

39

April 15th, 1916.

My dear Lord Cunliffe:

It was my intention to write you at some length immediately on my return home, in fact, I recall promising that I would do so the last time I saw you, but a wireless message received on the "St. Paul" informed me that I was expected in Washington to-morrow to attend a meeting which will last for a week or more and I am only able now to send you this brief line to advise you of my safe return and tell you once more how grateful I am to you and your associates for your many courtesies to me while I was in London. I shall not be satisfied that our account is on a fairly mutual basis until you have given me opportunity to entertain you in New York.

Assuring you of my warm regards, and with best wishes to yourself and your associates, I beg to remain,

Faithfully yours,

Lord Cunliffe,
Care The Bank of England,
London.

BS Jr/VCM

Walter Cunliffe, 1st Baron Headley

39

PRIVATE.

May 23rd, 1916.

My dear Lord Cunliffe:

It has been impossible since my return home to write you in regard to our conversations on account of the pressure of other matters.

There are two question still to be disposed of in completing the confidential memorandum prepared while I was in London:

First, is the difficulty about days of grace. It has been arranged,

1. To obtain the opinâbn of the Counsel of the Federal Reserve Board as to the application of our statute to the purchase of bills which are subject to days of grace, as now established by the law in England.
2. In case his opinion does not justify our exceeding the 90 days limitation, the text of an amendment to the Federal Reserve Act curing this defect has been prepared and printed and has already, I believe, been submitted to the Committees of the House and the Senate. I am told there should be little difficulty in the passage of the amendment, but it is just as well not to count on favorable action until it is actually accomplished.

The other matter is the basis for earmarked gold and for gold shipments, and I would appreciate an expression of your views as to how this should be dealt with. Should we not arrange

for the establishment of a definite price per ounce at which gold, either in bars, or in gold coin will be earmarked by both institutions?

So far, I have had little opportunity to study this matter, but am inclined to think that a fair plan would be to deal with the account on both sides upon the basis of the actual mint value of fine gold, either in bars or as found to be contained in the coin. Then, if gold coin is shipped in settlement of existing balances, it would be furnished by the debtor bank and taken at bullion value, but if it should have been earmarked and subsequently recredited to the account of the creditor bank by the debtor bank, it would, I suppose, be credited back at its bullion value, thus giving the debtor bank the benefit of the recovery of any difference between the abraded and the bullion value which might have existed in the quantity of coin originally earmarked.

The importance of this question would be minimized and possibly eliminated were we always able to use gold in the form of fine bars, if the price be a fixed one; on the other hand, it would become more complicated, should it become necessary to earmark or ship in coin other than sovereigns or eagles.

In a preliminary way, I feel quite willing to recommend that the matter be dealt with rather informally and without too detailed a plan being established in advance, so long as we find the means of carrying out the spirit of the memorandum which

contemplates that these transactions shall be fair and upon the same basis as to each party. Will you be good enough to write me your views about this? For your information, I enclose a copy of the latest table of charges imposed by the mints and assay offices of the United States for the treatment of gold.

Since returning, I have discussed quite in confidence with some of my associates, the general character of the plan we formulated while I was in London and have been over the memorandum with them. Their attitude justifies my suggesting that we should endeavor to complete the details of the plan, particularly with reference to shipping and earmarking gold and establishing an understanding as to the price so as to be prepared in case of need to start operations this Fall; although, as I stated to you in London, it is not possible at this time to advise you officially that we can do anything before the conclusion of the war.

I suppose you have observed that a considerably larger acreage is being planted in cotton this year than last year. So far, I have seen no reason to modify the views expressed to you while in London in regard to the possible course of exchange this Fall, except as they might be modified by the success you are realizing in assembling American securities. If you can confidentially give me any light on that subject, I would appreciate it.

With kindest regards to yourself and your associates and again many thanks for your courtesy to me while I was in London, I am,

Faithfully yours,

Governor.

Lord Cunliffe,
Care The Bank of England,
London, England.

Denver, Colorado,
January 6, 1917.

My dear Lord Cunliffe:

Accompanying this letter is a letter from the Deputy Governor of the Federal Reserve Bank of New York, which is the result of considerable study by my associates and myself, and I trust that it will meet your views and those of your associates as to the character of the arrangements which may now be entered into between the Bank of England and the Federal Reserve Bank of New York.

In a general way I have endeavored to make somewhat more specific the plans which were discussed last March when I was in London, particularly as to the method of dealing with gold, adopting as the basis of values standard gold of the two countries in accordance with the suggestion conveyed to me by Deputy Governor Cokayne's letter of June 15th last.

Permit me to repeat the expressions which were exchanged at our last conference in regard to the operation of this plan. It will be impossible to cover every detail in advance of the experience gained from actual operations and I, therefore, feel sure that you will feel quite free to suggest modifications from time to time, as we would like to feel equally at liberty to do so, and in the meantime I am hopeful that an arrangement of this character as modified from time to time as the result of experience, will prove to be of inestimable value to our respective institutions and to the financial relations of the banks of England and the United States.

I am just now in correspondence with Monsieur Pallain of the Bank of France, looking toward some arrangement of a similar character with that institution, and trust that the references to that suggestion

COPY

To Lord Cunliffe.

January 6, 1917.

In the enclosed letter meet with your entire approval. In any event, it is my present expectation to visit both England and France, if my health permits, in the early summer of this year, and any details which need further attention can be dealt with personally.

With warmest regards to yourself and your associates and best wishes for the New Year, I am,

Yours faithfully,

(Signed) Benj. Strong.

Rt. Hon.
Lord Cunliffe,
Governor of the Bank of England.

BS/CC

Enc.

New York, N. Y.

This letter was written by Governor Strong at a time when he expected me to sign the formal letter to the Governors of the Bank of England. Now Governor Strong has signed the letter himself, but I think that nevertheless it would be well to send forward this personal letter from him to you.

Deputy Governor.

RHT/CFP

Fraser
Jan 18, 1917
Letter

Denver, Colorado,
January 6, 1917.

Gentlemen:

(1) I have the honor to advise you that the Federal Reserve Board has consented to the appointment of the Bank of England by the Federal Reserve Bank of New York as its correspondent, or agent, in the City of London, in conformity with the provisions of paragraph (e) of Section 14 of the Federal Reserve Act as amended by an Act of Congress which took effect September 7, 1916.

(2) In order to establish the basis of transactions between the two institutions, the memorandum of conversations prepared in London in March 1916 should now be read in connection with the amendment to Section 14 above referred to, inasmuch as that amendment necessitates a modification of the terms of the memorandum in certain particulars.

(3) Paragraph 2 of the memorandum should be modified to conform to paragraph (e) of Section 14 as amended, which now provides that "WITH THE CONSENT OF THE FEDERAL RESERVE BOARD (every Federal Reserve Bank shall have power) TO OPEN AND MAINTAIN BANKING ACCOUNTS FOR SUCH FOREIGN CORRESPONDENTS OR AGENCIES". It will not, therefore, be necessary, as stated in the memorandum, that balances maintained by the Bank of England with the Federal Reserve Bank of New York shall be held as ear-marked gold.

(4) Paragraph 3 of the memorandum should be modified to conform to the said amendment which now provides that "every Federal Reserve Bank shall have power to buy and sell bills of exchange

To the Governors of the Bank of England.

January 6, 1917.

arising out of actual commercial transactions which have not more than 90 days to run, EXCLUSIVE OF DAYS OF GRACE".

(5) All of paragraph (e) of Section 14 of the Act as amended is quoted as follows, the word in parenthesis being omitted from the original paragraph and the words in capitals being those added to the original paragraph by the terms of the amendment:

"Every Federal Reserve Bank shall have power (e) To establish accounts with other Federal reserve banks for exchange purposes and, with the consent of the Federal Reserve Board, to open and maintain (banking) accounts in foreign countries, appoint correspondents, and establish agencies in such countries wheresoever it may deem best for the purpose of purchasing, selling, and collecting bills of exchange, and to buy and sell, with or without its indorsement, through such correspondents or agencies, bills of exchange arising out of actual commercial transactions which have not more than ninety days to run, EXCLUSIVE OF DAYS OF GRACE, and which bear the signature of two or more responsible parties, AND WITH THE CONSENT OF THE FEDERAL RESERVE BOARD TO OPEN AND MAINTAIN BANKING ACCOUNTS FOR SUCH FOREIGN CORRESPONDENTS OR AGENCIES."

(6) Paragraph 5, Interest. Notwithstanding the amendment to paragraph (e) of Section 14, no authority is conferred by the law upon Reserve Banks to allow interest on deposits, nor, in fact, is any interest allowed on the deposits of funds of the Government of the United States, or of the member banks of the System, so it will consequently not be possible to affect any modification in the terms of that paragraph of the memorandum.

(7) Paragraph 7, Gold Shipments. No agreement has yet been reached as to questions of abrasion, price of bar gold, price of coin, shipping charges and other details of that character. It is, therefore, suggested for your consideration that the following arrangements shall for the present apply to transactions in gold, pending the determination of more precise terms, based upon experience:

To the Governors of the Bank of England.

January 6, 1917.

(a) The first two sentences of paragraph 7 of the agreement to remain unchanged.

(b) The Bank of England to ear-mark and set aside refined gold bars for the Federal Reserve Bank of New York, when gold is ordered ear-marked at the rate of 77 shillings 9 pence per ^{English} ~~British~~ standard ounce, eleven-twelfths fine, or

(c) When standard gold bars are not available, the Bank of England to ear-mark and set aside eagles for account of the New York Bank at their bullion value, at the rate of 77 s. 9 p. per ounce, for the equivalent of the English standard of fineness, or

(d) The Bank of England to ear-mark and set aside sovereigns at their bullion value, at the rate of 77 s. 9 p. per ounce.

(e) Gold bars, or gold coin, so ear-marked but not shipped, to be taken by the Bank of England (if returned to the credit of the New York Bank) at the same values at which ^{they were} ~~it was~~ ear-marked in the first instance.

(f) It should be understood that the Federal Reserve Bank of New York cannot require the Bank of England to ear-mark eagles at bullion value in order to import them and realize the profit between the bullion value and face value of American coin. The right to determine in the event of shipment whether American coins shall be shipped or not to rest with the Bank of England. American gold coins which are abraded below the limit of tolerance of one-half of one per cent not to be ear-marked or shipped if other gold or coin is available.

The Federal Reserve Bank of New York to ear-mark and set aside gold ^{and charge its account} for ~~account of~~ the Bank of England on the following basis:

To the Governors of the Bank of England.

January 6, 1917.

(a) Refined gold bars at the rate of \$18.604651 per United States standard ounce of gold nine-tenths fine, ^{plus} ~~less~~ the assay office charge of 50¢ per \$1000 in value, or

(b) Sovereigns at their bullion value of \$18.604651 for each ounce of gold of the ^{United States} ~~American Mint~~ standard, nine-tenths fine, or

(c) Eagles at their bullion value of \$18.604651 per ounce.

(d) Gold bars, or gold coin, so ear-marked but not shipped, to be taken by the Federal Reserve Bank (if returned to the credit of the Bank of England) at the same value at which ^{they were} ~~it was~~ ear-marked in the

first instance, *Excluding the Assay Office charge above mentioned which will be borne by the Bank of England. (If gold bars are returned*

(e) It should be understood that the Bank of England cannot require the Federal Reserve Bank of New York to ear-mark sovereigns at bullion value in order to import them and realize the profit between the bullion value and face value of English coin. The right to determine, in the event of shipment, whether English coins shall be shipped or not to rest with the Federal Reserve Bank of New York. English gold coins which are abraded below the limit of tolerance not to be shipped if other gold or coin is available.

(8) Gold bars ear-marked or shipped by either institution to the other must be suitable for coinage purposes, alloy to be copper, and an allowance made for any variations in gold contents above or below the standards specified above.

(9) The ear-marking and shipment of the gold coins of any other ^{undertaken} ~~dealt with~~ upon the basis of the value of the fine gold contained in such coins, with deduction of an allowance to cover the cost

This may be subject to a further Assay Office charge for remelting, amounting to one dollar per thousand ounces, which is the existing charge. The Federal Reserve Bank of New York, however, will endeavor to have this charge

by the Assay Office and it is suggested that the Bank of England

To the Governors of the Bank of England.

January 6, 1917.

of conversion into gold bars of English or American mint standard respectively,

(10) In general, the concluding sentence of paragraph 7 of the memorandum to apply to all transactions in gold "so that the effect of the arrangements will be to make all shipments of gold between the two institutions upon exactly equal terms as to each".

(11) Paragraph 10. No arrangement having yet been concluded with the Bank of France, it is proposed that the Federal Reserve Bank of New York endeavor forthwith to negotiate an arrangement of similar character with that institution and that the terms of the understanding between all three institutions shall be made known to each.

(12) With the above modifications, it is proposed that the terms of the memorandum of conversations prepared in March 1916 shall otherwise apply.

(13) It is further suggested that the Bank of England furnish the Federal Reserve Bank of New York with the necessary documents and papers to enable the opening of an account with the Bank of England and accompanying this letter are directions and forms applying to the opening of an account by the Bank of England with the Federal Reserve Bank of New York.

(14) It is desirable, on account of difficulties of cable communication and the necessity for safe-guarding exchanges of cables involving payments of money, that the Bank of England should suggest the plan to be pursued in the use of cipher codes and check words between the two institutions.

To the Governors of the Bank of England.

January 6, 1917.

(15) The Federal Reserve Bank of New York would prefer that bills purchased for its account by the Bank of England should consist so far as possible of those bearing the names of American drawers, or endorsers, so long as this requirement does not involve the acceptance of other than prime bills which are eligible for discount at the Bank of England, and a similar policy would be pursued by the Federal Reserve Bank of New York in purchasing bills for the Bank of England, should the latter so desire. *bearing the names of English drawers or endorsers.*
if it be possible to do so;

(16) It is expected that purchases of bills by either institution for the other will be at the current market rates.

(17) Pending the exchange of final letters, the Federal Reserve Bank of New York is submitting an outline of the above plan to the other eleven Federal Reserve Banks, in accordance with the provisions of paragraph 1 of the memorandum of March, 1916.

(18) Copy of the original memorandum of March 1916 is attached hereto.

(19) It is not possible at this time to form any opinion as to the amount of transactions to be undertaken by Federal Reserve Banks pending the submission of the plan, but in general it is understood that views will be exchanged preliminary to actual operations by either party.

(20) Believing that the interest of both institutions will be promoted by the prompt conclusion of the proposed arrangement, the Federal Reserve Bank of New York will appreciate cable acknowledgment

To the Governors of the Bank of England.

January 6, 1917.

of this communication and an indication by cable of any suggested changes, or of any additions, which appear to the Governors of the Bank of England to be necessary.

With assurances of my esteem, I beg to remain,

Faithfully yours,

Governor,
Federal Reserve Bank of New York.

To the
Governors of the Bank of England,
London.

BS/CC

Encs.

Denver, Colorado,
January 18, 1917.

Gentlemen:

(1) I have the honor to advise you that the Federal Reserve Board has consented to the appointment of the Bank of England by the Federal Reserve Bank of New York as its correspondent, ~~or agent~~, in the City of London, in conformity with the provisions of paragraph (e) of Section 14 of the Federal Reserve Act as amended by an Act of Congress which took effect September 7, 1916.

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To the Governors of the Bank of England.

January 18, 1917.

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To the Governors of the Bank of England.

January 18, 1917.

(a) The first two sentences of paragraph 7 of the agreement to remain unchanged.

(b) The Bank of England to ear-mark and set aside refined gold bars for the Federal Reserve Bank of New York, when gold is ordered ear-marked at the rate of 77 shillings 9 pence per English standard ounce, eleven-twelfths fine, or

(c) When standard gold bars are not available, the Bank of England to ear-mark and set aside eagles for account of the New York Bank at their bullion value, at the rate of 77 s. 9 d. per ounce, for the equivalent of the English standard of fineness, or

(d) The Bank of England to ear-mark and set aside sovereigns at their bullion value, at the rate of 77 s. 9 d. per ounce.

(e) Gold bars, or gold coin, so ear-marked but not shipped, to be taken by the Bank of England (if returned to the credit of the New York Bank) at the same values at which they were ear-marked in the first instance.

(f) It should be understood that the Federal Reserve Bank of New York cannot require the Bank of England to ear-mark eagles at bullion value in order to import them and realize the profit between the bullion value and face value of American coin. The right to determine in the event of shipment whether American coins shall be shipped or not to rest with the Bank of England. American gold coins which are abraded below the limit of tolerance of one-half of one per cent not to be ear-marked or shipped if other gold or coin is available.

The Federal Reserve Bank of New York to ear-mark and set aside gold for the Bank of England and charge its account on the following basis:

To the Governors of the Bank of England.

January 18, 1917.

(a) Refined gold bars at the rate of \$18.604651 per United States standard ounce of gold nine-tenths fine, plus the assay office charge of 50¢ per \$1000 in value, or

(b) Sovereigns at their bullion value of \$18.604651 for each ounce of gold of the United States standard, nine-tenths fine, or

(c) Eagles at their bullion value of \$18.604651 per ounce.

(d) Gold bars, or gold coin, so ear-marked but not shipped, to be taken by the Federal Reserve Bank (if returned to the credit of the Bank of England) at the same value at which they were ear-marked in the first instance, excluding the Assay Office charge above mentioned which will be borne by the Bank of England. (If gold bars are returned, they may be subject to a further Assay Office charge for remelting amounting to one dollar per thousand ounces, which is the existing charge. The Federal Reserve Bank of New York, however, will endeavor to have this charge abrogated by the Assay Office and if successful will immediately notify the Bank of England).

(e) It should be understood that the Bank of England cannot require the Federal Reserve Bank of New York to ear-mark sovereigns at bullion value in order to import them and realize the profit between the bullion value and face value of English coin. The right to determine, in the event of shipment, whether English coins shall be shipped or not to rest with the Federal Reserve Bank of New York. English gold coins which are abraded below the limit of tolerance not to be shipped if other gold or coin is available.

(8) Gold bars ear-marked or shipped by either institution to the other must be suitable for coinage purposes, alloy to be copper, and an

To the Governors of the Bank of England.

January 18, 1917.

allowance made for any variations in gold contents above or below the standards specified above.

(9) The ear-marking and shipment of the gold coins of any other nation to be undertaken upon the basis of the value of the fine gold contained in such coins, with deduction of an allowance to cover the cost of conversion into gold bars of English or American mint standard respectively.

(10) In general, the concluding sentence of paragraph 7 of the memorandum to apply to all transactions in gold "so that the effect of the arrangements will be to make all shipments of gold between the two institutions upon exactly equal terms as to each".

(11) Paragraph 10. No arrangement having yet been concluded with the Bank of France, it is proposed that the Federal Reserve Bank of New York endeavor forthwith to negotiate an arrangement of similar character with that institution and that the terms of the understanding between all three institutions shall be made known to each.

(12) With the above modifications, it is proposed that the terms of the memorandum of conversations prepared in March 1916 shall otherwise apply.

(13) It is further suggested that the Bank of England furnish the Federal Reserve Bank of New York with the necessary documents and papers to enable the opening of an account with the Bank of England and accompanying this letter are directions and forms applying to the opening of an account by the Bank of England with the Federal Reserve Bank of New York.

To the Governors of the Bank of England.

January 18, 1917.

(14) It is desirable, on account of difficulties of cable communication and the necessity for safe-guarding exchanges of cables involving payments of money, that the Bank of England should suggest the plan to be pursued in the use of cipher codes and check words between the two institutions.

(15) The Federal Reserve Bank of New York would prefer that bills purchased for its account by the Bank of England should consist so far as possible of those bearing the names of American drawers, or endorsers, so long as this requirement does not involve the acceptance of other than prime bills which are eligible for discount at the Bank of England, and a similar policy would be pursued by the Federal Reserve Bank of New York in purchasing bills bearing the names of English drawers or endorsers for the Bank of England, should it be possible to do so.

(16) It is expected that purchases of bills by either institution for the other will be at the current market rates.

(17) Copy of the original memorandum of March 1916 is attached hereto.

(18) It is not possible at this time to form any opinion as to the amount of transactions to be undertaken by Federal Reserve Banks pending the submission of the plan, but in general it is understood that views will be exchanged preliminary to actual operations by either party.

(19) Believing that the interest of both institutions will be promoted by the prompt conclusion of the proposed arrangement, the Federal Reserve Bank of New York will appreciate cable acknowledgment.

To the Governors of the Bank of England.

January 18, 1917.

of this communication and an indication by cable of any suggested changes, or of any additions, which appear to the Governors of the Bank of England to be necessary., or desirable.

With assurances of my esteem, I beg to remain,

Faithfully yours,

Governor,
Federal Reserve Bank of New York.

To the
Governors of the Bank of England,
London.

BS/CC

Enclosures.

Western Union
Cable
PJ - JFO
RAH

[See Cokayne file
for memorandum he
signed.]

March 26, 1917.

Lord Cunliffe,
Bank of England,
London, England

Pleased to receive your letter We suggest the following three changes in the revised memorandum stop First Omit references in opening sentence and paragraph twelve to conclusion of war as earlier start might be desirable Stop Second Omit provision in paragraph six for earmarking gold only at convenience of debtor It seems to us necessary to have accounts definitely on gold basis but with an arrangement that debtor may limit amount of such gold obligations in advance for given periods Stop Third Revise paragraphs ten and twelve to conform to our second suggestion Stop All other changes satisfactory Stop We will await reply by cable to above suggestions before transmitting further proposals

Benjamin Strong

Charge Fed. Res. Bank
120 Broadway

For

SERVICE DESIRED-	
Message	
Letter	
Day Message	
Night Letter	
Senders should mark an X opposite the class of service desired; OTHERWISE THE TELEGRAM WILL BE TRANSMITTED AS A FAST DAY MESSAGE.	

WESTERN UNION TELEGRAM



NEWCOMB CARLTON, PRESIDENT

Receiver's No.
Check
Time Filed

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

Denver, Colorado,
April 3, 1917.

Lord Cunliffe,
Bank of England,
London, England.

Affectionate greetings to you and your associates at last from an enthusiastic friend and ally.

Strong.

Chg. Benj. Strong,
4100 Montview Blv.

REGISTERED MAIL
PRIVATE AND CONFIDENTIAL

April 12, 1917.

My dear Sir:

It gives me great pleasure to acknowledge receipt of your letter of March 2, 1917, in reply to ours of January 18th last. Upon receipt of your letter we sent you a cablegram under date of March 26th, of which I take pleasure in enclosing herewith a confirmation, and also a confirming copy of cable received from you in reply on March 28th.

Referring to your letter of March 2nd, we are entirely in accord with the changes which you have suggested with regard to the various provisions of the memorandum, with the exception of the ones concerning which we cabled, and we understand that you agree in principle to our suggestions as sent you by cable. Accordingly we have prepared a new memorandum, incorporating changes in the opening paragraph of the memorandum and in clauses 6, 10 and 12, and trust that the proposal may now be found in form satisfactory to both institutions, so that we may have a ratification thereof by the directors of each in the near future.

As indicated in our cable, we think it essential that all accounts should be reciprocally on a gold basis, except as definitely arranged in advance for specific periods and amounts, and have consequently inserted phraseology to cover that point in clauses 6, 10 and 12.

With respect to the Assay Office charge for remelting, amounting to one dollar per thousand ounces, which is referred to on pages 3 and 4 of your letter of March 2nd, we are pleased to be able to advise you that we have made arrangements with the Treasury Department and the Assay Office for the waiving

4/12/17.

of this charge in our favor, and consequently any reference thereto may properly be omitted from our agreement, as suggested in your letter.

In view of the fact that our arrangements seem so nearly completed, we are taking the liberty of enclosing herewith signatures of the various officers of this bank, who are authorized to execute checks, drafts and other documents in its behalf, and also to enclose herewith a certified copy of our by-laws as amended to date, and signature cards for execution by the officers who will sign in your behalf.

There is also enclosed a draft of a form of public announcement to be given to the press simultaneously by the two institutions, provided it meets with your approval. We would, of course, be pleased to make any changes in the text of such announcement that may be agreeable to you and would suggest that the text and the date of publication be arranged by cablegram.

With respect to the last paragraph of your letter, we assume that your bank will take the initiative in preparing a code for use between the two banks, concerning which we shall hope to hear from you shortly.

In view of the entry of this Government into the war against Germany, we do not doubt that you share with us the opinion that an early establishment of our proposed reciprocal relationship would be extremely beneficial to the financial and commercial interests of both countries.

Assuring you of our very great pleasure in anticipating close relations between the two banks, I am,

Faithfully yours,

Deputy Governor.

Lord Cunliffe,
Governor, Bank of England,
London, England.

SPECIAL DELIVERY
REGISTERED MAIL

April 23, 1917.

My dear Sir:

In the absence of Governor Strong and of Deputy Governor Treman, I take great pleasure, in behalf of the bank, in welcoming you to this country, and hope that we may soon have the pleasure of arranging for a visit from you at the bank.

Meanwhile I beg to enclose herewith a copy of a communication, with the enclosures, which Deputy Governor Treman forwarded to you by registered mail on April 12th and which, naturally, you have not had an opportunity of seeing. Possibly your presence in this country will enable us to consummate these negotiations earlier than would otherwise have been feasible, especially in view of the existing conditions, which appear to us to make such a course most advisable.

We have communicated with Governor Strong to-day by telephone, he being still unfortunately in Denver on account of his health, and he has requested me to send you his greetings and warm personal regards.

Both Mr. Treman and myself look forward with great pleasure to meeting you at Secretary McAdoo's to-morrow night.

