulation and control with regard to demand by price change, yet I suppose there does come a time of famine in credit just as there may arise famine in food supplies, when a system of rationing is more effective and more just and less calamitous in its results than can control by prices possibly be.

I am wondering now, as I did when the Dawes program was first made out, whether the Agent General's payments on the one hand and investments on the other hand, might not have just the effect which Professor Cassel refers to. I think you may have been present at some discussion when that question was raised over here. The important thing is that the Agent General should have such a working

understanding with the management of the bank that the combined influence of the bank's credit policy plus the Agent General's policy as to investments and transfer payments (or payments in kind) may not together bring about a result which would make it very difficult to maintain the mark and ultimately to resume free gold payment.

But I am a bit skeptical (so far) as to your suspicions in regard to the relation of Germany's prices to American prices, and have always been skeptical as to the arguments about purchasing power parity. Germany has been a large importer from this country. The things which Germany imports are those which are stable, standardized, quoted freely, dealt in freely, and where questions of quality, grade, esthetic taste, etc., have no influence. Therefore it seems to me that the rate of exchange is always at the so-called purchasing power parity with the prices of those goods. The relation between domestic purchasing power of currency and foreign purchasing power, it strikes me must be influenced by those prices in world markets where the consumers' products of countries compete. In other words, I would regard it as of more importance to ascertain the relation between the selling prices of consumers' goods produced respectively in Germany and America and being offered for sale in Batavia or Singapore, than I would the prices of such standard commodities as cotton, meat, copper, wheat, etc., sold by America to Germany.

This is just a hint of a view on this subject, which can be elaborated if you have time to ruminate on it. But I do agree with you that there is little danger of that flood of German goods to which you refer. In fact, the period of greatest danger, which was the period of progressive depreciation of currency in Germany, it seems to me is definitely passed.

We have been much interested in watching the Reichsbank gold policy so far as we can follow it from this side. Anything that you can send me in regard to it will be interesting reading, and valuable and instructive as well. I have written Dr. Schacht some time ago that we hoped to be of service to him in any proper way.

The memorandum you refer to may have been in Norman's pocket when he was here, but he was exceedingly busy, and if he intended to show it to me, he must have overlooked it.

Now a word about things here. We have a curious situation, but I suppose no more curious than all situations which have developed since the war. There is a very large volume of business being done, but the profits arising from the turnover are fairly slender compared with margins of former years. The reasons are, first, that wages generally were stabilized at a much higher level proportionately than any other prices; and, second, that distributors of goods from all points beyond the door of the factory are very chary of either forward buying or of stocking up with goods. Hand to mouth buying is characteristic from one end of the country to the other. This makes factory operation more expensive, jerky and uncertain. There is much complaint on that score, and the complaint is so universal as to indicate that there is no danger of a runaway speculative development in goods. On the other hand, as you have doubtless observed, we have had a tremendously active stock market with a huge speculative account, running in total volume of loans possibly 500 million dollars above any previous high record. The circumstances are such that were we to make any move to arrest the speculative development, we would be smiting both the just and the unjust, because the consensus of opinion here seems to be now that anything from the Federal Reserve Bank indicating need for caution would be a chill upon the business community and extend beyond the stock market. Of course, we have had a year of unusual ease of money compared to anything ~~else~~ we have had since the war started, with a vast amount of domestic financing and huge foreign loans, and while up to a month or two ago this was a perfectly sound process, there seems now to be some indication of less desirable securities coming on to the market both from abroad and from local sources.

Some time ago Gilbert sent us a cable inquiring whether we could receive an account in case certain payments were made to him in New York, which we have arranged to do, as you have doubtless been advised. It raised a question in my mind, how-

ever, about which I am curious. How is it possible under the Dawes plan that any foreign currency payments can be received by the Agent General until after the lapse of two or three years? I should appreciate light on this if you have time and are free to write me.

All at the bank keep well. The organization is settling down into the new building. Readjustments and economies are being gradually introduced and we are looking forward with a good deal of satisfaction to what this year will show.

You may have observed from our reports that the Open Market Investment Committee has liquidated something over 200 million dollars of the System's Government security holdings. It has had some slight effect on money rates, supplementing, as it does, over 100 million dollars of net gold exports and some 50 or 60 million dollars earmarked, from all of which you can gather that we are gradually driving the banks to borrowing from us so that, if need arises, our rate can be made amply effective.

All the boys at the bank would send you their best were I able at the moment to consult them in detail. There is not much new outside of the bank in the way of political or other news. The dying Congress is struggling with a calendar of legislation, without any hope of cleaning it up, and amusing themselves during these last few weeks by a general system of annoyance to the President in holding up and questioning his appointments. The country is generally getting back on its feet after the recent shake-down, with the exception of quite a large area in the middle west, where the failure of the corn crop necessitated heavy purchases of feed for stock, and where there are still some remnants of bank troubles and some growls from the farmers.

All of this is by way of gossip, personally, unofficially, and with the various reservations which you properly put in your letter, but, nevertheless, which

#5

Shepard Morgan, Esq.

2/24/25.

carries a world of good wishes to you and so much of it as you can spare to Gilbert if you think to mention to him that he is not out of our minds.

Very sincerely yours,

Shepard Morgan, Esq.,
The Transfer Committee,
33 Luisenstrasse,
Berlin, Germany.

BS.LS

Morgan

March 9, 1925.

Dear Mr. Morgan:

The news of the retirement of the old Reichsmark reminds me that I have never secured specimens of the large denomination notes for the Princeton Library collection.

As the years go by they will be an interesting exhibit of the low-water mark of postwar finance. I wonder if it will be possible, without too much trouble, for you to get a reasonably complete collection of those interesting documents so that I can lodge them in the library, and let me know the cost thereof. You will know about what I want without further description.

I hope you all keep well and will write me now and then. Best regards to everybody.

Sincerely yours,

Shepard Morgan, Esq.,
The Transfer Committee,
33 Luisenstrasse,
Berline, Germany.

BS LS

PERSONAL

April 22, 1925.

Dear Mr. Morgan:

Your letter of April 2 gave me a great deal of pleasure indeed, and beyond that it gave me a lot of most valuable information which I am glad to have. Of course, you have a way of serving it out which is not only palatable and interesting, but really very enlightening and useful.

Many thanks for looking into the specimens of currency for me, and I will await further word with interest.

Now about Dr. Schacht's intimation. I like the idea of his coming over very much. The first thing that occurs to me is that I am planning a trip to Europe myself at just about that time, and had expected to go to Berlin to see my friends there, including you and Gilbert and, of course, Dr. Schacht. The time of my visit, that is, about September, would conflict with his plan, and as it now looks, I would be leaving here some time in August and not come back until some time in October.

There is another thing to consider, and that is just how Mr. Gilbert and Mr. McGarran will feel about it. If they agree that it is a good thing for him to come over, and if the dates can be made convenient so that I shall certainly be here, why don't you send me a cable and I would be very glad indeed to write the kind of a letter which you indicate would be appropriate. His point about not coming over without word from us strikes me as well taken, and what is now in my mind is to invite him to come over and visit me. I could put him up very comfortably at the hotel where I am living, The Marguery; and it might prove of some benefit to him to come to this country under the auspices of the bank. Possibly you will cable me on receipt of this.

I shall not comment just now on the rest of your letter. It is most interest-

ing and not greatly out of line with some of my own surmises, especially as to the gold policy.

Now rather confidentially, here are a few things that will interest you from this side. The attached article from the Sun by Schneider, will form the text. Eighteen months ago we were getting ready for a thorough-going slump in this country, and at that time member bank borrowings were over \$800,000,000. We shortly put them out of debt by placing funds in the market for purchases of short-time Governments, and this plus gold imports eased the situation and had something to do with the return to more normal conditions in banking, and I think, in business. Of course, we were fortunate in having pretty good crops (barring corn) at a time when the world was in dire need of our foodstuffs. Our interest rates, however, got down below the London rates, and the borrowing world was consequently forced to come to our market, partly because of the rate advantage and partly because they were shutting down in London. The large amount of foreign loans placed in our market had an immediate effect upon the exchanges. As sterling advanced, the gold premium in London declined, and the heavy gold exports of this country were not only diverted from our market to India and elsewhere, but we also exported some \$260,000,000, a part being physically moved and a part being only earmarked.

There is no doubt that the ease in money had something to do with the speculation which developed the latter part of last year and early this year, but it was also largely the result of the favorable reaction to the Dawes Plan, to political tranquillity abroad (compared to recent years) and to the decisive election of President Coolidge and the Republican Congress. But the boom got rather active, the market got expanded, the speculation degenerated in quality, and I think there was also some degeneration in the quality of the securities being offered in this market. Beginning in December and ending in February, we sold about one-half of our holdings of Government securities, thus forcing the banks to borrow from us again, principally in New York, and then the advance

4/22/25.

in our discount rate on February 27 to $3\frac{1}{2}\%$, all combined, seem to have had some influence in arresting speculation; at least, it has not been in evidence since then. There has been some complaint about the System in these matters, but I doubt if they make sufficient headway to prove to be more than an annoyance.

Money rates are now roughly 1% above what they were last summer and fall and, of course, the rates in London are about 1% above ours. There has been some talk of business reaction. If there is one, it is not so much in evidence as people think. We do know, however, that the margins of profits to manufacturers and traders have been somewhat reduced over former years because of the higher level at which wages were stabilized than prices, and it may be that complaints of bad business have more origin in the profit account than in the total of production and consumption of goods. There is but little unemployment in the country, and there has been an immense improvement in agricultural, banking and business conditions throughout the middle west.

Please tell Mr. Gilbert that I hope very much to hear from him from time to time, but nevertheless know how exceedingly busy he has been, and that correspondence some times is a terrible burden.

I want you to know that I appreciate your letters immensely and hope you will keep them up. Also I hope you will do a little diplomatic work for me in regard to Dr. Schacht's visit, and let me know the results.

With best regards to all,

Very sincerely yours,

Mr. Shepard Morgan,
The Transfer Committee,
33 Luisenstraesse,
Berlin, Germany.

Enc.
ES.LS

COPY OF OUTGOING CABLEGRAM

May 23, 1925

Shepard Morgan,
Agent Reparation Payments,
Berlin.

Your wireless received Am following suggestion Await receipt my letter

Strong

Federal Reserve Bank

HEAVY
BOND
MILL
MADE IN U.S.A.

May 23, 1925

Dear Mr. Morgan:

Since writing you on April 22, the plans for my trip abroad seem to be maturing, and it looks as though I would definitely sail either in July or August, depending somewhat upon the convenience of some of my friends on the other side.

In view of this, I am writing Dr. Schachtaas per the enclosed copy of my letter. It is desirable that this matter be handled in quite a personal way, which is the reason for the particular form of letter that I am sending.

If any suggestions occur to you upon receipt of this letter, please do not hesitate to cable me fully. I quite understand that Dr. Schacht is not a very communicative person, and, on the whole, I think it would be very much better to have his visit here arranged with as little noise and trumpeting as possible. We could get well acquainted, and I shall, of course, take the opportunity to have him meet those of our bankers whom he would be interested in knowing.

Mr. Jay has just shown me a very interesting letter from you, which I have read with a good deal of sympathy, because I find myself sharing your views almost entirely.

Mr. Harrison and Mr. Crane sailed last night on the Majestic. They will probably not go to Berlin, but will likely be in London for two or three weeks doing some special studying on some matters in which we are deficient in information in New York. They would be mighty glad to see you if you could slip over for a visit, as they likely will not go to the continent at all.

Colonel Logan and his bride sailed on the same ship. She was Mrs. LeGrand Griswold (Esther Tone) and you may have known her at Southampton.

With best regards to you, McGarrah and Gilbert; and many thanks for your thoughtful interest in our matters.

Sincerely yours,

Mr. Shepard Morgan,
The Transfer Committee,
33 Luisenstrasse,
Berlin, Germany.

BS
msb

Morgan

May 28, 1925.

Dear Mr. Morgan:

Your very interesting letter of May 16 was acknowledged by cable yesterday, as per enclosed confirmation. The cable was rather cryptic for obvious reasons. I find that my associates here quite favor the idea of encouraging Dr. Schacht to make a visit, so I wrote him, as you have already been advised.

My plans have been changing almost every day, but it now looks as though I would sail from New York the latter part of June. Dr. Stewart who, as you know, is the economist of the Federal Reserve Board, will accompany me; and then, in order that it may not seem to be too serious a party, and generally carrying out a long promised program, I am planning to take my daughter Katharine, now Mrs. Watts Humphrey, and her maid with me, so that we may combine a little pleasure with work. So that the work will be quite the minimum, I think I shall also take Miss Bleecker. It looks like quite a party but that cannot well be avoided.

I shall probably go first to Paris, as there are a few establishments there like Chanel, Petain and others which, I understand, my daughter would like to investigate before starting our trip. From there I go to London, and then probably directly to Brussels and Amsterdam, and so to Berlin. Just when I shall reach there, it is hard to say. I doubt if it will be much before August, and all of this depends a little bit on Mr. Norman's plans, as I have half promised myself a little holiday with him somewhere.

This is a rather busy day with a directors' meeting coming in a few minutes, so I shall just send you this word of my plans, and let it go with that. But

5/28/25.

the prospect of a visit with you in Berlin is really delightful, and I can assure you that it is enhanced a good deal by my having Katharine with me.

Sincerely yours,

Shepard Morgan, Esq.,
The Transfer Committee,
33 Luisenstrasse,
Berlin, Germany.

Enc.
BS.LS

Morgan

June 13, 1925.

Dear Mr. Morgan:

Only this morning have I received the collection of German notes which you wrote me of on April 23. They surely are a "fearful and wonderful" collection, and I am delighted to have them for the Princeton Library. I am sending them on to Dr. Gerould with the memoranda you were kind enough to send regarding them. Thank you again.

I am looking forward to seeing you soon, for my present plan is to be in Berlin early in July. Then I can tell you what I am now too pressed to write.

My best to you, to McGarrah, and to Gilbert.

Sincerely,

Mr. Shepard Morgan,
The Transfer Committee,
33 Luisenstrasse,
Berlin, Germany.

MSB

Morgan

Grand Hotel Britannique
Spa, Belgium
July 23, 1925

My dear Morgan:

It was a delight to have those visits with you in Berlin. And had we not been so busy there would have been more of them, and longer ones.

There is still a chance, however, that we may be back there in case anything turns up of importance between now and the time when we sail for home, - some time in September.

If by chance you should go wandering about in the direction either of Paris or London, please don't fail to wire me through the Bank of England, so that we can have another visit if it is possible.

In some ways I envy you this fine experience. It is a wonderful job to have a hand in, and especially to be associated with such a fellow as Gilbert. Possibly one of my strongest impressions in Berlin was the very high character of the whole Dawes Organization, so far as I had contact with it. And that speaks well for the future of the Plan.

Please give my warmest regards to Mrs. Morgan. We were all so delighted that the boy got along so well. And Mrs. Humphrey joins me in these messages.

My best to you, as always.

Sincerely yours,

Shepard Morgan, Esq.,
The Transfer Committee,
33 Luisenstrasse,
Berlin, Germany.

Morgan

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

Dear Mr. Morgan:

Many thanks for your bully letter of July 27, which was much delayed in reaching me.

I am glad that you feel that our visit to Berlin was successful. It certainly gave me an understanding of the situation which could be had in no other way, and I am especially grateful to you and Gilbert for your contribution.

Unfortunately I haven't seen the German reply to the French reply, nor, as yet, the last French reply to the German reply, which has only just been dispatched. But I suppose that it will be printed by the time I reach London.

We had a fine stay at Biarritz. The weather on the whole was beautiful, and we managed to get some good bathing as well as a little golf.

