

b) M^cGarrah, L W

1924-26

American Member
of the General
Council of the
Reichsbank,
1920-1927

50% COTTON

ENGLISH BOND

MADE

FOX RIVER

1000

a. Walter P. Cooke
Lawyer

1926

Paris

MADE IN COTTON
ENGLISH BOND

B or C.

Charges to pay s. d.

POST OFFICE



TELEGRAPHS.

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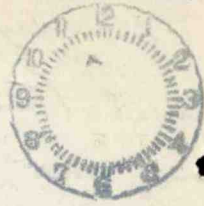
Words

SB 66
5-15 M.

Paris Reparation 37
6th 16-35

Benjamin Strong Hyde Park Hotel London
Mrs Cooke and I very much hope you can spare us the time for dinner while in Paris my address is Reparation Commission 7 Rue De Tilsitt
Walter P. Cooke

RECEIVED BY
GOVERNOR'S SECY



NOV 24 1924

OFFICE OF
THE AGENT GENERAL FOR REPARATION PAYMENTS

TELEPHONE:
NORDEN 11900-11910
TELEGRAPHIC ADDRESS:
AGENTREP, BERLIN.

ACKNOWLEDGED
NOV 24 1924

33 LUISENSTRASSE
BERLIN

R. S.
November 11th 1924.

Dear Ben
I was delighted to receive
your thoughtful letter of the 28th of
October and thank you very much not
only for the kind offer of assistance
but also the decidedly complimentary
remarks.

We have said good-bye to
Owen Young and Harry Robinson and with
great regret; they sail from Cherbourg on
the 12th. Owen has done a splendid job
here and it is so recognized by all; I
feel he is entitled to great credit and
he certainly is a wonderfully able man.
Robinson has been a great help to him
and is also highly esteemed.

not be placed on an absolute gold convertibility for some little time or rather until they are absolutely sure it can be done without any risk of having to rescind it. I think this really means not until England is in the same position. It is more or less of a technicality anyway although it would be desirable if there were no risk.

I must ask you to pardon my sending this in long hand but I did not care to dictate it. I do hope your vacation was beneficial and that you are feeling very fit.

With kind regards to the Board and your associates I am

Very sincerely yours
G. M. Brooks

Benjamin Strong, Esq.
New York

P.S. Gilbert is getting on splendidly!
Both feet on the ground all the time.

The Reichbank was well set up by Kindersley and Schacht and the General Board seems to me to be a very strong one speaking of course only of the Continental members and Addis. You undoubtedly know that Mendelssohn, Warburg, Wasserman and Uebig are on it. Of course under the Bank Act much power is given to the Managing Board, the members of which are in constant attendance. I am particularly pleased with the Commissioner, Dr. Bruins who is a Hollander. He is entirely independent in his functions, having charge of the note issue and reserves. He is a member of the General Board and has the entire confidence and admiration of Dr. Vissering.

The first meeting of the General Board was held on Oct 31st and there will be one on Nov 30th and Dec 1st.

Private and Confidential.

I have not written on the following subject to any one and do not expect to so this is for you although it is quite likely Mr. Jay got the feeling while here. In my opinion the notes will.

PERSONAL

November 24, 1924.

Dear Gates:

It was a great pleasure to have your letter of November 11, and I was very much interested, indeed, in all that you wrote. Every scrap of news coming from Berlin bearing on your work and Gilbert's is read eagerly, and I am only sorry that we get so little of a more authoritative sort than what is appearing in the newspapers. Owen is back, but I have not yet seen him. Possibly I shall today or on Wednesday at our directors' meeting.

The last part of your letter is really no more than I expected, and frankly, I expected it because that is a wise decision. If only our other friends to whom you refer could find a means of dealing with their own situation, what a splendid thing it would be for them, for us and for the whole world.

There has been a good deal of discussion of German borrowings in this market, especially on semi-Governmental loans, such as those of the states and municipalities. Some hesitation exists in the minds of bankers because of two outstanding difficulties. One is the possible extent to which reparation payments, by which I mean actual transfers under the direction of the Agent, might in future years interfere with the interest and amortization of German loans placed in this country, and the other is the possible extent to which there may be a revival of some part of the pre-war debts of a public character.

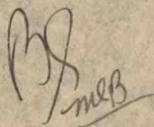
It may be fortunate that these doubts exist, as they may serve to be a check upon over-optimism and excessive borrowing, which would be bad for both borrower and lender.