Referring to the first paragraph on page 2 of Mr. Treman's letter of April 12th, we are omitting from this copy the signatures of the various officers of this bank who are authorized to execute documents and also copy of our by-laws and signature cards for execution by the officers of the Bank of England.

With assurances of high regard, believe me.

Yours faithfully,

Chairman.

Lord Cunliffe,
Governor, Bank of England,
C/o British Commission,
16th Street,
Washington, D. C.

JFC/OED
Ence.

0261
BoBE

Denver, Colorado,
April 22, 1917.

My dear Lord Cunliffe:

It was a very great disappointment to me not to be in New York or Washington so that I might extend to you personal greetings and a welcome to our country.

You know how keenly I desire that your mission to this country will be a complete success, as I have every reason to anticipate it will be.

Your presence in this country will afford us opportunity I trust to conclude the negotiations now pending between the Bank of England and the Federal Reserve Bank of New York, and I have asked my associates in New York to get into communication with you for the purpose of ascertaining when would be a convenient time for me to return East in order to meet you and continue our discussions.

My health is now really completely restored and I am expecting to return permanently about June 1st and could do so earlier if your plans made it necessary in order that I might see you before you leave.

With warmest regards, I beg to remain,

Very truly yours,

Rt. Hon.
Lord Cunliffe,
Washington, D. C.

BS/CC

C 261
Boj E
M.V.

APR 23 1917

SPECIAL DELIVERY
REGISTERED MAIL

April 23, 1917.

My dear Sir:

In the absence of Governor Strong and of Deputy Governor Treman, I take great pleasure, in behalf of the bank, in welcoming you to this country, and hope that we may soon have the pleasure of arranging for a visit from you at the bank.

Meanwhile I beg to enclose herewith a copy of a communication, with the enclosures, which Deputy Governor Treman forwarded to you by registered mail on April 18th and which, naturally, you have not had an opportunity of seeing. Possibly your presence in this country will enable us to consummate these negotiations earlier than would otherwise have been feasible, especially in view of the existing conditions, which appear to us to make such a course most advisable.

We have communicated with Governor Strong to-day by telephone, he being still unfortunately in Denver on account of his health, and he has requested me to send you his greetings and warm personal regards.

Both Mr. Treman and myself look forward with great pleasure to meeting you at Secretary Volcker's to-morrow night.

Referring to the first paragraph on page 2 of Mr. Treman's letter of April 12th, we are omitting from this copy the signatures of the various officers of this bank who are authorized to execute documents and also copy of our by-laws and signature cards for execution by the officers of the Bank of Virginia.

With assurances of high regard, believe me,

Yours faithfully,

Chairman.

Lord Cunliffe,
Governor, Bank of England,
C/o British Commission,
16th Street,
Washington, D. C.

JRC/GSR
Enc.

Denver, Colorado,
May 17, 1917.

My dear Lord Cunliffe:

It was a great pleasure to have opportunity to welcome you to this country and to discuss the many important matters that are now occupying our attention. You undoubtedly realize how difficult will be the handling of financial transactions in a country of such vast extent as this and with a banking system as complicated as ours is. This first loan will be the test of our ability to handle similar future transactions and it has been of the greatest possible assistance to have the benefit of your views and advice in preparation for the problems we are facing.

My plans have now taken definite shape and I am proposing to return to New York permanently the last of this month, so as to be there during the last stages of the placing of the Liberty loan. If, however, any questions arise in which I may be of any service to you or to your associates, will you not be good enough to write or telegraph me here and I will return at once, if it seems desirable for me to do so.

I have left word at the office to proceed at once with the arrangement of the last details looking to the commencement of transactions with the Bank of England, and take the liberty of suggesting that it might be well to have a memorandum prepared and sent to us as promptly as possible, indicating just what procedure should be followed in case it seems desirable to arrange for ear-marking gold in South Africa or Australia. This I suppose should include a statement of the character of the custody who will be responsible for the safe-keeping of the gold, the character and quality of the gold and, if

To - Lord Cunliffe.

May 17, 1917.

possible, a cable code which might be used in case of emergency for transmitting directions for its handling and disposition.

As to transactions in London, these doubtless must be nominal while conditions are as at present. As soon, however, as our department is organized, signatures, etc., exchanged, I had thought to arrange for the purchase of a moderate amount of demand or cable sterling, simply to be held in account as a start; the amount of course to be limited to whatever the Bank of England considers desirable.

Arrangements have been made for the engrossing of the memorandum agreement, which will be forwarded for exemplification as soon as completed.

I sincerely trust that you and your associates of the British Commission will return to England satisfied that the American people in heart and spirit are, without reservation, committed to your great cause and that the influence of the resources of the country will be brought to bear to bring the war to a decisive conclusion in the near future.

With warmest regards, believe me,

Faithfully yours,

Rt. Hon.
Lord Cunliffe,
2829 Sixteenth St.,
Washington, D. C.

BS/CC

FEDERAL RESERVE BANK
OF NEW YORK

Sent by

FD, RM
Postal
5:25 p.m.

File
(FOR BINDE

COPY OF TELEGRAM

3

April 26, 1917.

~~The~~ Lord Cunliffe

~~1829~~ Sixteenth Street
Washington, D. C.

Governor Strong leaves Denver tomorrow to meet you arriving New York Monday morning. He has asked us to invite you to dine with him ^{here} Tuesday or Wednesday May first or second to meet wholly informally a few of our leading bankers and both he and we hope most sincerely you can spare us one of these evenings. We understand how difficult it is for you to make definite plans and should appreciate your telephoning us over our wire to the Treasury Building when you are able to reach a decision.

Pierre Jay.

Chgo. Federal Reserve Bank
120 Broadway

39

FILING DEPT.

JUN 29 1917

FEDERAL RESERVE BANK

June 28, 1917.

My dear Lord Gunliffe:

This is my first opportunity to send you some account of what has transpired with us in connection with placing the Liberty Loan, in the details of which I know you will be very much interested.

About one week prior to the closing of the books, which was scheduled for 12 o'clock noon on the 15th, the total subscriptions reported aggregated about \$1,000,000,000. Realizing the gravity of the situation relative to any failure, arrangements were at once made to publish the subscriptions throughout the United States by districts and a rough apportionment of the loan was made first between Federal Reserve Districts, then between states and finally among all communities and the banks in those communities. At the same time, clocks were prepared and set up throughout the country and bulletin boards were erected on which the day to day changes were posted. Various organizations which had charge of the advertising and publicity extended their propaganda into even the remotest parts of the country with typical American enterprise and enthusiasm. In twenty-four hours, the effect was felt and it is no exaggeration to say that sitting in this office one could feel the growth of the wave of response. It was like the approach of a storm. By the 13th and 14th it had taken hold of all classes, with the possible exception of the farmers who in this country get their news only once a week on account of the distance from neighbors and towns, and

6/28/17.

I think that now that the results are fairly well tabulated, one can pretty well judge of the extent to which the imagination of the American people was finally aroused.

The total subscriptions were \$3,035,000,000; in addition, we had \$300,000,000 privately pledged in New York in case of need which was never filed and I would estimate that between Boston, Philadelphia and Chicago there might have been \$150,000,000 more subscribed in addition to those actually turned in had need for it arisen. The tabulation of the number of subscribers has not been completed as yet but is estimated to exceed 4,000,000 and doubtless will run very much beyond that figure, because so many banks failed to report details. The best opinions I can get indicate actually about 5,000,000 subscribers. The result is the scheme of allotment has cut down a great many subscriptions which will have to be filled in some way and our district alone is to-day short certainly \$15,000,000 of bonds and possibly much more than that in order to take care of those whose subscriptions were small, but which were reported in total and consequently reduced on the allotment. 3,960,000 people subscribed for amounts not exceeding \$10,000, so far as reported.

Our organization was very hastily developed and considering the short time permitted for perfecting details of the work has done very well. The enclosed chart indicates the character of the organization in this city, which was supplemented by the services of about 450 other committees covering all the cities and towns in the Second Federal Reserve District.

The chief money difficulty which developed was that which I fully anticipated and explained to you while you were here. Interior banks began to withdraw balances from New York as early as the 4th of June; we

were called upon to settle balances with the other reserve banks aggregating over \$400,000,000 in the sixteen days. The arrangements in New York worked perfectly but this difficulty about interior withdrawals could only be met by our discounting very freely, which we did to the extent of about \$250,000,000 and this was supplemented by imports of gold to New York, advances on which were made by this bank, by transfers of deposits from the interior to New York City and by distributing advances to allied governments as rapidly as the market showed signs of needing that additional contribution. On the whole, we got by very well but the 6 % renewal rate on the stock exchange seemed to be inevitable with the enormous shifting of loans occasioned by these withdrawals of cash to the interior.

By a very narrow vote in the House and a very satisfactory vote in the Senate, the bill amending the Federal Reserve Act was finally passed and signed by the President on the 21st instant. This gives us the element of elasticity which our whole system lacked and which I think we can rely upon for the future to take care of a reasonable bank expansion, provided banks generally understand the situation and cooperate.

Our local clearing house is taking the lead in this direction, all member banks now settling their balances through us instead of by the use of cash at the clearing house and I anticipate that before the week is over arrangements will be made by which our notes will serve all purposes of vault reserve and clearing house settlements where debit balances must be paid to nonmember banks in cash instead of being settled on our books. I am hoping that the issue of small denomination gold certificates will shortly be discontinued by our government and then it seems there will

6/28/17.

be no obstacle to a very large accumulation of gold by the reserve banks. Already, the movement of gold into our vaults has started, this week showing the total of gold holdings to the reserve banks to exceed \$1,200,000,000.

On the whole, I think the results of this first offering of war bonds by our government has been an astonishing success, far beyond our anticipations and I am most hopeful about future issues. In general, the same can be said of the satisfactory operation of the reserve banks. No such transaction would have been possible in past years without the services of these institutions and we would certainly have had a repetition of an uncontrolled money market, issues of clearing house loan certificates and possibly a premium on currency.

If my present plans are carried out, I shall leave in the course of a few days for Denver for a few weeks' rest and be back here probably around the first of August.

We all have most delightful memories of your visit here and I hope that you and your associates took back with you an impression which will hearten and encourage everybody on your side.

With warmest regards to you and your associates, I beg to remain,

Faithfully yours,

To
Lord Cunliffe,
Care Bank of England,
London, England

BS/VCM

39
Cuniff

Denver, Colorado,
July 23, 1917.

Sir:

I beg to acknowledge receipt of your favor of June 21st, advising that our cable stated that the sum paid to the National City Bank was \$52,400,000. This was, of course, a clerical or typographical error, as the exact sum was \$52,500,000.

We, of course, understand that the rates quoted in your cable of June 5th would only apply at the time, and should occasion arise to employ any of the funds now held in ear-marked gold, we would cable in advance for rates.

We would appreciate hearing from you at your convenience as to the possible change in your views as to the responsibility and cost for shipping the equivalent in gold of such amount as we might temporarily employ by investment in commercial bills or in current account with the Bank.

It has occurred to me that it might be an excellent plan for your institution and ours to keep in touch by mail or cable, if necessary, in regard to our respective money markets and possible transactions of importance which might effect rates. At the present time our market is feeling the effects of the heavy transfers occasioned as a result of the Liberty Loan payments and the change in the reserve requirements of National Banks. Doubtless the market will settle down to a more stable condition within the next thirty days.

Bank of England.

July 25, 1917.

Should my suggestion appeal to you favorably, we might agree to exchange cables on a certain day each week, to be supplemented by a letter, giving such information as might prove of value in connection with our money markets.

I am most gratified to learn of your safe return and hope that your visit to this side gave you as much satisfaction and pleasure as it did us.

With warmest regards to you and your associates, I remain,

Faithfully yours,

Governor.

To -
The Governor,
of the Bank of England,
London, E. C.

BS/CG

1917
FILING DEPT.

AUG 17 1917

FEDERAL RESERVE BANK

August 16th, 1917.

Dear Lord Cunliffe:

Your fine letter of July 12th pleased me very much indeed.

I cannot feel that we have found the logical method of raising these great loans without money disturbances because we have a very complicated and cumbersome machine in the United States for dealing with these matters by reason of the great number of banks and trust companies, but we have at least had an experience which will be a good guide for the future and we will all profit by it. If our next loan is brought out this Fall, as now seems likely, and if the amount is as large or larger than the last offer, I can see that the money strain will be more difficult to avert because of the immense crop moving requirements of the West which will come at about the same time. The high price of our cereals and the high price of farm labor are going to require the employment of the greatest total bank credit for that purpose in our history. This applies particularly to the corn crop which bids fair to be a record crop and to require very large advances to finance its harvest and movement. But these matters are being studied and I hope we are successful in coping with the problem. The enclosed clipping from the New York Times may be of interest in this connection.

I am glad to say that the short notes of our Treasury are becoming very popular and even at the present limit of $3\frac{1}{2}$ % I anticipate no difficulty in placing them in large amounts.

We enjoyed your visit here very much indeed and if it is a possible thing I hope to return it before very long.

With kindest regards to you and to your associates, I am,

Very truly yours,

To Lord Cunliffe,
Care The Bank of England,
London, England.

BS/VCM

October 4th, 1917.

FILING DEPT.
OCT 5 - 1917

FEDERAL RESERVE BANK

PERSONAL.

Dear Lord Cunliffe:

I have just signed an official letter to you in reply to your letter of September 3rd which I trust is quite satisfactory. In addition to that, I would like to send you this personal letter to inform you somewhat of conditions in New York which, of course, reflect to some extent conditions throughout the country and to ask if you will be good enough on receipt of this to write or, if necessary, cable me anything of importance which might occur to you in connection with conditions in London that might have an effect upon our money market.

My reason for asking this is because of the immensity of the transaction we are now facing, and as you very well know, the many difficulties of organizing our cumbersome and complicated banking machinery so that this next loan may be placed without serious disturbance to our money markets.

I would like first to describe to you what is being done towards making the loan a success. I must confine myself to our own district which is probably the best organized of all the twelve districts, but to a lesser extent the others are organizing along similar lines.

We have retained our General Loan Committee, somewhat enlarged, which is almost entirely an advisory committee, not only connection with

10/4/17.

the loan operation itself but in relation to a general policy of the associated banks of New York and the Federal Reserve Bank itself. The influence of this Committee is what I have relied upon to secure cooperation among the big banks of New York and I think our plans so far as those institutions are concerned are complete and effective. 67 of the larger banks and trust companies have entered into commitments with a Sub-committee of the Liberty Loan Committee, the Sub-committee consisting of the following:

George F. Baker, Chairman of the Board of Directors of the
First National Bank,
James S. Alexander, President, National Bank of Commerce,
Walter E. Frew, President, Corn Exchange Bank,
Gates W. McCarrah, President, Mechanics & Metals National Bank,
Charles H. Sabin, President, Guaranty Trust Company,
Frank A. Vanderlip, President, National City Bank,
James N. Wallace, President, Central Trust Company,
Albert H. Wiggin, Chairman of the Board of Directors of the
Chase National Bank, and,
Benjamin Strong, Chairman.

This Committee is to furnish as called upon a minimum of \$230,000,000 in order that we may escape any real money pinch. A larger amount will be furnished if needed. This Committee also proposes to have money available on the Stock Exchange for call loans and in very large amounts every day. The effect has already been to reduce call rates but we have not yet succeeded in reducing time rates as much as I had hoped. Possibly next week we will begin to lend time money and perhaps at the same time make some purchases of commercial paper.

To be quite frank, it is simply another method of inducing the New York banks to borrow from the Federal Reserve Bank. If they will do

10/4/17.

so to the extent pledged, we will create such a large surplus reserve among the New York Clearing House banks that it will be possible to put rates down to a very low level. This, however, should not be done suddenly and the arrangement will be timed so that the closing week of the campaign will be conducted under rather easy money conditions I hope.

As to the machinery for placing the loan, while still not all that I would like to see it in some respects, is so infinitely better than last time, having been developed with more deliberation, that I have great confidence in the success of the loan although I have kept this opinion very largely to myself because we need hard work all along the line.

The committee handling the actual distribution of the bonds is supervising a machine of tremendous proportions. Our publicity department consists of about 100 people and is divided between news, advertising, posters, "features", etc., etc. We have some of the best newspaper men in the city in this organization and the whole under the supervision of the editors or proprietors of the larger New York papers who compose a committee of which Mr. Stone of the Associated Press is Chairman. We also have a Speakers Bureau which includes in its membership an organization known as the "4-Minute Men" and I am told that we now have in that department alone 1,000 effective and fairly well trained speakers who will cover every amusement place, including moving picture theatres, in the district.

Sub-committees of the General Committee will have charge of

- (a) Large subscriptions from corporations and wealthy individuals,
- (b) Trust company subscriptions,
- (c) National bank subscriptions,
- (d) State bank subscriptions.

Our district has now been divided into eight sub-districts and we have twelve or fifteen hundred committees which cover all the important cities and towns in the district, these being under the supervision of committees in New York with experienced bondmen in charge of each subdivision and on the ground. We also have about 150 committees covering all the trades in New York City and somewhat smaller organizations in other cities. Responding to the desire for a nickname or slogan typical of this country, this trade organization is known as the "Rainbow Division" - I suppose because of its composite character - and is operated under a general staff of efficient men who are developing a tremendous enthusiasm in this organization and whose efforts I am sure will produce wonderful results.

At a meeting at the bank to-day of the small group of men who are really in charge of the details and ramifications of this great organization, I was told that including college students and other organized bodies, we probably have 100,000 salesmen at work to-day in this district. I have already signed about 15,000 letters appointing committeemen who report directly to the bank.

We are covering the district with posters and banners; every newspaper and periodical will have news articles, advertisements and editorials every day on the subject of the loan from now on until October 27th. Working alongside of this bank organization, we have gradually succeeded in coordinating what is known as the Woman's National Liberty Loan Organization and their committees are reaching throughout the district along similar lines to those established by the bank.

Not only has our selling arrangement developed far beyond anything that was possible last June, but I am glad to say that the bank itself is now well equipped to handle the detail and the Department in Washington is actually delivering the permanent bonds to the Sub-treasury in New York so that we may deliver them practically as sold.

With this, I am enclosing a Treasury Department prospectus of the loan which will give you the particulars and dates of payments. You will observe the tremendous transfers involved as these payments are made. I think, however, we have made adequate provision to avoid money market difficulties, at any rate, in the New York District. We are proposing to qualify all of the banks through which subscriptions will be received as government depositaries and I believe that the great bulk of the payments will be effected either by turning in certificates of indebtedness or by giving the government credit directly on their own books. The money will then be gradually drawn down and if this is done so rapidly as to inconvenience the depositary banks, we will expect them to borrow through us.

For the present we propose to maintain our present rates at the Reserve Bank which are as follows:

- For notes, drafts and bills of exchange, including promissory notes secured by eligible paper or bonds, notes or certificates of indebtedness of the United States, having a maturity at time of discount of not more than 15 days.....3 %
- For notes, drafts and bills of exchange, having a maturity at time of discount of more than 15 days and not more than 90 days.....4 %
- For agricultural paper having a maturity at time of discount of more than 90 days and not more than six months.....5 %

Special Rates.

For notes, drafts and bills of exchange issued or drawn for the purpose of buying or carrying bonds, notes or certificates of indebtedness of the United States, and secured thereby, having a maturity at time of discount of not more than 90 days.....3½ %

For trade acceptances having a maturity at time of discount of not more than 90 days.....3½ %

For one day promissory notes of member banks required in connection with transactions involving the fiscal operations of the Government, secured by eligible paper or bonds, notes or certificates of indebtedness of the United States.....2 % to 4 %

The important rate is of course the 3½ % rate for loans at 90 days secured by these bonds. I am hopeful that the payments can be handled without too great a strain on our resources but it may well be that our discounts and loans will this time run over \$500,000,000 and possibly even beyond that.

You are about to start a considerable loan campaign on your side and of course I am anxious to get the best forecast possible as to the probable course of your rates. This seems particularly important at this season if we have a large movement of cotton because at the present level of rates our banks may be inclined to carry bills in portfolio in London and not discount them which would, of course, impose additional burdens upon us through locking up that amount of free funds.

As our Government borrowings increase in volume, I am much impressed with the importance of exchanging information with you and your associates and hope that you will feel quite free to cable us fully of any material change in your market.

10/4/17.

Won't you give my warmest regards to Cokayne and Norman
and the same to yourself.

Faithfully yours,

Governor.

To
Lord Cunliffe,
Bank of England,
London, E. C., 2,
England.

BS/VCM

(214) 39

October 4th, 1917.

PERSONAL.

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10/4/17.

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10/4/17.

Won't you give my warmest regards to Cokayne and Norman
and the same to yourself.

Faithfully yours,

Governor.

To
Lord Cunliffe,
Bank of England,
London, E. C., 2,
England.

BS/VCM

November 5th, 1917.

Dear Lord Cunliffe:

It was most gratifying to have your cable of congratulations which reaches me just as I am leaving for a few weeks rest. While I am away, I am proposing to write you a little account of our campaign to place this second bond issue and also a sketch of our plans for the future. Meantime, I have taken the liberty of sending you a confidential message through Lord Reading which I am sure you will understand.

Will you permit me to intrude in a very personal matter to say that I sincerely hope that by no possibility you will contemplate retiring at the end of your present term. If this war continues, there will be many important things to be done in which your fine institution and ours will have interests in common. Your many friends on this side would deeply regret any change which would deprive us of the advantages of your friendship and understanding of our affairs.

With warmest personal regards, believe me,

Faithfully yours,

Lord Cunliffe,
Care Bank of England,
London, W. C., England.

BS*VCM

Dictated by Governor Strong but signed after his departure.

WESTERN UNION CABLEGRAM

NEWCOMB CARLTON, PRESIDENT

GEORGE W. E. ATKINS, FIRST VICE-PRESIDENT

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

Dec. 22, 1917.

W
 Lord Cunliffe,
 Bank of England
 London.

Warmest Christmas greetings to you and your associates.

Charge Benjamin Strong,
 Federal Reserve Bank,
 15 Nassau Street.

BS*VCM

FILING DEPT.

DEC 22 1917
FEDERAL RESERVE BANK
Strong.

January 21, 1918.

My dear Lord Cunliffe:

I have taken the liberty of giving a note of introduction addressed to you, to my friend, Mr. John T. Pratt, who is sailing for France this week. ✓

Mr. Pratt is a well-known New Yorker, the son of Mr. Charles Pratt whom you doubtless know as one time connected with the Standard Oil Company. Since the outbreak of the war he has been engaged in some important work in the Department of Labor, in Washington, and has now resigned to take up work in France.

He is a very warm personal friend of mine and a delightful fellow in every way, and I hope his engagements abroad permit him opportunity to meet you. Anything that you can do to facilitate the objects of his trip will be warmly appreciated.

With kindest remembrances for the New Year, and thanking you in advance, I beg to remain

Sincerely yours,

Rt. Honorable Lord Cunliffe,
Bank of England,
London, England.

BS/HAB

January 21, 1918.

Dear Sir:

This note will be presented to you by my friend, Mr. John T. Pratt, who is just leaving this country to accept a position of importance in the American Red Cross, Field Service, in France.

I hope that Mr. Pratt's duties will permit him opportunity to present this letter to you, as he is a very warm friend of mine and I am sure you will be glad to know him.

Anything that you can do to facilitate his work or his trip will be greatly appreciated by me.

Faithfully yours,

Rt. Honorable Lord Cunliffe,
Bank of England,
London, England.

BS/HAB

February 4, 1918.

Dear Lord Cunliffe:

Since receiving your letter of November 28th, which I was delighted to have, it has seemed wise for me to take two short holidays and the intervals between them have been spent partly in Washington and partly in some very busy days at the bank. Dropping everything for a period seems to have had the desired effect. I am feeling altogether better and able to start work on the next loan, which bids fair to be a large one, requiring even greater effort and more intensive organization.

The various problems that we discussed when you were over here are working out satisfactorily enough only they have grown in magnitude and importance, and, consequently, the amount of time and education required to handle our many affairs seem to be greater with the development of our huge war machine.

It is fine to hear that there is a prospect of your coming over in April. There are many matters in which you can help us with sound advice drawn from your long experience in working out these problems. If indeed you find it possible to be here in April, we will have a warm welcome as well as a little work in store for you. My personal feeling in regard to your visit is one of great envy. There are many times when I feel what a relief it would be to shift all of these worries but, for the present, I must stick to the work.

With warmest regards, I am,

Sincerely yours,

~~Right Honorable Lord Cunliffe~~
Bank of England,
London, England.

BS/MSB

July 23, 1918.

My dear Lord Culliffe:

It is a pleasure to receive your kind note of June 22nd, which reaches me just as I am leaving for a few weeks absence in the country.

There are some points in connection with the Act of 1844, at least as now applied to modern banking and finance, which seem to me might be dealt with to advantage. It is a very big subject and one upon which I would only venture to comment with diffidence, as a child might feel toward its mother.

That I admire about your system so greatly is the value and efficacy of tradition as distinguished from our complicated and inflexible statutes.

I shall hope to take advantage of these few weeks of recreation by giving some special thought to your letter, and will write you fully in the course of a few weeks.

Anything that I send you may be used without reserve, for it will be based upon our own experiences of the past four years under our new system, some points of which I firmly believe might be adopted by your bank without involving any loss of tradition to the Bank of England, and, possibly, without radical change of law.

It is a great pleasure to hear from you, and I only wish that I might have an opportunity to discuss this particular matter in person, correspondence being a very unsatisfactory way of expressing one's ideas on

You are most kind to send me a copy of your photograph through Mr. Hamlin, which has not yet reached me, but I shall prize it very highly; and to show you that I am not unappreciative, I am sending you a copy of my own photograph, which I wish ~~was~~ a better one.