I was very glad to have a visit with Mrs. Morgan and get to know her better. What you write about Mrs. Humphrey justifies my expressing the same sentiments about your charming wife. My very best regards to you both.

Please don't forget me after I return home, and send me a letter now and then. I will do the same as often as you can stand it.

Very sincerely yours,

Mr. Shepard A. Morgan,
33 Luisenstrasse,
Berlin, German.

Morgan

October 14, 1925.

My dear Morgan:

Yesterday was one of the days when we wished Berlin were a little nearer the Federal Reserve Bank, for, after long delay, I got the old Liberty Loan gang in to see our new building and have luncheon.

Anderson, Hodges, Clarke, Farwell, Ijams, Jones, Munroe, Pope, Pritchard, Sykes, Wood, Myers and Fougner were all here, as well as Sailer and J. W. Jones. Unfortunately Emerson is laid up in the hospital so could not be with us. All the boys wanted me to send their best regards to you and to him, and to let you know that we missed you.

They came in pretty promptly at 12:30, and we made a tour of the upper part of the building before lunch; I gave them a little history of how we acquired the property and the cost of the building; then Sailer and Jones showed them the whole works; and they finally came in for a last word with me shortly after three, apparently impressed by our mechanical devices, and a little astounded at the volume of our transactions.

Winston happened to be here, and he joined us at lunch. All told it was quite a party, and seemed like the old days. I only wish you could have been here.

At the moment I am too pressed to write you more. I am looking forward with keen anticipation to Dr. Schacht's visit, and of course am hopeful that Gilbert will be along later in the year.

My best to you, as always

Sincerely yours,

Mr. Shepard Morgan,
33 Luisenstrasse,
Berlin, Germany.

S. M. G.

November 25, 1925

Dear Mr. Morgan:

I was so glad to get your letter of November 8. In fact I am always glad to have any letter that you write.

I want to send you just a word about Dr. Schacht's visit. In a way we locked him up tight. My theory was that this country has been the battle ground of propoganda by pretty much every nation; that the people are heartily sick of it and are suspicious of all foreign visitors; and that it would be better for him to come and transact his business quietly and then return home. He is the sort of person to whom this can be frankly explained, notwithstanding that he was strongly urged to attend functions, make speeches, statements for the press and to give his picture to the newspapers. He declined everything of that nature; went to a number of private dinners and lunchees; made two brief visits to Washington, and one to Chicago; met most of the bankers at our offices; and finally, just before leaving, had one interview with the Wall Street press men, to whom he gave a written statement that was widely published (and, incidentally, was prepared by Dr. Burgess) and then he had quite a long private talk with them about all sorts of things on which he was not to be quoted. It worked out perfectly, and I have heard from almost everyone expressions of satisfaction of the way he handled himself.

I may also say that my confidence in him remains unshaken, notwithstanding feelings natural enough, possibly, that he may not have dealt vigorously enough with these matters in connection with the investments of the Reich. I

and give him time, and don't get him mad, I think you will see the results and be satisfied with them. This is just an expression of personal view, based upon my contact with the man, who impresses me as being earnest and honest, and having not only a mighty good knowledge of what he is doing, but plenty of courage to do it.

I hope that you and Mrs. Morgan and the children keep well. Won't you give her my warmest regards, and the same to your good self.

I am delighted to hear that there is a prospect of Gilbert's coming over, and I am also looking forward to another trip to Europe this summer.

Sincerely yours,

Mr. Shepard A. Morgan,
33 Luisenstrasse,
Berlin, Germany.

Morgan

November 28, 1925.

Dear Mr. Morgan:

It was very good of you to write me under date of November 12 in regard to Mr. Gilbert's visit, and of course, I at once adopted the suggestion you made about his office.

We will, of course, be delighted to have him here, and I have cabled him to that effect. There is lots of room, as you know. In fact, I would be a good deal surprised if he made his office anywhere else, because this would seem the natural place for him to light over here.

I have a couple of letters from him, but unfortunately it is now too late for me to reach him with a reply, as absence from the city in Chicago and Washington has left me with an accumulation of mail, which I am a week late in answering.

Please accept my warmest regards.

Sincerely yours,

Mr. Shepard Morgan,
The Transfer Committee,
35 Luisenstrasse,
Berline, Germany.

BS:LS

November 30, 1925

Dear Mr. Morgan:

The enclosed envelope containing Mr. Gilbert's letter of November 5 with its various enclosures, was received in exactly the condition in which you find it; that is with the seals all broken and the flap open. Of course you can see from the condition of the envelope that it was very badly sealed anyway, because the gum apparently did not stick. But it always disturbs me to get letters of this sort in such condition.

I gather from the marks on it that it was sent to your Paris office and from there went to Washington either by pouch or in some separate cover and was remailed in Washington. Of course the pouch from Paris is the safest method of transportation, but it is exceedingly desirable that the letters shall be sealed so that it is possible to tell whether they have been tampered with or not.

Sincerely yours,

BS
MSB

Mr. Shepard A. Morgan,
The Transfer Committee,
33 Luisenstrasse,
Berlin, Germany.

Enc.

January 26, 1926

My dear Mr. Morgan:

I am acknowledging your letter of January 7 to Governor Strong, merely that you may know of its safe arrival. Governor Strong and Mr. Gilbert both had opportunity to go over it, and doubtless, by the time this reaches you, Mr. Gilbert will have spoken to you of it. He returned it to me only after Governor Strong had left for a month's holiday, which accounts for his not having written you.

Very truly yours,

M. S. B.

Mr. Shepard A. Morgan,
33 Luisenstrasse,
Berlin, Germany.

February 4, 1926

My dear Mr. Morgan:

This is to acknowledge the receipt of your two letters, January 15 and 22 respectively, which have been sent on to Mr. Strong. But as he is away on holiday, with no means of dispatching mail, I am sure you will understand the delay in his commenting upon them. I am sure he will find your reflections most interesting, as, indeed, has Mr. Jay, to whom I have taken the liberty of showing the letters.

Very truly yours,

WASB

Secretary to the Governor.

Mr. Shepard A. Morgan,
The Transfer Committee,
33 Luisenstrasse,
Berlin, Germany.

January 7, 1926.

Dear Mr. Morgan:

This is the time of the year when the various reports of the Reparation organization and of the Dawes organization are being issued.

I am anxious to get two or three complete sets for the bank. Mr. Gilbert has given me a copy of his report, but we need a few extra copies. In fact, I think if you care to keep us well supplied with all material of this kind, so that we can answer inquiries for it, it might be of good service all around.

We are enjoying our visitors very much indeed. Governor Norman and I spent a few days at the end of the year in Washington. He and Mr. Gilbert stopped with Secretary Mellon, and I with Undersecretary Winston. Tomorrow I am expecting Mr. Gilbert over here, and we will have some more talk fests. I wish you could be with us.

Everyone in the bank would join in sending you greetings for the New Year if they knew that I was writing you, and those who do know send them most emphatically.

Sincerely yours,

B. S.
M. S.

Mr. Shepard Morgan,
The Transfer Committee,
33 Luisenstrasse,
Berlin, Germany.

RS LS

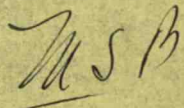
February 20, 1926.

Dear Mr. Morgan:

This is just to acknowledge the receipt of your letter of February 5, which I am sending on to Governor Strong. He returns early in March, and will then write you himself.

Meantime, I may say that we have had direct correspondence with Dr. Schacht concerning the matter you refer to in the last paragraph on page 4 of your letter. And all of the correspondence will be brought to the Governor's attention on his return.

Very truly yours,

A handwritten signature in dark ink, consisting of the letters 'M', 'S', and 'B' in a cursive, stylized font. The signature is positioned above a horizontal line.

Secretary to the Governor.

Mr. Shepard Morgan,
The Transfer Committee,
33 Luisenstrasse,
Berlin, Germany.

March 12, 1926.

Dear Mr. Morgan:

At last I have been able to get around to your letters of January 15 and 22, and of February 5.

You need never apologize for sending me a long letter, especially one so filled with interesting reports and discussions, which are really of much value to me. We will be glad to get the regular reports. Of course I always read them, and I encourage the others in the bank to do so.

I was sorry that McGarrah was subjected to some unpleasantness in connection with his speech. It was well received here; not misunderstood by anyone; and no one could challenge McGarrah's good faith nor question his ability. Sometimes I feel that Fred Kent is a little bit over emphatic in his public statements, and, as you know, he is an idealist and one of that class who has all the enthusiasm of a crusader. And he has now and then been in trouble before. We are having trouble ourselves with newspaper accounts of things that have never happened, nor been thought of, especially the misinterpretation of meetings between the heads of the central banks. Recently I had occasion to get after a fellow named Carroll, who writes from Paris for the Evening Post and the Philadelphia Ledger, for cabling over a lot of imaginary and misleading stuff which does harm and makes bad blood abroad.

The deplorable thing about it all is that, working in their own way, - quietly, without publicity, propaganda, or self-advertisement, - there is a group of men in this country (and I confidently believe similar groups abroad) who are earnestly engaged in an attempt to promote reconstruction. Their work becomes infinitely more difficult when their motives are thus challenged, or when misrepresentations are made in the press as to what they are doing, or thinking, or saying.

No one abroad has so intimate a knowledge or so fair a judgment of the attitude of our bank as do you, yourself, and I believe you can help us a great deal by disabusing the official and unofficial mind in Berlin of any thought that these ridiculous newspaper articles represent facts or opinions for which we are, any of us in any way, responsible. I am so glad to have your picture of the local color.

Commenting on yours of January 15, I have no doubt that the lowering of the Reichsbank rate was in a technical sense "orthodox". They are following the market down. It is even more than "orthodox"; it is good foresight, so far as I can judge from here, because the lowering of market rates indicates that the latter stages of a period of liquidation have been reached and the lowering of the discount rate under these conditions should anticipate a reestablishment of stability following the liquidation. You will recall that one of the outstanding miscalculations (to use a mild word) in our own policy, judged in the light of after developments, was probably the failure to reduce the discount rate in New York earlier than we did. And looking back now, I think the reduction should have been made some time in 1920, instead of in 1921. There is, however, a consideration in Germany which did not actuate us; that is to say, Germany has 1,220,000,000 marks to pay on reparation account out of her own resources principally, rather than out of foreign loans, and of course this means that any orthodox policy must have regard to the need for protecting the secondary reserve of the Reichsbank, which may later need to be heavily drawn upon. I should say that the Reichsbank's policy should, in part, be governed by due regard to the domestic situation; that is, prices, the money market, etc. etc. But very largely, also, it should be governed by regard to the divisien position. And later consideration of the rate will need to take into account the extent to which the Reparation Agent is making use of accumulated and untransferred balances. All of this is assuming that the Reichsbank is in independent control of funds for money market purposes, which is also a factor in the money market. I still feel, as I said to

Schacht when I was in Germany, that one of the most important problems which he has to face is the financing of agriculture, so as to increase agricultural production and reduce the need for heavy imports. The plan which you describe in yours of January 15 is working in that direction. The only possible out that I see is that the Reich might tie up some money in long time loans which could not be called upon to meet internal obligations in case the budget situation changes and the surplus vanishes.

I am amused by your comment as to what is good form in the best circles in utilizing information. You know what the principle is in our bank, and I have never had reason to doubt that it was scrupulously observed.

I have been having a good many talks with various people about Poland. If political difficulties could be eliminated, - the principal ones being those enumerated in your letter, - there should be little difficulty in the way of a rehabilitation of Polish finances and Polish monetary matters. They have almost the smallest debt per capita of any nation, a fine background of agricultural production, and an industrious and thrifty population of agriculturists. But there is the Corridor, Upper Silesia, jealous neighbors, tariff and other trade barriers, and the rather natural ambition in Poland to make the country self-sustaining and to develop industry. Industrial expansion that is artificially created behind tariff barriers may, in the long run, do more harm than good. But the nationalist spirit seems to be strong, and anyway it is none of our business.

Any feeling in Germany that the French currency difficulty cannot be cured without German help or cooperation seems to me illusive. On a gold basis the French debt is only about double what it was before the war, and the increase in the budget is, correspondingly, little greater than that, on a gold basis; whereas the British debt is seven times what it was before the war, and the budget about five times as large. When the French face their problem, they will be able to solve it. And when France is freed of financial and monetary entanglements, I should think she would be less docile in international and political questions than she is at the moment.

If Locarno should now be followed by a similar stabilizing agreement as to Eastern frontiers, and some solution of the Corridor and Silesian questions arrived at, then, indeed, the outlook would begin to be rosy.

As to the proposed change in the Reichsbank law, volumes could be written on the subject, and I think the real test is one of fact, rather than one of form. If the autonomy of the Reichsbank has now been successfully established to enable it to resist political influences, it would make little difference whether the power to lend to the Government is enlarged or not. To quote, I believe from one of the British economists, "if the sinister hand of the Minister of Finance can be extended into the Bank of Issue," his ability to do so will likely arise when difficulties in making transfers occur, and then it might be a protection if the present limitation still existed. I am in no position to judge.

But I would like to call attention to one of the lessons we learned in war finance. At the height of the expansion, all Reserve Banks were lending in one form or another to the market \$3,400,000,000. This supported the immense expansion of credit which took place. For every dollar of that credit we had some form of private obligation, either makers and indorsers of commercial paper, or of bills, or obligations of banks secured by Government bonds. When the liquidation took place, this huge structure of credit gradually came down until at the lowest the amount of Reserve Bank credit in use was below \$800,000,000.

Applying the French procedure to our own case, we might have been lending, say, \$3,000,000,000 directly to the Treasury, and have had an effective portfolio of, say, \$400,000,000. Can you conceive of the possibility of the Treasury being able, or even willing, with the assent of Congress, in a period of three or four years to apply \$3,000,000,000 of the public revenues to repaying their debt to the Reserve Bank before bringing about further tax reduction or general debt reduction, or before requiring very heavy payments by foreign governments on their debts to our government?

In the case of the British, they employed currency notes, of which nearly

£300,000,000 are still outstanding. It is the existence of those currency notes and the unwillingness or inability of the British Treasury to apply all excess revenues to the repayment of those notes, which has had much to do with leaving the British in the uncomfortable position they find themselves in.

The French position speaks for itself. The same in Italy.

In other words, the good sense of our Secretary of the Treasury, and some understanding of the problem in the Reserve Banks, protected us against flooding the country with currency under conditions where it would not be automatically retired.

That might indeed happen in Germany under the pressure of meeting external obligations if it became very strong. On the other hand, the earnest intention to observe sound monetary rules, adequately supported by the Transfer Committee, might indeed protect the Reichsbank against government pressure if it arose. It is more a problem of human beings than of laws.

Now as to yours of the fifth: I did not have all of the opportunity for discussion with Mr. Gilbert that I had hoped to, but we did cover a variety of things of which he will no doubt tell you.

It is interesting to note that the amount of German offerings in this country has slowed down. I do not think our State Department control has had a large influence. It seems more to have been a natural exhaustion, or else the successful control of the Beratung Stelle.

I interpret what you write about conditions in Germany as rather encouraging. The secondary inflation was inevitable. We had the same thing here in 1923, and I believe it would have extended into 1924 in a serious way had we not had a period of easy money; and easy money goes a long way to make the wheels turn. Of course we must bear in mind that the index number of German prices is now pretty low, which is another evidence that the period of liquidation is reaching its latter stages.