All that you write about your associates is most interesting. It seems as though the general management of the whole affair is now not only in strong hands, but largely in the hands of disinterested parties who will work for the general good. You will

find your association with Addis in every way satisfactory. While his views may be at times regarded as over-cautious and old-fashioned, he is a man of such sterling character and sound good sense, that it is a joy to work with him. I have met Dr. Bruins in the past when in Holland, and have heard splendid things of him. The others we all know about.

I am so glad at the good word you send of Gilbert. You will shortly have Shepard Morgan with you and quite a home atmosphere. To all of you I send my very best wishes.

Very sincerely yours,



Gates W. McGarrah, Esq.,
Agent General for Reparation Payments,
35 Luisenstrasse,
Berlin, Germany.

BS.LS

20 NASSAU STREET
NEW YORK

ACKNOWLEDGED
SEP 16 1925
A.S.B.

September 15, 1925

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

Dear Governor Strong:-

There will be a meeting of the
Advisory Council, New York Chapter, American
Institute of Banking, at Mr. McGarrah's of-
fice, on Tuesday, September 22nd, at 3.15 P.M.

Please endeavor to be present.

Yours very truly,

Member

John P. Keenan

Calendar

Secretary

FEDERAL RESERVE BANK
OF NEW YORK

SEP 16 1965 9 40 AM

RECEIVED
GOVERNOR'S OFFICE

A. J. B.

September 16, 1925.

Mr. Harry H. Elliott,
Secretary to Mr. McGarrah,
20 Nassau Street, New York.

Dear Sir:

Unless something very unforeseen happens,
Mr. Strong will arrange to be present at a meeting of the
Advisory Council, New York Chapter, American Institute of
Banking, at Mr. McGarrah's office, on Tuesday, September
22d, at 3:15 p.m.

Very truly yours,

Secretary to
Mr. Benj. Strong.

Cancelled 9/21/25
MSB

PRIVATE

September 17, 1925

See
McC. G. G. G.
letter
Nov 4

My dear Governor: [Norman]

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

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

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

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

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

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

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

Sincerely yours,

(signed) S. PARKER GILBERT

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

SPGMC

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

AD B

20 NASSAU STREET
NEW YORK

September 22, 1925

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

Dear Governor Strong:-

There will be a meeting of the
Advisory Council of the New York Chapter, American
Institute of Banking, at Mr. McGarran's office, on
Tuesday, October sixth, at 3.15 P.M.

Please endeavor to be present.

Yours very truly,

Harry A. Eccles

Calendar

FILES DIVISION
OCT 7 1925
FEDERAL RESERVE BANK
OF NEW YORK

SEP 23 1925 11 59 AM

RECEIVED
GOVERNOR'S OFFICE

*See
McLennan
Nov 47*

7th October, 1925.

The President of the Reichsbank, Dr. Schacht, paid a visit to the Government of Baden at Karlsruhe on October 5th. He made a speech on the economic necessities of German industry to representatives of the various branches of the Government of Baden and industrialist representatives.

He began by assuring his audience that there was no danger of new inflation. The gold currency in Germany was absolutely secured by the laws in effect. Before the war the amount of currency in circulation was 6 milliard M. It was now over 5 milliards in spite of the territorial losses caused by the Versailles Treaty. Germany had at her disposal a gigantic apparatus of production which lacked the necessary lubrication in the form of operating capital. Dr. Schacht considered it out of the question for German industry to be reconstructed by means of foreign resources. Foreign countries did not have such a far-reaching interest in reconstructing German industry, and they would not continue to place funds at its disposal without limits. In one respect the hesitation of foreign investors was a good thing, for during the inflation period the expropriation of German industrial enterprises and German agriculture would have been a simple matter. As matters now stood, there was no danger of an alienation of German industry, for the amount of German stocks held abroad was very small.

The amount of foreign indebtedness, Dr. Schacht estimated, including the Dawes loan, varied between 3 and $3\frac{1}{2}$ milliard M., of which about $1\frac{1}{2}$ milliards were long-term credits. The total amount of funds in banks was 6 milliard

M. in April, 1924, but in August 1925, over 13 milliards. Even if deductions were made for errors, these figures proved a great increase in savings. But the 3½ milliards of foreign credits had an important effect upon the German currency situation because it involved a threat of a certain inflation. Even to-day foreign credits played a role in German price fixing because purchasing power had been increased by means of them. This was the explanation also for the adversity of the trade balance, because foreign credits had made it possible to make purchases abroad. The only way to counteract this danger was to restrict foreign credits to the absolute minimum and to resort to them only for increasing agricultural and export production, for only in this manner could foreign exchange be obtained again. Furthermore, foreign credits should be examined with great care and the borrowing of the communes abroad should be disapproved most severely. Every public expenditure must be examined to discover whether it could be dispensed with. The first people entitled to foreign credits were the industrialists. The States and communes must not forget in their financial policy that their basis was the welfare of their citizens.