With warmest regards, I am,

Sincerely yours,

Rt. Honorable Lord Cunliffe,
Headley Court,
Epson, England.

BS:GB

Woods Hole, Mass.,
August 10, 1918.

Dear Lord Cunliffe:

You must not think that I have overlooked your kind letter of June 22d. In fact, I have been at work preparing notes for a memorandum which I hope to send you in the course of about a week. In the meantime, I am reciprocating your courtesy by sending you, under separate cover, one of my photographs and am looking forward to having one of yours, through Mr. Hamlin, as you were good enough to advise me.

We are now quite busy getting ready for our next Liberty Loan, which will be offered on September 28th, and will probably be for a very large amount, possibly \$6,000,000,000. The country's enthusiasm for the war, and its great interest in what our men are doing in France leads us to believe that a loan, even of that great size, will be successfully placed.

With warmest regards, I beg to remain,

Faithfully yours,

The Right Honorable Lord Cunliffe,
Headley Court,
Epsom, England,

BS.MSB

8/10/18

to Canteffe

FEDERAL RESERVE BANK
OF NEW YORK

DUPLICATE

Woods Hole, Mass.,
August 12, 1918.

My dear Lord Cunliffe:

The following remarks, which I am sending in response to your kind note of June 22, 1918, I trust will be read by you and by your associates with the full understanding that in no respect should they be taken as criticism where they appear to be such, but rather as evidencing a desire to answer your inquiry with the frankness which is required in order that this letter may be of service, and with the candor which should characterize the suggestions of a friend. I need not tell you how greatly honored I feel in being asked to aid in such an important and complicated matter as that upon which you are just now engaged.

The Federal Reserve System, while embodying the results of inquiries conducted in all the modern banking countries, is, nevertheless, more largely modeled in its fundamentals upon English banking experience and tradition than upon those of any other nation. Its most important variations from the British system consist in our having twelve regional central banks, instead of one, with branches, and in these banks having the power to issue circulating notes, secured by their assets, instead of solely against gold.

I am submitting below some comments which seem to be justified in view of our four years experience under the new Federal Reserve Act, but I am not confining these suggestions to the scope of the inquiry suggested by your letter. Twelve headings will be dealt with somewhat in the order of their importance, discussing first our own experience, and, later, commenting upon certain aspects of your position in the case of each heading:

1. THE CURRENCY NOTE ISSUES OF THE BRITISH GOVERNMENT: The history of the note issues of the Federal reserve banks may be summarized as

follows: Under the law, as originally passed, it was understood by many, (and, possibly, although not certainly contemplated by the law,) that these notes should ordinarily be issued against the security of bills and commercial paper and that each reserve bank should maintain a gold reserve in its banking department, in addition to the pledged collateral, equal to 40% of the amount of notes actually issued and outstanding. Certain provisions in the Act, which permitted the substitution of gold as collateral, in place of commercial paper or bills withdrawn, afforded opportunity for the reserve banks, when they were first organized, to make the note issue the means of gathering in the floating supply of gold and of impounding the large imports of gold which took place in the early years of the war. Without, therefore, any true expansion of "assets" currency, the reserve banks, during the first two and one-half years of their existence, built up an immense reserve of gold, simply by issuing notes upon the security of gold as opportunity afforded. These issues were made in various ways, but, generally, in direct exchange for gold deposited with the reserve banks or purchased from those importing it from abroad. Various amendments to the Federal Reserve Act facilitated this operation, the last amendment, in 1917, doing away with all requirements that national banks carry reserves in their own vaults and providing that only deposit balances carried with the reserve banks should thereafter count as reserve. The amount of reserves to be carried on deposit was increased by the new law, and, in consequence, the gold reserves of the member banks were at once very largely transferred to the reserve banks, whose notes are now used as till money by these banks, although (for National Banks) they do not count as reserve. Through these operations was laid the foundation of the present strength of the reserve banks, which has enabled them to meet the demands of our war financing with such ease.

Commencing in April, 1917, the reserve system began to feel the strain of the financial operations of the Government, as well as the demands

for currency, caused by rapidly advancing prices for labor and commodities. While the gold reserves of the twelve reserve banks have been built up to nearly \$2,000,000,000, being two-thirds of the country's gold supply, at the same time note issues have expanded to \$1,955,000,000 and loans, discounts and bills purchased to \$1,541,000,000. In connection with this paragraph, I am transmitting a series of statements of the Federal reserve banks, which will exhibit the growth of these various accounts from the commencement of the system until the present time. This expansion of note issues stands out in marked contrast ^{with} occurrences during our Civil War. Due to various causes, in part to ignorance of sound principles of finance and to failure promptly to levy taxes, and to the timidity of the country resulting from the shock of civil war, our Treasury was led to issue the so-called "green-backs." Hardly six months had passed before our Government, and practically all of the banks of the country had suspended specie payment and from that time until long after the conclusion of the war, gold commanded a premium, at one time equal to 280%, measured by the value of our paper money or deposit balances. Our green-backs have never been retired and are still legal tender! The contrast with present conditions is too striking to be passed without comment. We have never had a premium on gold since the war started in 1914; there has been no lack of currency for commercial needs and we have continued to ship gold to creditor nations, while only in recent months have such shipments been subject to necessary Government regulations. Gold is still paid out by our banks to their depositors if demanded and the only legal restrictions upon gold transactions are those imposed by the export embargo which seeks to regulate and control the loss of our gold banking reserves in harmony with our war requirements and those of our Allies.

This statement is made at some length in order to emphasize the point which is so obvious in our currency situation; namely, that the infusion of this

large amount of circulating media into our banking system and into trade channels under the stimulus of rising prices and expanding loans and deposits, is most unlikely to result in an irredeemable currency situation, because the general contraction of business and credit succeeding the conclusion of the war will automatically bring about a contraction of the currency circulation, and the gold redemption fund is unquestionably adequate, unless the war should last many years. The note issue has expanded as business demanded, and has been an important instrument in effecting an accumulation of gold reserves.

As to your situation, I can not help but feel that a different and not quite as sound a policy has, of necessity, been pursued. Your currency notes now appear to have taken a permanent place in the nation's note circulation, and, doubtless, occupy an important place in the cash reserves of the joint stock and savings banks. The gold reserve maintained against them is trifling compared to that maintained by the Bank of England in its Issue Department, or that maintained by the reserve banks (now roughly 60%) against combined note and deposit liabilities. The fact that the currency notes are secured by interest bearing bonds, together with a deposit balance at bank and a small gold reserve, is an explicit recognition by your Government of the urgent need for prompt retirement of this circulation, but the question arises, will its retirement automatically take place and how will the progress of its retirement be governed? It seems that this will largely depend upon the policy of your Government in dealing with the obligations by which the currency notes are secured. The notes should not be retired more rapidly than the reserve condition of your banks, the activity of your business, and the decline in the price level will permit. No refunding scheme for the sale of interest bearing bonds to the public will replace in the pockets of your people, in merchants' tills, and in bank reserves, currency which is now required to meet demands for commercial and banking purposes. Even the substitution of a balance at the Bank for the

Government's obligations now securing the notes will be no more than a substitution of one form of obligation for another form of obligation. The real problem will be to provide automatic retirement for these notes when and as rapidly as their circulation is no longer required. I am inclined to think that the modification of your Bank Act, suggested in "B" following, might well be combined with a plan by which the currency notes would be assumed and gradually retired by the Bank of England, or, possibly, its own notes substituted at the proper time, and the issues merged.

Unless human nature in England is quite different from human nature in this country, the currency notes will be a menace so long as they are in circulation. The demand for 'cheap money' by ignorant people can easily be focussed upon the Government printing press, but the conversion of the currency notes into bank notes, with provision for automatic retirement, should anticipate and avoid that development.

B. THE BANK OF ENGLAND NOTE ISSUE: Under "A" I have roughly described the operation of the note issue of the Federal reserve banks. In elaboration of that statement, it should be explained that under the law as now amended, the note issues of the Federal reserve banks are almost, if not quite as fully, assets currency as are the notes of the Bank of France. All of the assets of the reserve banks are charged by law with a prior pledge to the note holders, before other creditors can be paid, so that the physical segregation of bills and gold with the Federal Reserve Agent, which is the equivalent of the establishment of an Issue Department similar to that of the Bank of England, is more a formality than a reality. When the period of post-war liquidation arrives, accompanied by declining prices for commodities and labor, unless the nation's banking reserves are disturbed by heavy gold exports, it may be expected that the liquidation of loans and deposits of the banks generally, and, in consequence, the loans of the Federal reserve banks, will gradually bring about a reduction of deposits and note issues without disturbance to either business or

banking conditions.

It may be a justifiable comment upon the maintenance of the issue department of the Bank of England in its present form, that its note issue was incapable of expansion like ours, to meet the needs of the war, and, had it been capable of such expansion, doubtless some of the serious currency difficulties of 1914, which resulted in the issue of the currency notes, would have been avoided.

Since the outbreak of the war, the Federal Reserve Bank of New York has aimed to keep in stock unissued notes of various denominations of no less than \$500,000,000 and the total of unissued notes carried in reserve by all the reserve banks has been kept at about \$1,000,000,000. The protection afforded to our banking system by the assurance which knowledge of that fact gives to bankers and business men has been of unmistakable value. No such stock of notes held by the Bank of England would have had similar effect upon sentiment as the Bank has no means of putting them into circulation.

Later experience with our own system, if the war continues, may require a modification of these views, but, up to the present time, I believe that our experience justifies a greater faith in the note issue plan of our Federal Reserve Act than in the plan of a separate department of issue without power of expansion, required by your Act of 1844. Realizing, further, that the position of the Bank of England, if operating under a law comparable to ours, would require fortification by a great addition to its gold reserve, leads to question

C. ARE ENGLISH BANKS OVER-LENDING ON THEIR RESERVES? During a visit to England in 1914, I recall stating to some of your bankers that it appeared to me, and I believed to other American bankers, that the English banks as a whole were over-trading on their gold reserves. If the comments under paragraph "B" are justified and the Bank of England should be given the power in future to expand its note issue, then, in my opinion, no such change of law would be safe without a greater store of gold, either in the central bank, or in the joint stock banks.

We have always been a nation of statutory minimum reserves; England has never imposed statutory reserve restrictions upon its banks, and I should say that the consequences of these divergent policies are, in the case of American bankers, too great a reliance upon reserves and too little upon good banking, and, in the case of English bankers, too great a reliance upon good banking and too little upon reserves. We have been over-supplied with reserve money, but our banks have not kept as liquid as the English banks. Your banking institutions have done too large a business upon too slender a gold reserve.

While I am opposed to the principle of independent vault reserves and of statutory reserve requirements, it is, possibly, fair to state, in the light of our war experience, that the English banks have not fortified their central bank as much as they might, and, in order to build up the gold reserve of the Bank of England, it might be prudent to induce or require them to sufficiently reduce their credits so as to enable the Bank of England to accumulate a greater general gold reserve and this would seem to be an essential requirement if the present restrictions of the Act of 1844 surrounding note issues are to be removed.

D. DEPOSITED RESERVES VS INDIVIDUAL BANK RESERVES: Since our National Bank Act was adopted in 1863, and until the Federal Reserve Act was recently amended, all national banks in the United States had been required to keep a considerable reserve in their own vaults and had been permitted to carry a portion of their reserve on deposit with other banks. Most of our State laws still require State institutions to carry reserves in their own vaults, (which may, however, in most States, consist of the notes of the Federal reserve banks) and still permit a portion to be carried on deposit with other banks, which, in most States, include the Federal reserve banks. Our reserve laws were undoubtedly a source of weakness in a country where branch banking was not permitted or encouraged and resulted in our reserve being scattered among 20,000

or more banking institutions. This has finally been corrected by the recent amendments to the Federal Reserve Act so that now, as stated above, the Federal reserve banks carry reserves of nearly \$2,000,000,000 of gold, available to all the principal banking institutions of the country. Over 8,000 banks and trust companies, including practically all the large ones, are now members of the system. There has recently, I understand, been a strong movement in England looking to the carrying of independent cash reserves by the joint stock banks. This, I believe, would be less objectionable with you than in this country, owing to the small number of commercial banks in England; but, on the other hand, it might retard the process of recuperation from the war strain by the Bank of England, which should be promoted before any measures of that character are applied to your commercial banks. In general, I think that our reserve law, and, in consequence, our reserve position, is to-day much stronger than that of the Bank of England and of English banks generally and that your situation would be largely corrected by some bank liquidation which would enable the Bank of England to maintain larger gold holdings.

E. DOMESTIC EXCHANGES: At the time of their establishment, the Federal reserve banks faced difficult, and what appeared to be insurmountable obstacles, in overcoming the objections of the banks of the country to a proper regulation and control of the domestic exchanges. There are probably 30,000 banks and bankers in the United States, large and small, upon whom checks are drawn daily, many being sent to all parts of the country for various settlements. The collection of these checks and the adjustment of the resulting balances were long subject to no fixed rule as to cost or as to time of collection and settlement and, in consequence, many confusions and dangers arose, which it was the function of the reserve system to cure. This has at last been well started and I refer to the matter only in order to comment upon the operation of your magnificent London Clearing

House and the simple and effective methods by which your collections and exchanges are effected. The only modification of present practice which might be suggested is possibly the establishment of a more uniform plan for settlements between English and Scotch banks so that they might be more promptly effected and, possibly, at less cost.

F. THE LONDON BILL MARKET: No department of English banking has so influenced the development of banking in this country as has the example of your bill market. In every advance in this new line of American banking your own practices and traditions have been searched and examined for a better understanding of how this business should be conducted and, I believe, notably in this respect English banking leads the world and should continue undisturbed, by regulation or restriction.

G. THE OVERDRAFT ACCOUNT: In our National Bank Act and in the larger number of our State banking laws, provisions are now contained, most rigorous in character, which prohibit overdrafts by depositors in banks. In the case of the Federal law, this is so strict that if intention can be proved, the depositor can be visited with severe penalties. In some States to intentionally overdraw a bank account is a misdemeanor, punishable by imprisonment. This is in distinct contrast with the practice of many of the English joint stock banks, which regularly grant credit to their customers on current account or overdraft. I firmly believe that this is a bad and dangerous custom and might well be dealt with by statutory prohibition. A bank of all institutions, should know when it may count upon the repayment of indebtedness owing to it. Furthermore, a loan of that character, which may run indefinitely, in time takes on the nature of a capital fund in the mind of the borrower and gradually merges into his business investment. While I fully understand the care which is taken by some of your bankers to safeguard this method of extending credit, I can not but believe that the proper regulation of the relations between a bank and its customers can be better effected by the

employment of a bill or a note, rather than by reliance upon an inscribed account.

H. RATE FIXING: The Federal Reserve Act provides that the directors of Federal reserve banks shall fix the rates of discount for the various classes of loans which they make, the rates so fixed being subject to review and determination by the Federal Reserve Board. These rates must apply to all borrowers making similar types of loans. The language of the statute is somewhat ambiguous as to whether the Federal Reserve Board has the power to initiate a rate. That question has never been definitely determined, and I doubt if need for such a determination is likely to arise. This is a marked defect, however, in the regional bank plan, as uniformity of rates can not well be brought about, and the influence of the central bank rate is to some extent impaired.

The influence of the rate of the Bank of England is so pronounced, in fact so much more pronounced than the rates of the Federal reserve banks, which are so various as to different types of loans and differ rather widely between the different reserve banks, that I doubt if comparison can be made between the practices of the two institutions. I should hope, however, in the interest of your own money market, that no development would take place which would have the effect of altering the stability and uniformity of rates now so well governed and controlled by the Bank of England.

I. THE PAYMENT OF INTEREST TO DEPOSITORS: Federal reserve banks are neither authorized nor expressly prohibited by law in the matter of allowing interest on balances. As a matter of practice, and in view of our interpretation of the law, it has been generally considered that we were without power to allow any interest on deposits. It would nullify other provisions of the law which require us to pay all surplus income over our 6% dividend and the maintenance of our surplus at 40% to the Government. If interest were allowed, there would, in fact, be little or no surplus income, in which event the profits payable to the Government, in lieu of franchise and all other taxes, would never arise.

On the other hand, keen competition for business among our commercial banks and trust companies, and the advance in the general level of interest rates, occasioned by the war, have led to the practice in some parts of the country of paying interest upon active checking accounts far beyond what banking prudence warrants. Conditions governing this matter in England have been somewhat different. The payment of high rates of interest has at times been effective in attracting and retaining balances from abroad, and, frequently, in protecting your market against heavy discounts of foreign paper. Experience in this country has led us to believe that no more subtle influence exists for the promotion of unsound banking than the competition which takes the form of allowing high rates for deposits. Whether brought about by the influence of the Bank of England or of your Clearing House, or, possibly, by statute, it has seemed to me that some regulation of the rates of interest allowed on balances by the English banks, as well as the return by the Bank of England to its former policies in that respect, will be required at the conclusion of the war.

J. SECURITY INVESTMENTS: The unprecedented decline in security values since the outbreak of the war, including bonds of the highest grade, has been a convincing argument to many American bankers that they have pursued a hazardous policy when they have invested a considerable proportion of their deposits in long time securities. Some of our smaller country banks have suffered such serious shrinkages in their surplus or "rest" funds, through the decline in the market value of their investments, that it will take many years, even in some cases with suspension of dividend payments, to restore these accounts to a proper proportion of capital. The war has likewise resulted in a large accumulation of Government securities by the English banks; probably larger in proportion than are the holdings of Government bonds by American banks. An understanding between your Government and the bankers looking to a liquidation of these holdings is greatly to be desired and doubtless is already receiving consideration.

K. COMPETITION BETWEEN THE CENTRAL BANK AND ITS DEPOSITORS:

The broad provisions of the Federal Reserve Act at first led many American bankers to conclude that the Federal reserve banks, with their immense resources and power, would become dangerous competitors, in various lines of banking, with the very institutions which were to be the owners of the capital stock, and, (outside of the Treasury) the sole depositors in the new institutions. The feeling referred to was a serious obstacle to our development in the larger cities, at one time, and was held by officers of many of the larger banks. It has been our effort from the outset to overcome this impression and, with the exception of our moderate dealings in the open market in the purchase of bills, we are not in competition with our own stockholders and depositors in any department of banking.

This has not always been the case with the Bank of England and it is a fair question to ask whether, if the joint stock banks are to be required to help build up the reserves of the Bank, as suggested in paragraph "C", and, possibly, are to be expected to maintain larger balances at the Bank, it may not be important to consider to what extent direct competition between the Bank of England and its own clientele, should be avoided. An intelligent discussion of this subject would necessitate an examination of the accounts of the Bank of England such as could only be made by an officer of the Bank. The English Banking System has rested upon the Bank of England as upon a rock foundation. That foundation does not depend upon any legal requirement as to the maintenance of reserves with the Bank of England, as in the case of the Federal Reserve System, but tradition, the desire for mutual self-protection and the magnificent unity of the British banking system has preserved the Bank's position unimpaired up to the present time. No small part of this is due to an illustrious record of successful and conservative management by the directors of the Bank; but the question is now likely to arise, unless our information here is misleading, as to whether this good will and tradition can

always be relied upon in the future and, especially, in view of the developments referred to in the following paragraph.

L. BANK AMALGAMATIONS: Our National Bank Act and the laws of practically all of our States permit the consolidation of banking institutions under various limitations. In general, however, these consolidations can only be effected between institutions in the same municipality. This has been a natural and effective curb upon the over-development of any tendency to amalgamate and possibly has had the effect of curbing loose banking methods and reducing over-competition. But we are in a way over-stocked with banks in the United States. There are no less than one hundred and thirty-seven incorporated banks of deposit in the City of New York, exclusive of the mutual savings banks. Amalgamations of banks in England, however, proceed without statutory limitation, and, in recent years, have resulted in a great reduction in the number of institutions and, consequently, have made it increasingly difficult for new banks to be organized. This is always the case in a country where branch banking becomes highly developed. The creation of banks of the immense size which have resulted from recent amalgamations, may somewhat impair the influence of the Bank of England, which should be maintained beyond question. Aside from all questions of economy of management, efficiency of supervision, security, maintenance of competition, etc., I believe the greatest danger in the development of these amalgamations lies in the possible undermining of the supremacy of the Bank of England, the importance of which is not only measured by its relations with the great banks of London, but by the stability which its prestige has afforded to the banking systems of the whole world.

In reading the above you may be led to conclude that the views I have expressed relate more particularly to banking practices in England in war times rather than under peace conditions. The changes which are required, however, to adjust banking affairs to the unexampled situations arising

out of this war must take into account that the period of readjustment succeeding the conclusion of the war will, possibly, bring a greater strain and present more novel problems in banking and finance than even those which arose at the time of the outbreak and now confront us during the continuance of the war. In this respect the Federal Reserve System has had a distinct advantage, because we were embarking upon a new and untried enterprise, in which defects were expected and which could only be discovered through experience. The amendment of a law approved by the President as recently as December 23, 1913, naturally has not encountered such opposition as would be aroused by changes proposed in the fundamental banking law of your country, adopted in 1844.

Unfortunately the literature in relation to the Federal Reserve System and its development is most limited. Those who have been engaged in managing the system have had little time to spare for the preparation of critical works which would be of value to you and your associates in the problems which you are now considering. I am, however, sending you, under separate cover, the following documents:

1. The Federal Reserve Act, as it originally became law December 23, 1913. ✓
2. All subsequent amendments to the act, as tabulated. ✓
3. A bill now pending in the Senate and House proposing further amendments to the Act, known as the Phelan Bill, the passage of which is still uncertain. ✓
4. A digest of the Act, prepared by Honorable C. S. Hamlin, Member of the Federal Reserve Board. ✓
5. The A. B. C. of the Federal Reserve System, a recent publication by E. W. Kemmerer, Professor of Economics at Princeton University. ✓
6. All the regulations established by the Federal Reserve Board which are now in effect.
7. All of the annual reports to Congress made by the Federal Reserve Board, which include statements of all twelve of the Federal reserve banks.
8. A series of statements referred to in Paragraph "A"

8.12.18.

In conclusion, permit me to say that in no part of the world has the English banking system a greater number of friends and admirers than are to be found in this country; the best evidence of which is the extent to which our own recent banking reforms have been influenced by a study of your methods.

Possibly also it may not be out of place in closing this letter to reaffirm the statement which I made to you in London in 1916, to the effect that a close alliance between the Bank of England and the Federal Reserve System, for which, fortunately, the foundation has now been laid, should afford protection to the banking systems of our two countries of a value that can not be over-estimated.

With assurance of my esteem, and wishing you every success in your task, I beg to remain,

Faithfully yours,

Right Honorable Lord Cunliffe,
Headley Court,
Epsom, England.

BS.MSB

September 30, 1918.

My dear Lord Cunliffe:

Your letter of September 1st has just reached me, and I hope that by now the photograph has also arrived. It was sent under separate registered cover, which, possibly, accounts for its apparent loss. Registered mail is not always as rapid as regular mail, but if by now the picture has not arrived, will you not please advise me, and I will start another copy on the way.

Governor Hamlin sent me your photograph finally, and I now adorns my room, so I am hopeful that mine may safely arrive also.

I hope that the committee on currency and foreign exchange will permit me an opportunity to read the full text copy of its report. The matters you are dealing with are of the greatest interest to me as you must realize, and I only wish that we had opportunity to discuss them in person. Correspondence is so exceedingly unsatisfactory, particularly when the mails are so slow. Is there any possibility of your making us another visit? I can promise you a royal welcome from the many friends you have on this side.

With warmest regards, believe me,

Cordially,

The Right Honorable Lord Cunliffe,
Headley Court,
Epsom, England.

MAILING DEPT.

MAR 5 1919

Loose in file

December 3, 1918.

My dear Lord Cunliffe:

FEDERAL RESERVE BANK

Rec'd

Your confidential letter of October 25th reached me some time ago and shortly afterwards the interim report, which I have read with very great interest. It covers matters of such great importance that I shall not attempt to send you comments that are very much in my mind about it until I have time to write you more fully than is possible at the moment.

I am indeed glad that that picture reached you, and hope that it will serve as a souvenir of an association which I shall always cherish most highly. My respect and admiration for the great institution over which you presided during almost the entire war period, and particularly of your own administration of its affairs, are absolutely unbounded. British finance has justified itself, and my sole mental reservation having to do with financial reconstruction is largely resolved by the conservative and constructive character of the splendid report which you have now submitted.

You are doubtless experiencing the same difficulties that we are in combating the relaxation of all classes and the desire to immediately resume normal habits of business and private life. Our Government still requires many billions and we will have difficulty in raising the funds without undue expansion unless our Government makes a very tempting offer in the terms of its next loan.

Nothing would be so helpful to me just now as opportunity for a visit and discussion with you, not only in relation to these immediate matters, but another and more important matter which I am sure is as much in your mind as it is in mine.

My visit to England in 1916 was definitely inspired by a desire to undertake the establishment of relations with the Bank at a time when such negotiations might have been least expected. I believed then, as I believe now, that the world's future very largely depends upon the character of the understandings between your people and ours, whether, in fact, they are formal and Governmental, or simply social and sympathetic.

Now that the war is over - and won, to permit these two great nations to drift apart simply because of ancient and out-worn antagonisms, or, worse, because of commercial rivalry, would be a calamity of the first order. Stupidity and selfishness would be largely to blame. There are many of us in this country who are hoping that the peace conference may be the instrument for eliminating some underlying causes of international commercial rivalry which will be a menace to happy relationships in the future.

