

PRIVATE.

Estes Park, Colo., August 3, 1916.

Brien Cokayne, Esq.,
Care of Bank of England,
London, England.

Dear Mr. Cokayne:

I regret very much that my illness has necessarily delayed replying to your kind letter of June 15th.

I am spending some months here in Estes Park, Colorado, where I have a little office and keep in touch with the Bank. The management, however, during my absence will be in the hands of Mr. Robert H. Treman, Deputy Governor of the Bank, who has been one of our directors since the bank was organized.

Unfortunately, some doubt has arisen as to the passage of the amendments to the Federal Reserve Act at this session of Congress, but an effort will be made to obtain a favourable opinion of Counsel covering the matter of days of grace, and I am hopeful that means will be found to overcome that difficulty.

The basis for ear-marking gold at the Bank of England, suggested by the Governor, seems to me to be entirely satisfactory. Would not the same rule apply to the ear-marking of gold for account of the Bank of England by the Federal Reserve Bank of New York? Assuming as an illustration that you remitted to us say \$5,000,000 of New York Exchange and occasion arose for ear-marking that amount of gold. The price which the dollars cost you expressed in sterling would not affect the operation of ear-marking gold in New York. You would have \$5,000,000 credit either on our books or possibly invested in bills. Upon your instructions, we would convert that credit into gold upon the basis of the table of charges provided by the Assay Office circular, which took effect April 15th, of which I sent you a copy. Assuming that the gold was ear-marked in standard bars, you would receive the exact equivalent in gold, less the assay office charge of 50¢ a \$1000 for bars of \$5,000 in value and over. Were we unable to obtain gold bars, we would ear-mark gold coin at its bullion value, less the charge of 50¢ a \$1000, which is made for bars, the effect being to set aside a sufficient quantity of gold to consume the amount of your balance, with a deduction only of the charge of 50¢ a \$1000 which is made for gold bars.

In practical operation the Bank of England I assume would never buy dollars and establish a balance in New York, except under conditions which would show a profit in importing gold from New York, or at any rate no loss. Those conditions would necessarily imply a sufficient discount on dollars in London below gold parity to enable the operation to be conducted without loss on the exchange and possibly at a profit when the account was liquidated.

In other words, fluctuations in exchange would not interfere with the successful operation of the gold account, as gold would be ear-marked by the debtor institution for the creditor institution only when the creditor institution was buying exchange and remitting it to the debtor institution, at rates which insured no loss to the creditor on exchange.

The above suggestion in regard to the ear-marking of gold is tentative for your consideration, and just as soon as I learn of the decision in Washington as to our proposals, I will write you more fully and definitely.

Your letter, together with the press reports of the success in assembling American securities, as well as the completely successful flotation of American Foreign Securities Company five per cent. notes, furnishes convincing evidence of the energy with which the problem of exchange is being dealt with on your side. Of course the recent sensitive condition of our money market indicated the necessity for prompt and thorough measures to protect the exchanges, and I believe that your large shipments of gold have done much to ease our market which was temporarily affected by large payments of taxes to the Treasury. Government expenditures from now on will be very heavy and I expect to see the continued disbursal of the Government's funds contribute somewhat to the further ease of money until the Fall.

Will you kindly give my best regards to the Governor and to your associates.

Thanking you for your letter and with assurance of my esteem, I am,

Faithfully yours,

10 Montview Boulevard.

Denver, Colorado,

October 20th, 1916.

Dear Mr. Cokayne:

Your favor of the 28th of September reaches me at this address, together with one from Norman to which I have already replied.

Let me try to make clear what was in my mind in regard to methods of handling gold:

If the Bank of England had a credit on our books which it desired to convert into earmarked gold, there would be two methods possible of obtaining the gold. By one method we would present gold certificates at the Subtreasury in New York and withdraw gold coin. This coin might not be full weight, as the limit of tolerance is $\frac{1}{2}$ of 1% and gold coins are paid out by our Treasury so long as the abrasion does not exceed that percentage. Consequently, if we earmarked American coin at its bullion value, we would of necessity incur the loss between the bullion value and the abraded legal tender value of the coin. In similar transactions, with ~~the~~ other institution, we have so far been successful in obtaining from the Subtreasury newly minted coins, thus avoiding any abrasion loss, but we cannot always rely upon getting unabraded coin. On such withdrawals, there is no charge made by the Treasury.

The second method would be to withdraw United States standard bars, that is, bars containing 99% fine gold and 1% copper alloy. For such bars, as stated in paragraph 6 of the enclosed

To Brian Cokayne, Esq.

Oct. 20, 1916.

table of charges, the mints and Assay Offices of the United States make a charge of 50 cents per \$1,000, and we would receive and earmark for you gold bars of the nominal value of the amount of your credit to be earmarked, less 1/20 of 1 %, being the Assay Office charge for standard bars. My letter of August 3rd could not have made this clear. This charge of 50 cents, by the way, it is claimed by our Assay Office exactly covers the cost of treating gold and turning it out in that form, making the necessary assays, tests, etc.