Coming to your inspired paragraph: I am enclosing for your very confidential information copy of the letter which I am writing to supplement Mr. Case's letter on the subject of Reichsbank bill purchases. We cabled them on December 28. Our rate was increased on the 8th of January. Of course the increase in the discount rate of $1/2$ of 1% necessitated an increase of $1/4$ of 1% in the bill buying rate. If we had suggested not investing in bills until the rate increase was made, the Reichsbank would have done no better financially, because they get no interest on their balances, and for eleven days the loss of interest would just about offset the $1/4$ of 1% lower rate. But what Dr. Schacht does not understand is that none of us knew what attitude our directors would take when we recommended the increase on the 8th, and, in fact, the first vote of the directors (seven being present) was four against an increase and three in favor of it. I was then successful in persuading them that the rate increase was the culmination of a policy which had been adopted three months before, and that our whole program would be scuttled if we did not complete it. He also doubtless does not understand that I never knew that the cable was sent, nor, in fact, that no one in the Bank, except myself, knew that I was in a frame of mind to actually insist upon a rate increase. The whole thing was simply a coincidence that it happened at a time when the rate increase was impending, though none of us knew whether it would actually be made.

If you have a chance to talk with him naturally, there is no harm in your doing so, but I don't want to give him the impression that I am getting at him through the back door.

We couldn't possibly give him the benefit of the change in the rate. Very confidentially, the total of bills in all accounts of the System, including the foreign correspondents, is between \$375,000,000 and \$400,000,000. We are immense buyers almost every day. The bills are apportioned between the various accounts, always giving the foreign accounts the preference, so that their balances are fully invested before we divide among the other Reserve Banks. They all get the same rate.

To go any further than this in favoring the foreign correspondents would be unjustified and indefensible. The reason why we are able to give them the preference is because we do not conduct this business solely for account of the New York Bank. We act as agents not only for foreign banks, but for the Reserve Banks as well. But we act as agents of foreign banks in behalf of the whole system, and we consider our responsibility to our foreign correspondents as a system responsibility, and that every bank being in fact, although not in appearance, an agent for the purchase of bills, they are all obligated to execute their trust responsibility before buying for themselves.

I hope my letter straightens the thing out. We would not have the Reichsbank harboring any suspicion as to our good faith.

I hope the German folks don't begin a speculation in stocks. It is the devil and all to control, and is certain to queer the pitch. And I likewise feel that it is the best way to develop a foreign speculation in German stocks which might result in an artificial flow of capital to Germany which would be suddenly recalled if a change took place either in German economic affairs or in the American money market, and be an embarrassment at the time when embarrassment would least be desired.

If you would care to send me some specific data on this subject, I would be glad to take it up with Charley Hayden or any others whom you might indicate, with whom I am in contact. In his case I know him intimately enough to be able to talk to him frankly. But I would want you to be certain that Dr. Schacht would like to have me do it.

To have the reichsmark fluctuate more normally between the gold points might be a good thing, but the extent of the fluctuation would be comparatively slight in any event, and I am wondering whether it would be effective. I am also wondering whether tests of that character should not be applied a bit later, after the development of transfer problems has been more complete. In a general way, I am all in favor of letting natural influences have their natural play and not attempting artificial controls either by regulation or taxation or anything of that sort. Of course if taxa-

tion is to be applied it would be most difficult to limit it to objectionable speculative enterprises, without having it automatically extend to legitimate investment funds. But if there is no speculation in Germany, nor any great rise in stocks, I would not apprehend much danger from this country.

This concludes the comments on your letters. Now a few words about things at home.

The collapse of the stock market may or may not be an indication of a change of psychology, but I incline to the view that it is a change of psychology and that the big bull market is over. Take this opinion for what it is worth. I am simply an onlooker and know little about speculation. The history of the recent months is that the gradual and progressive increase in the discount rates by the interior Reserve Banks, followed then by our increase on January 8, supported as it was by large sales of securities by the Reserve Banks, followed in turn by a generally higher level of money rates, and, finally, last month, the publication of the stock exchange loan figures, all combined to set people thinking. At one time, when the market was roaring, sales were running all the way from 2,000,000 to 3,000,000 shares a day; latterly sales declined to 1,250,000 to 1,500,000 shares a day. Boom operators and large speculators discovered that the public enthusiasm which is essential to marketing stocks in a rising market, was abating; then came along the decision of the Inter-State Commerce Commission disapproving the Van Sweringen railroad merger on financial grounds, and a good many people decided all at the same time to liquidate speculative holdings. I also think that the reduction of taxes impending last year led many people to delay realizing profits until this tax year, and a good deal of selling came from that quarter. At any rate, the bloom is off the peach, and it looks as though the same thing were happening in real estate speculation, - notably in Florida.

If what I have written, which is hardly more than a guess, proves to be accurate, I think we may look forward now to a more orderly situation in finance in this country, and to a general later easing of money rates. The member banks are now borrowing something over \$500,000,000 from the Reserve Banks, and our bill portfolio

is about \$300,000,000, with Government securities a little over \$300,000,000. In other words, we are furnishing about \$1,200,000,000 of credit. This liquidation may result in the repayment of a few hundred millions. If it does, the New York banks will be out of debt to us. Whenever the New York banks are out of debt, stock exchange call money rates decline. This gradually affects the rate for commercial paper and bills, which in turn affects the market for short time securities, which again extends into the open market, and, with a continuance of a good investment market, we will see a continuance of foreign loans being placed here, which, in turn, supports our export trade and keeps business good; likewise contributing to European reconstruction.

So I don't want you to conclude that because stocks have sold off five or ten or even fifteen points that there is any need for fearing a calamity. Business may indeed slow up a bit this summer. But I have just traveled over quite a bit of the West and the situation looks encouraging. We have had a splendid blanket of snow and a normal, or even an abnormal amount of moisture in all sections of the country, excepting the far northwest. California suffered for two or three years from drought but this year the rain and snow fall has been normal. The mountain peaks are covered with snow, and it looks as though the drought were broken. The steel industry shows a little evidence of slackening in business, and there is also a feeling of conservatism growing among automobile manufacturers, and some price cutting. But so far there is nothing like unemployment, and I hope it can be avoided. But business has been going at such a pitch that we cannot expect it to continue expanding, and a little dull period may, indeed, be a good thing.

I started to write a letter, it expanded into an essay, and I think that I have finally written a book. So accept my apologies. I have strung it out to this length because I want Gilbert to read it, and I want to encourage him and you to write me fully whenever you have the time.

My best to you, as always.

Sincerely yours,

Mr. Shepard Morgan.

Morgan

Hotel de l'Europe,
Amsterdam, August 11, 1926.

Dear Mr. Morgan:

Many thanks for your illustrated letter of August 5th. There is something remotely familiar about the illustration, which doubtless came out of some collection of antiquities.

I am planning to visit Berlin, and will give you good notice. It would suit me a little better to be there when Gilbert returns, and possibly by that time you will no longer be in the country. At any rate, we will have a visit one place or another, and I need not tell you that I am looking forward to it.

With best regards to you and Mrs. Morgan, and many thanks for having me in mind, as you always do, I am

Very sincerely yours,

Mr. Shepard Morgan,
c/o Harzburger Hof,
Bad Harzburg,
Germany.

BS:M

Morgan S

Princess Hotel,
Paris, August 27, 1926.

Dear Mr. Morgan:

It begins to look as though I could not get to Berlin after all. I am very disappointed indeed, but my illness when I was first here took about a month of time that I expected to be devoting to work, and now the busy season is approaching in the Bank.

If there is any possibility of your being in either Paris or London before the middle of next month, won't you be sure and let me know, so that we can have a visit. Also, would you mind explaining to Dr. Bruins my disappointment at not seeing him, which I had counted upon doing either in Switzerland or Berlin.

Please give my best regards to Mrs. Morgan and accept my best for yourself as well. I am much disappointed about the visit.

Sincerely yours,

Mr. Shepard Morgan,
c/o Office for Reparation Payments,
33 Luisenstrasse,
BERLIN.

BS:M

S. Morgan

December 28, 1926

My dear Mr. Morgan:

Your cheery Christmas note has been to Asheville to pay a holiday call, and now comes back to me for reply, because letter writing is still too great a task for Mr. Strong, although he is very much stronger and better. He sends you, in this fashion, an affectionate greeting and a great many thanks.

You will be happy to know that he has got on well -- but slowly you will realize of necessity. He was delayed in getting off to Colorado and then it was felt that a shorter trip and a warmer climate would do the trick equally well. So just before Christmas Mr. Strong, with his son Philip, and a nurse, went down to Asheville. The wisdom of the shorter trip was proved by the fact that even that fagged him a good deal. But he is now resting up and hopes shortly to dispense with his nurse and take a cottage, there to recuperate in earnest, because he has a most optimistic report from his doctor, - offset only by the rigid rule of "absolute rest" for the present. We are immensely relieved at the outcome of his illness, which was critical indeed.

Mr. Gilbert has been here at the Bank for a few days, and there is a probability of his seeing the Governor before his return, so you will have news by word of mouth before long.

To contemplate Mr. Jay's departure for Berlin is something we have all sought to avoid, although it is literally upon us. And no one will regret his going, or miss him, more than the Governor. The void he will leave is immeasurable. But you will have a happy reunion indeed! And the fact that he will be so much at home there must make his leaving less hard. There have been some nice parties, given by the Directors and the Officers in his honor, and there has been a good deal of jollity, -- to cover, I suspect, a great deal of heart ache at his going.

Please be assured of Mr. Strong's kind regard and his sincere thanks, even though he cannot express them in more truly "Strong" fashion.

A Happy New Year to you!

Very truly yours,

Secretary to
Mr. Benj. Strong

Mr. Shepard A. Morgan,
Berlin, Germany.

Morgan, J

Washington, D. C.
March 26, 1928.

PERSONAL

Dear Mr. Morgan:

It is high time that I apologized to you and to a number of your associates in Berlin for the shabby way in which I appear to have treated recent letters. Most of them came after I had sailed for London on December 4, or just before my sailing and, unfortunately, on the day of my return, December 27, I was taken ill and had to spend a good many weeks either in bed or away convalescing from a rather disturbing illness. I am much better now and am gradually catching up. This is to thank you for your letter of November 16.

On the whole, I think I agree with most of the arguments and conclusions in your letter in regard to the policy of buying devisen, but like all questions of this sort it is necessary to consider them, not as isolated questions, but with regard to their setting and other reactions related to that isolated question.

I have been so long out of touch and unable to keep up with current reading that you may regard the following simply as academic reflections having little relation to what is currently happening.

On the whole, it seems to me that a policy of acquiring reserve or the equivalent in devisen is the right one for the Reichsbank under any and all circumstances, if it can be done without too serious consequences to the German economy. The bank, at the time of the purchases we are discussing, was facing what it felt to be an urgent need of curbing speculation. According to our experience, the curb to speculation must be applied by interest rates, even where advances affect both "the just and the unjust." Obviously, large purchases of devisen by the Reichsbank would make a high interest policy quite impossible unless, coupled with that, the Reichsbank had the means of shrinking its portfolio in other directions not only sufficient to offset funds put in the market for devisen purchases, but even to contract the sum total of funds furnished to the Reichsbank through all classes of

operations.

Of course, it is a fact that when the Reichsbank declined to purchase the devisa the foreign currencies fell in value and foreign borrowing was thereby slightly penalized. Such a policy, carried to an extreme, would, of course, result in a natural influx of gold, (marks at a premium, and foreign currencies at a discount). But this leads to another important question which I raised with both Gilbert and, as I recall, Jay, in connection with the section of the annual report which discussed the effects of large foreign borrowings upon credit expansion or inflation in Germany. The report is not before me but, as I recall it, the words used could be interpreted as indicating that Gilbert believed that foreign loans could be made the basis of expansion of the currency and credit in Germany just as much as could an inflation occur by excessive issues of notes of the Reichsbank. That conclusion, I believe, is erroneous. It is a little difficult to set up the reasons in writing where hypothetical figures must be employed, but I will illustrate the point in this way.

Suppose the Reichsbank, at a given moment, through its loans, discounts and investments, in other words through its entire portfolio both domestic and foreign, was furnishing the German economy with 5,000,000,000 marks of currency and credit; that the cash reserves, that is, balances at the Reichsbank and notes in the tills of all the banks in Germany, were at a normal figure of, say 10 per cent of their liabilities, (of course, these figures are simply hypothetical for illustration) if German political and private borrowers negotiated loans for the equivalent of a billion marks in foreign markets there would be absolutely no possibility, in my opinion, of an expansion resulting therefrom except growing out of those loans one of two things happen or both; namely, that the Reichsbank purchase the devisa and thereby increase its portfolio and consequently the volume of currency or credit, or German bankers instead of selling the devisa import gold into Germany. The only possible exception to this might be in the fact that a German bank acquiring

5/26/28.

devisen in the market would be willing to allow its domestic reserve to run down and thereby convert the 10 per cent of domestic reserve into a, say, 5 per cent domestic reserve, and consider that it was amply secured by an additional 5 per cent in its devisen holdings. Under these circumstances, as you will see, the effect will be similar to a reduction of the reserve requirements for our member banks. Now, it may be that your report referred to this last possibility, but you will note that under the first two possibilities the policy of the Reichsbank in declining to purchase the devisen did have some effect in checking the expansion unless gold flowed into Germany.

What struck me about the language of the report was not so much that it was 100 per cent inaccurate, but that failing some little elaboration of the statement, it was so expressed as to open the door to the claim that the principle enunciated was inaccurate. Of course, this may be because the above argument relates only to the policy of the Reichsbank as to devisen and reserve. The other objections to foreign loans are a wholly different basis and may have justified all sorts of methods to curb them. As to stimulation of imports, you will, of course, agree with me that the extent of the damage in that respect caused by foreign loans can only be determined by some analysis of what the imports were. If they are raw material for manufacture and re-export there, of course, is some justification. To what extent Schacht's policy was influenced by regard for the reserve position of the Bank of England is another question. I am not informed. But sterling is now so strong that I see no justification on that score for the policy of a few months ago and, of course, foreign loans by German borrowers have now almost ceased.

The interesting point raised on the fifth page of your letter as to our exporting gold has been pretty well answered by events. We seem to have exported gold to many countries, but not in every instance simply as an exchange transaction. Brazil and Argentina took gold when the exchange was running strongly in their favor, but the gold was largely the proceeds of loans placed in New York, although, I believe Argentina did take some out of the market because of exchange profit. Shipments to

Canada have been the usual seasonal ones. We have made two shipments to Germany which were not made by the Federal Reserve Bank and which, I gather, were strictly on an exchange basis. A small amount of gold went to Italy and the Italian exchange has been at a point from time to time where it would seem that gold could be shipped profitably since stabilization. Shipments to France, of course, cannot be an exchange operation until they legally stabilize. The shipment of \$1,000,000 to London may have been more for advertising purposes than for profit. We could figure no profit on it unless special facilities were offered in London, and I hardly see how any special facilities can be offered in London unless by the Bank of England, and they seem to be in no need of doing so as they have added about £12,000,000 sterling to their reserve, as I recall, in the past year.

Having now the advantage of looking back rather than forward, as when you wrote me, I think the explanation of our gold shipments which have been in very large volume during the past six months is fairly simple. Notwithstanding that the world in last year's trade did pay us but \$600,000,000 for goods exported in excess of the amount imported, the borrowings in our market, both short and long time, have been large enough to finance all of these payments, payments on old indebtedness, and leave enough over to put the dollar at a discount in some exchange markets, and in any event to make it less expensive for other markets to build up gold reserves by converting American balances into gold. This conclusion seems to be further supported by the fact that in the last few months our interest rates have somewhat hardened and we have advanced our discount rate one half of one percent.

Since dictating the above I find a letter which I dictated to Jay on the steamer on my way home. If you think it worth while please hand it to him, but it covers much the same ground covered above.

Please give my best to all in the office.