Sheet No. 2

Lord Cunliffe

12/2/18.

FILING DEPT.
MAR 5 1919
FEDERAL RESERVE BANK

At least the bankers of the two countries, who are sometimes supposed to be endowed with more than average intelligence and to have somewhat wider vision than other classes of business men should make it their duty to form partnerships and promote good feeling rather than stand apart and promote discord. In this matter, it may be that your great institution and ours still have duties of importance ahead of us.

With many thanks for your kind letter and the personal expressions of regard which I shall always cherish, and which I just as warmly reciprocate, I beg to remain,

Faithfully your friend,

The Right Honorable Lord Cunliffe,
Headley Court,
Epsom, England.

BS/MSB

FILING DEPT

Lake George, N. Y.,
February 5, 1919.

MAR 8 1919
FEDERAL RESERVE BANK

Dear Lord Cunliffe:

Your letter of January 5th is forwarded to me here where I am, unfortunately, engaged in repairing some damage to my own health and I learn with real regret that you are not as well as you should be. I have all the desire to be hard at work, but find that I have to curb it. Knowing something of the terrific strain which you and so many others of my friends in London have been feeling for the past four years, I wonder that you have any health left.

You will not, I hope, be too pessimistic about the future. Much depends upon that understanding between our two nations. If it is made complete and if it is based upon understanding and sympathy, we will emerge from this period of difficulty possibly weakened, but infinitely stronger than the rest of the world put together. I fear that green-eyed monster, however, as you do and only wish that such turbulent characters as Holden et al could be restrained from giving such violent expression to their views.

I see he is again thrusting at The Bank. Has he any really following or is it simply a solo with an audience, but without sympathy?

Were it not for my health I would be in London now preaching the doctrine of partnership and I feel sure with friends who would understand and appreciate its sincerity.

Our economists over here estimate that out of a total bank expansion in this country since the war started, aggregating possibly eleven billion dollars, roughly one-half is to be attributed to our own war finance. This is very small in comparison with your own, and trifling compared to that

Sheet No. 2

Lord Cunliffe

2.5.19.

in France, and particularly in the Central Powers. We have still immense banking reserves untouched and after the period of liquidation and paying debts, which seems now to be ahead of us, our banking system will be fully capable of assistance to the world in reconstruction matters if it is prudently handled. Why can't Englishmen realize that if this problem is approached in a friendly and cooperative spirit they are the one nation in the world to which credit will be freely given here, because, after all, it is the English businessmen and banker that we trust.

If men of the Holden type were willing to admit the necessity of the surrender of some part of the business of Lombard Street to New York at the present time; would make the surrender gracefully and generously; we would all be better off. American banking would be sounder and English banking would be able to draw on resources in this country with great freedom.

Don't trouble to answer this letter. I am just now indulging in a clean up of mail, with nothing much else to do, and this is the next best thing to having that chat of which I really feel a great need.

With warmest regards, I am,

Sincerely yours,

The Right Honorable Lord Cunliffe,
Headley Court,
Epsom, England.

BS.MSB

P. S. You have undoubtedly already heard of the many complimentary things which

Just Loose in file

have been said in this country about the report of the committee of which you are chairman. If there are any more extended remarks or exhibits in connection with this report which can be furnished to me privately and in confidence, I would greatly appreciate it.

Final Report in 790 A

32

Bank of England
17th March, 1916.

Dear Sir,

I am desired by Lord
Cunliffe, the Governor of the
Bank, to say that it will
afford him much pleasure
if you will lunch at
the Bank on Tuesday next
the 21st instant, at 1.30.

I am,

Dear Sir,

Yours faithfully,

Ronald Dals
Asst. Secretary.

Benjamin Strong, Jr., Esq.,
c/o Messrs. Morgan, Grenfell & Co.

Bank of England

25th March, 1916

Dear Mr. Strong,

It was arranged that you should give us the pleasure of a call on Monday next but I now find myself unable to be at the Bank that day. I write therefore to say that I hope you will not forget to look in on a later afternoon before the date of your sailing.

Yours very truly,

Benjamin

Benjamin Strong, Junr., Esq.

PRIVATE & CONFIDENTIAL.

Bank of England,

2nd March, 17.

The Governor,
Federal Reserve Bank of New York,
New York.

Sir,

I beg to thank you for your letter of the 18th January last informing me that the Bank of England has been appointed as the Agent and Correspondent, in the City of London, of the Federal Reserve Bank in New York. I have since received the cable of the 9th ultimo from Mr. Treman, in answer to my cable of the 8th idem, for which I am obliged.

The various amendments and additions to the Memorandum of March last which are specified in your letter have received careful thought and I enclose a revised copy of the Memorandum which has been re-drafted in accordance with certain of the suggestions in your letter and further amended as the result of consideration and discussion here.

With regard to the main changes in the Memorandum as compared with the suggestions received I offer the following remarks and explanations:

Clause 4. The alteration in this Clause is merely to avoid any difficulty which might arise from uncertainty on this side as to the meaning of an "actual commercial transaction". The intention is to comply with Section 14 of the Federal Reserve Act to the best of our knowledge and belief.

(a) There is no objection to this paragraph as the wording is permissive, but it involves so much "sorting" as to raise doubts if in practice it can be carried out.

Clause 6.

Clause 6. Further consideration leads to the conclusion

that $77/10\frac{1}{2}$ ^{s d} per ounce should be substituted throughout for $77/9$ ^{s d} and for the following reasons -

(1) $77/10\frac{1}{2}$ ^{s d} is the Statutory British Mint price for gold (i.e. the bullion value of gold), and corresponds exactly to the United States price of \$18.604651, while there appears to be no price in the United States corresponding to $77/9$ ^{s d}.

(2) It is the minimum price which the Bank of England receives for gold.

(3) While the Bank of England is bound to purchase (assayed and approved) gold at $77/9$ ^{s d}, it is only able to do so if there are no other buyers at that price or at a higher price and, in practice, only for limited quantities: a higher price has frequently been paid.

(4) The accepted par of Exchange - viz. 4.866564 - is based upon the above bullion values of gold of $77/10\frac{1}{2}$ ^{s d} and \$18.604651 for England and the United States respectively.

(5) The right to take gold here at $77/9$ ^{s d} would permit the Federal Reserve Bank of New York to make a profit from shipment (excluding expenses) even at the par of Exchange - a prospect which can never be intended.

The fact is not overlooked that the figure of $77/9$ ^{s d} per ounce was suggested by the Deputy Governor in a letter to you dated June 15th 1916, on the understanding that the corresponding price could be fixed on your side, but as there is in fact no corresponding price in the United States our preliminary calculations cannot be adopted. Indeed on further consideration we think that even if there were a corresponding price in the United States, it would be more correct to take the Statutory Mint price in both places, and we have therefore little hesitation in now putting forward an

amended

amended figure.

Nor is it desired to hide the fact that at the price of $77\frac{s}{10}\frac{d}{2}$ per ounce the Bank of England may be realising an apparent profit on such gold as may have been purchased at (say) $77\frac{s}{9}\frac{d}{0}$. But this apparent profit which ignores the cost of interest on gold during minting is no more than the minimum which the Bank of England is by statutory right entitled to retain, and would in no sense be retained at the cost of the Federal Reserve Bank of New York.

Clauses 6, 7, 8, 9, 10. It is felt that the earmarking of gold and the shipment of gold, except as regards gold already earmarked, should in all cases be voluntary - a view which has already been expressed to you in correspondence.

Clause 6 (e) and (j). The following sentences are among your suggestions - "American¹ English² gold coins which are "abraded below the limit of tolerance not to be earmarked "or shipped if other gold or coin is available".

These coins would be reckoned as "bullion" rather than as "coins": it is therefore suggested that these two sentences may be omitted, as their object is hardly clear.

(1) The following sentence is among your suggestions- "If gold bars are returned they may be subject to a "further Assay Office charge for remelting amounting to "one dollar per thousand ounces, which is the existing "charge. The Federal Reserve Bank of New York, however, "will endeavour to have this charge abrogated by the "Assay Office and if successful will immediately notify "the Bank of England".

It

It would seem that this would be the second charge to be levied on the same gold, if said gold were returned after being set aside, rather than shipped. The effect would tend to force shipment, which is hardly the object of proposed arrangement. Although the charge would be made by the Assay Office and doubtless against the wish of the Federal Reserve Bank of New York, it is hoped that arrangements may have been made to abrogate it (as is suggested) and the sentence is therefore omitted in the present draft.

In view, however, of the first charge of 50¢ which apparently cannot be avoided, it would seem that it would suit the Bank of England to earmark eagles instead of bars.

The remaining alterations which are suggested may be considered as verbal, or for the sake of clearness.

I shall look forward to hearing from you, after you have had time to consider the revised Memorandum, whether you have any further modifications or additions to suggest.

A note has been made that papers must be sent to you later for completion in connection with the opening of the Account here; also, your suggestion as to necessity of fixing a code for use between the Bank of England and your Bank has attention and I will return to these details when the arrangements proposed have reached a more or less final stage of discussion.

I am,

Yours faithfully,

(Signed) *Carlippe*

Governor.

3/2/17

SECRET.

MEMORANDUM OF MARCH 1916

redrafted in accordance with letter from The Federal Reserve Bank of New York dated January 18th, 1917, and further amended by The Bank of England.

The following points confidentially and tentatively agreed upon for submission and ratification by the respective institutions, with a view to being put into operation after the conclusion of the War:-

1. The Federal Reserve Bank of New York to act for itself and for such of the other eleven (11) Federal Reserve Banks as join the account.
2. ACCOUNTS. The Federal Reserve Bank of New York to maintain an account with the Bank of England and vice versa.
3. The accounts respectively to be kept free of charges and commission - except as regards actual out-of-pocket expenses.
4. BILLS. The Bank of England to purchase, as and when so requested, prime sterling bills for account of the Federal Reserve Bank of New York, for the payment of which, at maturity, the Bank of England will be responsible. These bills to be such as are believed to arise out of actual commercial transactions, to have no more than ninety (90) days to run, exclusive of days of grace, and to bear the signature of two or more responsible parties. The Federal Reserve Bank of New York, likewise, to purchase prime dollar bills of a similar nature for account of the Bank of England, and to be responsible for their payment at maturity. Such bills to be at the absolute disposal of the institution for whose account the purchase is made in either case.

(a) The Federal Reserve Bank of New York would prefer that bills purchased for its account by the Bank of England should

should consist so far as possible of those bearing the names of American drawers, or endorsers, so long as this requirement does not involve the acceptance of other than prime bills which are eligible for discount at the Bank of England, and a similar policy would be pursued by the Federal Reserve Bank of New York in purchasing bills bearing the names of English drawers, or endorsers, for the Bank of England, should it be possible to do so.

(b) It is expected that purchases of bills by either institution for the other will be at the current market rates.

5. INTEREST. When balances with the Bank of England cannot be invested in bills, the account of the Federal Reserve Bank of New York may be dealt with on an interest basis, at rates to be agreed upon.

As the Federal Reserve Bank of New York is not authorized by law to allow interest on balances, balances at the credit of the Bank of England, if they are to earn interest, must be invested in bills.

6. GOLD. Subject to Clause 10 and as below stated, the debtor institution will, at the request of the creditor institution and so far as it conveniently can, set aside and earmark gold on a bullion basis representing balances due. Such gold to be clearly identified as to ownership.

(a) The Bank of England to earmark and set aside refined gold bars for the Federal Reserve Bank of New York, when so requested, and charge its account at the rate of 77 shillings $10\frac{1}{2}$ pence per English standard ounce, eleven-twelfths fine, or

(b) When standard gold bars are not available, the Bank of England to earmark and set aside eagles for account of the New York Bank at their bullion value, at that rate of $77\frac{10\frac{1}{2}}{12}$ per ounce, for the equivalent of the English standard of fineness, or

(c) The Bank of England to earmark and set aside sovereigns

at their bullion value, at the rate of $77\frac{s}{10}d$ per ounce.

- (d) Gold bars, or gold coin, so earmarked but not shipped, to be taken by the Bank of England (if returned to the credit of the New York Bank) at the same value at which they were earmarked in the first instance.
- (e) It should be understood that the Federal Reserve Bank of New York cannot require the Bank of England to earmark eagles at bullion value in order to import them and realize the profit between the bullion value and face value of American coin. The right to determine in the event of shipment whether American coins shall be shipped or not to rest with the Bank of England.

The Federal Reserve Bank of New York to earmark and set aside gold for the Bank of England when so requested and charge its account on the following basis:

- (f) Refined gold bars at the rate of \$18.604651 per United States standard ounce of gold nine-tenths fine, plus the Assay Office charge of 50¢ per \$1,000 in value if and when incurred, or
- (g) Sovereigns at their bullion value of \$18.604651 for each ounce of gold of the United States standard, nine-tenths fine, or
- (h) Eagles at their bullion value of \$18.604651 per ounce.
- (i) Gold bars, or gold coin, so earmarked but not shipped, to be taken by the Federal Reserve Bank (if returned to the credit of the Bank of England) at the same value at which they were earmarked in the first instance, excluding the Assay Office charge above-mentioned which will be borne by the Bank of England.
- (j) It should be understood that the Bank of England cannot require the Federal Reserve Bank of New York to earmark sovereigns at bullion value in order to import them and realize the profit between the bullion value and face value of English coin. The right to determine, in the

event

event of shipment, whether English coins shall be shipped or not to rest with the Federal Reserve Bank of New York.

7. Subject to Clauses 6 and 10, the debtor institution to ship gold to the creditor institution, on request, at the cost and risk of the creditor institution. (Where gold is shipped by one institution of its own accord to the other and not at the request of the other, such shipment to be at the risk and expense of the shipping institution.)

8. Gold bars earmarked or shipped by either institution to the other must be suitable for coinage purposes, alloy to be copper, and an allowance made for any variations in gold contents above or below the standards specified above.

9. The earmarking and shipment of the gold coins of any other nation may be undertaken upon the basis of the value of the fine gold contained in such coins, with deduction of an allowance to cover the cost of conversion into gold bars of English or American mint standard respectively.

10. The intention of the arrangements is that all transactions in gold (other than earmarked gold) between the two institutions shall be voluntary and upon exactly equal terms as to each.

11. INFORMATION. It is expected that information will be exchanged by correspondence respecting credit matters and financial conditions.

12. DURATION. The arrangement to be subject to cancellation by either institution, in whole or in part, except as to transactions in process, on notice by letter or cable; it being understood that any unliquidated balance either way may be settled in gold if so agreed. If circumstances require or justify commencing operations before the conclusion of the War, a suggestion to that effect may be made by either institution.

13. It is hoped that the Federal Reserve Bank of New York will eventually reach an arrangement on similar lines with the

Bank

Bank of France, to which end negotiations are already in progress.

14. No announcement directly or indirectly to be made regarding the contents of this Memorandum without the explicit consent of both institutions.

2nd March, 1917.

(copy)

PRIVATE & CONFIDENTIAL

Bank of England, London, E. C.

2nd March, 1917.

The Governor,
Federal Reserve Bank of New York,
New York, N. Y.

Sir:

I beg to thank you for your letter of the 18th January last informing me that the Bank of England has been appointed as the Agent and Correspondent, in the City of London, of the Federal Reserve Bank in New York. I have since received the cable of the 9th ultimo from Mr. Treman, in answer to my cable of the 8th idem, for which I am obliged.

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Clause 4. The alteration in this clause is merely to avoid any difficulty which might arise from uncertainty on this side as to the meaning of an "actual commercial transaction". The intention is to comply with Section 14 of the Federal Reserve Act to the best of our knowledge and belief.

(a) There is no objection to this paragraph as the wording is permissive, but it involves so much "sorting" as to raise doubts if in practice it can be carried out.

Clause 6. Further consideration leads to the conclusion that

^{s d}
77/10 $\frac{1}{2}$ per ounce should be substituted throughout
^{s d}
for 77/9 and for the following reasons -

- ^{s d}
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- (2) It is the minimum price which the Bank of England receives for gold.
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^{s d}
The fact is not overlooked that the figure of 77/9 per ounce was suggested by the Deputy Governor in a letter to you dated June 15th, 1916, on the understanding that the corresponding price could be fixed on your side, but as there is in fact no corresponding price in the United States our preliminary calculations cannot be adopted. Indeed on further consideration we think that even if there were a corresponding price in the United States, it would be more correct to take the Statutory Mint price in both places, and we have therefore little hesitation in now putting forward an amended figure.

Nor is it desired to hide the fact that at the price of $\frac{s\ d}{77/10\frac{1}{2}}$ per ounce the Bank of England may be realising an apparent $\frac{s\ d}{77/9}$ profit on such gold as may have been purchased at (say) $\frac{s\ d}{77/9}$. But this apparent profit which ignores the cost of interest on gold during minting is no more than the minimum which the Bank of England is by statutory right entitled to retain, and would in no sense be retained at the cost of the Federal Reserve Bank of New York.

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- (i) The following sentence is among your suggestions - "If gold bars are returned they may be subject to a further Assay Office charge for remelting amounting to one dollar per thousand ounces, which is the existing charge. The Federal Reserve Bank of New York, however, will endeavour to have this charge abrogated by the Assay Office and if successful will immediately notify the Bank of England".

It would seem that this would be the second charge to be levied on the same gold, if said gold were returned after being set aside, rather than shipped. The effect would tend to force shipment, which is hardly the object of proposed arrangement. Although the charge would be made by the Assay Office and doubtless against the wish of the Federal Reserve Bank of New York, it is hoped that arrangements may have been made to abrogate it (as is suggested) and the sentence is therefore omitted in the present draft.

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I am,

Yours faithfully,

(Signed) Cunliffe,

Governor.

WESTERN UNION



CABLEGRAM

THEO. N. VAIL, PRESIDENT

received at

015-919 Seventeenth Street, Denver, Colo. ALWAYS USE 23'

ykr 1308

R71NY FB 20

EPSOM APR 8 1917

STRONG

1660
DENVER (COLO)

FILE 4001 Mont View Blvd

FILED
APR 8 1917
CLK 8256
Mr Strong
9250
Hail

WARMEST THANKS AND A HEARTY WELCOME TO OUR
SPLENDID NEW ALLM WHOSE COOPERATION MEANS MUCH TO US
CUNLIFFE

5AM

C261
Boof E

Zulu

2829 16th Street

Washington

26th April 17

Dear Mr. Strong,

Many thanks for your kind letter of 22nd and I am pleased to say that all is going well so far as regards finance but of course we are by no means out of the wood and never will be until those wretches the Prussians are crushed. -

I have just wired the Deputy Governor to confirm the arrangement between the Federal Reserve Bank of New York & the Bank of England by cable and issue the pass word thereof on 3rd May leaving minor details for subsequent adjustment as further delay might be mischievous.

although no doubt in some ways
it would be preferable to wait
until the end of the war. -

Much as I should like to meet
you I will not for a moment entertain
the idea of your returning for that
purpose before the end of your course
and if we should leave before June
which is most probable I will
make every effort to run over to
Denver a day. - Its some way
I appreciate as I was once there
years ago but I must see you
before leaving if it can possibly
be arranged and I am quite
wishing Mr. Balfour to disperse
with my services at any moment.

Yours very truly
Carridge

COPI 1
39

BANK OF ENGLAND, LONDON, E. C.

PRIVATE AND CONFIDENTIAL

21st June, 1917.

The Governor,
Federal Reserve Bank of New York,
New York.

S i r :

I beg to acknowledge the receipt of your cablegram to-day advising the bank that the sum of \$52,400,000. has been paid to Mr. F. A. Vanderlip at the National City Bank, for which I thank you; I assume that a clerical or telegraphic error has been made and that the actual sum paid was \$52,500,000.

With reference to the cable sent you on the 5th instant, you will of course realize that both the quotation at which Commercial Bills could be bought and the rate at which the bank would be prepared to borrow your money are liable to variation. Should you at any time think of releasing part of the gold earmarked with a view to employing it at interest here, on receipt of a cable from you we shall be happy to send you further quotations.

I am,

Yours faithfully,

(Signed) Cunliffe

Governor.

39

Bank of England

London, E.C.2.

12th July, 1917.

FILING DEPT.

AUG 17 1917

AUG 9 1917
J. J. G. 61

My dear Mr. Strong,

FEDERAL RESERVE BANK

I was of course greatly struck and delighted at the immense success of your Liberty Loan, and very anxious to learn something more than can be gleaned from the newspapers as to how you did it.

I am therefore very grateful to you for taking up some of your valuable time in giving me such interesting and graphic details of the arrangements for the issue and I congratulate you most warmly on the magnificent result of your efforts.

I can see too, if only by the rapid decline in money rates on your side, that you have been most successful in getting the proceeds of the loan distributed - a task which must be infinitely greater in your vast country than here.

I cannot help feeling that now you have shewn what your Country can do in the matter of raising loans, there is practically no limit to the amount of money you will be able to raise, because, unlike our case, all the money will be spent in your own country and will merely go round in a circle.

Our

Our own financial position gets no easier, in fact the outflow of our gold has reached such alarming proportions since my return here as to make me very uneasy.

I look back with the greatest possible pleasure to my visit to America and to the really extraordinary kindness and friendship shewn to me by you all.

Hoping that your well earned rest in Denver may refresh you and that I may have the pleasure of seeing you here before long.

I am,

Yours very sincerely,

Carriffe

BENJAMIN STRONG, ESQ.,
4100, MONVIEW BOULEVARD,
DENVER,
COLORADO.

BANK OF ENGLAND, LONDON, E. C.

27th October, 1917.

REC'D
DEC 8 1917
FILING DEPT
NOV 8 1917
FEDERAL RESERVE BANK

Dear Mr. Strong,

Thank you very much for your note of the 4th October and your interesting personal letter of the same date.

You certainly are leaving no stone unturned to make a success of your new Loan, and I have not the faintest doubt that it will be a triumph. You understand the art of pushing things much better in your country than we do here. All you tell me about your plans for avoiding the temporary locking up of money (which is the real danger in these large loans) is particularly interesting to me, and I am much obliged for the prospectus of the Loan which you enclose. The right to allot up to one-half the amount of any over-subscription is an ingenious and to me quite a novel idea. Your offer to lend freely at $3\frac{1}{2}\%$ for the purpose of carrying Liberty Loan Bonds is a bold step which ought to help a good deal in getting the Loan subscribed.

We have been much interested in your various telegrams about money rates &c. and are most anxious to reciprocate freely in the matter of such information, but to tell the truth there is very little to be said just now from this side. We have for the time being settled down into a sort of humdrum state with little to ruffle the surface of our money market. The new National War Bonds create hardly any displacement of cash, as the money goes round continuously and is disbursed by the Government as fast as it is collected. If only these Bonds could be placed in sufficient daily quantity to meet the needs of the Government there would be no necessity for further heroic measures. It is true that at the beginning of December Government will have to pay out some 50 million sterling for interest on loans, but probably a fair proportion of this amount will be invested in War Bonds and the balance does not frighten me. I am, however, somewhat apprehensive that the issues of

War

[Faint, illegible text, likely bleed-through from the reverse side of the page. The text is mirrored and difficult to decipher.]

War Bonds may not suffice for daily requirements. A campaign to push them, through the "War Savings Committee", was inaugurated the other day, as you will probably have heard, by a big Meeting in the Albert Hall, and I sincerely hope that it may prove successful, but it is easier to work up enthusiasm for a special operation than to keep it alive for a continuous effort.

The amount of the short debt (Treasury Bills and "Ways and Means" advances) is of course pretty heavy, but if the War Bonds care for the daily expenditure we might hope for a reduction in the short debt when the Revenue receipts become heavier in February to April, and in that case I do not see why the internal situation should demand any special measures or occasion any disturbance in the money market meanwhile.

The external situation is far from pleasant. It is true that, thanks to your splendid co-operation, the American position is no longer the bugbear that it used to be, but we continue to import from most of the world while our exports are greatly restricted, and, as a result, not only are the exchanges in a pretty bad state but we have been compelled to part with some gold to meet liabilities.

I was interested to see that you have checked the flow of gold from America and am only sorry that so much had gone already to Spain and other places. I did my best to interfere with such shipments as far as I was able to do so at this end, as I knew they were contrary to your wishes, but unfortunately I was not in a position to prevent them.

If you had been willing or compelled to part with more gold to India for purchases there, the plan suggested in our telegram of the 18th instant should have suited you and us very well, and I was at first somewhat disappointed at your reply. But having now heard from Mr. Keynes that you are arranging to finance your Indian purchases in silver, I can only congratulate you on your decision for I am, as you know, in cordial sympathy with your desire to economise gold as far as possible. Of course in so far as you may pay them in silver which you buy in the market from your own or Mexican or other

Mines

TO THE BOARD OF DIRECTORS
OF THE FEDERAL RESERVE BANK OF ST. LOUIS
FROM THE FEDERAL RESERVE BANK OF ST. LOUIS
ST. LOUIS, MISSOURI
MAY 15, 1914

Dear Sirs:

I have the honor to acknowledge the receipt of your letter of the 14th inst. and in reply to inform you that the same has been forwarded to the proper authorities for their consideration.

Very respectfully,
W. H. C. [Name]

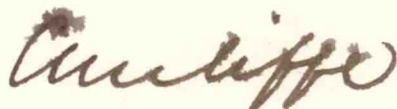
Mines, the advantage to the Allies as a whole will not be very great as you will be competing with India herself and incidentally ourselves and others for those supplies. But I gather from Mr. Keynes that you may utilise some of your large silver reserves for this purpose. This seems to me a most excellent plan and one which I have long hoped might be adopted. Silver is just as useful to India as gold, and it is not as useful to you, while it is difficult to believe that a more favourable opportunity will recur for cutting the loss (as measured in gold) on some of your silver reserves.