Under normal conditions a systematic economy would result in the accumulation of several milliards annually. Germany would very soon be once more in a position to help herself from capital saved at home. Then the Reichsbank would disappear as a source of capital. At the present time the rigorous attitude of the Reichsbank was causing strong disapproval, specially among industrial

enterprises of modern size, who were anxious to have a little more inflation. But their demand would be refused under all circumstances.

At the present time the distribution of available public funds were not favourable. Both private and public institutions kept their hands on liquid funds because they were still suffering from the psychology of the lack of capital. Short-term loans were made and not repaid. If the logical consequences were drawn and the funds invested at long terms, they would reach the persons who most needed them. A large part of the public funds should be invested in long-term credits. This was the chief cause of the distress among agriculture, which was not accustomed to work with short-term credits. One reason for the continuation of a permanent crisis was that both investors and borrowers were doing business on a basis of short-term credits. A change in this respect would be much more effective than foreign loans.

Dr. Schacht referred then to the practice of industry in carrying large stocks of raw materials and finished goods in contrast to foreign practice. This practice, he said, must be abandoned, and, furthermore, industry must look about with a view to improving its equipment.

In concluding, Dr. Schacht defended himself against the attacks made upon him in the Conservative press for his recent remarks about the Dawes Plan. He said that if Germany were put in the same position as before the war, he considered it possible to raise 2½ milliard M. for a series of years. He only feared that

Germany would not be given this chance. In any case, he said, he thought it was entirely wrong for a German to say that the payments could not be made. The thing to say was that the payments could be made if Germany were allowed to make them. Markets must be opened, and Germany must not be encircled by Customs barriers. The eastern States especially had the ambition to develop self-sufficient industries. If such a policy were followed, the payments could not be made, and Europe could make no progress. Germany had every interest in making Europe into a single economic unit. The second condition precedent for the fulfilment of the Dawes Plan was that Germany be given back a colonial field of activity.

In the discussion which followed Dr. Schacht's address, representatives of the wholesale trade and the communes spoke. Dr. Schacht said that he believed they were unanimous in principle, and that the course of events would bring them closer together also in practice.

Confidential

[See Mc Gowan's
letter Nov 4]

[Oct 7, 1925]

MINUTE

Subject: Conversation with Dr. Schacht.

[Prepared for
Lord D'Almeida
by Financial
Attache British
Embassy]

At Your Excellency's suggestion I arranged a conversation with Dr. Schacht which took place this morning at the Reichsbank. We touched upon the following topics:-

(1) Dr. Schacht's visit to America.

Dr. Schacht leaves for America to-morrow morning the 8th inst. As was to be expected, he said certain American newspapers had made all sorts of conjectures regarding the object of this visit; for instance - one newspaper (the Chamber of Commerce Journal) had suggested that the proposed visit had for its object the raising of a loan to Germany, without which the execution of the Dawes Plan would be seriously endangered. Dr. Schacht observed that all such conjectures were pure shots in the air and had absolutely no foundation in fact. Indeed, it was his intention immediately upon his arrival in America to point out to the newspaper men that he wanted nothing from their country at all, that his object was primarily one of courtesy in return for a visit made to him this summer by Mr. Strong of the Federal Reserve Bank. What he would seek in America was above all atmosphere; at the same time, he would like to arrange for such co-operation in central banking policy as was necessary between great issuing banks.

(2) The Internal situation.

Turning to the internal position in Germany Dr. Schacht observed that there was a very real crisis due mainly to illiquidity. It had been found expedient from the point of view of general economic and financial stability to come to the aid of certain firms - for example, the Stinnes, Hombacher and the Stumm concerns. In all these cases, however, the balance sheets had shown that there was a considerable excess of assets over liabilities, that in effect

while the firms were generally sound, no liquid assets were available to get them over the "dead points". Dr. Schacht, however, added that the Stumm intervention would probably be the last of its kind; if other cases should arise, they would merely be concerned with such undertakings whose establishment and stability would not warrant Reichsbank support and which consequently would be allowed to go to the wall.

(3) Deposit of public funds in private banking institutions.

At your request, I discussed the questions raised in Sir Charles Addis' letter of the 2nd October in regard to the deposit of public funds in private banking firms in competition with the Reichsbank and asked Dr. Schacht which action he thought would be most useful.