Mr. Shepard Morgan,
33 Luisenstrasse,
Berlin, Germany.

Sincerely yours,

Mr. Shepard Morgan

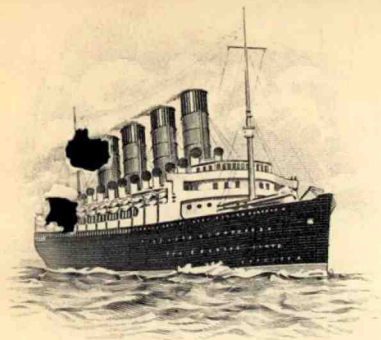
- 5 -

3/27/28

P. S. I just find a copy of the report with me, and the passage referred to in my letter is contained in the next to the last paragraph on page 103.

Brookdale Line

U.S.A.



Maryam, S.
CUNARD
R.M.S. "MAURETANIA"

NOV 26 1924
November 17, 1924

Dear Mr. Strong,

They brought me
in a basket of fruit from you
when I was feeling very much
down. Instantly every one of
those oranges, grapefruit and
pears went into the alimentary
canal of my spirit and I felt
better. It took quick work on your
part to get them to me; but it

We have had a good passage,
and of course a fast one. But the
Mauretania is a swifft behavours like
the New Bedford boat.

By the time this reaches you,
you may already know how this
adventure of mine is coming out. I
can't tell you how much I appreciate
the attitude you and Mr. Jay have taken
on this thing; it will always make
me happy.

My kindest regards to you, as
always.

Sincerely yours,
Shepard Morgan.

was an urgent case, and may need
some after-care. But the other
day, in Washington you gave me
some fine treatment for that too!

Mrs. Pratt, as always, was
delightful. She and Mrs. Pruyn
and the two youngsters sat near
Kemperer and me in the dining
room, and in the evening we all
did the pool on the ship's run
together. I bid in some numbers
for her, but I am no good that
way; lightning struck near them but
not near enough. Next time she
will want a better guesser.

THE TRANSFER COMMITTEE

BERLIN
55 LUISENSTRASSE
TELEPHONE: NORDEN 4190-4196
TELEGRAMS: ACENTREP, BERLIN

PARIS
18 RUE DE TILSITT
TELEPHONE: WAGRAM 2422-2425
TELEGRAMS: REPAGENT, PARIS

ACKNOWLEDGED

FEB 24 1925

B S

Berlin, 28th January 1925

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

Dear Mr. Strong:

Dr. Schacht said something the other day which reminded me, by contrast, forcibly of you. Not that I needed any reminder; I think of the Bank and of you and my other friends there many times a day. I do not yet realize that there is any other disconnection than that of distance; indeed I do not want to realize it.

Dr. Schacht was telling about a speech that he had made a few days previously in the Rhineland. A free rendering of it would be this:

"Last year there were only 5,000 commercial failures in Germany. The normal number of commercial failures in Germany is 9,000. Any country which does not have a normal number of commercial failures is not in a healthy financial condition. It is the business of the Reichsbank to shake the other 4,000 bad apples out of the tree."

Can you imagine any more violent contrast with our style of utterance? There came immediately to my mind the picture of you and Governor Harding talking to the Commission of Agricultural Inquiry about the causes of the 1920 and 1921 deflation. I remember the pages of testimony that were taken on Governor Harding's

modest utterance about essential and less essential credits, and how some members of the committee tried to pick on that as the real cause of the decline. Suppose they had had something to work on like this statement of Schacht's! These Germans seem to have strong constitutions; their ears are not as sensitive as ours.

Mr. McGarrah has no doubt told you at length of Schacht's banking policy, and probably I can add nothing to it except as one steeped up to the ears in Reserve Bank tradition. As you know, Schacht has no faith in being able to control the situation here by discount rate alone. On April 7th last, when the Reichsbank took its firm resolution to control credit, it announced publicly that it would lend no more than it was actually lending on that date. This put a mathematical limit on Reichsbank credit. Subsequently, when the German money had been largely returned from abroad and the situation had become easier, the Reichsbank announced that it was prepared to increase its limit by 10%; and now Dr. Schacht tells me that they have an un-announced policy of permitting it to increase to a point some 17% above the April 7th level.

He has given some public intimations that the Reichsbank may consider a reduction in rate, but he made it definitely contingent upon the reestablishment of an open discount market in which the private rate would give some guide, external to the Reichsbank, to money conditions. His efforts to reestablish the open market thus far have not been successful, and the reason for this, as explained by Herr Von Gwinner of the Deutsche Bank, is that the big banks cannot increase their portfolios to the extent implied by an open discount market unless the Reichsbank stands definitely ready to take

the bills off their hands in case of a squeeze. So up to the present the argument seems to be travelling in a circle from the Reichsbank to the four "D" banks and back again. A temporary consequence seems to be that stock exchange money at day to day and one month is offered freely at relatively low rates, whereas commercial money at three months still commands 15%. There are also a limited number of bills on the market here at rates intermediate between bank loans to commerce and stock exchange loans.

Schacht's currency policy is necessarily associated with his credit policy, though as to currency he has no mathematical limits. Over the year-end the currency and other accounts of the Reichsbank acted normally. For example, the Reichsbank circulation in the first two weeks of the new year went down 15%, which compares with the 12% reduction during a slightly longer period for the Reserve Banks. Professor Cassel of Stockholm, who was here last week, is mildly concerned about the inflationary tendencies of the Agent General's payments out of the proceeds of the loan. He argues that these disbursements might, if their effects were not otherwise controlled, result in a currency expansion of 800 million marks, and so cause a rise of commodity prices. As a matter of fact the joint circulation of the Reichsbank and the Rentenbank did go up after September 1st in rough correspondence with the disbursements of the Agent General. But no one can say that this increase was not in accordance with the normal seasonal movement; indeed that assumption is measurably confirmed by the seasonal decline in circulation after the first of the year.

My own suspicion is, though we haven't the figures to prove it, that German prices are relating themselves to American prices quite independently of any movement that has taken place thus far in currency. There is a certain presumption in favor of that.

28 January 1925

because the market is held artificially at parity with the dollar. In any case the official index of basic commodities has been moving week by week in very close correspondence with Snyder's index of 20 basic commodities in the United States. Surely the impression one gets in shopping around is that retail prices in Berlin are very much the same as in New York. I remember a good deal of talk around election time about the protective tariff on aluminum ware, and how it prevented cheap German goods from flowing in. The fact is that the cost of outfitting our kitchen here in December was practically identical with the cost of fitting out our kitchen in New York last October. This is a small matter, but it is fairly typical. As things stand there is very little danger to American industry from a flood of cheap German goods, - unless of course German manufacturers undertake to sell abroad for less than they sell at home. Schacht feels this keenly and accordingly keeps a strong hand on his circulation; but in default of a very large increase in the circulation I suspect the impress of American prices on German prices is unescapable as long as the exchange is kept firm. Schacht goes along with this to the extent that he is concerned whenever American prices move upward.

A third interesting point in Schacht's policy is to keep a very ample stock of foreign devisaen. He says that he has not used any of his sterling balances to speak of, and hence he has already made quite something of a profit on that score since the making of the loan. As for American devisaen, he is trying to protect himself against a possible rise in interest rates in the American market, which would result in the repayment by Germans of short time loans in New York. As you have reason to know, his devisaen run to a considerable figure. His total gold and foreign devisaen convertible into gold directly or indirectly would give him a cover for his circulation exclusive of the Deutsche Bank's...

28 January 1925

of about 120%; and if he should expand upon it to the legal limit Germany would have a circulation considerably in excess of what it had before the war. But at this date he clearly has no intention of letting any such thing happen. I am not so sure about where his policy will lead him 20 months hence. That is one of the interesting things to watch in view of the obligations of the Transfer Committee. It seems as though it would be within his power effectually to prevent any substantial transfers. I let myself go in for some speculation on that point in a memorandum I made for the Transfer Committee dealing with accounts in foreign banks. I am under the impression that Mr. Norman had that memorandum with him when he went to New York and possibly you have seen it. In any case the account in the Reserve Bank has since been arranged for; and if you have not seen the memorandum I should be glad to send it to you, especially as I would like to have your thought on it.

There is absolutely no point in this letter except the pleasure I am taking in writing to you. The things I have said are of course my personal views and hence subject to any and all correction! I wish I might have a chance of talking with you and Mr. Jay and my other friends at the Bank. If any of you are coming abroad this Spring I would travel a long way for the pleasure of seeing you.

I send you my very best regards, which you always have.

Yours sincerely,

Shepard Morgan

THE TRANSFER COMMITTEE

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

(Personal.)

PARIS
18 RUE DE TILSITT
TELEPHONE: WAGRAM 2122-2123
TELEGRAMS: REPAGENT, PARIS

Mr. Benjamin Strong,
Governor of the Federal Reserve Bank
of New York,
New York City.

April 2nd 1925.

ACKNOWLEDGED

APR 22 1925

B S

Dear Mr. Strong,

You have no idea how much pleasure your letter of February 24th gave me. Your vivid comments made me feel that you were here, where indeed I hope you may before long find yourself.

Before I go along with some more or less desultory comments on the situation here, I want to refer to your note of March 9th in which you spoke of obtaining specimens of the inflated currency. I spoke one evening with Dr. Schacht about it and he suggested a set of specimen notes which I understand is fairly complete but was never definitive currency. While this would serve the purpose for study yet I conceive it to be much less interesting than as if the notes had actually been in circulation. I am finding out how a complete set of definitive notes is now obtainable, and will let you know the results as soon as I have them at hand.

The other thing I have in mind is this: Some days ago Dr. Schacht gave me rather more than an intimation that he would like to receive a suggestion from you that he go to New York in the Autumn. It appears that he has had invitations to go over from the City Bank and others, but feels that he cannot accept without having an invitation from the Federal Reserve Bank. In this, of course, he is per-

Mr. Benjamin Strong. April 2nd 1925.

fectly right, and I gather that he is not too particular about the occasion for the visit; the simple making of acquaintance would be adequate. Mr. Jay's judgement as to whether it is desirable from the Bank's point of view for Dr. Schacht to make an informal visit would, of course, be excellent. For my part, looking at it from this end, I think it would do good. Dr. Schacht is very friendly to all of us in his personal relations, though he never commits himself in writing. This friendliness would be cemented by a day or so at the bank. I have spoken to Mr. Gilbert about it, and he agrees with the point of view I have just expressed. The time that Dr. Schacht has in mind is September, but as to that I have no doubt you could fix a time entirely convenient to yourself.

I think you will find Dr. Schacht a very interesting character. Last Autumn, before I thought of coming over here, I expressed to Mr. Jay an opinion which he thought a little severe. It was to the effect that his sword knows no brother. Though I have had many chances of seeing him familiarly and have acquired a great liking for him, yet I have had no reason to change that opinion. He would be a hard man in a fight, and if I were on the other side from him I would find it necessary to look out for my vulnerable points, because he would know them and take advantage of them. As you suggest in your letter, his has been a courageous policy and he has carried it out with a firmness impossible in a country less accustomed to autocracy. If, as has been said, the Rentenmark saved the Rhineland to Germany, the Reichsmark has saved Germany to herself, and for this Dr. Schacht among the Germans is mainly responsible.

You will be interested in one or two further developments of his policy here. As I think I remarked in my last letter, he has had great difficulty in getting the open discount market re-established. In this there is a direct division of opinion between the Reichsbank and the big commercial banks, particularly the Deutsche Bank. The Reichsbank had its credit limitation policy, and the commercial banks refused to create acceptances until such time as they knew they could get rid of them to the Reichsbank in a squeeze. Dr. Schacht hoped that he would be able to keep his credit limitation policy unmodified and tried to maintain the open discount market with Government funds which, as you know, have been very plentiful owing to the unexpectedly satisfactory budget position. But it soon developed that there was no health in the market, partly because not enough acceptances were being created; so, about a month ago, the Reichsbank modified its credit limitation policy to the extent that it agreed with the twelve principal banks and banking houses of Berlin to rediscount prime bankers' acceptances for their account, without regard to the lines of credit available under the restriction policy. On their part, the twelve banks and banking houses agreed to create acceptances only up to half the amount of their capital. The results are already apparent. In the first two months of the year the acceptance liabilities of the four "D" banks increased from about 16 millions to about 57 millions. This is progress, but after all there is a long way to go, because before the war the acceptance liabilities of these four banks ran to about a milliard marks.

The recent statements of the Reichsbank are striking for

one principal thing, - that they do not present any striking changes, but, on the contrary, seem to reflect in a normal way the current commercial and financial developments of the country. This is progress in itself. The circulation seems to be tending toward a generally higher level, but one finds no reflection in commodity prices. There is room, I think, for a little growth in circulation without endangering the price-level. Up to the present the velocity, if one may judge from observation only, has been very high. Storekeepers have seemed to have little cash on hand with which to make change, and artisans have requested payment as work proceeded. This, of course, bears upon the general shortage of credit quite as much as on the shortage of currency, but I quite expect that a moderate increase in circulation would be taken up in a diminished velocity.

You spoke in your letter of the Reichsbank's gold policy. This is the explanation of it as I get it from Schacht. No doubt you have already fathomed it. Dr. Schacht believes that by converting his *devisen* into gold and by bringing it to Berlin, he will put a light on the hill for the borrowers of foreign currency to see. He is preparing for the time when there may be heavy demands upon the Reichsbank for foreign funds with which to repay short-time borrowing or to meet other foreign requirements. If these requirements are met out of the Reichsbank's stock of *devisen*, which are reported in three places in the weekly statements and wholly lost to view among other assets, then the Reichsbank will have great difficulty in putting on the brakes. If, however, the demand for foreign payments is to be met by exporting gold, then a rigorous policy has a palpable explanation. That is as far as he went in his explanation to me, but he has his eye no doubt on the Transfer Committee quite as much as on

Mr. Benjamin Strong. April 2nd 1925.

his own countrymen. The position is on all fours, it seems to me, with the sound view about the mechanism for the return of sterling to the gold basis. If the gold standard in England is to be re-established on the strength of American credit, it will be much more difficult to enforce a strong policy than as if the British gold stock was itself in danger.

The foreign trade balance gives everybody a good deal of concern, particularly because of its bearing upon the payment of reparations. Still, what would one expect? In the last six months, almost for the only time in more than ten years, the German people have been able not only to fill up their shelves out of credit, but to satisfy their private wants out of wages. Some of the Germans tell us that the hardest thing to bear in the last ten years was isolation. Suddenly, through economic means, this isolation has in part been broken down, and it would be more than human that it should not be reflected at least temporarily in a large purchase of goods abroad. There are, of course, other contributory factors such, for example, as the terms of the Treaty of Versailles which permitted goods of certain classifications and from certain sources to flow into Germany tax-free up to January 10th last. Also, it was only in November that foreign trade from the Ruhr first made its appearance in the trade balance figures, and then only in the form of imports. The figures for December, January and February are the first to give a reasonable basis for comparison, and of these only the February figures were exempted from the operation of the Treaty. In the next place, the German figures do not regard deliveries in kind as exports. Yet it seems to me that they should be so considered on every economic ground, - particularly as up to the present

they have been paid for largely by the United States.