While writing this I have opened your Bank's cheering telegram saying that your new loan may reach \$5,000,000,000! I am delighted to hear it is such a success and am only awaiting the first result before telegraphing congratulations.

I sincerely hope you are keeping well and will not overwork yourself again.

Cokayne and Norman both join me in kindest regards.

Yours sincerely,



Benjamin Strong, Esq.

C O P Y

28th Nov 17

Bank of England

Dear Mr. Strong

I am indeed sorry to learn from your letter of 5th inst. that the huge amount of work that you have had to do in connection with your gigantic loan has been too great a strain and that you have been compelled to take a rest.

Although I have seen Lord Reading several times he has not so far given me your message and I must remind him of it on his return from Paris and in the mean time I thank you most cordially for the very kind expression of your confidence and can assure you that the fact of ceasing to be Governor of this Bank will not in any way interfere with the very happy and cordial relations which exist between the two Banks.

On the other hand I hope it may strengthen[?] them as I would propose taking another trip to your side at the end of April as soon as my time is up here that is if you can find me useful employments for a few weeks.

It will be strange to find oneself one of the unemployed after 4/5 years of fairly strenuous work but there will be many compensations not the least of which will be the chance of seeing you all again.

Hoping to hear soon of your complete recovery

Yours very truly

[signed] Cunliffe

C O P Y

Private + Confidential

5th Jany 19

Headley Court, Epsom.

Dear Mr. Strong

Your letter of 3rd Dec reached me some days since but lately I have not been quite in my usual health and having in one way or another a good deal on hand I have been more than usually lazy over my correspondence.

I wish I still had some of your vitality + keenness but the fact is I am growing old and begin to feel it.

It is probably that same old age creeping on that makes me pessimistic and anxious as to the future but I am indeed nervous as to the outcome of all this enormous credit inflation and huge floating debt.

I am convinced you are right and that there is little to fear if our two nations pull together and share as maybe the finance of the world but I am forever meeting that green eyed monster jealousy wandering around and I fear trouble.

If I am not mistaken there are signs that all is not well even in Banking circles but I do trust that as yet it has not reached the Bank of England. All and everything during the next 5/10 years depends on our being able to trade and finance together as friendly competitors certainly[?] but without nasty jealousy and I do pray that I am wrong and that there are no signs of the latter.

Trusting that we may meet again before very long.

Yours truly

[signed] Cunliffe

Mr. Benjamin Strong

[Stamped] Filing Dept. Mar. 5 1919 Federal Reserve Bank

B.A. 28th Nov 19
FILING DEPT.
FEB 4 - 1918
Bank of England

Dear Mr. Stoney, FEDERAL RESERVE BANK

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of seeing you all again. -

Hoping to hear soon of your complete recovery

Yours very truly
Carrillo

39
Bank of England

London, E.C. 2

9th February, 1918.

My dear Mr. Strong,

Many thanks for your letter of the 21st ultimo, and I shall be delighted to welcome your friend, Mr. John T. Pratt, and do anything for him that is possible, but I expect he has so many friends already on this side that he will need for nothing.

However I shall be very pleased to see Mr. Pratt and hear the news of you and all my many friends in the States.

Hoping to see you myself before very long,

Yours very sincerely,

Amidge

BENJAMIN STRONG, ESQ.,

FEDERAL RESERVE BANK OF NEW YORK

NEW YORK, U.S.A.

C
O
P
Y

PRIVATE AND CONFIDENTIAL

Headley Court
Epsom
22nd June 1918

Dear Mr. Strong

The Government have appointed me Chairman of a Committee on Currency and Foreign Exchanges including in the reference any matters connected with the Bank of England or other Banks that it might be desirable to reconstruct.

We have already examined many witnesses but though there has been considerable discussion in the newspapers and some rather pressing demands for the repeal of the Act of 1844, I must say that as yet no evidence has been placed before us that would go far to prove that any very drastic alterations are imperative. On the contrary, almost all those in favour of great and far-reaching reforms have broken down under examination and though some reforms are no doubt needed, yet I believe it to be the opinion of the Committee that the old Bank Act of 1844 has stood the strain fairly well.

Of course, as you are very fully aware, a certain amount of licence has been taken at times, and even perhaps rules and regulations broken, but that has little to do with the Act of 1844 which every one harps on; and, in my opinion, the alterations will have to be made in some of the fetters that have from time to time been imposed on the Bank.

Now as you are the great authority on your side I should very much value your views and suggestions for I know what a keen interest you take in our Banking propositions and have little doubt but that you have noted several of our imperfections or faults.

Anything you may tell me I will, if you wish it, regard in the strictest confidence but, of course, if I might use your name it would add greatly to its importance.

Hoping for many good and important suggestions

Believe me

Yours very truly

(signed)

CUNLIFFE

I fear you never asked me for my photograph but any way I sent you one by Mr. Hamlin as a little memento of all your goodness to me last year.

G

Private + confidential

Headley Court

Epsom

22nd June 18

Wm. W. King

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Cranliffe

I fear you never asked me for my photograph but any way I sent you one by Mr. Humlin as a little memento of my goodness to me last year. D.

Aug 11, 1918
[See Cunliffe's
letter Oct 30, 1918]

Federal Reserve Bank
District No. 2
Per
ROOM

CURRENCY AND FOREIGN EXCHANGES

FIRST INTERIM REPORT

OF THE

COMMITTEE ON CURRENCY AND FOREIGN
EXCHANGES AFTER THE WAR

Presented to Parliament by Command of His Majesty.



LONDON:
PUBLISHED BY HIS MAJESTY'S STATIONERY OFFICE.

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1918.

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TERMS OF APPOINTMENT

The Lords Commissioners of His Majesty's Treasury and the Minister of Reconstruction have appointed a Committee to consider the various problems which will arise in connection with currency and the foreign exchanges during the period of reconstruction and report upon the steps required to bring about the restoration of normal conditions in due course.

The constitution of the Committee will be as follows:—

- LORD CUNLIFFE, G.B.E., Governor of the Bank of England, *Chairman*.
- SIR CHARLES ADDIS, Hong Kong and Shanghai Banking Corporation.
- The HON. RUPERT BECKETT, Beckett and Company.
- SIR JOHN BRADBURY, K.C.B., Secretary to the Treasury.
- G. C. CASSELS, Esq., Bank of Montreal.
- GASPARD FARRER, Esq., Baring and Company.
- The HON. HERBERT GIBBS, Antony Gibbs and Sons.
- W. H. N. GOSCHEN, Esq., Chairman of the Clearing Bankers' Committee.
- LORD INCHCAPE OF STRATHNAVER, G.C.M.G., K.C.S.I., K.C.I.E.
- R. W. JEANS, Esq., Bank of Australasia.
- A. C. PIGOU, Esq., M.A., Professor of Political Economy, Cambridge University.
- G. F. STEWART, Esq., D.L., F.S.I., Ex-Governor of the Bank of Ireland.
- WILLIAM WALLACE, Esq., Royal Bank of Scotland.
- Mr. G. C. UPCOTT, of the Treasury and Ministry of Reconstruction, will act as Secretary to the Committee.

January, 1918.

The following words were subsequently added to the Terms of Reference:—

“and to consider the working of the Bank Act, 1844, and the constitution and functions of the Bank of England with a view to recommending any alterations which may appear to them to be necessary or desirable.”

COMMITTEE ON CURRENCY AND FOREIGN EXCHANGES.

FIRST INTERIM REPORT

To the LORDS COMMISSIONERS OF HIS MAJESTY'S TREASURY and the
MINISTER OF RECONSTRUCTION.

Introduction.

MY LORDS AND SIR,

1. We have the honour to present herewith an interim Report on certain of the matters referred to us in January last. In this Report we attempt to indicate the broad lines on which we think the serious currency difficulties which will confront this country at the end of the war should be dealt with. The difficulties which will arise in connexion with the Foreign Exchanges will be no less grave, but we do not think that any recommendations as to the emergency expedients which may have to be adopted in the period immediately following the conclusion of peace can usefully be made until the end of the war is clearly in sight and a more definite opinion can be formed as to the conditions which will then prevail. We propose also to deal in a later Report with questions affecting the constitution and management of the Bank of England, and with the applicability of the recommendations contained in this Report to Scotland and Ireland, in regard to which we have not yet taken evidence. We have therefore confined our inquiry for the present to the broad principles upon which the currency should be regulated. We have had the advantage of consultation with the Bank of England, and have taken oral evidence from various banking and financial experts, representatives of certain Chambers of Commerce and others who have particularly interested themselves in these matters. We have also had written evidence from certain other representatives of commerce and industry. Our conclusions upon the subjects dealt with in this Report are unanimous, and we cannot too strongly emphasise our opinion that the application, at the earliest possible date, of the main principles on which they are based is of vital necessity to the financial stability and well being of the country. Nothing can contribute more to a speedy recovery from the effects of the war, and to the rehabilitation of the foreign exchanges, than the re-establishment of the currency upon a sound basis. Indeed, a sound system of currency will, as is shown in paragraphs 4 and 5, in itself secure equilibrium in those exchanges, and render unnecessary the continued resort to the emergency expedients to which we have referred. We should add that in our inquiry we have had in view the conditions which are likely to prevail during the ten years immediately following the end of the war, and we think that the whole subject should be again reviewed not later than the end of that period.

THE CURRENCY SYSTEM BEFORE THE WAR.

2. Under the Bank Charter Act of 1844, apart from the fiduciary issue of the Bank of England and the notes of Scottish and Irish Banks of Issue (which were not actually legal tender), the currency in circulation and in Bank reserves consisted before the war entirely of gold and subsidiary coin or of notes representing gold. Gold was freely coined by the Mint without any charge. There were no restrictions upon the import of gold. Sovereigns were freely given by the Bank in exchange for notes at par value, and there were no obstacles to the export of gold. Apart from the presentation for minting of gold already in use in the arts (which under normal conditions did not take place) there was no means whereby the legal tender currency could be increased except the importation of gold from abroad to form the basis of an increase in the note issue of the Bank of England or to be presented to the Mint for coinage, and no means whereby it could be diminished (apart from the normal demand for the arts, amounting to about £2,000,000 a year, which was only partly taken out of the currency supply) except the export of bullion or sovereigns.

3. Since the passing of the Act of 1844 there has been a great development of the cheque system. The essence of that system is that purchasing power is largely in the form of bank deposits operated upon by cheque, legal tender money being required only for the purpose of the reserves held by the banks against those deposits and for actual public circulation in connection with the payment of wages and retail transactions. The provisions of the Act of 1844 as applied to that system have operated both to correct unfavourable exchanges and to check undue expansions of credit.

4. When the exchanges were favourable, gold flowed freely into this country and an increase of legal tender money accompanied the development of trade. When the balance of trade was unfavourable and the exchanges were adverse, it became profitable to export gold. The would-be exporter bought his gold from the Bank of England and paid for it by a cheque on his account. The Bank obtained the gold from the Issue Department in exchange for notes taken out of its banking reserve, with the result that its liabilities to depositors and its banking reserve were reduced by an equal amount, and the ratio of reserve to liabilities consequently fell. If the process was repeated sufficiently often to reduce the ratio in a degree considered dangerous, the Bank raised its rate of discount. The raising of the discount rate had the immediate effect of retaining money here which would otherwise have been remitted abroad and of attracting remittances from abroad to take advantage of the higher rate, thus checking the outflow of gold and even reversing the stream.

5. If the adverse condition of the exchanges was due not merely to seasonal fluctuations, but to circumstances tending to create a permanently adverse trade balance, it is obvious that the procedure above described would not have been sufficient. It would have resulted in the creation of a volume of short-dated indebtedness to foreign countries which would have been in the end disastrous to our credit and the position of London as the financial centre of the world. But the raising of the Bank's discount rate and the steps taken to make it effective in the market necessarily led to a general rise of interest rates and a restriction of credit. New enterprises were therefore postponed and the demand for constructional materials and other capital goods was lessened. The consequent slackening of employment also diminished the demand for consumable goods, while holders of stocks of commodities carried largely with borrowed money, being

confronted with an increase of interest charges, if not with actual difficulty in renewing loans, and with the prospect of falling prices, tended to press their goods on a weak market. The result was a decline in general prices in the home market which, by checking imports and stimulating exports, corrected the adverse trade balance which was the primary cause of the difficulty.

6. When apart from a foreign drain of gold, credit at home threatened to become unduly expanded, the old currency system tended to restrain the expansion and to prevent the consequent rise in domestic prices which ultimately causes such a drain. The expansion of credit, by forcing up prices, involves an increased demand for legal tender currency both from the banks in order to maintain their normal proportion of cash to liabilities and from the general public for the payment of wages and for retail transactions. In this case also the demand for such currency fell upon the reserve of the Bank of England, and the Bank was thereupon obliged to raise its rate of discount in order to prevent the fall in the proportion of that reserve to its liabilities. The same chain of consequences as we have just described followed and speculative trade activity was similarly restrained. There was therefore an automatic machinery by which the volume of purchasing power in this country was continuously adjusted to world prices of commodities in general. Domestic prices were automatically regulated so as to prevent excessive imports; and the creation of banking credit was so controlled that banking could be safely permitted a freedom from State interference which would not have been possible under a less rigid currency system.

7. Under these arrangements this country was provided with a complete and effective gold standard. The essence of such a standard is that notes must always stand at absolute parity with gold coins of equivalent face value, and that both notes and gold coins stand at absolute parity with gold bullion. When these conditions are fulfilled, the foreign exchange rates with all countries possessing an effective gold standard are maintained at or within the gold specie points.

CHANGES WHICH HAVE AFFECTED THE GOLD STANDARD DURING THE WAR.

8. It will be observed that the fall in a number of the foreign exchanges below the old export specie points which has taken place since the early part of 1915* is not by itself a proof that the gold standard has broken down or ceased to be effective. During the present war the depredations of enemy submarines, high freights, and the refusal of the Government to extend State insurance to gold cargoes have greatly increased the cost of sending gold abroad. The actual export specie point has, therefore, moved a long way from its old position. In view of our enormous demands for imports, coupled with the check on our exports due to the war, it was natural that our exchanges with neutrals should move towards the export specie point. Consequently, the fall in the export specie point would by itself account for a large fall in our exchange rates. Such a fall must have taken place in the circumstances, even though all the conditions of an effective gold standard had been fully maintained.

9. The course of the war has, however, brought influences into play in consequence of which the gold standard has ceased to be effective. In view of the crisis which arose upon the outbreak of war it was considered necessary, not merely to authorise the suspension of the Act of 1844, but also to empower the Treasury to issue currency notes for one pound and for ten shillings as legal tender throughout the United Kingdom. Under the powers given by the Currency and Bank Notes Act, 1914, the Treasury undertook to issue such notes through the Bank of England to bankers, as and when required, up to a maximum limit not exceeding for any bank 20 per cent. of its liabilities on current and deposit accounts. The amount of notes issued to each bank was to be treated as an advance bearing interest at the current bank rate.

10. It is not likely that the internal demand for legal tender currency which was anticipated at the beginning of August, 1914, would by itself have necessitated extensive recourse to these provisions. But the credits created by the Bank of England in favour of its depositors under the arrangements by which the Bank undertook to discount approved bills of exchange and other measures taken about the same time for the protection of credit caused a large increase in the deposits of the Bank. Further, the need of the Government for funds wherewith to finance the war in excess of the amounts raised by taxation and by loans from the public has made necessary the creation of credits in their favour with the Bank of England. Thus, the total amount of the Bank's deposits increased from, approximately, £56,000,000 in July, 1914, to £273,000,000 on the 28th July, 1915, and, though a considerable reduction has since been effected, they now (15th August) stand as high as £171,870,000. The balances created by these operations passing by means of payments to contractors and others to the joint stock banks have formed the foundation of a great growth of their deposits which have also been swelled by the creation of credits in connection with the subscriptions to the various War Loans.† Under the operation of these causes the total deposits of the banks of the United Kingdom (other than the Bank of England) increased from £1,070,681,000 on the 31st December, 1913, to £1,742,902,000 on the 31st December, 1917.

11. The greatly increased volume of bank deposits, representing a corresponding increase of purchasing power and, therefore, leading in conjunction with other causes to a great rise of prices, has brought

* In the abnormal circumstances at the outbreak of war the neutral exchanges moved temporarily in our favour owing to the remittance home of liquid balances from foreign countries and the withdrawal of foreign credits.

† This process has had results of such far-reaching importance that it may be useful to set out in detail the manner in which it operates. Suppose, for example, that in a given week the Government require £10,000,000 over and above the receipts from taxation and loans from the public. They apply for an advance from the Bank of England, which by a book entry places the amount required to the credit of Public Deposits in the same way as any other banker credits the account of a customer when he grants him temporary accommodation. The amount is then paid out to contractors and other Government creditors, and passes, when the cheques are cleared, to the credit of their bankers in the books of the Bank of England—in other words is transferred from Public to "Other" Deposits, the effect of the whole transaction thus being to increase by £10,000,000 the purchasing power in the hands of the public in the form of deposits in the Joint Stock Banks and the bankers' cash at the Bank of England by the same amount. The bankers' liabilities to depositors having thus increased by £10,000,000 and their cash reserves by an equal amount, their proportion of cash to liabilities (which was normally before the war something under 20 per cent.) is improved, with the result that they are in a position to make advances to their customers to an amount equal to four or five times the sum added to their cash reserves, or, in the absence of demand for such accommodation, to increase their investments by the difference between the cash received and the proportion they require to hold against the increase of their deposit liabilities. Since the outbreak of war it is the second procedure which has in the main been followed, the surplus cash having been used to subscribe for Treasury Bills and other Government securities. The money so subscribed has again been spent by the Government and returned in the manner above described to the bankers' cash balances, the process being repeated again and again until each £10,000,000 originally advanced by the Bank of England has created new deposits representing new purchasing power to several times that amount. Before the war these processes, if continued, compelled the Bank of England, as explained in paragraph 6, to raise its rate of discount, but, as indicated below, the unlimited issue of Currency Notes has now removed this check upon the continued expansion of credit.

about a corresponding demand for legal tender currency which could not have been satisfied under the stringent provisions of the Act of 1844. Contractors are obliged to draw cheques against their accounts in order to discharge their wages bill—itsself enhanced on account of the rise of prices. It is to provide this currency that the continually growing issues of Currency Notes have been made. The Banks instead of obtaining notes by way of advance under the arrangements described in paragraph 9 were able to pay for them outright by the transfer of the amount from their balances at the Bank of England to the credit of the Currency Note Account and the circulation of the notes continued to increase. The Government subsequently, by substituting their own securities for the cash balance so transferred to their credit, borrow that balance. In effect, the banks are in a position at will to convert their balances at the Bank of England enhanced in the manner indicated above into legal tender currency without causing notes to be drawn, as they would have been under the pre-war system, from the banking reserve of the Bank of England, and compelling the Bank to apply the normal safeguards against excessive expansion of credit. Fresh legal tender currency is thus continually being issued, not, as formerly, against gold, but against Government securities. Plainly, given the necessity for the creation of bank credits in favour of the Government for the purpose of financing war expenditure, these issues could not be avoided. If they had not been made, the banks would have been unable to obtain legal tender with which to meet cheques drawn for cash on their customers' accounts. The unlimited issue of currency notes in exchange for credits at the Bank of England is at once a consequence and an essential condition of the methods which the Government have found necessary to adopt in order to meet their war expenditure.

12. The effect of these causes upon the amount of legal tender money (other than subsidiary coin) in bank reserves and in circulation in the United Kingdom are shown in the following paragraph.

13. The amounts on the 30th June, 1914, may be estimated as follows:—

Fiduciary Issue of the Bank of England	£18,450,000
Bank of England Notes issued against gold coin or bullion	£38,476,000
Estimated amount of gold coin held by Banks (excluding gold coin held in the Issue Department of the Bank of England) and in public circulation	£123,000,000
Grand total	£179,926,000

The corresponding figures on the 10th July, 1918, as nearly as they can be estimated, were:—

Fiduciary Issue of the Bank of England	£18,450,000
Currency Notes not covered by gold	£230,412,000
Total Fiduciary Issues*	£248,862,000
Bank of England Notes issued against coin and bullion	£65,368,000
Currency Notes covered by gold	£28,500,000
Estimated amount of gold coin held by Banks (excluding gold coin held by Issue Department of Bank of England), say	£40,000,000
Grand total	£382,730,000

There is also a certain amount of gold coin still in the hands of the public which ought to be added to the last-mentioned figure, but the amount is unknown.

14. As Bank of England notes and currency notes are both payable at the Bank of England in gold coin on demand this large issue of new notes, associated, as it is, with abnormally high prices and unfavourable exchanges, must have led under normal conditions to a rapid depletion, threatening ultimately the complete exhaustion, of the Bank's gold holdings. Consequently, unless the Bank had been prepared to see all its gold drained away, the discount rate must have been raised to a much higher level, the creation of banking credit (including that required by the Government) would have been checked, prices would have fallen and a large portion of the surplus notes must have come back for cancellation. In this way an effective gold standard would have been maintained in spite of the heavy issue of notes. But during the war conditions have not been normal. The public are content to employ currency notes for internal purposes, and, notwithstanding adverse exchanges, war conditions interpose effective practical obstacles against the export of gold. Moreover, the legal prohibition of the melting of gold coin, and the fact that the importation of gold bullion is reserved to the Bank of England, and that dealings in it are limited have severed the link which formerly existed between the values of coin and of uncoined gold. It is not possible to judge to what extent legal tender currency may in fact be depreciated in terms of bullion. But it is practically certain that there has been some depreciation, and to this extent therefore the gold standard has ceased to be effective.

RESTORATION OF CONDITIONS NECESSARY TO THE MAINTENANCE OF THE GOLD STANDARD RECOMMENDED.

15. We shall not attempt now to lay down the precise measures that should be adopted to deal with the situation immediately after the war. These will depend upon a variety of conditions which cannot be foreseen, in particular the general movements of world prices and the currency policy adopted by other countries. But it will be clear that the conditions necessary to the maintenance of an effective gold standard in this country no longer exist, and it is imperative that they should be restored without delay. After the war our gold holdings will no longer be protected by the submarine danger, and it will not be possible indefinitely to continue to support the exchanges with foreign countries by borrowing abroad. Unless the machinery which long experience has shown to be the only effective remedy for an adverse balance of trade and an undue growth of credit is once more brought into play, there will be very grave danger of a credit expansion in this country and a foreign drain of gold which might jeopardise the convertibility of our note issue and the international trade position of the country. The uncertainty of the monetary situation will handicap our industry, our position as an international financial centre will suffer and our general commercial status in the eyes of the world will be lowered. We are glad to find that there was no difference of opinion among the witnesses who appeared before us as to the vital importance of these matters.

* The notes issued by Scottish and Irish banks which have been made legal tender during the war have not been included in the foregoing figures. Strictly the amount (about £5,000,000) by which these issues exceed the amount of gold and currency notes held by those banks should be added to the figures of the present fiduciary issues given above.

CESSATION OF GOVERNMENT BORROWINGS.

16. If a sound monetary position is to be re-established and the gold standard to be effectively maintained, it is in our judgment essential that Government borrowings should cease at the earliest possible moment after the war. A large part of the credit expansion arises, as we have shown, from the fact that the expenditure of the Government during the war has exceeded the amounts which they have been able to raise by taxation or by loans from the actual savings of the people. They have been obliged therefore to obtain money through the creation of credits by the Bank of England and by the Joint Stock Banks, with the result that the growth of purchasing power has exceeded that of purchasable goods and services. As we have already shown, the continuous issue of uncovered currency notes is inevitable in such circumstances. This credit expansion (which is necessarily accompanied by an evergrowing foreign indebtedness) cannot continue after the war without seriously threatening our gold reserves and, indeed, our national solvency.

17. A primary condition of the restoration of a sound credit position is the repayment of a large portion of the enormous amount of Government securities now held by the Banks. It is essential that as soon as possible the State should not only live within its income but should begin to reduce its indebtedness. We accordingly recommend that at the earliest possible moment an adequate sinking fund should be provided out of revenue, so that there may be a regular annual reduction of capital liabilities, more especially those which constitute the floating debt. We should remark that it is of the utmost importance that such repayment of debt should not be offset by fresh borrowings for capital expenditure. We are aware that immediately after the war there will be strong pressure for capital expenditure by the State in many forms for reconstruction purposes. But it is essential to the restoration of an effective gold standard that the money for such expenditure should not be provided by the creation of new credit, and that, in so far as such expenditure is undertaken at all, it should be undertaken with great caution. The necessity of providing for our indispensable supplies of food and raw materials from abroad and for arrears of repairs to manufacturing plant and the transport system at home will limit the savings available for new capital expenditure for a considerable period. This caution is particularly applicable to far-reaching programmes of housing and other development schemes.

The shortage of real capital must be made good by genuine savings. It cannot be met by the creation of fresh purchasing power in the form of bank advances to the Government or to manufacturers under Government guarantee or otherwise, and any resort to such expedients can only aggravate the evil and retard, possibly for generations, the recovery of the country from the losses sustained during the war.

USE OF BANK OF ENGLAND DISCOUNT RATE.