Dr. Schacht started out by observing that this question had been the subject of discussion between Mr. Parker Gilbert and himself, further, that appropriate resolutions had been passed on the same question at a recent meeting of the General Council of the Reichsbank. While he was sympathetic to the point of view taken by Mr. Parker Gilbert, Dr. Schacht frankly observed that he could not be expected "to conspire against his own Government" in conjunction with the Dawes Authorities. (to use Dr. Schacht's expression). As a matter of fact he had this whole question very much at heart and had already adopted the following lines of action:-

(a) with regard to the Post Office; the present position was that out of a total sum of 600 million R.M. (£ 30 million sterling) held in public funds by that department the Reichsbank administered about 160-170 million R. M. (£ 8 - 8½ million sterling). Dr. Schacht had discussed the position with Herr von Schlieben, the Finance Minister, and as a result of his negotiations, Dr. Schacht hoped that he would be able to arrive at an agreement, whereby the Post Office would deposit all its public funds in the Reichsbank.

(b) Dr. Schacht had likewise taken a very strong line with the Ministry of Finance against the construction of foreign loans by the Communes and towns, while he had recently stated his point of view with considerable force in a public speech at Karlsruhe. The Finance Minister was prepared to give Dr. Schacht every support on this point.

(c) Finally, he had prepared a memorandum to be submitted to a meeting of the Reichsbank Managing Board this afternoon recommending that all Savings banks, Municipal banks, Girocentrale, etc. should be compelled either by law or administrative action of the control Government to limit their activities to saving bank business and to municipal clearing transactions. Dr. Schacht intended to make a strong statement this afternoon before the Managing Board and to insist that they should take the action indicated by him during his absence.

(d) As regards the other banking institutions administering public deposits Dr. Schacht stated that the Reichskreditgesellschaft only controlled public funds to the extent of 50 millions R.M. (£ 2.5 millions sterling). In his opinion such a sum did not constitute a very serious danger; besides, the fact that the Reichskreditgesellschaft had undertaken to acquaint the Reichsbank at any time of the amount of such deposits provided him with a very real check.

(e) As regards the Devisenbeschaffungstelle, Dr. Schacht had already clipped its wings, in that that institution is now permitted to buy "Devisen" only for the Post Office and Railways administrations, (all the Reichs' business having formerly passed through this agency).

(f) As for the Seehandlung, Dr. Schacht stated that inasmuch as this institution was the State Bank of Prussia no action whatever could be taken.

(4) There remained the railways. On this question Dr. Schacht expressed very definite views. He first of all repeated what he told me many months ago that the Verkehrsbank was a mistake and that it ought to have been suppressed from the beginning. It was not, however, in his power to take any action, as its activities did not lie within the orbit of the Bank Law. Mr. Parker Gilbert, however, had a very strong legal case. The original plan in regard to the railways, as set out in the Experts' Report provided that all funds accruing to that administration should pass through the new bank (i. e. the reorganized Reichsbank). If Mr. Parker Gilbert were to take a strong line in this question Dr. Schacht did not see what possible opposition could be raised; in this matter it appeared to Dr. Schacht that this was a clear case for action on the part of Mr. Gilbert.

Treating the subject of public deposits as a whole, Dr. Schacht believed that all these difficulties regarding the deposit of public funds would disappear automatically, as it was his firm belief that the returns from taxation in the future would not be so great as those of the past; if, however, considerable tax surpluses were to continue to accrue, it would be rather the duty of the Government to reduce the present level of taxation.

(5) The Russian Loan.

I asked Dr. Schacht whether the Reichsbank or the Seehandlung were participating in the Russian loan which has just been arranged. Dr. Schacht observed that he, for his part, would refuse to recognize a signature of the Russian Soviet Government just as he would refuse to accept a signature by His Majesty's Government as business transactions on such a basis would be bound to acquire political colouring. On the other hand, if a bill was presented to the Reichsbank bearing two signatures of well-known, responsible

German firms as well as a Russian signature, he would, of course, take the necessary action upon that bill purely on account of the German signatures.

Dr. Schacht went on to explain that the flotation of this loan had absolutely nothing to do with the present negotiations in regard to the German-Russian Commercial Treaty and that, negotiations indeed, had been taking place in Berlin for the last six months. The whole idea of the loan was to move the Russian crop. The Russian peasants were not prepared to surrender their grain except against some tangible asset. As a result of the German loan agricultural machinery etc., would be imported into Russia and this would be taken by the Russian peasants in exchange for their grain.