The political situation you have, of course, been able to follow in the newspapers, though perhaps the picture seems a little darker abroad than it is close at hand. There are - or were yesterday - thirty-three political parties in Germany. When one speaks to the Germans about these thirty-three parties they throw up their hands and say "It is German. We always do things that way." But it seems to me that the explanation is not to be found solely in German character, but is to be accounted for, in part at least, by their infernal electoral system. Elections to the Reichstag are conducted on the principle of minority representation. The result is that the La Follettes and the Brookharts who are at outs with their party walk out and organize other parties and obtain places for them on the ballot. By doing so they do not run the risk of political extinction, but on the other hand assure themselves of places in the Reichstag. This comes as a result of the election machinery which gives a party receiving a certain number of votes a proportionate number of seats in the Reichstag. So, if Herr X. finds himself half way down on the list of candidates of the Democratic Party, he walks out and forms a People's Party, and as its leader, is entitled to a place at the top of the ballot. As long as he stays in the Democratic Party he has no seat in the Reichstag, but as soon as he stands at the head of another though smaller party, he is sure of a seat in the Reichstag. This disintegrating process carries over into the presidential election even though one is entitled to vote ^{then} for a name rather than for a party. There is a good deal of election talk about a line-up between the monarchists and

the non-monarchists, but as nearly as I can judge there is little danger under present conditions of a monarchy.

Gilbert tells me that he is on the verge of writing you a letter, and will no doubt cover some of the questions you have in mind about the deposit in the Reserve Bank.

What you had to tell me about the situation at home was fascinating and I have read it over and over again. The advance in the rate caused great interest on this side, and on the whole was represented fairly. I was irritated, as you may imagine, at one interpretation which I read in two or three London papers, that the Bank had raised its rate in order to provide earnings. I presume you had enough of that at home; but it is hard to understand how such ignorance can be put in print.

When you have a moment, I shall be more than happy if I may hear from you again. The Bank, all its doings and all its people have a place in the front of my mind and all my sensibilities.

My very best regards to you, and my hopes that you may be coming this way.

Yours sincerely,

Shepard Morgan

SHEPARD MORGAN.

This letter is a book. My apologies!

THE TRANSFER COMMITTEE

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

PARIS
18 RUE DE TILSITT
TELEPHONE: WAGRAM 2122-2123
TELEGRAMS: REPAGENT, PARIS

5/9/25
B.S.
Mr. Benjamin Strong,
Governor of the
Federal Reserve Bank of New York.

April 23rd 1925.

Dear Mr. Strong,

I have on my desk a collection of ninety-five German notes. Their nominal value is astronomical. They came to me from Dr. Schacht with his best compliments to you.

Only five out of the ninety-five had I seen up to the time Dr. Schacht sent me this collection. They are all definitive notes, and in some cases have been in circulation, but they are all stamped with the word "Muster" which means "specimen". While this does not detract from their interest, it does detract from their value, and I am sorry that it appears. But I am confident that no similar collection of notes without the "Muster" stamp can be got together at this time. However, if after seeing the notes, you think it desirable to have as many notes as possible without the "specimen" mark, I shall be glad to get as many as possible. I enclose a memorandum from the Reichsbank giving a list of the notes in the collection. What amazing figures! They never cease to appal one. The other day in the Tiergarten I picked up a note that had been thrown away as worthless which, however, had a nominal value equal to the whole public debt of the United States.

In order to make sure that the notes reach you without loss, I am sending them in the Embassy pouch to Leland Harrison who will either hold them for you in Washington or send them over by registered post.

Mr. Benjamin Strong.

April 23rd 1925.

- 2 -

I am enclosing also with this a memorandum prepared here which describes the Darlehenskassenscheine and the Reichskassenscheine. The Reichsbank notes carry their own dramatic story.

With best regards to you, as always,

Yours sincerely,

Shepard Morgan

SHEPARD MORGAN.

THE TRANSFER COMMITTEE

BERLIN
33 LUISENSTRASSE
TELEPHONE: NORDEN 11900-11910
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TELEGRAMS: REPAGENT, PARIS

ACKNOWLEDGED

MAY 28 1925

RESERVE BANK
JUN 27 1925
NEW YORK

Mr. Benjamin Strong,
Governor of the
Federal Reserve Bank of New York,
New York City.

May 16th 1925.

Dear Mr. Strong,

I sent to-day a cable to you to the effect that both Mr. Gilbert and Mr. McGarrah heartily approved the proposal that Dr. Schacht make a trip to New York. I also indicated that I thought the late autumn would be the best time, and that Dr. Schacht knew something of your plans to come over in the latter part of the summer.

It was because I wanted to find out from Dr. Schacht what his preference was as to time that I did not respond immediately to your letter which I received early in the week. Dr. Schacht was then on holiday and only this morning was I able to reach him. His other conversations on this thing permitted me to talk rather frankly with him though I did not indicate that I had received a letter from you. He said that he had learnt "from a source which I could imagine" that you were planning to come to Europe in August and September, and that he would prefer to go to New York after you return or at about the same time. He is not perfectly certain, however, that he can get away at all because he does not know what the political developments may be in the course of the summer. But as far as his personal arrangements go he is very much for it.

I said in my cable that Mr. McGarrah endorsed the idea. I have not had a chance to talk with him because he only returned to Berlin

last night, and he has not yet been in to the office to-day, but Mr.

Gilbert has talked it over with him and told me that he approved the idea decidedly. As for Mr. Gilbert himself he fully agrees.


The political developments that Dr. Schacht has in mind are those which might arise over the Cologne matter which is a source of profound irritation. He remarked over the telephone that unless a ready settlement is arrived at, it will be necessary for everybody having any influence to do his best to keep the situation straight; but that he hoped his "British friends would moderate the disposition of the others." For my own part I am not too optimistic. French nerves are raw; the French are suffering from inferiority complex and invariably look outside of themselves not only for help but for someone to blame; for example "Le Temps", commenting on Mr. Houghton's speech in London, said that the blame for the disorder in Europe was with the United States and England, because the former had not adhered to the Treaty of Versailles and the latter had followed too conciliatory a policy. When people are in that frame of mind they are disinclined to make a trade that is fair all around. As I have remarked to you before, and again in a letter to Mr. Jay which I wrote after the election, I think the future political situation of Germany, certainly as far as the monarchy and military matters go, depends much on the way the foreign powers, particularly France and England, behave. Compared with that the election of Hindenburg is hardly more than an incident. As Dr. Schacht remarked at the moment when the retention of Cologne was announced, "You are doing everything to make it hard for us. How can you expect that moderate opinion can keep control in Germany when you do things like that?" You may imagine that I do not go the whole road with that point of view which was uttered in irritation and on impulse, but it is indicative how far foreign relations will go toward determining the course of future political developments in Germany.

While I was writing this note Mr. McGarrah came in, and he confirms what I have said. He even goes to the point that it would be a good thing if the fact of the invitation, when and if it is made, should be announced publicly. He thinks it would have a good effect.

I am going to-night on a week's trip down to Grenoble where we spent last year. Otherwise I would not be able to restrain myself from replying to your altogether delightful letter of April 22nd. You cannot imagine all the pleasure your letters give me. This morning I got a letter from Mr. Jay and my day is made. The prospect of seeing you is thrilling.

My very best regards to you,

Yours sincerely,



SHEPARD MORGAN.

RADIOGRAM

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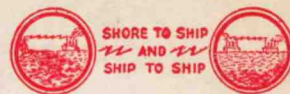
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STRONG FEDRESERVE NEWYORK

AG 302 STOP GILBERT MCGARRAH HEARTILY ENDORSE PROPOSED INVITATION SUGGEST LATE AUTUMN BEST TIME HE KNOWS FROM ABROAD YOUR PLANS

MORGAN

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Morgan S.
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THE TRANSFER COMMITTEE
LUISENSTR. 33
BERLIN

Ans
by hand

July, 2, 1925

Dear Mr. Strong,

You can't imagine the
pleasure I have in addressing a note
to you on this side of the ocean,
particularly as you will be coming along
here so soon. Is it next week? The
sooner the better.

Dr. Schockel asked me the other day
what kind of parties you like - a word
to that effect. I took no liberties one way or
the other, beyond saying small ones. I
gather from a note which D. P. G. showed me
from Mr. Norman that parties are out of

Order altogether, certainly of the formal sort;
I suppose you agree with that. Still, there are
about twenty thousand places where one can
get good beer! And who nobody cares
whether one is King of Bulgaria, Governor of
the Reserve Bank or County Chairman.

Mr. de Garmah won't be here. He leaves
to-morrow for Paris, so we shall have to wait see
you in Berlin. Maybe elsewhere.

My best regards to you, and my pleasure
at seeing you so soon.

Yours sincerely,

Shepard M. Mason.

Paris, France, 8.15.25

Morgan

Mr. Case: You may be interested in this. And then it can go into my own files. B. S.

Berlin, W.
Sigismundstr. 4A

Telefon: Lützow 5579

B S Personal file

Oberrammergau, Bavaria

July 27, 1925

Dear Mr. Strong,

Your letter from Spa reached me here this morning, forwarded from Luisenstrasse. I was happy to see your name on the letter sheet, and I grab at the hope that something breaks loose between now and your sailing date, something important enough to reopen the session of the Cosmos Bankers' Association. Quite the most entertaining sessions I ever sat on the fringes of. I observe you and Mr. Norman got some credit (in the newspapers) for the toas of the German reply to the French proposals — or rather, the German reply to the French reply to the German proposals. I know you did some tail-salting, and the reply was a good job; so perhaps the newspapers have again become as accurate as they were in my day.

I saw Dr. Schocht for an hour and more on Wednesday morning. He looked as though he had come up well under your quinet (as Mr. Norman called it) and Mr. Norman's rapier. In fact, in all my sessions with him, I never knew him so content as he seemed that day; and it was not until the

day that his devisen took a turn for the better! Always

before he seemed a bit, and sometimes more than a bit, on the
defensive, which he showed in an assertiveness of his position —
how he had done this and that, and how such and such things
had happened as the result of his policies. This time he was
quieter and surer, and it seemed to me it was because he
knew he had some friends. Anyhow he was happy about the
visit, and he gave me the most entertaining hour I have had.
Not the least good thing about the visit was that it must
have strengthened Achaekt's position with his own Government.
The more of that sort of medicine his Government gets, the
better. I suspect that result was one reason for his contentment.

I wrote a long letter to Mr. Jay on Thursday, reporting
on some of the externals of your stay. I am sorry it is
over, but I have my eye on a suitable explosion about
the end of August. I shall then be back from Constantinople.
We are in Obrammenyon for a week with the children before
we go along. John is wholly on his pins again.

Barbara joins me in sending regards to you and our
best remembrances to Mr. Humphrey, who is one of the most
charming persons I have met these twenty years. Our regards
also to Mr. ~~Worcester~~, please.

Yours sincerely,

Stephen Henson.

THE TRANSFER COMMITTEE

BERLIN
33 LUISENSTRASSE

TELEPHONE: NORDEN 11900-11910
TELEGRAMS: AGENTREP, BERLIN

Assurance

Benjamin Strong, Esq.,
Governor of the Federal Reserve Bank
of New York,
New York City,
U.S.A.

LE COMITÉ DES TRANSFERTS

PARIS
18 RUE DE TILSITT

TÉLÉPHONE: WAGRAM 21.22-21.23
TÉLÉGRAMMES: REPAGENT, PARIS

BERLIN, November 6, 1925.

ACKNOWLEDGED

NOV 24 1925

B. S.

Dear Mr. Strong,

Your note of October 14 bringing a message from the Liberty Loan gang made me happy for two days. What a fine lot they are and what a great job they did! I have hoped for seven years that somebody in Congress - say from Alabama - would stand up and scorn them. That would give us a chance to prove, aside from the actual performance, what a superb piece of work it was.

I am distressed to know that Emerson is in a hospital. I gather from the way you speak of it that his affair, whatever it is, is troublesome rather than serious, and I hope that by now he is entirely recovered. I have a great liking for him. If you remember, he and I started off our work together in 1918 with a row. It was carried on according to the best rules and, as is often the case, wound up with some degree of mutual regard developing into friendship. Human beings, like dogs, often start off a lifelong friendship with a row. In that affair I have always thought I had an unfair advantage because of the support you gave me - *and so much credit the more to Emerson!*

I should have enjoyed being with Dr. Schacht when you showed him around the Bank. I should imagine that the impressions

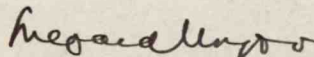
were so numerous and so strong that even for one of his active mind the effect was numbing. I have learnt from Mr. Sterrett some of the paces you put him through by way of entertainment and I know by anticipation the substance of some of the discussions, say, on public funds. The issues involved in that question have proved quite the most entertaining work we have had since I came over a year ago.

There is much on that subject, as well as on the matter of German loans in the United States, that I would like to put in this letter but at the moment it can't be done, and possibly you have had enough of these subjects to last you for a while anyway.

You will be interested in this clipping from last Tuesday's London "Times", particularly the paragraph which I have outlined in red. Possibly you have already seen references to the article in "L'Europe Nouvelle". One of the Frenchmen here tells me that it was written anonymously by Jacques Sedoux whom you probably know. He is, of course, assistant director of the political and financial affairs section of the French foreign office with particular obligations towards reparations matters. In physique he is worn and bent with rheumatism but writes like John the Baptist. I fear his voice is crying in the wilderness.

My best to you, as always.

Sincerely yours,



SHEPARD MORGAN

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

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

BERLIN, November 12, 1925.

ACKNOWLEDGED
NOV 28 1925
B. S.

Dear Mr. Strong,

As you know Mr. Gilbert is leaving this side for New York somewhere around the middle of December, by what ship he is not yet certain.

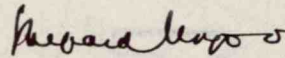
It occurs to me that a suggestion from you that he would find a room available for his use in the Bank would be very welcome. He will only be in New York for a day or two around the 21st and 22nd of December and again for possibly a week after New Year's. It would be an enormous convenience to us here to have an address to which we could cable or write him, and I know he would rather be at the Bank than anywhere else. I am perfectly sure also that your personal desires would be to have him there; and on technical grounds, if any such were raised, it would seem also to be in order inasmuch as at the request of the Secretary of the Treasury the Bank is doing business for the Agent General. I suggest the obvious merely because I am still sensitive about what the uninformed allege with respect to the Bank.

If complying with this suggestion of mine is in any way embarrassing to you please do not hesitate to say so. If, on the other hand, you fall in with the suggestion, I am sure Mr. Gilbert would immensely appreciate word from you by cable. A letter scarcely has time to get here.

I am writing a note to Dr. Burgess asking him to have some railway-tickets bought which Mr. Gilbert will pick up. But that is a matter that requires no delicacy.

My best regards to you, as always.

Yours sincerely,



SHEPARD MORGAN

RECEIVED
BIRMINGHAM
MAY 11 1951
SCHIRMER



THE TRANSFER COMMITTEE

BERLIN
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LE COMITÉ DES TRANSFERTS

PARIS
18 RUE DE TILSITT

TÉLÉPHONE: WAGRAM 21.22-21.23
TÉLÉGRAMMES: REPAGENT, PARIS

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

BERLIN, December 14, 1925.

*See letter ref/24/25 to
S.P. Gilbert
RySB*

Dear Mr. Strong,

I received this morning your letter of November 30 enclosing an envelope which enclosed Mr. Gilbert's letter to you of November 5. It is extraordinary that a second letter from him to you should have been broken open, particularly as the two cases appear to have been different.

In the first case the letter was sent from here in the pouch to Paris and assimilated there in the ordinary mail. The explanation we got was that the French Post Office seeing a bulky letter addressed to a bank had opened it to find out whether capital was being exported, and then sealed it up again and sent it along. In the second case the letter was sent in the pouch to Paris with the instruction to the Paris office to send it in the Embassy pouch through the State Department. This appears to have been done not only because of the "XYZ" designation under the stamp in the upper right-hand corner, but because it was transmitted with a Washington post-mark and American postage to you. The mystery remains as to where and by whom the letter was broken open. It is possible, of course, that the stiff paper was too much both for the adhesive and for the sealing-wax, and that normal processes of carriage cracked both.