18. Under an effective gold standard all export demands for gold must be freely met. A further essential condition of the restoration and maintenance of such a standard is therefore that some machinery shall exist to check foreign drains when they threaten to deplete the gold reserves. The recognised machinery for this purpose is the Bank of England discount rate. Whenever before the war the Bank's reserves were being depleted, the rate of discount was raised. This, as we have already explained, by reacting upon the rates for money generally, acted as a check which operated in two ways. On the one hand, raised money rates tended directly to attract gold to this country or to keep here gold that might have left. On the other hand, by lessening the demands for loans for business purposes, they tended to check expenditure and so to lower prices in this country, with the result that imports were discouraged and exports encouraged, and the exchanges thereby turned in our favour. Unless this two-fold check is kept in working order the whole currency system will be imperilled. To maintain the connection between a gold drain and a rise in the rate of discount is essential to the safety of the reserves. When the exchanges are adverse and gold is being drawn away, it is essential that the rate of discount in this country should be raised relatively to the rates ruling in other countries. Whether this will actually be necessary immediately after the war depends on whether prices in this country are then substantially higher than gold prices throughout the world. It seems probable that at present they are on the whole higher, but, if credit expansion elsewhere continues to be rapid, it is possible that this may eventually not be so.

CONTINUANCE OF DIFFERENTIAL RATES FOR HOME AND FOREIGN MONEY NOT RECOMMENDED.

19. It has been argued before us that during the period of reconstruction and perhaps for many years afterwards it will be possible and desirable, even though the exchanges are adverse, to keep money for home industry substantially cheaper in this country than it is abroad and yet retain an effective gold standard by continuing the present practice of differentiating between home money and foreign money. It is held that relatively low rates should be offered for home money and charged on domestic loans, while gold is at the same time prevented from going abroad by the offer of high rates for foreign money. In our judgment, so soon as the present obstacles in the way of international intercourse are removed, any attempt to maintain this differentiation must break down because it would be impracticable to prevent people from borrowing at the low home rate and contriving in one way or another to re-lend at the high foreign rate. This could only be prevented, if at all, by the maintenance of such stringent restrictions upon the freedom of investment after the war as would, in our opinion, be most detrimental to the financial and industrial recovery of this country. Even, however, if differentiation, as a post-war policy, were practicable, it would not, in our judgment, be desirable. For the low home rate, by fostering large loans and so keeping up prices would continue to encourage imports and discourage exports; so that, even though the high rate offered for foreign money prevented gold from being drawn abroad, it would only do this at the cost of piling up an ever-growing debt from Englishmen to foreigners. It would be necessary at the same time to continue to pay for our essential imports of raw materials by borrowing in the United States and elsewhere, instead of by increasing our exports, thus imposing further burdens of foreign debt. This process could not continue indefinitely, and must sooner or later lead to a collapse. We are, therefore, of opinion that the need for making money dear in the face of adverse exchanges cannot, and should not, be evaded by resort to differential rates.

LEGAL LIMITATION OF NOTE ISSUE NECESSARY.

20. The foregoing argument has a close connection with the general question of the legal control of the note issue. It has been urged in some quarters that in order to make possible the provision of a liberal supply of money at low rates during the period of reconstruction further new currency notes should be

created, with the object of enabling banks to make large loans to industry without the risk of finding themselves short of cash to meet the requirements of the public for legal tender money. It is plain that a policy of this kind is incompatible with the maintenance of an effective gold standard. If it is adopted there will be no check upon the outflow of gold. Adverse exchanges will not be corrected either directly or indirectly through a modification in the general level of commodity prices in this country. On the contrary, as the issue of extra notes stimulates the conditions which tend to produce an advance of prices, they will become steadily more and more adverse. Hence the processes making for the withdrawal of our gold will continue and no counteracting force will be set in motion. In the result the gold standard will be threatened with destruction through the loss of all our gold.

21. The device of making money cheap by the continued issue of new notes is thus altogether incompatible with the maintenance of a gold standard. Such a policy can only lead in the end to an inconvertible paper currency and a collapse of the foreign exchanges, with consequences to the whole commercial fabric of the country which we will not attempt to describe. This result may be postponed for a time by restrictions on the export of gold and by borrowing abroad. But the continuance of such a policy after the war can only render the remedial measures which would ultimately be inevitable more painful and protracted. No doubt it would be possible for the Bank of England, with the help of the Joint Stock Banks, without any legal restriction on the Note Issue, to keep the rate of discount sufficiently high to check loans, keep down prices, and stop the demand for further notes. But it is very undesirable to place the whole responsibility upon the discretion of the banks, subject as they will be to very great pressure in a matter of this kind. If they know that they can get notes freely, the temptation to adopt a lax loan policy will be very great. In order, therefore, to ensure that this is not done, and the gold standard thereby endangered, it is, in our judgment, imperative that the issue of fiduciary notes shall be, as soon as practicable, once more limited by law, and that the present arrangements under which deposits at the Bank of England may be exchanged for legal tender currency without affecting the reserve of the Banking Department shall be terminated at the earliest possible moment. Additional demands for legal tender currency otherwise than in exchange for gold should be met from the reserves of the Bank of England and not by the Treasury, so that the necessary checks upon an undue issue may be brought regularly into play. Subject to the transitional arrangements as regards currency notes which we propose in paragraphs 43 to 46, and to any special arrangements in regard to Scotland and Ireland which we may have to propose when we come to deal with the questions affecting those parts of the United Kingdom, we recommend that the Note Issue (except as regards existing private issues) should be entirely in the hands of the Bank of England; the notes should be payable in gold in London only, and should be legal tender throughout the United Kingdom.

MACHINERY FOR THE CONTROL OF THE NOTE ISSUE.

22. So far we have addressed ourselves to the principles upon which the retention and maintenance of an effective gold standard depend. We have now to consider the particular machinery in regard to the control of the Note Issue by which the observance of these principles can most effectively be secured, and what modification (if any) may be desirable or permissible in the system in force before the war.

23. We would in the first place observe that, while the obligation to pay both Bank of England notes and currency notes in gold on demand should, in our judgment, be maintained, it is not necessary for the maintenance of an effective gold standard, nor do we think it desirable, that there should be an early resumption of the internal circulation of gold coin. For the present at any rate we think that it will be more economical that gold should be held in a central reserve as a backing for notes in circulation. We do not think that any legislation on this subject will be required. People have by now become fully accustomed to the use of notes, and it is probable that (except for the limited requirements of persons proposing to travel abroad) they will continue to circulate instead of gold coin much as they do at present. Informal action on the part of the banks may be expected to accomplish all that is required. If necessary, however, the circulation of gold coin could be prevented by making the notes convertible at the discretion of the Bank of England either into such coin or into bar gold, though for our own part we should prefer to maintain the right of the noteholder to receive payment in gold coin and to trust to the informal steps suggested above to prevent gold from flowing into internal circulation.

24. Secondly, while it is a necessary condition of an effective gold standard that the import of gold should be free from all restrictions, it is not necessary to allow gold coin or bullion obtained otherwise than from the Bank of England to be exported. In view of the fact that it is convenient that the Bank of England should have cognizance of all gold exports, we think it desirable that the export of gold coin or bullion should be subject to the condition that such coin or bullion has been obtained from the Bank for the purpose. Manufactured gold should be deemed to be bullion unless it is in the form of articles containing a prescribed fashion value (say of 10 per cent.). The Bank should be under obligation to supply gold for export in exchange for its notes. These conditions will be sufficient to enable parity to be maintained between currency and bullion, since importers of gold will be free to sell it either in the market or to the Bank of England.

25. Thirdly, in view of the withdrawal of gold from circulation, it is, we think, desirable that the gold reserves of the country should be held by one central institution, and we recommend therefore that all banks should transfer any gold now held by them to the Bank of England, except such small amounts as they may require to keep for the convenience of travellers.

In our opinion, the prohibition against the melting of gold coin should for the present be maintained.

26. We have carefully considered various proposals that have been laid before us as regards the basis upon which the fiduciary note issue should in future be fixed. It has been urged that the raising of the discount rate by the Bank of England may be delayed too long to check effectively an undue expansion of credit, and that under the rigid restrictions of the Act of 1844 a famine of legal tender money might ensue. Crises of this nature necessitating the suspension of the Act arose in 1847, 1857, and 1866, and on the first two occasions notes were actually issued by the Bank in excess of the maximum authorised by law. On this ground mainly it has been urged that these rigid restrictions ought to be transformed into something more elastic. To this end the following principal proposals, either separately or in combination, have been put before us by various witnesses:—

- (1) That the Banking and Issue Department of the Bank of England should be amalgamated;
- (2) That the issue of additional notes, instead of being required to be covered £ for £ by gold, should

be freely allowed, subject only to the condition that a prescribed percentage of the total issue should be so covered;

- (3) That, while either an absolute figure for the maximum fiduciary issue or a maximum determined on a proportionate basis should be prescribed by law, provision should be made for increases beyond this maximum upon condition of a tax being paid by the Bank to the Government. These various suggestions we now proceed to discuss.

27. First, the main effect of the amalgamation of the two Departments of the Bank of England would be to place deposits with the Bank of England in the same position as regards convertibility into gold as is now held by the note. It has been argued in favour of this change that greater security would be given to the deposits than under the present system. After careful consideration we are unable to recommend it. The deposits have at present the full security of the reserve in the Banking Department, and it is obvious that any such additional security would be at the direct expense of the security of the note. In our opinion it is desirable that the issue of Currency shall be subject to strict legal regulation, but that the management of banking should be left as free as possible from State interference. We think that the amalgamation of the two Departments would inevitably lead in the end to State control of the creation of banking credit generally, a contingency which we are convinced would greatly hamper the elasticity and efficiency with which the banks are able to meet the requirements of industry.

28. Secondly, the proposal to allow the issue of fiduciary notes without limit, subject only to a fixed percentage of the total issue being held in gold by the Bank of England (or the Issue Department of the Bank of England if there is no amalgamation), appears to us objectionable for the following reasons. If, as happened in general in the German Reichsbank, other regulations keep the actual note issue much below the maximum fixed by this proportion, the proportion is not effective and produces no result. But, if the actual note issue is really controlled by the proportion, the arrangement is liable to bring about very violent disturbances. Suppose, for example, that the proportion of gold to notes is actually fixed at one-third and is operative. Then, if the withdrawal of gold for export reduces the proportion below the prescribed limit, it is necessary to withdraw notes in the ratio of three to one. Any approach to the conditions under which the restriction would become actually operative would thus be likely to cause even greater apprehension than the limitations of the Act of 1844.

29. This consequence might no doubt be obviated for a time if the Joint Stock Banks themselves kept large reserves of gold and were prepared in the event of the depletion of the Bank of England reserve either by an external or by an internal drain to use them to make good the depletion and so dispense for the time being with the necessity for withdrawing notes from circulation. It is clear, however, that unless the same steps in regard to money rates and the restriction of credit were taken as would be necessary if the depletion were actually operative, this remedy would be merely a temporary palliative, since the causes which had occasioned the drain would continue to operate unchecked. If, on the other hand, as some have advocated, the Banks were given in consideration for their assistance in such contingencies, in addition to the right to obtain notes for the gold brought in, the right to receive advances in further fiduciary notes, the result, so far as the right was exercised, would be to neutralize the effect which the gold brought in would otherwise have had in preserving or restoring the proportion of gold to circulation, while the Bank of England would be placed in the very dangerous position of being under an absolute obligation to create new credits at the very moment at which a policy of credit restriction had become essential.

Incidentally we would remark that the minimum percentages proposed by the London Chamber of Commerce, namely, 33½ per cent. of gold against the Bank of England note issue and 20 to 25 per cent. against a separate issue of currency notes, would in our opinion be wholly inadequate. The percentage of gold to the two issues, taken together, would actually be less than is now held. The Manchester Chamber of Commerce propose that the proportion of gold to notes should be 40 per cent., while Sir Edward Holden was of opinion that the Bank should aim at that proportion of gold in respect to its total liabilities on account of the notes issued and deposits. For the reasons indicated above, however, we have come to the unanimous conclusion that there are substantial objections to basing the note issue of this country upon any proportionate holding of gold.

30. There remains, thirdly, the plan of fixing a maximum *absolute* limit to the fiduciary note issue, subject to the condition that this limit may be exceeded on the payment of a tax to the Government. It is obvious that, if such a tax is to act as a deterrent, it must be sufficiently high to secure that no profit should accrue to the Bank as the result of the emergency issue. As this profit necessarily depends to a large degree upon the rate of interest at which accommodation is given to the market, we do not think, in view of the great uncertainty as to the future course of interest rates, that it is practicable now to name any figure which could safely be adopted for such a tax. Unless it is fixed at a sufficiently penal rate to secure that the normal fiduciary issue is not exceeded except in circumstances of real emergency, and then only for a strictly limited period, the system may afford dangerous possibilities of excessive speculation and lend itself to the development of crises which more stringent safeguards might have averted altogether. This criticism has in fact been made of the German plan, and we are not clear how the arrangements recently adopted by the United States, which have not yet been tested by experience, will actually operate. If it were decided to adopt any such method in this country, it would be necessary for safety to take a very high rate which might in fact prove to be unduly penal.

31. In view of the comparison with the systems prevailing in foreign countries which have been put forward by various witnesses, we would point out that these countries have not in practice maintained the absolutely free gold market which this country, by reason of the vital importance of its position in international finance, is bound to do. It has therefore been open to them to have recourse to devices to steady the rate of discount which, even if successful for this purpose, it would be inexpedient and dangerous for us to attempt.

MAINTENANCE OF PRINCIPLE OF BANK CHARTER ACT, 1844, RECOMMENDED.

32. Having regard to the foregoing considerations, we are of opinion that the principle of the Act of 1844, which has upon the whole been fully justified by experience, should be maintained, namely, that there should be a fixed fiduciary issue beyond which, subject to emergency arrangements which we recommend below, notes should only be issued in exchange for gold. It is noteworthy that from 1866 till the outbreak of the present war no suspension of the Act was ever necessary. We think that the stringent principles of the Act have often had the effect of preventing dangerous developments and the fact that they have had

to be temporarily suspended on certain rare and exceptional occasions (and those limited to the earlier years of the Act's operation when experience of working the system was still immature) does not, in our opinion, invalidate this conclusion. We recommend, therefore, that the separation of the Issue and Banking Departments of the Bank of England should be maintained and that the Weekly Return should continue to be published in its present form.

MODIFICATION OF PROVISIONS OF ACT OF 1844 IN RESPECT OF ISSUE OF EMERGENCY CURRENCY RECOMMENDED.

33. This conclusion, however, has not prevented us from considering with care the possibility of so modifying the Act of 1844 as to make provision for the issue of emergency currency in times of acute difficulty. It might, no doubt, be sufficient to leave matters as they were prior to 1914 and to risk the possibility of the law having to be broken, subject to indemnity from Parliament, but upon the whole we share the objections which have been expressed in many quarters to this procedure. We are, therefore, of opinion that the provisions of Section 3 of the Currency and Bank Notes Act, 1914, under which the Bank of England may, with the consent of the Treasury, temporarily issue notes in excess of the legal limit, should be continued in force. It should be provided by statute that Parliament should be informed forthwith of any action taken by the Treasury under this provision by means of a Treasury Minute which should be laid before both Houses. The statute should also provide that any profits derived from the excess issue should be surrendered by the Bank to the Exchequer. It will, of course, be necessary that the Bank rate should be raised to, and maintained at, a figure sufficiently high to secure the earliest possible retirement of the excess issue.

34. In connection with these emergency arrangements we have considered the question of the reserves which should be held by the joint stock banks quite apart from their normal reserves of legal tender money. As we do not contemplate a resumption of the internal circulation of gold, no useful purpose would be served by their accumulating gold which can be more effectively employed by the Bank of England in maintaining the exchanges and supporting the note issue. We have considered a proposal that they should be required to hold a certain proportion of their deposits in the form of Treasury Bills and other short-dated Government Securities, which, in the event of a crisis, might be discounted with the Bank of England and form the basis of an issue of emergency currency, if required. While we think it expedient that such reserves should be held, we have come to the conclusion that it would not be desirable to attempt any legal regulation of the matter. Our attention has, however, been called to the fact that a Committee of Bankers have recommended that banks should in future be required to publish a Monthly Statement in the form of Appendix I. to this Report showing the average of their weekly balance sheets during the month. We entirely concur in this recommendation and we suggest that the statement of assets should be amplified by the addition after "money at call and at short notice" of a heading "Government Securities maturing within 12 months." If this is done, we think that the consequent publicity will be amply sufficient to secure the object which we have in view.

AMOUNT OF FIDUCIARY NOTE ISSUE AND GOLD RESERVE.

35. Having come to the conclusion that the amount of the fiduciary issue should, subject to what was said in paragraph 33, be fixed by law at some definite amount, we have next to consider how large this fiduciary issue ought to be.

Assuming the restoration of an effective gold standard, and given the conventional standards of banking practice and the customs of the public as regards the use of currency, the amount of legal tender currency (other than subsidiary coin) which can be kept in circulation, including the currency holdings of the banks and the Banking Department of the Bank of England, will determine itself automatically, since, if the currency becomes redundant, the rate of discount will fall, and prices will rise; notes will be presented in exchange for gold for export and the volume of the currency will be reduced *pro tanto*. If, on the other hand, the supply of currency falls below current requirements, the rate of discount will rise, prices will fall, gold will be imported and new notes taken out in exchange for it.

36. Under the arrangements which we contemplate virtually the whole amount of the currency gold in the country will be held in a central reserve at the Bank of England; and the circulation, in the wide sense in which we are using the term, will consist (apart from the subsidiary currency, which we need not now consider) in part of fiduciary notes and, as regards the balance, of notes covered by that reserve. The total circulation being automatically determined, it will follow that the higher the amount fixed for the fiduciary issue the lower will be the amount of the covered issue and, consequently, of the central gold reserve and *vice versa*, while, if the fiduciary issue were fixed at a figure which proved to be higher than the total requirements of the country for legal tender currency, the covered issue, and with it the central gold reserve, would disappear altogether. It is clear, therefore, that the amount of the fiduciary issue must be fixed at a figure low enough to make sure, not merely that there will always be some covered issue, but that there will always be a covered issue of sufficiently substantial amount to secure that the covering gold which constitutes the central reserve never falls so low as to give rise to apprehension as to the stability of the gold standard.

37. If the post-war requirements proved to be no larger than the pre-war requirements (about £180,000,000, exclusive of subsidiary coin, as shown in paragraph 13), it is clear that the present fiduciary issue of £249,000,000 would have to be reduced by £69,000,000 before any gold could be retained in the central reserve at all. Even upon the supposition that the policy of substituting notes for all gold outside that reserve is completely successful, in order to have a central gold reserve of £100,000,000 the fiduciary issue would have to be reduced to £80,000,000 and, even so, we should have £60,000,000 less gold in the country than before the war.

38. The pre-war requirements, however, had relation to the level of pre-war world prices, the existing conventional standards in regard to banking reserves, and the habits of the people, both in regard to the amounts of money which they carried in their pockets and kept in their homes and to the use of credit instruments in place of cash. It is probable that after the war world prices will stand for many years, if not permanently, at a greatly enhanced level, and that the banks may well find it desirable to adopt a higher standard for their holdings of legal tender money. Furthermore, any additional economy in the use of legal tender money which may take place though the extended use of bankers' cheques and other credit instruments may be more than offset by the fact that a larger share of the national income is likely to be enjoyed by the wage-earning classes who are the chief users of legal tender money. All these causes will

tend to increase the amount of legal tender money which the country will, consistently with the maintenance of a gold standard, be able to retain in bank reserves and general circulation to a point much above the pre-war figure, but the precise amount of the increase can only be determined by experience.

39. Until such experience has been gained it would in our opinion be dangerous to seek to lay down any precise figure for the fiduciary issue. The adoption of an unnecessarily low figure would result in the accumulation of a gold reserve of larger dimensions than is strictly necessary for the protection of the gold standard and the security of our national credit—a luxury which we shall be ill able to afford in the difficult times which are ahead—while the adoption of too high a figure would destroy the gold standard altogether.

40. It, therefore, seems desirable to approach the problem from the other end, and to attempt to fix tentatively the amount which we should like to see held in gold in the central reserve, leaving the ultimate dimensions of the fiduciary issue to be settled as the result of experience at the amount of fiduciary notes which can be kept in circulation—in banking reserves (including the Banking Reserve of the Bank of England), and in the pockets of the people—without causing the central gold reserve to fall appreciably below the amount so fixed.

41. The pre-war gold reserves were about £38,500,000 in the Bank of England and an amount estimated at £123,000,000 in the banks and in the pockets of the people. If the actual circulation of gold coin ceases and the whole of the gold is concentrated in the central institution, some economy is permissible in view of its increased mobility. On the other hand the aggregate amount of currency required will undoubtedly be larger. We accordingly recommend that the amount to be aimed at in the first instance as the normal minimum amount of the central gold reserve should be £150,000,000, and that, until this amount has been reached and maintained concurrently with a satisfactory foreign exchange position for a period of at least a year, the policy of reducing the uncovered note issue as and when opportunity offers should be consistently followed. In view of the economic conditions which are likely to follow the restoration of peace, it will be necessary to apply this policy with extreme caution and without undue rigidity. When the exchanges are working normally on the basis of a minimum reserve of £150,000,000 the position should again be reviewed in the light of the dimensions of the fiduciary issue as it then exists.

REDUCTION OF PRESENT CURRENCY NOTE ISSUE DURING INTERIM PERIOD.

42. If these arrangements are adopted, there will be an interim period beginning after the completion of demobilisation during which it is probable that the present issue of Currency Notes will have to be gradually reduced until experience has shown what amount of fiduciary notes can be kept in circulation consistently with the maintenance of this reserve. It was suggested to us in evidence that, until that amount has been ascertained, steps should be taken as soon as possible after the war to reduce the uncovered issue at the rate of not less than 3 per cent. per annum of the outstanding amount, and that, subject to arrangements for meeting a temporary emergency, the issue in any period of six months or one year should not be allowed to exceed the amount outstanding in the preceding similar period. We think that it would be highly desirable to aim at a steady and continuous reduction, but we are disposed to doubt whether it will be found to be practicable to work to any precise rule. We confine ourselves therefore to the general recommendation of policy indicated above. We entirely concur, however, in the suggestion that, when reductions have taken place, the actual maximum fiduciary circulation in any year should become the legal maximum for the following year, subject only to the emergency arrangements proposed in paragraph 33.

TRANSITIONAL ARRANGEMENTS PENDING REPLACEMENT OF CURRENCY NOTE ISSUE BY A BANK OF ENGLAND ISSUE.

43. It remains for us to consider how and when the present issue of Currency Notes is to be replaced by the Bank of England issue. There would be some awkwardness in transferring the issue to the Bank of England before the future dimensions of the fiduciary issue have been ascertained. We, therefore, recommend that during the transitional period the issue should remain a Government issue, but that such post-war expansion (if any) as may take place should be covered, not by the investment of the proceeds of the new Notes in Government securities, as at present, but by taking Bank of England Notes from the Bank and holding them in the Currency Note reserve, and that, as and when opportunity arises for providing cover for the existing fiduciary portion of the issue, the same procedure should be followed. The effect of this arrangement would be that the demands for new currency would operate in the normal way to reduce the reserve in the Banking Department at the Bank of England, which would have to be restored by raising money rates and encouraging gold imports.

44. We should thus in course of time have the Currency Note issue covered partly by the £28,500,000 of gold at present held and partly by Bank of England notes covered by gold in the Issue Department of the Bank of England; the balance, forming the fiduciary part of the issue properly so-called, being covered by Government securities as at present. During the transition stage the greater part at any rate of the demand for gold for export will fall upon the Bank of England, since currency notes are not likely to be presented to any large extent for actual payment in gold, but will be paid in by the banks which collect them to the credit of their accounts with the Bank of England, the balances thereby created being used when necessary to draw gold from the Bank of England for export in the ordinary way. We accordingly think that it will be desirable that Bank of England notes should likewise be substituted in the currency note reserve, either immediately after the war or from time to time by instalments, for the £28,500,000 gold now held by that reserve, so that when the time is ripe for the final transfer the whole of the gold reserve may be in the hands of the Bank.

45. When the fiduciary portion of the issue has been reduced to the amount which experience shows to be consistent with the maintenance of a gold reserve of £150,000,000 in the Issue Department of the Bank, the outstanding Currency Notes should be retired and Bank of England notes of low denomination substituted, the Bank of England fiduciary issue being simultaneously increased by an amount equal to the then issue of Currency Notes covered by Government securities. As the Bank of England notes held in the Currency Note reserve and the gold against them would already appear in the Bank return, the only effect on that return of the ultimate merger would be to add to the total Bank of England issue the amount of the fiduciary portion of the Currency Note issue as ultimately ascertained, and to add the same amount of Government securities to the securities in the Issue Department.

46. The settlement as between the Treasury and the Bank would take the form of the Treasury handing over to the Bank in exchange for a like amount of Currency Notes withdrawn by the Bank from circulation the Bank of England notes held for the Currency Note account, and in respect of the remainder of the Currency Notes withdrawn Government securities. These securities should be either Ways and Means advances, or Treasury Bills and other marketable securities being part of the ordinary Public Debt, and should be taken at current market value. In so far as any of the assets of the currency note redemption account at the time of transfer might not come within these categories they should be retained by the Treasury and other securities substituted. The Bank of England notes of small denomination would be issued by the Bank in place of the currency notes withdrawn from circulation, partly in substitution for the Bank of England notes returned to them from the Currency Note Reserve (which would be already covered by gold in the Issue Department), and partly in respect of the Bank's new fiduciary issue based on the transferred securities. The profits of the increased fiduciary issue would be payable by the Bank to the Exchequer.

SUMMARY OF CONCLUSIONS.