(6) Distribution of America's gold reserve.

I tried to get Dr. Schacht's views upon what might be called the present American corner in gold. While he was not very responsive, he let fall certain observations which are perhaps worth repeating. In what he believed to be the interest of his own currency policy, Dr. Schacht had been recently buying gold for the Reichsbank's Reserve; he had now all the gold he wanted with the exception of 100 million G. M. (£ 5 million sterling).

Turning to me, he asked whether I thought the tendency in the future would be for gold to appreciate or depreciate in value. I replied that, while I personally believed that the world's economic interests lay in the direction of a boom, i. e. in higher prices, the tendency on the part of certain great banking institutions would seem to be towards an appreciation in gold or a fall in prices. Dr. Schacht thought that the value of gold would rise and regard being had to that fact, could it then be denied that he was right in procuring his gold cheaply?

Berlin, 7th October, 1925.

20. Nassau Street,

New York.

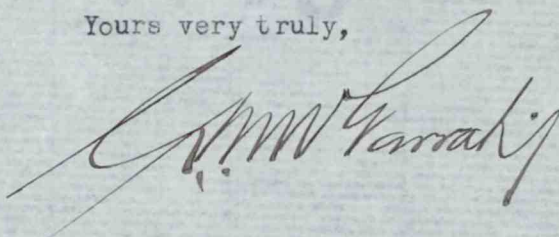
November 4, 1925

Dear Governor:-

I hand you herewith for perusal and return letter addressed to me by Agent General for Reparation Payments dated October 16, 1925, and also copy of a letter addressed by him to Governor Norman on September 17, 1925, also copy of a speech which Dr. Schacht delivered at Carlsruhe on October 5th, and copy of a memorandum which the Financial Attache at the British Embassy prepared for Lord D'Abernon summarizing the conversation with Dr. Schacht on the morning of October 7, 1925.

I desire to emphasize the contents of the Agent General's letter to Governor Norman and to say that I think the Federal Reserve Board and the Federal Reserve Bank of New York should be extremely careful about commitments to the Reichsbank until such time as the Agent General and the Transfer Committee are satisfied that the German Government is acting entirely within the spirit of the Dawes Plan and not maintaining a position that - as the Agent General says - comes exceedingly close to a "financial manoeuvre".

Yours very truly,



American Member of the General
Council of The Reichsbank

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

THE AGENT GENERAL
FOR REPARATION PAYMENTS

*[See
McGarrath's
letter Nov 4]*

PRIVATE

Berlin, October 16, 1925.

My dear Governor: *[McGarrath]*

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

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

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

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

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

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

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

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

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

any danger of its being tampered with in the post.

Faithfully yours,

(Signed) S. Parker Gilbert

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

3 encls.

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20. Nassau Street,

New York.

February 3, 1926

Ask 2/3/26.
MSB

Mr. Benjamin Strong,
c/o Federal Reserve Bank,
New York, N. Y.

Dear Mr. Strong:-

The time is rapidly approaching when the American Institute of Banking should know what their position is going to be financially and I have called a meeting of the Advisory Council for Wednesday afternoon, February tenth, at the Mechanics & Metals National Bank at 3.30. I hope very much that you can be present.

Yours sincerely,

Wm. G. Harriss

J. E. Sterrett
(1858-1937)
Lawyer

1925

American member
Transfer Committee
for Reparation
Payments

1924-1926

member of
law firm
Sterrett & Cheson

56 PINE STREET
NEW YORK

October 14, 1925

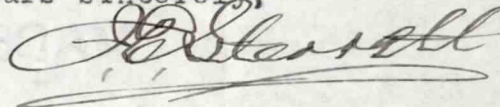
Mr. Benjamin Strong,
33 Liberty Street,
New York, N. Y.

My dear Mr. Strong:

Thank you very much for arranging matters so that I may have Dr. Schacht at luncheon on October 22. I am counting upon you as one of my guests. I hope you can come. The luncheon will be at India House at one o'clock.

In order not to trespass on your dinner guests, I am limiting my banker invitations to you and Mr. McGarrah. I shall try to get together a fairly small group of worth while industrial and railroad people with a flavoring from the legal profession.

Yours sincerely,



October 15, 1925.

My dear Mr. Sterrett:

I am glad that it could be arranged for you to entertain Dr. Schacht, for I know it will be a pleasure to him.

And I am happy to accept your kind invitation to be one of the party at luncheon on Thursday, October 22.

Looking forward to seeing you, I am

Sincerely yours,

J. E. Sterrett, Esq.,
56 Pine Street,
New York City.