If the letter was in fact opened in the State Department, judging from the contents, the result is to say the least amusing.

I am sending the envelope along to Fraser in Paris to see if he can shed any light on it. I notice the sealing wax was put on there. Perhaps Mr. Gilbert will want to drop a word about it during a conversation he expects to have with Mr. Kellogg.

With best regards,

Yours sincerely,

Shepard Morgan

SHEPARD MORGAN.

Have any of the letters by German mail ever shown

any signs of tampering?

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

BERLIN December 19, 1925.

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

Dear Mr. Strong,

I received this morning a letter from Fraser in response to my inquiry about the envelope containing Mr. Gilbert's letter of November 5, which reached you with the flap open and the seals broken. Fraser says that the letter was received in the pouch from Berlin on November 9 and turned over to the Embassy on the same day to be sent forward by their pouch. United States postage and the six seals were affixed in Fraser's office to reinforce the resistance of the gum.

He then makes a pretty convincing statement that the fault is mainly with this office here, saying that about half of the envelopes that arrive from Berlin sealed reach him with the seals broken and the flaps loose. He thinks the reinforced envelopes are too stiff to stand the transit.

I accordingly am undertaking to persuade the responsible people in this organization to furnish us with more suitable envelopes and I hope the trouble will not recur. In any case, I think it unwise for Mr. Gilbert to make any comments on this incident to Mr. Kellogg. The implication is a serious one, and if there is any possibility that the responsibility is ours we should be doubly careful.

With best regards,

Yours sincerely,

Shepard Morgan
SHEPARD MORGAN

January 4, 1926.

Telegram to Mr. Gilbert sent in code.

Fedreserve NewYork.

Schaech Redhouse

[Redhouse = Reichsbank]

For Gilbert Saw ~~Zaca~~ stop ~~Redhouse~~ credit apportionment suspended
stop Expects to lower discount rate about January 11 stop Confidential
figures which I saw show marked decline since November in German bill
holdings with approximately corresponding rise of foreign exchange
stop Latter now nearly at highest point, mainly owing to foreign
loans but in negative sense to November foreign trade results also
stop Decline German bills attributed to scarcity good names stop
At middle December credit allotments ~~Redhouse~~ *Reichsbank* and branches not fully
used, which supports decision to suspend apportionment stop ~~Zaca~~ *Schaech*
thinks eligibility test sufficient for present at least to control
volume ~~Redhouse~~ *Reichsbank* credit stop Says this is what he has worked for and
while situation still delicate regards bottom passed stop We see no
reason to dispute conclusions stop Unemployed much increased owing
partly to seasonal causes and failures and partly to dismissals for
purposes cheaper production stop Lower discount rates should offer
needed stimulus probably without inflation tendencies stop Please
convey above confidentially to Governor stop ~~Zaca~~ *Schaech* has written
Mr. Norman
British stop

Morgan.

THE TRANSFER COMMITTEE

BERLIN
33 LUISENSTRASSE

PHONE: NORDEN 11900-11910
GRAMS: AGENTREP, BERLIN

LE COMITÉ DES TRANSFERTS

PARIS
18 RUE DE TILSITT

TÉLÉPHONE: WAGRAM 21.22-21.23
TÉLÉGRAMMES: REPAGENT, PARIS

*Noted
5/28
Jan 11/26*

BERLIN January 7, 1926.

*lck 1/16/26
msB*

Benjamin Strong Esq.,
Governor of the Federal Reserve Bank of New York,
New York City,
U.S.A.

Dear Mr. Strong,

On January 4 I sent a long cable to Mr. Gilbert giving the substance of a conversation I had had with Dr. Schacht. This letter may reach you after he has left; if indeed he is still in New York, perhaps you will show it to him. You no doubt have already sensed from the cable the meaning of the developments here, but at the risk of confirming what you already know I will venture to expand the cable somewhat.

It was clear as far back as last November that the volume of good bills eligible for purchase by the Reichsbank was diminishing. Coupled with it was a large and steady demand for such bills, stimulated in part by the large volume of public funds placed with the Reichsbank for purchase of bills or otherwise available for short-time investment. This was reflected in a steady lowering of the open market rate which, by the way, has now fallen to 6 3/8 per cent. The so-called open market is in fact much under the control of Reichsbank, but the Stock Exchange call money rate has been following it with fair fidelity. In consequence it looked as long as two months ago, that the time might be coming when the Reichsbank would lower its rate. But as a condition precedent to rate action it was obvious that the credit-rationing would have to come to an end. It now looks as though nature had taken

the credit-rationing policy in the sense that the lines of credit established by the Reichsbank are in excess of the demands, insofar as the latter can take the form of sound eligible bills.

When Dr. Schacht told me that he expected to reduce the rate on January 11, I at once asked him what he was doing about the credit rationing policy. He replied that credit rationing was at an end and proceeded to show me his confidential sheets which give a far clearer picture of the present situation than one could get from the bank-statement. The latter, as you know, reports the bill holdings of the Reichsbank without distinguishing the domestic bills from the foreign bills, and at the moment the key to the situation is exactly there, - that is, in the distribution between domestic and foreign bills. The decline in domestic bill holdings, as it appeared in the confidential sheets, was impressive. It could not be accounted for on any seasonal ground; that is, the mark on December 23 was much below the mark on November 23 and on corresponding dates of previous months. Also it appeared from the statement that the holdings of foreign bills were much increased, and these were supplemented with increased deposits in foreign banks. Dr. Schacht said that his devisen came up to about 2,400 million reichsmarks, including the devisen in the possession of the Gold Discount Bank. I am not perfectly certain whether his previous high figure of about 2,200 million reichsmarks, reached early in January 1925, included the Gold Discount Bank devisen or not. But if the Gold Discount Bank figures were in fact excluded the comparison would not be much disturbed, because at that time the Gold Discount Bank was only beginning to renew its activities. It is noteworthy that a year ago deposits abroad amounted to over 1,000 million reichsmarks, and that the bill holdings were only 320 millions. The equivalent of these deposits have now been converted for the most part into gold. Foreign

deposits are comparatively small, whereas the bill holdings, including those eligible for cover, are, say, three times larger than they were then.

Dr. Schacht also showed me his confidential sheets summarizing the condition of his branches. Each branch has a credit ration called a "contingent". While in a few cases these "contingents" were fully used, on the average they were some 20 per cent. unused. This he took to be the final argument that credit rationing was finished, and that the eligibility test was all that was required to control expansion. Of course, he may have to restore credit rationing, but he does not expect it, and in the meantime intends to lower the rate for the sake of stimulating trade, and also to put his rate in line with other short rates.

The fall in good domestic bills, which is confirmed from other sources, and the rise in foreign bills may be ascribed to pretty bad domestic trade and pretty good foreign trade. As for the domestic trade, I suspect it is what the commercial paper people call "spotty". It is surely bad in the case of the 1,600 concerns that failed in December, but I do not hear serious complaints from the concerns that continue on their feet. These failures are long overdue and the result should be healthy. The foreign trade is, of course, better than anybody had any reason to hope, and it is amusing to see what small satisfaction the Nationalist papers take in this achievement of the impossible. Somebody in one of these papers was lamenting the other day that in December the trade-balance would probably be favorable! When one considers that practically all of the reparation deliveries are over and above the reported exported figures the result is extraordinary. Of course, the effect upon the Reichsbank's ~~devisen~~ devisen of better conditions in foreign trade is direct and important because at the moment foreign loans are not required to pay for imports, but flow directly and almost completely into the German capital market.

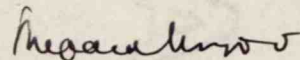
It is a bit soon, of course, to draw any very optimistic conclusions as to the future. Adverse domestic credit conditions may have operated to stimulate selling of goods abroad, much as they did in August 1924, when, as you remember, a favorable balance was reported. But there is this very important difference between conditions now and then. The exports in August 1924 were only about two-thirds of what they were in November 1925 and the imports in August 1924 were less than one-half of what they were in November 1925. The difference seems to me to be the difference between acute illness and convalescence. Later in the year we may run again into comparatively heavy adverse balances, particularly if German industry becomes markedly more active and requires additional raw materials from abroad. But this in turn ought to be a sign of health, and I should hope the excess of imports would be temporary as the goods made from them flow back into foreign trade.

Our friend Julius Hirsch tells me that he is against any lowering of the discount rate. There have been some rumors of it in the newspapers which have excited him. He says, and with justice from one point of view, that it is a mistake for a country with too little capital to lower the rates that capital earns. This is sound enough as far as it goes, but in any question involving Reichsbank policy I am suspicious of Hirsch's comments. He has been acting as intermediary for a good many municipalities and industries seeking American credits. I heard the other day that he had twenty-six applications up his sleeve, with what truth I do not know. But Dr. Schacht's policy of checking municipal loans has been bad for Hirsch's pocket. In justice to him I think that his interest has led him into a little self-delusion; but he has been very critical of Dr. Schacht all along. From the practical standpoint, I should imagine that a lowering of the Reichsbank rate, if, as is

likely to be so, the reduction is only one-half or one per cent., will not have much effect upon the foreign flow of funds for long-term investment into Germany. The rates which are likely to be affected are the lending rates of the principal German banks which will automatically reduce their lending rates by the amount that the Reichsbank reduces its rate. These are now about three and a half points higher than the cost of foreign money at short or long term. Further, I should hope that as the interest carried on short deposits diminishes, there should be some encouragement towards investment in longer term obligations, which is just the thing Germany needs at the moment. There may be a nigger in this wood-pile and, if so, I hope you will point it out to me.

I must close this letter so that it will catch the next steamer. I send you, as always, my best regards, and at this season I add special wishes for your happiness during the year.

Yours sincerely,



SHEPARD MORGAN.

I send the text of the cable.

THE TRANSFER COMMITTEE

BERLIN
33 LUISENSTRASSE

TELEPHONE: NORDEN 11900-11910
TELEGRAMS: AGENTREP, BERLIN

W. P. J.

LE COMITÉ DES TRANSFERTS

PARIS
18 RUE DE TILSITT

TÉLÉPHONE: WAGRAM 21.22-21.23
TÉLÉGRAMMES: REPAGENT, PARIS

Return to Miss Becher

BERLIN January 15, 1926.

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

ACKNOWLEDGED
MAR 18 1926
B. S.

Dear Mr. Strong:

Since my letter to you of January 7 there have been some further developments in the money situation here which I think will interest you. As you know, the Reichsbank lowered its rate according to schedule and the explanations given were those which Dr. Schacht had previously given to me in somewhat greater detail and which I passed on to you. I saw him the morning after the announcement and he was not altogether happy about the reception which the German papers gave to it. The most intelligent of the criticisms were directed at the reduction taking place at a time when money is already cheap. I cannot follow that argument because it seems to me that he has got to keep his rate in line with the market rate if it is to be effective. Indeed, according to our own precedents, it seems to me that the reduction was justified on the ground of market rates alone, if for nothing else. The Berliner Tageblatt, ordinarily a moderate and sensible commenter on financial conditions, spoke the other day of a "money calamity", meaning that there has developed a surfeit of short money in the market. I heard yesterday that call money was placed late one afternoon at 3 per cent., which is about half the going rate on the Bourse. Of course, this was exceptional and probably indicates a purely market condition such as we sometimes have at home. But money at one

month is easier than it has been at any time since I came here and ranges between 7 1/2 and 8 1/2 per cent. This is one of the best signs that I have seen by way of indicating a drift toward long credits. There has been no bank-statement since the rate was changed and it is impossible to tell yet what effect it will have on the Reichsbank's earning assets.

Dr. Schacht has tackled one of the legs of the public funds problem and has laid the groundwork for the employment of some part of them in longer term investments. The Gold Discount Bank has made an agreement with the Rentenbank-Kredit-Anstalt (this is the agricultural credit institution which borrowed \$25,000,000 with the National City Company) by which some of the facilities of the Gold Discount Bank will be made available to agriculture. The Kredit-Anstalt will issue mortgage bonds and turn them over to the Gold Discount Bank. The funds received in return therefor will be loaned to agriculture through the medium of the numerous agricultural lending institutions and co-operatives with which the Kredit-Anstalt is permitted by law to do business. Thus the obligations will have a triple liability: first, that of the borrowing farmer who can borrow only to the extent of one-third of the assessed valuation of the land mortgaged; second, the distributing bank or co-operative; and third, the Rentenbank Kredit-Anstalt. The rate will be 7 per cent. and the maturity five years with three amortization payments at the end of the third, fourth and fifth years. The Gold Discount Bank intends to increase its funds in three ways as occasion may require: first, it will call in the unpaid instalments on its capital, which means that the Reichsbank will pay three to four million pounds sterling, thereby increasing the paid-up capital to ten million pounds sterling; second, it may call upon its foreign credits not now in use but for which the Gold Discount Bank is paying certain fees, and will use the funds so obtained to carry its bill portfolio thereby releasing funds now employed; and third, Dr. Schacht

hopes that some portion of the public funds will be made available to purchase these mortgage obligations from the Gold Discount Bank or else to carry bills now in the portfolio of the Gold Discount Bank. This, for us, is, of course, the interesting point and may serve to put a safe fraction of the public funds back into channels for long-term investment.

You will be amused at one phase of the thing. Dr. Schacht naturally had to discuss the plan with the Central Committee composed of German bankers. They interpreted it as a good market factor in the foreign mortgage bonds that are already available for investment. The quotations of these bonds had been steadily working downwards for some months. But within a period of two days, and about a week before the project was made public, some issues of foreign bonds in the market rose about ten points. Apparently 8 per cent. obligations at 75 suddenly looked very good to those who knew what was coming. This is the kind of thing that I have always been led to suppose was not done in the best circles! I must say that Dr. Schacht did not like it but was rather powerless in the circumstances.

Kemmerer was here the other day for about two hours on his way home from Warsaw. I saw him for a few minutes with Dr. Schacht but had little opportunity to find out what his conclusions were about Poland. You, no doubt, will hear from him on that score. There are a number of plans in the wind here which I have heard of in several different ways for utilizing the financial difficulties in France and Poland for straightening out the eastern frontier and for relieving the western frontier of the occupation. It is a most interesting field for conjecture, and yet I question whether the time is ripe for a settlement. As you gathered when you were here, the Germans are entirely content to forget

Alsace-Lorraine, but they regard the loss of the Polish corridor and Upper Silesia as purely temporary and as a matter which will threaten European peace as long as it remains. Also, while the occupation of the Rhineland is something that time will mend, they regard it as a badge of inferiority as long as it continues. The currency difficulties of Poland and France they regard as affording an opportunity of re-establishing themselves on the East as well as the West. They suppose that French currency is not likely to be cured without their help, and they are certain that the Polish currency cannot be stabilized unless relations between Germany and Poland are altogether friendly; indeed, they go even further and say that Poland as a nation cannot continue to exist without German friendship. Though I have not been to Warsaw, I cannot help feeling that they are going a bit strong on all of these assumptions, with the possible exception that the zloty cannot remain a good currency unless proper trade relations obtain between Poland and Germany. Also, the Polish corridor must be a heavy liability on the Polish budget; I have heard that with its twists and turns it adds something like 2,000 miles to the frontier, which implies a good deal of expense for military and customs administration.

I sincerely wish that some means could be found for eliminating the Polish difficulties not merely through the technical correction of the Polish currency, but by solving the question of the corridor and Upper Silesia. The corridor especially the Germans regard as an intolerable wrong, splitting their country, as it does, into two parts; and Upper Silesia they regard as having been lost through a prejudiced decision of the League of Nations Commission. There is plenty of dynamite in both of them. It would be a good thing all around if a trade could be arranged either for the sake of currency stabilization or otherwise, which would cure this particular disease.