47. Our main conclusions may be briefly summarised as follows:—

Before the war the country possessed a complete and effective gold standard. The provisions of the Bank Act, 1844, operated automatically to correct unfavourable exchanges and to check undue expansions of credit. (Paras. 2 to 7.)

During the war the conditions necessary to the maintenance of that standard have ceased to exist. The main cause has been the growth of credit due to Government borrowing from the Bank of England and other banks for war needs. The unlimited issue of Currency Notes has been both an inevitable consequence and a necessary condition of this growth of credit. (Paras. 8 to 14.)

In our opinion it is imperative that after the war the conditions necessary to the maintenance of an effective gold standard should be restored without delay. Unless the machinery which long experience has shown to be the only effective remedy for an adverse balance of trade and an undue growth of credit is once more brought into play, there will be grave danger of a progressive credit expansion which will result in a foreign drain of gold menacing the convertibility of our note issue and so jeopardising the international trade position of the country. (Para. 15.)

The pre-requisites for the restoration of an effective gold standard are:—

- (a) The cessation of Government borrowing as soon as possible after the war. We recommend that at the earliest possible moment an adequate sinking fund should be provided out of revenue, so that there may be a regular annual reduction of capital liabilities, more especially those which constitute the floating debt. (Paras. 16 and 17.)
- (b) The recognised machinery, namely, the raising and making effective of the Bank of England discount rate, which before the war operated to check a foreign drain of gold and the speculative expansion of credit in this country, must be kept in working order. This necessity cannot, and should not, be evaded by any attempt to continue differential rates for home and foreign money after the war. (Paras. 18 and 19.)
- (c) The issue of fiduciary notes should, as soon as practicable, once more be limited by law, and the present arrangements under which deposits at the Bank of England may be exchanged for legal tender currency without affecting the reserve of the Banking Department should be terminated at the earliest possible moment. Subject to transitional arrangements as regards Currency Notes and to any special arrangements in regard to Scotland and Ireland which we may have to propose when we come to deal with the questions affecting those parts of the United Kingdom, we recommend that the Note Issue (except as regards existing private issues) should be entirely in the hands of the Bank of England. The Notes should be payable in London only and should be legal tender throughout the United Kingdom. (Paras. 20 and 21.)

As regards the control of the Note Issue, we make the following observations:—

- (1) While the obligation to pay both Bank of England Notes and Currency Notes in gold on demand should be maintained, it is not necessary or desirable that there should be any early resumption of the internal circulation of gold coin. (Para. 23.)
- (2) While the import of gold should be free from all restrictions, it is convenient that the Bank of England should have cognizance of all gold exports and we recommend that the export of gold coin or bullion should be subject to the condition that such coin and bullion has been obtained from the Bank for the purpose. The Bank should be under obligation to supply gold for export in exchange for its notes. (Para. 24.)
- (3) In view of the withdrawal of gold from circulation we recommend that the gold reserves of the country should be held by one central institution and that all banks should transfer any gold now held by them to the Bank of England. (Para. 25.)

Having carefully considered the various proposals which have been placed before us as regards the basis of the fiduciary note issue (paras. 26 to 31), we recommend that the principle of the Bank Charter Act, 1844, should be maintained, namely, that there should be a fixed fiduciary issue beyond which notes should only be issued in exchange for gold. The separation of the Issue and Banking Departments of the Bank of England should be maintained, and the Weekly Return should continue to be published in its present form. (Para. 32.)

We recommend, however, that provision for an emergency be made by the continuance in force, subject to the stringent safeguards recommended in the body of the Report, of section 3 of the Currency and Bank Notes Act, 1914, under which the Bank of England may, with the consent of the Treasury, temporarily issue notes in excess of the legal limit. (Para. 33.)

We advocate the publication by the banks of a monthly statement in a prescribed form. (Para. 34.)

We have come to the conclusion that it is not practicable to fix any precise figure for the fiduciary Note Issue immediately after the War. (Paras. 35 to 39.)

We think it desirable, therefore, to fix the amount which should be aimed at as the central gold reserve, leaving the fiduciary issue to be settled ultimately at such amount as can be kept in circulation without causing the central gold reserve to fall below the amount so fixed. We recommend that the normal minimum

of the central gold reserve to be aimed at should be, in the first instance, £150 millions. Until this amount has been reached and maintained concurrently with a satisfactory foreign exchange position for at least a year, the policy of cautiously reducing the uncovered Note Issue should be followed. When reductions have been effected, the actual maximum fiduciary circulation in any year should become the legal maximum for the following year, subject only to the emergency arrangements previously recommended. When the exchanges are working normally on the basis of a minimum reserve of £150,000,000, the position should again be reviewed in the light of the dimensions of the fiduciary issue as it then exists. (Paras. 40 to 42.)

We do not recommend the transfer of the existing Currency Note Issue to the Bank of England until the future dimensions of the Fiduciary Issue have been ascertained. During the transitional period the issue should remain a Government issue, but new notes should be issued, not against Government securities, but against Bank of England Notes, and, furthermore, when opportunity arises for providing cover for existing uncovered notes, Bank of England Notes should be used for this purpose also. Demands for new currency would then fall in the normal way on the Banking Department of the Bank of England. (Paras. 43 and 44.)

When the fiduciary portion of the issue has been reduced to an amount which experience shows to be consistent with the maintenance of a central gold reserve of £150 millions, the outstanding Currency Notes should be retired and replaced by Bank of England Notes of low denomination in accordance with the detailed procedure which we describe. (Paras. 45 and 46.)

We have the honour to be,

My Lords and Sir,

Your obedient Servants,

(Signed) CUNLIFFE (*Chairman*).
C. S. ADDIS.
R. E. BECKETT.
JOHN BRADBURY.
G. C. CASSELS.
GASPARD FARRER.
HERBERT C. GIBBS.
W. H. N. GOSCHEN.
INCHCAPE.
R. W. JEANS.
A. C. PIGOU.
GEO. F. STEWART.
W. WALLACE.

G. C. UPCOTT (*Secretary*).
15th August, 1918.

APPENDIX I.

PROPOSED MONTHLY STATEMENT TO BE PUBLISHED BY BANKS.

Statement of the average figures of the weekly Balance Sheets during the month of.....19.....

LIABILITIES.		ASSETS.	
Capital :—		Cash :—	£
Registered £		(1) Coin, Bank and Currency	
Subscribed £		Notes, and Balances with	
Paid up - - - - - £		the Bank of England - - £	
Reserve Fund - - - - -		(2) Balances with London Clear-	
Current, Deposit, and other Accounts -		ing Agents and with other	
Acceptances - - - - -		Banks, Bankers or Bank-	
Endorsements, Guarantees and other		ing Companies in the	
obligations - - - - -		United Kingdom - - £	
Notes in Circulation - - - - -		(3) Items in transit - - £	
		Money at Call and at Short Notice - - -	
		British Bills of Exchange - - - - -	
		Foreign Bills, Foreign Bank Bills and	
		Domiciled Bills - - - - -	
		Balances abroad - - - - -	
		Investments :—	
		(1) Securities of, or guaranteed by, British	
		Government - - - - -	
		(2) Indian and Colonial Government	
		Securities, British Corporation	
		Stocks, British Railway Debenture	
		and Preference Stocks - - - - -	
		(3) Other Investments - - - - -	
		Other Advances - - - - -	
		Other Assets - - - - -	
		Bank Premises - - - - -	
		Liabilities of Customers for Acceptances,	
		as per contra - - - - -	
		Liabilities of Customers for Endorsements,	
		Guarantees and other obligations, as per	
		contra - - - - -	
	£		£

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copy -

FEDERAL RESERVE BANK
OF NEW YORK

DUPLICATE

Woods Hole, Mass.,
August 12, 1918.

My dear Lord Cunliffe:

The following remarks, which I am sending in response to your kind note of June 22, 1918, I trust will be read by you and by your associates with the full understanding that in no respect should they be taken as criticism where they appear to be such, but rather as evidencing a desire to answer your inquiry with the frankness which is required in order that this letter may be of service, and with the candor which should characterize the suggestions of a friend. I need not tell you how greatly honored I feel in being asked to aid in such an important and complicated matter as that upon which you are just now engaged.

The Federal Reserve System, while embodying the results of inquiries conducted in all the modern banking countries, is, nevertheless, more largely modeled in its fundamentals upon English banking experience and tradition than upon those of any other nation. Its most important variations from the British system consist in our having twelve regional central banks, instead of one, with branches, and in these banks having the power to issue circulating notes, secured by their assets, instead of solely against gold.

I am submitting below some comments which seem to be justified in view of our four years experience under the new Federal Reserve Act, but I am not confining these suggestions to the scope of the inquiry suggested by your letter. Twelve headings will be dealt with somewhat in the order of their importance, discussing first our own experience, and, later, commenting upon certain aspects of your position in the case of each heading:

A. THE CURRENCY NOTE ISSUES OF THE BRITISH GOVERNMENT: The history of the note issues of the Federal reserve banks may be summarized as

follows: Under the law, as originally passed, it was understood by many, (and, possibly, although not certainly contemplated by the law,) that these notes should ordinarily be issued against the security of bills and commercial paper and that each reserve bank should maintain a gold reserve in its banking department, in addition to the pledged collateral, equal to 40% of the amount of notes actually issued and outstanding. Certain provisions in the Act, which permitted the substitution of gold as collateral, in place of commercial paper or bills withdrawn, afforded opportunity for the reserve banks, when they were first organized, to make the note issue the means of gathering in the floating supply of gold and of impounding the large imports of gold which took place in the early years of the war. Without, therefore, any true expansion of "assets" currency, the reserve banks, during the first two and one-half years of their existence, built up an immense reserve of gold, simply by issuing notes upon the security of gold as opportunity afforded. These issues were made in various ways, but, generally, in direct exchange for gold deposited with the reserve banks or purchased from those importing it from abroad. Various amendments to the Federal Reserve Act facilitated this operation, the last amendment, in 1917, doing away with all requirements that national banks carry reserves in their own vaults and providing that only deposit balances carried with the reserve banks should thereafter count as reserve. The amount of reserves to be carried on deposit was increased by the new law, and, in consequence, the gold reserves of the member banks were at once very largely transferred to the reserve banks, whose notes are now used as till money by those banks, although (for National Banks) they do not count as reserve. Through these operations was laid the foundation of the present strength of the reserve banks, which has enabled them to meet the demands of our war financing with such ease.

Commencing in April, 1917, the reserve system began to feel the strain of the financial operations of the Government, as well as the demands

for currency, caused by rapidly advancing prices for labor and commodities. While the gold reserves of the twelve reserve banks have been built up to nearly \$2,000,000,000, being two-thirds of the country's gold supply, at the same time note issues have expanded to \$1,955,000,000 and loans, discounts and bills purchased to \$1,541,000,000. In connection with this paragraph, I am transmitting a series of statements of the Federal reserve banks, which will exhibit the growth of these various accounts from the commencement of the system until the present time. This expansion of note issues stands out in marked contrast ^{with} occurrences during our Civil War. Due to various causes, in part to ignorance of sound principles of finance and to failure promptly to levy taxes, and to the timidity of the country resulting from the shock of civil war, our Treasury was led to issue the so-called "green-backs." Hardly six months had passed before our Government, and practically all of the banks of the country had suspended specie payment and from that time until long after the conclusion of the war, gold commanded a premium, at one time equal to 280%, measured by the value of our paper money or deposit balances. Our green-backs have never been retired and are still legal tender! The contrast with present conditions is too striking to be passed without comment. We have never had a premium on gold since the war started in 1914; there has been no lack of currency for commercial needs and we have continued to ship gold to creditor nations, while only in recent months have such shipments been subject to necessary Government regulations. Gold is still paid out by our banks to their depositors if demanded and the only legal restrictions upon gold transactions are those imposed by the export embargo which seeks to regulate and control the loss of our gold banking reserves in harmony with our war requirements and those of our Allies.

This statement is made at some length in order to emphasize the point which is so obvious in our currency situation; namely, that the infusion of this

8 large amount of circulating media into our banking system and into trade channels under the stimulus of rising prices and expanding loans and deposits, is most unlikely to result in an irredeemable currency situation, because the general contraction of business and credit succeeding the conclusion of the war will automatically bring about a contraction of the currency circulation, and the gold redemption fund is unquestionably adequate, unless the war should last many years. The note issue has expanded as business demanded, and has been an important instrument in effecting an accumulation of gold reserves.

As to your situation, I can not help but feel that a different and not quite as sound a policy has, of necessity, been pursued. Your currency notes now appear to have taken a permanent place in the nation's note circulation, and, doubtless, occupy an important place in the cash reserves of the joint stock and savings banks. The gold reserve maintained against them is trifling compared to that maintained by the Bank of England in its Issue Department, or that maintained by the reserve banks (now roughly 60%) against combined note and deposit liabilities. The fact that the currency notes are secured by interest bearing bonds, together with a deposit balance at bank and a small gold reserve, is an explicit recognition by your Government of the urgent need for prompt retirement of this circulation, but the question arises, will its retirement automatically take place and how will the progress of its retirement be governed? It seems that this will largely depend upon the policy of your Government in dealing with the obligations by which the currency notes are secured. The notes should not be retired more rapidly than the reserve condition of your banks, the activity of your business, and the decline in the price level will permit. No refunding scheme for the sale of interest bearing bonds to the public will replace in the pockets of your people, in merchants' tills, and in bank reserves, currency which is now required to meet demands for commercial and banking purposes. Even the substitution of a balance at the Bank for the

Government's obligations now securing the notes will be no more than a substitution of one form of obligation for another form of obligation. The real problem will be to provide automatic retirement for these notes when and as rapidly as their circulation is no longer required. I am inclined to think that the modification of your Bank Act, suggested in "B" following, might well be combined with a plan by which the currency notes would be assumed and gradually retired by the Bank of England, or, possibly, its own notes substituted at the proper time, and the issues merged.

Unless human nature in England is quite different from human nature in this country, the currency notes will be a menace so long as they are in circulation. The demand for 'cheap money' by ignorant people can easily be focussed upon the Government printing press, but the conversion of the currency notes into bank notes, with provision for automatic retirement, should anticipate and avoid that development.

B. THE BANK OF ENGLAND NOTE ISSUE: Under "A" I have roughly described the operation of the note issue of the Federal reserve banks. In elaboration of that statement, it should be explained that under the law as now amended, the note issues of the Federal reserve banks are almost, if not quite as fully, assets currency as are the notes of the Bank of France. All of the assets of the reserve banks are charged by law with a prior pledge to the note holders, before other creditors can be paid, so that the physical segregation of bills and gold with the Federal Reserve Agent, which is the equivalent of the establishment of an Issue Department similar to that of the Bank of England, is more a formality than a reality. When the period of post-war liquidation arrives, accompanied by declining prices for commodities and labor, unless the nation's banking reserves are disturbed by heavy gold exports, it may be expected that the liquidation of loans and deposits of the banks generally, and, in consequence, the loans of the Federal reserve banks, will gradually bring about a reduction of deposits and note issues without disturbance to either business or

banking conditions.

It may be a justifiable comment upon the maintenance of the issue department of the Bank of England in its present form, that its note issue was incapable of expansion like ours, to meet the needs of the war, and, had it been capable of such expansion, doubtless some of the serious currency difficulties of 1914, which resulted in the issue of the currency notes, would have been avoided.

Since the outbreak of the war, the Federal Reserve Bank of New York has aimed to keep in stock unissued notes of various denominations of no less than \$500,000,000 and the total of unissued notes carried in reserve by all the reserve banks has been kept at about \$1,000,000,000. The protection afforded to our banking system by the assurance which knowledge of that fact gives to bankers and business men has been of unmistakable value. No such stock of notes held by the Bank of England would have had similar effect upon sentiment as the Bank has no means of putting them into circulation.

Later experience with our own system, if the war continues, may require a modification of these views, but, up to the present time, I believe that our experience justifies a greater faith in the note issue plan of our Federal Reserve Act than in the plan of a separate department of issue without power of expansion, required by your Act of 1844. Realizing, further, that the position of the Bank of England, if operating under a law comparable to ours, would require fortification by a great addition to its gold reserve, leads to question

C. ARE ENGLISH BANKS OVER-LENDING ON THEIR RESERVES? During a visit to England in 1914, I recall stating to some of your bankers that it appeared to me, and I believed to other American bankers, that the English banks as a whole were over-trading on their gold reserves. If the comments under paragraph "B" are justified and the Bank of England should be given the power in future to expand its note issue, then, in my opinion, no such change of law would be safe without a greater store of gold, either in the central bank, or in the joint stock banks.

We have always been a nation of statutory minimum reserves; England has never imposed statutory reserve restrictions upon its banks, and I should say that the consequences of these divergent policies are, in the case of American bankers, too great a reliance upon reserves and too little upon good banking, and, in the case of English bankers, too great a reliance upon good banking and too little upon reserves. We have been over-supplied with reserve money, but our banks have not kept as liquid as the English banks. Your banking institutions have done too large a business upon too slender a gold reserve.

While I am opposed to the principle of independent vault reserves and of statutory reserve requirements, it is, possibly, fair to state, in the light of our war experience, that the English banks have not fortified their central bank as much as they might, and, in order to build up the gold reserve of the Bank of England, it might be prudent to induce or require them to sufficiently reduce their credits so as to enable the Bank of England to accumulate a greater general gold reserve and this would seem to be an essential requirement if the present restrictions of the Act of 1844 surrounding note issues are to be removed.

D. DEPOSITED RESERVES VS INDIVIDUAL BANK RESERVES: Since our National Bank Act was adopted in 1863, and until the Federal Reserve Act was recently amended, all national banks in the United States had been required to keep a considerable reserve in their own vaults and had been permitted to carry a portion of their reserve on deposit with other banks. Most of our State laws still require State institutions to carry reserves in their own vaults, (which may, however, in most States, consist of the notes of the Federal reserve banks) and still permit a portion to be carried on deposit with other banks, which, in most States, include the Federal reserve banks. Our reserve laws were undoubtedly a source of weakness in a country where branch banking was not permitted or encouraged and resulted in our reserve being scattered among 20,000

or more banking institutions. This has finally been corrected by the recent amendments to the Federal Reserve Act so that now, as stated above, the Federal reserve banks carry reserves of nearly \$2,000,000,000 of gold, available to all the principal banking institutions of the country. Over 8,000 banks and trust companies, including practically all the large ones, are now members of the system. There has recently, I understand, been a strong movement in England looking to the carrying of independent cash reserves by the joint stock banks. This, I believe, would be less objectionable with you than in this country, owing to the small number of commercial banks in England; but, on the other hand, it might retard the process of recuperation from the war strain by the Bank of England, which should be promoted before any measures of that character are applied to your commercial banks. In general, I think that our reserve law, and, in consequence, our reserve position, is to-day much stronger than that of the Bank of England and of English banks generally and that your situation would be largely corrected by some bank liquidation which would enable the Bank of England to maintain larger gold holdings.

E. DOMESTIC EXCHANGES: At the time of their establishment, the Federal reserve banks faced difficult, and what appeared to be insurmountable obstacles, in overcoming the objections of the banks of the country to a proper regulation and control of the domestic exchanges. There are probably 30,000 banks and bankers in the United States, large and small, upon whom checks are drawn daily, many being sent to all parts of the country for various settlements. The collection of these checks and the adjustment of the resulting balances were long subject to no fixed rule as to cost or as to time of collection and settlement and, in consequence, many confusions and dangers arose, which it was the function of the reserve system to cure. This has at last been well started and I refer to the matter only in order to comment upon the operation of your magnificent London Clearing

House and the simple and effective methods by which your collections and exchanges are effected. The only modification of present practice which might be suggested is possibly the establishment of a more uniform plan for settlements between English and Scotch banks so that they might be more promptly effected and, possibly, at less cost.

F. THE LONDON BILL MARKET: No department of English banking has so influenced the development of banking in this country as has the example of your bill market. In every advance in this new line of American banking your own practices and traditions have been searched and examined for a better understanding of how this business should be conducted and, I believe, notably in this respect English banking leads the world and should continue undisturbed by regulation or restriction.

G. THE OVERDRAFT ACCOUNT: In our National Bank Act and in the larger number of our State banking laws, provisions are now contained, most rigorous in character, which prohibit overdrafts by depositors in banks. In the case of the Federal law, this is so strict that if intention can be proved, the depositor can be visited with severe penalties. In some States to intentionally overdraw a bank account is a misdemeanor, punishable by imprisonment. This is in distinct contrast with the practice of many of the English joint stock banks, which regularly grant credit to their customers on current account or overdraft. I firmly believe that this is a bad and dangerous custom and might well be dealt with by statutory prohibition. A bank of all institutions, should know when it may count upon the repayment of indebtedness owing to it. Furthermore, a loan of that character, which may run indefinitely, in time takes on the nature of a capital fund in the mind of the borrower and gradually merges into his business investment. While I fully understand the care which is taken by some of your bankers to safeguard this method of extending credit, I can not but believe that the proper regulation of the relations between a bank and its customers can be better effected by the

employment of a bill or a note, rather than by reliance upon an inscribed account.

H. RATE FIXING: The Federal Reserve Act provides that the directors of Federal reserve banks shall fix the rates of discount for the various classes of loans which they make, the rates so fixed being subject to review and determination by the Federal Reserve Board. These rates must apply to all borrowers making similar types of loans. The language of the statute is somewhat ambiguous as to whether the Federal Reserve Board has the power to initiate a rate. That question has never been definitely determined, and I doubt if need for such a determination is likely to arise. This is a marked defect, however, in the regional bank plan, as uniformity of rates can not well be brought about, and the influence of the central bank rate is to some extent impaired.

The influence of the rate of the Bank of England is so pronounced, in fact so much more pronounced than the rates of the Federal reserve banks, which are so various as to different types of loans and differ rather widely between the different reserve banks, that I doubt if comparison can be made between the practices of the two institutions. I should hope, however, in the interest of your own money market, that no development would take place which would have the effect of altering the stability and uniformity of rates now so well governed and controlled by the Bank of England.

I. THE PAYMENT OF INTEREST TO DEPOSITORS: Federal reserve banks are neither authorized nor expressly prohibited by law in the matter of allowing interest on balances. As a matter of practice, and in view of our interpretation of the law, it has been generally considered that we were without power to allow any interest on deposits. It would nullify other provisions of the law which require us to pay all surplus income over our 6% dividend and the maintenance of our surplus at 40% to the Government. If interest were allowed, there would, in fact, be little or no surplus income, in which event the profits payable to the Government, in lieu of franchise and all other taxes, would never arise.

On the other hand, keen competition for business among our commercial banks and trust companies, and the advance in the general level of interest rates, occasioned by the war, have led to the practice in some parts of the country of paying interest upon active checking accounts far beyond what banking prudence warrants. Conditions governing this matter in England have been somewhat different. The payment of high rates of interest has at times been effective in attracting and retaining balances from abroad, and, frequently, in protecting your market against heavy discounts of foreign paper. Experience in this country has led us to believe that no more subtle influence exists for the promotion of unsound banking than the competition which takes the form of allowing high rates for deposits. Whether brought about by the influence of the Bank of England or of your Clearing House, or, possibly, by statute, it has seemed to me that some regulation of the rates of interest allowed on balances by the English banks, as well as the return by the Bank of England to its former policies in that respect, will be required at the conclusion of the war.

J. SECURITY INVESTMENTS: The unprecedented decline in security values since the outbreak of the war, including bonds of the highest grade, has been a convincing argument to many American bankers that they have pursued a hazardous policy when they have invested a considerable proportion of their deposits in long time securities. Some of our smaller country banks have suffered such serious shrinkages in their surplus or "rest" funds, through the decline in the market value of their investments, that it will take many years, even in some cases with suspension of dividend payments, to restore these accounts to a proper proportion of capital. The war has likewise resulted in a large accumulation of Government securities by the English banks; probably larger in proportion than are the holdings of Government bonds by American banks. An understanding between your Government and the bankers looking to a liquidation of these holdings is greatly to be desired and doubtless is already receiving consideration.

K. COMPETITION BETWEEN THE CENTRAL BANK AND ITS DEPOSITORS:

The broad provisions of the Federal Reserve Act at first led many American bankers to conclude that the Federal reserve banks, with their immense resources and power, would become dangerous competitors, in various lines of banking, with the very institutions which were to be the owners of the capital stock, and, (outside of the Treasury) the sole depositors in the new institutions. The feeling referred to was a serious obstacle to our development in the larger cities, at one time, and was held by officers of many of the larger banks. It has been our effort from the outset to overcome this impression and, with the exception of our moderate dealings in the open market in the purchase of bills, we are not in competition with our own stockholders and depositors in any department of banking.

This has not always been the case with the Bank of England and it is a fair question to ask whether, if the joint stock banks are to be required to help build up the reserves of the Bank, as suggested in paragraph "C", and, possibly, are to be expected to maintain larger balances at the Bank, it may not be important to consider to what extent direct competition between the Bank of England and its own clients^e, should be avoided. An intelligent discussion of this subject would necessitate an examination of the accounts of the Bank of England such as could only be made by an officer of the Bank. The English Banking System has rested upon the Bank of England as upon a rock foundation. That foundation does not depend upon any legal requirement as to the maintenance of reserves with the Bank of England, as in the case of the Federal Reserve System, but tradition, the desire for mutual self-protection and the magnificent unity of the British banking system has preserved the Bank's position unimpaired up to the present time. No small part of this is due to an illustrious record of successful and conservative management by the directors of the Bank; but the question is now likely to arise, unless our information here is misleading, as to whether this good will and tradition can

always be relied upon in the future and, especially, in view of the developments referred to in the following paragraph.