Yet von Schiebert of the Foreign Office said privately the other evening that no responsible minister of Poland would dare now to give back the corridor, - on it

I talked to Kemmerer about the intent the authors of the bank law had in giving the Reichsbank the power to lend to banks on the security of government obligations. This is a clause of the law which it seems to me has been largely overlooked in the discussions which have taken place looking toward an amendment of the bank law. As you know, the General Council last November endorsed a proposal of Dr. Schacht that the bank law be amended so as to permit the Reichsbank to buy from the market up to 500 millions of short-time government obligations. My conjecture was that the limitation of 100 millions which now stands in the law was not intended to express the final power of the Reichsbank to stand back of the market in Governments. My guess was that the authors of the bank law, being largely American, had in mind the American practice of lending to banks on the security of government obligations. This clause of the law has seldom, if ever, been taken advantage of in Germany and various technical points have been made against its use. But these seem to me to be insubstantial and the advantage of using Reichsbank credit through the intermediary of banks which themselves must carry 25 per cent. of the load is clear. This Mr. Gilbert may have discussed with you. The Bank Board is going to discuss the matter again at its meeting at the end of this month, and I shall be much interested to see whether it has a change of mind. In any case, an amendment of the law ought to be avoided if possible; for it would be hard to hold down the changes merely to this one.

Almost everyone I speak to, including the Germans, seems to think that the worst of the crisis is past. The unemployment figures still continue to rise, which is the worst sign that remains. To some extent I hear that this is owing to the cutting of payrolls for the sake of cheaper production. As you know, there is plenty of room for it, and "Amerikanismus" seems to have caught

not only the imagination of German industry, but of the whole German people. When I hear of their discharging employees and the installing of labor-saving machinery I think of your story about the water-carriers on the banks of the Nile. There must be some answer to that, but I fear it may take Germany some time to find it.

With my best regards to you, as always,

Yours sincerely,

Shepard Morgan

SHEPARD MORGAN

1871

SCHREIBER

noted by -

THE TRANSFER COMMITTEE

LE COMITÉ DES TRANSFERTS

BERLIN
33 LUISENSTRASSE

PARIS
18 RUE DE TILSITT

TELEPHONE: NORDEN 11900-11910
TELEGRAMS: AGENTREP, BERLIN

TÉLÉPHONE: WAGRAM 21.22-21.23
TÉLÉGRAMMES: REPAGENT, PARIS

BERLIN January 22, 1926.

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

ACKNOWLEDGED

MAR 12 1926

B. S.

Dear Mr. Strong:

Miss Benedict

// I have your letter of January 7 suggesting that the Bank could make use of a number of copies of the report. Several of the officers are already on the mailing-list, but I am sending twenty-five copies to Dr. Burgess for use in any way that you may think proper. I have thought all along that the Bank is a natural place to have extra copies of our reports, but I hesitated a little to suggest it. If in the natural course enquirers for this material find they can get it through the Bank it would do a lot of good. //

Since my long letter to you the other day the newspapers of the Right have been busy perverting Mr. McGarrah's speech. After a long and, for a time, rather intensive relation with newspapers this seemed the roughest yet. The "Manufacturer's Record" was good at perverting the facts, but in this case there was a total inversion. It is ironical that of all men Mr. McGarrah should have been the object of this thing. Not only is his feeling genuinely friendly and full of admiration for industrious people, but this is exactly the kind of thing that up to now he has successfully avoided. Faithfully, but under compulsion, I went to public dinners in New York for fifteen years, and in all that time I never heard him make a speech but once. That is about a record. Fred Kent's speech came along when the

comments on the other were beginning to die down and the same newspapers presumed it to be a confirmation of all that they had said. The Germans are not familiar with the convention habit and take every Rotary Club speech as a measured utterance. As long as the New York correspondents of these newspapers know that there is a market here for half-truths and perverted statements they will send them along. Perhaps the best thing to do is to lie low for a while, like Bre'r Rabbit, and say muffin'. The fact is that even the most generous statement is bound to be interpreted at the moment either as bond-salesmen's advertizing or as the satisfaction of the boss at the hard work of his servant, - or worse.

This, of course, is a confidential expression to you for use in cracking any speeches you happen to find in process of incubation. Nobody here in any responsible position, German or otherwise has even a breath of criticism of Mr. McGarrah. His attitude was perfectly understood and his speech was accepted in exactly the way he meant it to be. I wrote him accordingly.

There is no doubt that the newspaper campaign is having some effect which I am sure is transitory. I am not at all concerned about its influence on the effective working of the Plan, but there seems to be a momentary change in the attitude toward America. The United States cannot retain its extraordinary favor over here if people as influential as Fred Kent are represented as preaching to the Germans on how to manage their own affairs. With these commercial failures and this unemployment the Germans seem to me to be like people that have had the wind knocked out of them, and it hardly does at this time to pick on them. Last night, for example, for the first time since I have been in Berlin, a man on the stage in the theatre made

some cracks about the Americans, and I was interested to see that he was applauded. I had an earnest telephone conversation with one of the official Germans the other day who called me up to say that the government was doing all in its power to tone down the rough things in the newspapers and he hoped they were making headway; but up to now I have seen no results. It's a case of Hearst journalism gone crazy. We do not take these things as showing a serious or permanent change, but merely as a casual wave which should be given the least possible material to roll about.

Sincerely yours,

Shepard Morgan

SHEPARD MORGAN

I have shown this to Mr. Street.

He says he is for it.

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

BERLIN February 5, 1926.

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

Recd 2/9/26 msB

ACKNOWLEDGED

MAR 12 1926

B. S.

Dear Mr. Strong:

I conjecture that about this moment Mr. Gilbert is arriving in Paris on the last leg of his trip. We expect him in Berlin the middle of next week, and I shall be most interested to find out what he has to say about you and my friends at the bank.

Things are developing here in normal fashion, but it is hard for the Germans to realize that they are going through an essential stage in the recovery from inflation and that this is indeed not the end of their unhappy lives. The newspapers of a certain breed are behaving abominably and are attempting to lay against the Dawes Plan all the troubles of a difficult winter. The Government, however, is keeping its head and has exerted such influence as it can over the newspapers attached to the parties representing the present coalition. They are wise in not undertaking any counter-attacks or any counter-defence. Our friend Keynes let himself be used for some of this propaganda and wrote an article in the "Tag" of this morning which to my mind is about as far from facts as possible, and in this respect his present performance is not unique. I sometimes wonder if we had not cheered years ago when Keynes first wrote the phrase about "Bamboozling the old Presbyterian", if he would not be better behaved now. It is a dangerous business to get a reputation as a phrase-maker.

The essentials of the situation as I see it are these: Short money, insofar as Stock Exchange rates are representative, has come down about five points in a year and the bill rate is now 6 per cent. with the demand above the supply. Short money is beginning to overflow into the long time money market and a few issues ranging up to 20 million RM are being placed in the Berlin market. Foreign short time money placed in this market is being withdrawn without any adverse effects; in substance this amounts to the conversion of short time foreign loans into long time loans. The stock market which declined through the last ten months of 1925, has risen in four weeks, according to the Berliner Tageblatt's index, about 14 points. Commodity prices are tending moderately downward, though on balance for the year they are down about 15 points. Unemployment has been increasing in rather a startling way but latterly somewhat less abruptly. Commercial failures also seem to be easing off a little though they are still at about twice the prewar rate and, of course, much above the number in the first months after stabilization. Production and traffic figures sagged through December and probably are still below the 1925 average.

In substance it seems to me that the aftermath of inflation was arrested in the autumn of 1924 when the Plan took effect and was resumed in the summer and autumn of 1925. One might suppose that a delayed deflation would cause an increase in its severity, and yet it seems that if deflation had been carried through in the summer of 1924 the country would have suffered much more than now. I hear contradictory reports from the Rhineland where there are some signs of improvement counterbalanced by reports of continued dulness. The net of the thing is that the credit position, in the banking sense, has changed enormously for the better and this is likely to be the

forerunner of an improvement in other directions. The head of the Reich Statistical Office had the courage to say this the other day but utterances of that sort are not popular. Apparently they are doing all they can in the newspapers of the Right and in the Nationalists' speeches in the Reichstag to make capital out of the present emergency while it lasts. If anyone ventures to say that similar experiences were undergone in the United States in 1921, it is received with an incredulous smile, as though the United States never had anything but happiness and prosperity.

The unemployment offers some interesting parallels to our own experience at home, although the previous condition was far more extreme than ours. I was talking last night with one of the principal operating men in one of the big electrical concerns. He told me that they had reduced their staff from 60,000 to 40,000 men. This was in the interest of cutting off useless workmen. He said that for a number of years they had had to employ an excessive staff; that during these years they could not discharge the men for idleness or incapacity without getting a vote from the Works' Council, and that this was usually not to be had. Now, however, these agreements and regulations had run off and they were able to adapt the staff to requirements. In some cases, like the famous case of the Goodyear Company in 1921, production actually increased as the staff diminished; in any case, the unit output per man was greater now, and consequently production was cheaper, and this without lowering wages. Dr. Kastl, whom Mr. Jay will remember, told me that from his observation in the Union of German Industrialists, this kind of staff reduction accounted for from 20 to 25 per cent. of the total unemployment at this time. In the long run this will mean cheaper production and better markets, but on the principle

of your Nile water-carriers, who still haunt me, it means a fairly long period of excess labor in Germany, which may last, say, until 1929, when the lower birth-rate during the war years will begin to show its effects. A woman member of the Reichstag told me with some bitterness the other evening that Clemenceau's harsh words were probably right that there were 20 million too many Germans.

Dr. Schacht told me the other day that the National City Company had made a bid for another tranche of the Rentenbank loan at 94 for a 6 1/2 per cent. bond. This compares with a 7 per cent. bond at 89 when the first tranche was sold last summer. Dr. Schacht was delighted at this change and thought it was owing to his program for financing the Rentenbank Agricultural Credit Institution through the Gold Discount Bank. Loans under that plan will cost the borrower about 7 1/4. I recalled to him that the New York bond market had changed somewhat in the interval and that the External Loan was now selling at nearly 103 as against 93-4 last summer.

The foregoing was not inspired, but this paragraph is. Dr. Schacht told me that on December 28 he had received a cable from the Bank asking whether he wished the Bank to invest in bills the funds which it had on deposit for his account. He asked me what I would do under these circumstances, and then remarked that he had interpreted this cablegram as an expression of desire and had promptly cabled back asking that the investment be made. He then was bothered when he read of the change in rate and had written a note about it to the Bank saying that in future he would appreciate it if such inquiries could wait until after the rate was raised. I ventured to say to him that very possibly the author of the cablegram did not know that a change of rate was impending; further, that the Reserve Bank's discount

rate was not the same as his rediscount rate but corresponded rather to his Lombard rate, and that while the rate for bills might be expected to rise slightly, it need not necessarily follow that it would rise as much as the change in discount rate might imply, and that my recollection was that the rise was only $1/8$ to $3\ 5/8$. I think he was not fully persuaded however. No doubt a response to his letter has already gone forward, but perhaps a personal word from you would be in order, and if there is any way of giving him the benefit of the change in the bill rate I am sure it would smooth out the only ripple I have observed so far in his relations with the Bank. I think the main trouble was a common one, namely, the confusion between his published rate and ours.

I must control myself and reduce the size of these long letters, but there is one other point upon which your thought would be very useful. This concerns the stock market here. Since the first of the year stock averages have risen about 14 points. It seemed to me last fall that conditions were ripening in the money market for a movement in stocks. It came suddenly and seemed to arise from three general causes: first, the general easing of money; second, the signs of foreign participation which included the organization of such investment concerns as ^{that of} Hayden, Stone & Co; and third, speculation on the chances that German property in the United States would be returned to the owners. Of course, the fact is that German stocks are very low and offer a good gamble; also, that the aggregate par value of stocks listed is comparatively small and so perhaps would respond quickly to any substantial renewal of speculative interest. It may be that the restrictions on municipal borrowing have left our investors unsatisfied, and that short of good industrial issues, especially those giving a participation in the business, our investors will go either directly or indirectly into the stock

market. In moderation this would be a good thing and would give new courage to business. But if our people come in merely for the sake of making 50 points and then selling out again to the Germans (who then presumably will have had their appetites quickened) the results would be very serious. As you know, this is what happened in Austria in the autumn of 1923 and complete recovery has not been effected yet. The adverse effects on reparation payments are obvious.

I have tried to think the thing out and I am not clear on the means of prevention in case the event should happen. Among other things it seems that the fixed rate between the reichsmark and the dollar is an invitation to foreign participation in the stock market and that perhaps the time is nearly here when it would pay to let the reichsmark stand on its own footing. Rate action on the part of the Reichsbank would seem to have rather contradictory effects; that is, an increase in the rate, while presumably depressing stocks as a direct effect, would tend to attract money to this country on account of the higher market rates then obtainable here, which I should imagine would have an indirect stimulating effect on the stock market, and so perhaps cancel out. Extreme measures, such as special taxation directed against foreigners or controlling the exchanges to prevent the withdrawal of capital, would seem highly undesirable from many points of view. There may be some other means of accomplishing the purpose and that is where your thought would be very valuable. Of course, this is looking ahead some distance, but it is better to lay plans for something that does not happen than to have it happen with no plans made. Perhaps all that is necessary is that foreign investors who come into this market ought to understand that they should stay with it for a while.

Please excuse this endless letter. I send it, as always, with my affectionate regards to you and my friends at the Bank.

Yours sincerely,

Shepard Morgan

SHEPARD MORGAN.

JIM AM

CHRIBWV2CHINEM



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Morgan S.
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TÉLÉPHONE: WAGRAM 21.22-21.23
TÉLÉGRAMMES: REPAGENT, PARIS

BERLIN August 5, 1926.

Benjamin Strong Esq.,
c/o Dr. Vissering,
De Nederlandsche Bank,
Amsterdam.

Dear Mr. Strong:

I have been moved to pursue you more or less across Europe, but the newspapers have reported you in so many places at once that I did not know which train to take. I had a telegram from Fraser in Paris (which by the way was telephoned to me when I was spending a week-end with Dr. Schacht) saying that you were coming to Berlin late in August. I hope that is so, for I am not prepared to have you go back to New York without having seen you. This letter, also on the authority of Fraser in Paris, is in order to find out if you are still firm in your intention of coming here.

I am going ostensibly on a short holiday next week, but we are staying this summer so near Berlin that I expect to come back here off and on and most decidedly will be here if and when you come. If you get a chance I would be grateful to you if you would send a line to the Harzburger Hof, Bad Harzburg, telling me something about your plans. It would not surprise me if you should not be coming this way at all, particularly as I gather that you saw Dr. Schacht

last Tuesday in Holland. In case you don't come I hope you will let me come somewhere to find you.



I am illustrating this letter with a clipping from the Chicago Tribune which my mother sent to me. I have had it on my desk for some days. I offer it to you only on the score that I exchange this face for its proprietor. I do think though that the top line, considering all, gives you ground for a libel suit.

My affectionate regards to you, as always.

Shepard Morgan
SHEPARD MORGAN.

My remembrance, if you please, to Dr. Vissering.

← noted - msp (L)
Berlin W. 10, Sigismundstr. 4a

December 12, 1926

ack. 1/28/27 - msp (L)

Dear Mr. Strong,

I don't quite find myself writing a Christmas card to you: it doesn't go; and as to that, nothing will go short of a task.

Gibus started home for his holidays last night, leaving a hole here which nobody can fill. Mr. Jay will beat him back by a couple of weeks. You know, from the task we had in Paris last September, how I feel about that. I have been very hopeful that the plan worked, and that I shall have a reunion with him. He honors the job, and will make it even more important than it might otherwise be in less able hands. The possibilities, especially in the next two years, are endless and open an extraordinary field for speculation.

One of the great reasons why I look forward to seeing
him in a month's time is to get some direct news of you.
Of course we were informed that you had a bad time &
it when you got back to New York last fall, and I need not
say how we felt. I have heard very indirectly that you are
now on holiday (if one may call it that) in Colorado. I
hope the shoe business has cleared up and that you can take
a real holiday before going back to Liberty Street. If you have
sunshine, give it my respect; Berlin at this time has
the climate of the Hoosac Tunnel.

The purpose of this note is to send you my love
and to wish you all the luck not only of this season
but of all. In this Barbara joins me.

Yours sincerely,

Shepard Morgan

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TÉLÉPHONE: WAGRAM 21.22-21.23
TÉLÉGRAMMES: REPAGENT, PARIS

*Ack. by RAH.
11/16/27*

BERLIN November 16, 1927.

Benjamin Strong Esq.,
Federal Reserve Bank of New York,
New York City.

Dear Mr. Strong:

Parker Gilbert handed me your letter of October 24, in which you said you would be interested if I should write you something of the facts and of my views about the change in the price now being offered for gold by the Reichsbank. You know I always like to write letters to you, but latterly I have controlled the impulse because so many members of the Federal Reserve Club are attached to this organization either at part or full time.

The exchange position of Germany this autumn has interested me enormously, and, while the Reichsbank's action in reducing its buying price for gold has had little practical importance thus far, there are other parts of its exchange policy that have had a considerable influence heretofore and may have set up some trouble for the future.

As you know, the Reichsbank has consistently declined this year to buy for its own account the devisen resulting from the sale abroad of communal or State loans. The policy was undertaken as a deterrent against the placing of such loans, on the theory that if the value of the dollar in the foreign exchanges declined, the public authorities would be less inclined to borrow. The policy has apparently had no deterrent effect whatever, because as Dr. Schacht himself

explains, a Bürgermeister does not care how much he pays for dollars as long as he gets them; his successors have to pay them back. The Reichsbank's passive attitude toward the exchange market had a prompt effect. Between the 10th and the 20th of July the dollar declined from 4.2185 to 4.204, and in succeeding weeks, with some fluctuations, the dollar fell until on October 19 it stood at 4.183. This was on the day after the Reichsbank lowered its buying rate for gold from 2790 RM per kilo fine (the equivalent specified in the Coinage Law without deduction of minting charges) to 2784 RM per kilo fine. By this action the Reichsbank lowered the gold import point under then existing conditions to something like 4.176, and in the case of sterling to about 20.36. The Reichsbank is not empowered to reduce its buying rate further.

As a matter of fact, the gold import point has not been reached, mainly because the Prussian Loan incident and later the discussion connected with our memorandum to the Finance Minister intervened to check the interest of the American market in German State and communal loans, which furnished the largest share during the summer and autumn in Germany's foreign loans. At this moment, even with the cessation of long-term borrowing, the reichsmark stands a pfennig above parity at about 4.19, and at parity or slightly above it with sterling.

The temporary shutting-off of State and communal loans has made it easy for Dr. Schacht to change his devisen policy without giving in to the public authorities on what he has thought to be a matter of principle. He bought most or all of the proceeds of the Rentenbank Credit Institution's loan which was brought over in the first week of November, and I understand also that he has bought or will buy the proceeds of the North German Lloyd loan. I am glad if he has as a matter of fact modified his policy. I have doubted the wisdom of it almost from the beginning, and have had many conversations with him on the subject. The only good purpose that it may have served was that it probably induced

some borrowers at short time to pay off or refund their foreign obligations. Even this virtue Dr. Schacht himself does not admit; yet I think the evidence, especially during October, is that some slight benefit was derived from it on this score. I have three main counts against the policy as a whole:

1. It has put a premium on the purchase of goods abroad and so has tended to accentuate an already unfavorable balance of trade.

2. The Reichsbank has missed the chance of building up its stock of gold and devisen against the time when demands may be made upon it for the repayment of short loans owing abroad or for other purposes. If, as you indicated in your telegram to Parker Gilbert, American bankers are beginning to wonder whether they had better not withdraw some of their deposits in German banks, the demands upon the Reichsbank for this purpose might prove to be sudden and serious. I hope sincerely, as was pointed out in the reply to your telegram, that no such contingency will arise, because the results would be deplorable here and shake European faith in the long-headedness of our bankers at home. However that may be, the Reichsbank does not seem to have acted on the safe side when, as it was fully aware, a large volume of foreign money was lent at short-term on the German market and it passed up the chance to accumulate gold and devisen. Short of a heavy outflow, the Reichsbank has enough reserves to carry it through for the present, even taking into account the large increase in currency due for the end of the year. But that estimation is based upon the Reichsbank's own circulation alone plus this year's retirement of Rentenbank notes. It does not take into account the Rentenbank circulation as a whole. Of course, the Rentenbank circulation does not call for reserves to be kept against it, but since the retirement of Rentenbank notes is always compensated by an increase in Reichsbank notes we have formed the practice of regarding the two issues as in principle identical. As matters stood at the end of October the Reichsbank's reserves

were 39.3 per cent of the joint circulation of the Reichsbank and the Rentenbank. Any large outflow of gold or devisen would lead to a sharper contraction of the circulation than is desirable all things considered.

3. The policy accounts to a considerable degree for the large expansion in the Reichsbank's portfolio of domestic bills which has taken place during this period. Unless the Reichsbank was able to sell bills to the market, and so neutralize the inflow of funds as the Reserve Bank has done from time to time, an expansion of bank credit within Germany was bound to result, and with it an expansion of the currency as and when the proceeds of the loans were disbursed. In order to get this currency, recourse had to be taken to the Reichsbank, and since the Reichsbank would not take devisen, domestic bills were offered instead. Until very recently, the Reichsbank's rate was ineffective, and not only could the Reichsbank not sell bills to the market but it could not control the demands made upon it for fresh borrowing. Under these conditions an expansion of the portfolio was bound to result, but the domestic bill portfolio could have been kept down if the Reichsbank had been willing to let the devisen portfolio go up. You will recall that Dr. Schacht objected a year ago to being, as he phrased it, an exchange office for foreign loans. At that time he was buying the proceeds of foreign loans, communal and State as well as industrial loans. This time he bought no devisen for months running, but he has been indirectly an exchange office just the same.

The refusal of the Reichsbank to buy such devisen, even "at a price," put the exchange market on a so-called natural basis, and this basis was high for the reichsmark and low for the dollar. Though I have not heard so directly, I have assumed that the reduction in the buying price of gold, which took place at the time when the reichsmark was strongest, was in order to prevent an inflow of gold from England. While, of course, sterling has been very strong since July

in terms of the dollar, the weakness of the dollar in Berlin made it likely that gold would flow here from London on a three-cornered transaction. If State and communal loans had continued this might well have taken place, even at the lower gold import point to which I have referred. I doubt, of course, whether Dr. Schacht would have let matters go to that point; he doubtless would have started buying devisen first. A flow of gold to Germany from England, for example, would naturally have been unfair to the Bank of England, as to any other European bank whose geographical proximity to Germany made it vulnerable. The obligation to ship gold under such conditions as we have had of late is primarily on the country which is doing the lending, and I know that you are in accord with that principle.

That raises an extremely interesting point: Is there any ground for thinking that gold will flow out of the United States in natural course to any free-gold country in Europe until the exchange of the weakest free-gold country in Europe reaches the import point? I am ruling out of consideration, of course, such transactions as the Reichsbank did in New York up to August of last year, when it was buying gold substantially as a commodity. I know you have done some powerful thinking on this point, and I should be glad to know the results. In the meantime it seems probable that the United States can lose gold to Canada, Brazil and Argentina, relieving Europe to that extent, but that it is not likely to ship any important amount of gold to Europe until the whole list of exchanges takes on a very different complexion, and also until after there has been a further shuffling of gold among the European countries themselves. This furnishes a fourth reason for regretting that Dr. Schacht followed so long his passive policy toward the exchange market. He had a chance, which may now possibly have passed, to buy devisen at a favorable rate, to convert into gold, and to leave it under earmark with you until such time as he chose to bring it over here or until he

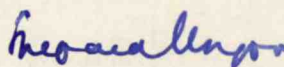
had occasion to use it in protection of his own position. To the extent that he might in future have had to use any part of it for the latter purpose, he would have been able to sell it at a rate amply sufficient to compensate him for bringing the rest of it over here.

I have talked these things over from time to time with Dr. Schacht, particularly the first three points outlined above. I should say that he accepts them all, and yet stands by his purpose to make the States and communes pay dearly for their loans. You know how much I like him, but his habit of cracking a head when he sees it is a fundamental flaw in his administration of the Reichsbank, and accounts for most of the mistakes which can be charged against it. Now that the personal element is temporarily retired, because the States and communes cannot borrow if they would, perhaps this phase of his policy is over.

Please give my affectionate regards to Mr. McGarrah, who already knows some of my thoughts on this subject and may have expressed them to you. My remembrances too, if you please, to my other friends at the Bank. I saw Mr. Norman in London two weeks ago and found him as stimulating as ever. We spoke, as we always do, of you. Excuse this long letter.

With best regards,

Yours sincerely,



SHEPARD MORGAN.

22149

Morgan

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TÉLÉGRAMMES: REPAGENT, PARIS

BERLIN February 9, 1928.

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

Dear Mr. Strong:

Mr. Jay showed me yesterday a cable from you saying that you are on the mend and are planning for a little holiday at Atlantic City. I hope that this letter will find you having a good time and fully restored. We are still in doubt, as perhaps you are, with respect to the time when you will be coming to Europe. My personal hope is that I shall see you either in Berlin or Paris, but I realize that the chances of finding you anywhere on the banking circuit are uncertain.

Parker Gilbert tells me that you found a hole in one of my chapters in the last Report. The particular hole which I understood you had found was on page 103 in a paragraph which I will quote for your convenience:

"As the foreign exchange rate itself indicates, this disparity of interest rates has exerted a powerful influence in drawing foreign funds to the German market. The import of credit is temporarily the equivalent of an import of gold, upon which a further structure of domestic credit is erected. In fact, one of the deceptive aspects of the import of credit is that it provides the lawful basis upon which further internal credit expansion can be carried out. In a country adhering to the gold standard, domestic credit expansion based upon domestic resources comes to a natural

end when the limit of the note-issuing power is reached. But foreign credit is capable of constantly enlarging the basis of domestic credit, and the limit is not reached until the foreigner declines to lend or the borrower declines to take".

It seems to me that the argument very briefly made in the foregoing paragraph is fundamental to the conception that foreign loans expand the currency and domestic credit, and thereby exert powerful forces in the direction of raising commodity prices. If there is a flaw in this argument, much of the concern which we have had over the import of credit disappears. I am not altogether clear as to what phase of the argument you thought faulty, but I shall expand it very briefly in order to attract any shots you may have in your pistol.

1. Regarded broadly, the increase in the Reichsbank's gold stock since 1924, which is the basis for the expansion of the currency and without which the currency could not have been expanded, arose out of the proceeds of foreign loans. Without going into the figures which I have given from time to time in the Reports, the three years may be characterized as follows:

The year 1925 was a year when the trade balance was heavily adverse and when this deficit was further augmented by a large increase in the Reichsbank's reserves of gold and devisen. The balancing item of both was foreign credit.

The year 1926 was a year when German foreign trade was substantially in balance, and when the increase in the collective German foreign debt was approximately offset by an increase in the Reichsbank's reserves.

The year 1927 was again a year of heavy deficit in the trade balance, which was compensated only to a slight degree, taking the year as a whole, by a very minor decline in the reserves.

On this statement of the facts the year 1927 can be counted out insofar as the effect on the reserves from the beginning of the year to the end is concerned;

but the fact remains that the position of the reserves now as compared with 1924 is due essentially to the inflow of credit.

2. The import of credit finds its way more quickly into the Reichsbank's reserves than is the case at home. Germany is still in part on a gold exchange standard; that is, within the limits prescribed under the law, *devisen* are to be counted equally with gold as the reserve against currency. This is one of the bad things about the gold exchange standard, which I have never liked in practice. The proceeds of long-term loans or of short credits, if bought by the Reichsbank, are eligible within the limits prescribed by the law to pass immediately into the reserves, thereby affording a basis for expansion of the currency and in fact directly stimulating such expansion. The acquisition of gold itself has come about for the most part through the deliberate sale of *devisen* thus acquired, for gold. There have been very few instances since we have been in Germany when gold has flowed here in natural course; there were one or two shipments from Russia and a few from England. As I indicated in a long letter to you last November, we narrowly escaped receiving gold from England in virtue of the three-cornered position of the exchanges as between Berlin, New York and London. But for the most part gold has been bought as a commodity and has been brought here as the result of deliberate policy, derived in many cases, physically speaking, out of the proceeds of loans, and, generally speaking, almost exclusively so.

3. Whenever the Reichsbank declines to buy *devisen*, as was true during a part of 1927, the inflow of foreign credit still leads to an expansion of domestic credit, even though the reserves of the Reichsbank do not increase. The process here is not unlike that which you showed me one warm day in the committee room at the Capitol in Washington during the Agricultural Inquiry. The *Deutsche*

Bank, for example, gets a deposit from the National City Bank and proceeds to make a corresponding loan in reichsmarks. The proceeds of the loan are in part withdrawn and find their way to the Disconto Gesellschaft as a deposit, and so on. In this country the rate of expansion is not limited by statutory reserve requirements but by the consciences of the bankers, which in some cases are flexible. The effect upon the currency is to expand it within the limits of the reserves already existing, and if carried to an extreme, to force the Reichsbank either to acquire further reserves or to exercise a severe restriction of credit. The extreme case has not happened thus far, but before it happened it would be entirely possible that the exchanges would rise to such a point that gold would flow to Germany and be bought by the Reichsbank whether it wanted to or not.

So much for that. I shall be much interested to find out if the hole is plugged, or whether you think I have opened it still wider.

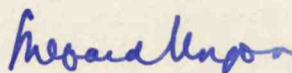
Dr. Schacht has gone down to Sicily for a month's holiday, and the Reichsbank recedes correspondingly. I hope no one is inspired to lower the rate in his absence. It has been effective now for a longer period than at any time since we have been in Germany, but there is still plenty of margin for it to work upon before a reduction comes into question. It has been difficult to reconcile all the forces which have tended heretofore to make the rate effective, and even now the inflow of short credit is working somewhat against it. But that, for the present at any rate, is a reason for keeping the rate where it is rather than for lowering it. The increase in the Reserve Bank's rate up to the present has not affected the reichsmark, but strangely enough the reichsmark rate against dollars has strengthened. There is said to be a good deal of French

money flowing into this market, which has apparently been sufficient to offset any tendency to withdraw American balances here.

I have never seen Mr. Jay looking so well. Maybe it is because of the well-known tonic qualities of Rheinwein. I wish I could give you some.

With best regards, as always,

Yours sincerely,



SHEPARD MORGAN.

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SHIP

MARCONIGRAM

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TO
SHIP

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P

RADIO

Handed in at

SS HAMBURG DDX

Number

1/2

No. of Words

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Date handed in

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Time handed in

Service Instructions

VIA RZ

Date Rec'd.

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Time Rec'd.

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By

A.T.

To

BENJAMIN STRONG SS OLYMPIC

Morgan

VERY SORRY WE MISSED YOU AT HOME AFFECTIONATE

REGARDS

SHEPARD MORGAN

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