L. BANK AMALGAMATIONS: Our National Bank Act and the laws of practically all of our States permit the consolidation of banking institutions under various limitations. In general, however, these consolidations can only be effected between institutions in the same municipality. This has been a natural and effective curb upon the over-development of any tendency to amalgamate and possibly has had the effect of curbing loose banking methods and reducing over-competition. But we are in a way over-stocked with banks in the United States. There are no less than one hundred and thirty-seven incorporated banks of deposit in the City of New York, exclusive of the mutual savings banks. Amalgamations of banks in England, however, proceed without statutory limitation, and, in recent years, have resulted in a great reduction in the number of institutions and, consequently, have made it increasingly difficult for new banks to be organized. This is always the case in a country where branch banking becomes highly developed. The creation of banks of the immense size which have resulted from recent amalgamations, may somewhat impair the influence of the Bank of England, which should be maintained beyond question. Aside from all questions of economy of management, efficiency of supervision, security, maintenance of competition, etc., I believe the greatest danger in the development of these amalgamations lies in the possible undermining of the supremacy of the Bank of England, the importance of which is not only measured by its relations with the great banks of London, but by the stability which its prestige has afforded to the banking systems of the whole world.

In reading the above you may be led to conclude that the views I have expressed relate more particularly to banking practices in England in war times rather than under peace conditions. The changes which are required, however, to adjust banking affairs to the unexampled situations arising

out of this war must take into account that the period of readjustment succeeding the conclusion of the war will, possibly, bring a greater strain and present more novel problems in banking and finance than even those which arose at the time of the outbreak and now confront us during the continuance of the war. In this respect the Federal Reserve System has had a distinct advantage, because we were embarking upon a new and untried enterprise, in which defects were expected and which could only be discovered through experience. The amendment of a law approved by the President as recently as December 23, 1913, naturally has not encountered such opposition as would be aroused by changes proposed in the fundamental banking law of your country, adopted in 1844.

Unfortunately the literature in relation to the Federal Reserve System and its development is most limited. Those who have been engaged in managing the system have had little time to spare for the preparation of critical works which would be of value to you and your associates in the problems which you are now considering. I am, however, sending you, under separate cover, the following documents:

1. The Federal Reserve Act, as it originally became law ✓
December 23, 1913.
2. All subsequent amendments to the act, as tabulated. ✓
3. A bill now pending in the Senate and House proposing further amendments to the Act, known as the Phelan Bill, the passage of which is still uncertain. ✓
4. A digest of the Act, prepared by Honorable C. S. Hamlin, Member of the Federal Reserve Board. ✓
5. The A. B. C. of the Federal Reserve System, a recent publication by E. W. Kemmerer, Professor of ✓
Economics at Princeton University.
6. All the regulations established by the Federal Reserve Board which are now in effect.
7. All of the annual reports to Congress made by the Federal Reserve Board, which include statements of all twelve of the Federal reserve banks.
8. A series of statements referred to in Paragraph "A"

In conclusion, permit me to say that in no part of the world has the English banking system a greater number of friends and admirers than are to be found in this country; the best evidence of which is the extent to which our own recent banking reforms have been influenced by a study of your methods.

Possibly also it may not be out of place in closing this letter to reaffirm the statement which I made to you in London in 1916, to the effect that a close alliance between the Bank of England and the Federal Reserve System, for which, fortunately, the foundation has now been laid, should afford protection to the banking systems of our two countries of a value that can not be over-estimated.

With assurance of my esteem, and wishing you every success in your task, I beg to remain,

Faithfully yours,

Right Honorable Lord Cunliffe,
Headley Court,
Epsom, England.

BS.MSB

MEMORANDUM.

(copy)
See Colquhoun
letter Feb 2, 1920

Canlyffe Committee

VERY PRIVATE AND CONFIDENTIAL.

A Bank, as the term is understood in this country, may be broadly described as a firm or institution whose main business is to receive from the public monies on Current Account repayable on demand by cheque.

The Committee are of opinion that the present system of registration must be abolished and that no firm or institution should be entitled to describe themselves as Bankers, as a Bank or as a Banking Company, unless

- (1) Their main business is as described in the definition above,
- (2) They register according to Board of Trade requirements.

The Committee recommend that the Board of Trade requirements include the publication of an audited Balance Sheet by all Banks, Bankers or Banking Companies, and also the publication of the number of the Shareholders; in the case of a private partnership, or proprietorship, outside the scope of the Companies Act, the names of the partners must be disclosed and, in the event of the death or retirement of a partner, such death or retirement must be reported to the Board of Trade and be by them duly advertised. The Committee are of opinion that Balance Sheets must be published at fixed periods either yearly or, preferably, half-yearly; owing to the congestion of business at the half years ending June and December, it is suggested that such Balance Sheets, one of which shall be audited, be published in April and October.

The Committee are of opinion that the Board of Trade should also have power to withdraw, at any time, their permission to any Bank, Banker or Banking Company, to describe themselves as such.

The Committee recommend that all Banks, Bankers or Banking Companies be registered in one of the following five classes.

Registration of Banks.

- CLASS 1. All British Banks, Bankers or Banking Companies whose main business is in the United Kingdom, their Head Office being in the United Kingdom.
- CLASS 2. All British Banks, Bankers or Banking Companies whose main business is abroad, their Head Office being in the United Kingdom.
- CLASS 3. All Indian and Colonial Banks, Bankers or Banking Companies with Head Office in the United Kingdom.
- CLASS 4. All Indian and Colonial Banks, Bankers or Banking Companies with a Branch or Branches in the United Kingdom but with Head Office in India or the Colonies.
- CLASS 5. All Foreign Banks, Bankers or Banking Companies with a Branch or Branches in the United Kingdom.

Banks, Bankers or Banking Companies who would be included in Class 4 or 5, must not be allowed to register unless properly constituted and recognised as a Bank, Banker or Banking Company under the laws of the country where such Bank, Banker or Banking Company is domiciled.

The published Balance Sheet must be in the standardized form A annexed; no Profit and Loss Account need be shown.

Publication of Balance Sheets.

In the case of Banks, Bankers or Banking Companies in Class 2, 3 or 4, the Balance Sheets must show, in the standardized form, the position of the Head Office or the Branch in the United Kingdom. (In the case of Banks, Bankers or Banking Companies having more than one Office in the United Kingdom, the accounts of such Offices must be consolidated). In addition to these Head Office or Branch Balance Sheets, such Banks, Bankers or Banking Companies must publish in London each General Balance Sheet of their Bank, copies of each general Balance Sheet to be lodged with the Board of Trade, or other Government Department, within reasonable time after publication.

In the case of Banks, Bankers or Banking Companies in Class 5, the Balance Sheets must show, in the standardized form, the position of the Branch or the Branches in the United Kingdom; the Government to enact that British Government Securities to the extent of x per cent. of the liabilities of the Branch or Branches in the United Kingdom shall be lodged with the Bank of England, or other approved institution, the amount of such Securities to be adjusted according to the liabilities disclosed by each yearly or half-yearly Balance Sheet, as may be determined. (In the case

of Banks, Bankers or Banking Companies having more than one Office in the United Kingdom, the Accounts of such Offices must be consolidated.) In addition to these Branch Balance Sheets such Banks, Bankers or Banking Companies must publish in London each General Balance Sheet of their Bank, copies of each General Balance Sheet to be lodged with the Board of Trade, or other Government Department, within reasonable time after publication.

In addition to the yearly or half-yearly Balance Sheet, all Banks, Bankers or Banking Companies must publish a Statement at the end of each month (signed by a qualified Officer of the Bank) in the standardized form B annexed, the figures of such Statement to be the **average** of their weekly Balance Sheets during the month; in the case of Banks, Bankers or Banking Companies in Class 2, 3, 4 or 5, the figures to be those of the **average** of the weekly Balance Sheets of their Office or Offices in the United Kingdom.

Auditing of
Balance Sheets.

Each year one Balance Sheet in the standardized form must be audited by either

- (1) Members of the Institute of Chartered Accountants, or
- (2) Members of the Society of Incorporated Accountants and Auditors.

The average Statement published at the end of each month need not be audited.

Detailed instructions must be drawn up, both for the guidance of Banks, Bankers or Banking Companies in compiling the Balance Sheets and Monthly Statements and for the guidance of the Auditors in auditing the Balance Sheets, as to the class of item which may be included under specified headings. The Committee consider that the following instructions should be laid down:—

- (1) The items under the heading of "Money at call and at short notice" must not include money placed at more than a month's notice.
- (2) The items under the heading of "British Bills of Exchange" must include only Bills payable in the United Kingdom, drawn on, and accepted by, British persons, British firms or institutions domiciled in the United Kingdom, and Banks, Bankers or Banking Companies included in Classes 3 and 4.
- (3) If account is taken of "goodwill" it must be set out as a separate heading in the Balance Sheet and in the Monthly Statement.
- (4) Any operative charge on any of the Assets must be disclosed in the Balance Sheet.
- (5) Such contingent liabilities as, in the opinion of the Auditors, it is essential to disclose must be shown in the Balance Sheet.
- (6) A Bank, Banker or Banking Company holding 25 %, or more, of the Shares in, or Stock of, any other Bank, Banker or Banking Company must give full particulars of such holding in the Balance Sheet on a separate line between the headings "Loans and Advances" and "Other Assets."

Crossed Cheques.

The Committee recommend that only Banks, Bankers or Banking Companies comprised in Class 1 be entitled to present "crossed" cheques for payment over the counter.

The Committee are aware that, under their proposals, certain firms or institutions, such as Discount Houses, would not be entitled to register as Banks, Bankers or Banking Companies, and that certain hardships might be inflicted on them because, with regard to assessment of Income Tax, they have hitherto been classed with Banks, Bankers or Banking Companies. The Committee recommend that, with regard to such assessment, the special nature of the business of such firms or institutions be taken into consideration by the Inland Revenue Authorities, independently of the question whether they are entitled to register as Banks, Bankers, or Banking Companies.

The Committee recognise that an Act of Parliament will be required before effect can be given to the foregoing recommendations and they are of opinion that the Act should provide that Banks, Bankers or Banking Companies who have been established for at least five years at the date of the passing of such Act shall be allowed a period of twenty-four months, calculated from the date of the passing of the Act, before such Bank, Banker or Banking Company is required to conform thereto.

28th February, 1918.

BALANCE SHEET as on _____

19____

LIABILITIES.

ASSETS.

Capital :—

Registered £

Subscribed £

Paid up £

Reserve Fund

Current, Deposit, and other Accounts .

Acceptances

Endorsements, Guarantees and other obligations

Notes in Circulation

£

Cash :—

£

(1) Coin, Bank and Currency Notes, and Balances with the Bank of England £

(2) Balances with London Clearing Agents and with other Banks, Bankers or Banking Companies in the United Kingdom £

(3) Items in transit £

Money at Call and at Short Notice .

British Bills of Exchange

Foreign Bills, Foreign Bank Bills and Domiciled Bills

Balances abroad

Investments :—

(1) Securities of, or guaranteed by, British Government
(2) Indian and Colonial Government Securities, British Corporation Stocks, British Railway Debenture and Preference Stocks

(3) Other Investments

Loans and Advances

Other Assets

Bank Premises

Liabilities of Customers for Acceptances, as per contra

Liabilities of Customers for Endorsements, Guarantees and other obligations, as per contra

£

Number of Shareholders _____

(Signed) _____

Statement of the average figures of the weekly Balance Sheets during the month of _____ 19____

LIABILITIES.

ASSETS.

Capital :—

Registered £

Subscribed £

Paid up £

Reserve Fund

Current, Deposit, and other Accounts .

Acceptances

Endorsements, Guarantees and other obligations

Notes in Circulation

£

Cash :—

£

(1) Coin, Bank and Currency Notes, and Balances with the Bank of England £

(2) Balances with London Clearing Agents and with other Banks, Bankers or Banking Companies in the United Kingdom £

(3) Items in transit £

Money at Call and at Short Notice .

British Bills of Exchange

Foreign Bills, Foreign Bank Bills and Domiciled Bills

Balances abroad

Investments :—

(1) Securities of, or guaranteed by, British Government

(2) Indian and Colonial Government Securities, British Corporation Stocks, British Railway Debenture and Preference Stocks

(3) Other Investments

Loans and Advances

Other Assets

Bank Premises

Liabilities of Customers for Acceptances, as per contra

Liabilities of Customers for Endorsements, Guarantees and other obligations, as per contra

£

(Signed) _____

C
O
P
Y

Headley Court
Epsom
1st September 1918

Dear Mr. Strong

Your letter of 23rd July has reached me but alas as you will gather from the enclosure the fates have dealt equally humbly with us as regards photographs.

I had the greatest difficulty in smuggling mine out through official channels but I will have some more struck off and then impose on the kindness and good nature of Lord Reading to deliver one to you on his return to your side.

Your photograph I shall look forward to receiving from you in person either here or in New York wherever we may first meet.

The Committee on Currency and Foreign Exchanges has just handed its first interim report to the Lords Commissioners of the Treasury and the Minister of Reconstruction, and if it is accepted and approved for publication, I will send you a full text copy through the Foreign Office as the abridged summary does not always convey the true inward meaning.

You will note that the Committee share the views you shortly express in your letter under reply but I am sure you are right and we should find some opportunity for discussing this most important matter in person.

With very kindest remembrances to yourself and all those who were so good to me during my visit to your side.

Believe me,

Yours very sincerely,

(signed) CUNLIFFE

Mr. Benjamin Strong

14th Sep^r: 18

HIDLEY COURT,
EPSOM.

My dear Mr. Strong

Your letter of 23rd July has reached me but alas as you will gather from the enclosure the fates have dealt equally harshly with us as regards photographs. -

I had the greatest difficulty in smuggling mine out through official channels but I will have some more struck off and then repose on the kindness and good nature of Lord Reaching to deliver one to you on his return to your side. -

Your photograph I shall look forward to receiving from you in person either here or in New York whenever we may first meet. -

The Committee on Currency & Foreign Exchanges has just handed its first interim report to the Lords Commissioners of the Treasury and the Minister of Reconstruction and if it is accepted and approved for publication

I will send you a full text copy through the Foreign Office as the abridged summary does not always convey the true inward meaning. -

You will note that the Committee share the views you shortly express in your letter under reply but I am sure you are right and we should find some opportunity

of discussing this most important matter in person. -

With very kindest remembrances to yourself and all those who were so good to me during my visit to your side

Believe me

Yours very sincerely

Curcliffe

W. Benjamin Strong

TELEGRAPHIC ADDRESS,
"INLIFFE, LONDON."
TELEPHONE NO
1535 AVENUE.

White Lion Court,
Cornhill,
London, 9th September 1918
E.C. 3.

My dear Mr. Strong,

Your letter of 10th August has reached me, and I am looking forward to receiving the memo on your Federal Reserve Board System, but a packet of books and pamphlets on the subject have just also reached me, and I ought to be able to get quite well posted.

It is really very good of you to take so much trouble, and I will most carefully go through the various documents, many of which I notice are to be returned to you, though the half yearly reports I presume I may keep.

To me, however, any amount of literature and correspondence is not equal to a few days together in which to discuss the thing closely between us in all its bearings, and I hope that I may find an opportunity of visiting you.

No news as yet as to the Chancellor's attitude on the report of the Committee on Currency, so it will not be published for some time.

Ere this you will have received the long promised photograph from Mr. Hamlin, but I am afraid yours is lost to me for ever, unless I can arrange to visit you and get it for myself, which would be the best solution.

With very kindest remembrances,

Believe me,

Yours very truly,

Incliffe

Mr. B. Strong,
Woods Hole, Mass.,

785-268

028 - Had Terminal

October 25, 1918

Very Private & Confidential

Headley Court,
Epsom.

My dear Mr. Strong:

Your letters of 12th & 27th Aug. also 30th Sept. have reached me and I also have to thank you for the really speaking likeness of yourself which I am so glad to receive at last after so many disappointments.

I certainly need nothing to remind me of you but I shall always be very proud to point to you as a very great Banker whom I had the honor to call a personal friend.

I am sorry to tell you that I can make no headway with the Committee on Currency as the entire attention of everyone is fixed in the various and changing prospects of the war and no one in authority seems to bear in mind the financial position that will have to be faced one day.

True we are obtaining the immediate ^{Sinews} ~~views~~ of war in a most wonderful way and very cheaply ~~but~~ when as Governor of the Bank I invented the system of having Treasury Bills on "Tap" and later on advised the Chancellor to adopt the same method with 5% War Bonds I did not anticipate that he would carry on so long without funding.

You shall most certainly have a copy of the Interim report of my Committee the same moment that I am permitted to send you one but I dare not now as I have so far failed to get it considered and I do not know when, if ever, it is to be published although it was submitted to the Chancellor and the Minister of Reconstruction last August.

I have read your letter and suggestions with the very greatest interest and find all you say most illuminating and helpful, but indeed I do wish that I could come over and discuss things personally as a few hours conversation would be more satisfactory than means of correspondence.

However, for your letter to be of any definite use I must get the first stage of my Committee's work recorded before proceeding to discuss it but you cannot have any idea of the difficulty I have in getting anyone to think of or consider anything but the immediate or even daily war prospects.

Perhaps I am getting old and nervy--Let us hope so!!!

With renewed thanks for your photograph and the immense trouble that you are taking to help me.

Yours very truly,

/s/ Cunliffe

Mr. Benjamin Strong

With renewed thanks for
your photograph and the
summe trouble that you are
taking to help me

Yours very truly
Ceciliffe

Mr. Benjamin Shiny

Very private + confidential

HEADLEY COURT,
EPSOM.

25th Oct 18

My dear Mr. Shiny

on file Your letters of 12th & 27th Aug¹⁸
also 30th Sep¹⁸ have reached me and
I also have to thank you for the really
speaking likeness of yourself which
I am so glad to receive at last after
so many disappointments. -

I certainly need nothing to remind
me of you but I shall always be
very proud to point to you as a
very great Member whom I should
the honor to call a personal
friend. -

I am sorry to tell you that I
can make no headway with the
Committee on Currency as the
entire attention of everyone is
fixed on the various and
changing prospects of the war
one in authority
and no ₁ seems to bear in mind

the financial position that will have to be faced one day. -

True we are obtaining the immediate needs of war in a most wonderful way and very cheaply but when as Governor of the Bank I invented the system of having Treasury Bills on "Tap" and later on advised the Chancellor to adopt the same method with 5% loan Bonds I did not anticipate that he would carry on so long without funding. -

You shall most certainly have a copy of the Interim report of my Committee the same moment that I am permitted to send you one but I daresnot now as I have so far failed to get it considered

and I do not know when, if ever it is to be published although it was submitted to the Chancellor & the Minister of Reconstruction last August. -

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However for your letter to be of any definite use I must get the 1st stage of my Committee work worked before proceeding to discuss it but you cannot have any idea of the difficulty I have in getting anyone to think of or consider anything but the immediate or even daily war prospects. -

Perhaps I am getting old and weary.
Let us hope so!!

TELEGRAPHIC ADDRESS,
"CUNLIFFE, LONDON."
TELEPHONE NO.
1535 AVENUE.

LIBRARY
White Lion Court,
Cornhill,
London, 30 October 1918
FEDERAL RESERVE BANK

dated 6 Oct. 25/18. on file

Dear Mr. Strong

I little thought when I wrote to you a few days ago that the Interim Report of the Committee on Currency and Exchange would be out so soon, but here it is enclosed - **Loose in file**

As yet it has hardly been properly digested in City circles but shortly I will write you as to what is thought of it and send you any intelligent newspaper cuttings that I come across -

Yours very truly
Cunliffe

Mr. Benjamin Strong
Federal Reserve Bank
New York.

REPORT OF LORD CUNLIFFE'S COMMITTEE.

(Manchester Guardian, Oct. 30, 1918)

The first interim report of the Committee, under the chairmanship of Lord Cunliffe, appointed to investigate the question of currency and foreign exchanges after the war, was issued Oct. 29 (28 ?). The Committee say that, in their opinion, it is imperative that after the war the conditions necessary to the maintenance of an effective gold standard should be restored without delay. Unless the machinery, which long experience has shown to be the only effective remedy for an adverse balance of trade and an undue growth of credit is once more brought into play, there will be grave danger of a progressive credit expansion, which will result in a foreign drain of gold, menacing the convertibility of our note issue, and so jeopardising the international trade position of the country. Among the pre-requisites for the restoration of an effective gold standard is the cessation of Government borrowing as soon as possible after the war; and the Committee recommend that an adequate sinking fund should be provided out of revenue, so that there may be a regular annual reduction of capital liabilities, especially those which constitute the floating debt. The issue of fiduciary notes should, as soon as practicable, once more be limited by law, and the present arrangements under which deposits at the Bank of England may be exchanged for legal tender currency without affecting the reserve of the Banking Department should be terminated at the earliest possible moment. In regard to the control of the note issue, the Committee observe that, while the obligation to pay both Bank of England notes and currency notes in gold on demand should be maintained, it is not necessary or desirable that there should be an early resumption of the internal circulation of gold coin, and in view of the withdrawal of gold from circulation, they recommend that the gold reserves of the country should be held by one central institution, and that all banks should transfer any gold now held by them to the Bank of England.

The Committee recommend that the principle of the Bank Charter Act, 1844, should be maintained--namely, that there should be a fixed fiduciary issue beyond which notes should only be issued in exchange for gold. They suggest that the normal minimum of the central gold reserve to be aimed at should be, in the first instance, £ 150,000,000. Until this amount has been reached and maintained, concurrently with a satisfactory foreign exchange position for at least a year, the policy of cautiously reducing the uncovered note issue should be followed. When the exchanges are working normally on the basis of a minimum reserve of £ 150,000,000 the position should again be reviewed in the light of the dimensions of the fiduciary issue as it then exists. The Committee do not recommend the transfer of the existing currency note issue to the Bank of England until the future dimensions of the fiduciary issue have been ascertained.

Lord Curzon

Private &
Confidential

5th July 19

HEADLEY COURT,

EPSOM.

Dear Mr. Strong

Your letter of 3rd Dec reached me some days since but lately I have not been quite in my usual health and having in one way or another a good deal on hand I have been more than usually busy over my correspondence.

I wish I still had some of your vitality & keenness but the fact is I am growing old and begin to feel it.

It is probably that same old age creeping on that makes me pessimistic and anxious as to the future but I am indeed nervous as to the outcome of all this enormities

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MAY 5 1910

FEDERAL RESERVE BANK

credit-inflation and huge floating debt. -

I am convinced you are right and that there is little to fear if our two nations pull together and share as may be the finance of the world but I am for ever meeting that green-eyed monetary jealousy wandering around and I fear trouble. -

If I am not mistaken there are signs that all is not well even in Bonding circles but I do trust that as yet it has not reached the Bank of England. - All and everything during the

next 5/10 years depends on our being able to trade and finance together as friendly competitors certainly but without nasty jealousy and I do pray that I am wrong and that there are no signs of the latter. -

Trusting that we may meet again before very long. .

Yours truly
Auriffe

W. Benjamin Stenz

Evening Sun

Lord Cunliffe Dies in London

**Twice Governor of the Bank of England
—End Came Suddenly on Way
to Dinner.**

LONDON, Jan. 6.—Lord Cunliffe, First Baron of Headley, died suddenly last night while on his way to a dinner.

Walter Cunliffe had been a leader in British financial circles many years. He was born in 1855 and was made governor of the Bank of England in 1913.

Lord Cunliffe was in his 65th year. He was educated at Harrow and Trinity College, Cambridge. He embarked early upon a financial career and was one of the members of the firm of Cunliffe Brothers. In 1895 he became a director of the Bank of England. He also was a director of the Northeastern Railway Company.

In 1911 Lord Cunliffe became deputy governor of the Bank of England and two years later succeeded to the governorship. He served in this capacity for two years and was forthwith re-elected. This was the first time in the history of the organization that a man had been elected to succeed himself as governor. In 1914 he was created the first Baron of Headley.

American bankers met Lord Cunliffe in 1915 when he visited this country with Lord Reading to negotiate the first British war loan in America. He was one of Lloyd George's advisers at the Paris Peace Conference.

All your daughter. & I know
how we miss the absent
one.

With kindest regards

J. Seymour

With kindest regards



Dec. 30. 25

Cum gratia

HEADLEY COURT,
EPSOM.

Dear Mr. Strong

It is very kind of
you to remember me at
this time of year. I
thank you warmly for your
friendly card. and will
look at that is good in
1926.

I hope next time you
are in England that we
may have the pleasure of

seeing you. My son is
now a full partner in his
Father's firm. Goddard &
Curlyffe. & I would very
much like him to know you.
My husband had such a
great regard for you.

My son has lately married
a most charming girl - the
daughter of Mr Cecil Lubbock
Whom you probably know.

& it is a marriage that makes
him very happy.

My second boy is still looking
out for work. "Jobs" are so
scarce. - Meanwhile he
is travelling with his wife in
your country. & it now I
believe or he wants to
California.

I hope your family are
all well & that you are

Feb. 23' 1920.

HEADLEY COURT,

EPSOM.

Dear M^r-Strong

Will you forgive a printed letter? I have been trying to write personally to the many friends whose sympathy has been such a help in this time of sorrow and loss; but I begin to realize that it would take months to acknowledge all the letters, ^{& telegrams} although each one has been gratefully appreciated. It becomes increasingly difficult to write, as each day brings fresh duties, but I am very anxious that all who have sent such wonderful tributes to the memory of my husband, and such kindly sympathy to me and mine, should know how grateful we are, and that we thank you with all our hearts.

My husband is always in sympathy with you. & delights in your friendships

Yr. very sincerely

With kindest
affection