This charge really figures in the rate of exchange, however, rather than in the value of the gold, as we view it. To roughly illustrate how the account would work it is necessary to know accurately at what rate of exchange the Bank of England must buy dollars so that, in case it became necessary, the gold could be landed in London without loss. The following hypothetical calculation will illustrate the point:

Exact gold parity is	\$4.8665
Loss on import due to insurance, freight, abrasion, interest and sundries, we will estimate at (This is above the normal in ordinary times)	.0525
The Assay Office charge of 50 cents per \$1,000 for standard bars is the equivalent per pound of	<u>.00245</u>
Total	\$4.92145

So if the Bank of England purchased dollars at a rate not exceeding \$4.92145 and the Federal Reserve Bank of New York earmarked the dollars in standard gold bars, the Bank of England

To Brian Cokayne, Esq.

Oct. 20, 1916.

would be in position to bring the gold to London without loss, in case dollars declined in your market, and withdrawal became necessary for any reason.

The importance of an arrangement of the character proposed between the Bank of England and the Federal Reserve Banks is illustrated by what would transpire if the exchanges either declined or advanced below or above your assumed cost of \$4.92145. Should dollars sell in London at \$4.90, the account could be liquidated at a profit without moving the gold to London. On the other hand, should dollars sell in London at \$4.95, the gold could be laid down in London without loss to either party. The saving to be effected by the arrangement is, of course, all in the cost of moving the gold which would be earmarked instead of shipped, and in normal times with war risks eliminated, this saving would amount to 2 cents on the pound either above or below the gold par \$4.8665 and the amount of that saving would represent the profit on the account, exclusive of profits earned from the discount of bills.

This seems to me, the A B C of how the dollar account would operate on your books. The exact reverse would be true of the sterling account carried on our books. In that case, the difference between 77 s. 10 $\frac{1}{2}$ d, your mint price for gold, and 77 s. 9 d. the Bank of England price at which presumably gold would be earmarked for our account, is the equivalent in purpose and amount of our Assay Office charge of 50 cents per \$1,000 for bars.

To Brian Cokayne, Esq.

Oct. 20, 1916.

If I am correct, when you buy dollars in London you would show in the rate of exchange for the $1/20$ of 1% charged for gold bars and when we bought sterling in New York we would allow in the rate of exchange slightly more than $1/20$ of 1% for the charge made by the Bank of England for immediate credit in order to avoid loss in case either of us should import the gold, or order it earmarked.

On the general question of mutual earmarking of gold, I realize that the creditor institution, without any previous understanding as to a limit, might accumulate balances with the debtor institution for a larger amount than the debtor institution would care to furnish in gold, but it seems to me that such a situation was generally covered in our discussion. The debtor institution in each instance would be expected to advise the creditor institution by cable of the limit to which it was willing to operate. Experience will guide in this matter better than hard and fast rules and on occasions when exchange was moving very strongly one way or the other, we would doubtless undertake transactions only after an exchange of cables which would agree upon specific limits to the amount to be handled.

As I wrote Norman, it is always in my mind that the conclusion of the war will gradually bring about a reversal of the exchanges, the burden of furnishing gold for export will largely fall upon the Federal Reserve Banks and the demand will largely come from London so that the arrangements proposed will find the boot on the other leg.

To Brian Cokayne, Esq.

Oct. 20, 1916.

At present, if, or when, necessary approvals of the plan are obtained, the account would be operated in sterling and the Federal Reserve Bank would be buying bills in London with but slight occasion to have gold earmarked during a period when our reserves are actually fluctuating between 70 % and 80 %, practically all in gold.

Since I last wrote you, Congress has passed and the President has signed the bill amending Section 14 of the Federal Reserve Act so that it now reads as follows:

"Every Federal reserve bank shall have power, with the consent of the Federal Reserve Board, to open and maintain 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 correspondent or agencies."

You will observe that this eliminates all difficulty as to London usance on bills and will permit the Federal Reserve Bank of New York to receive deposits from the Bank of England without the inconvenience of earmarking gold, and in these two respects the terms of the memorandum prepared when I was in London can now be modified.

I am glad to say that this wonderful climate and the rest are doing everything and more than could be expected to restore my health.

To Brian Cokayne, Esq.

Oct. 20, 1916.

The war news must indeed give you all great encouragement and I hope contributes to your satisfaction in the past two years of hard work and anxiety.

Will you be good enough to include the Governor in the warm regards carried by this letter, and believe me,

Very sincerely yours,

Brian Cokayne, Esq.,
Deputy Governor, Bank of England,
London, England.

BS/VCH

COOPY

SECRET

MEMORANDUM OF MARCH 1916

redrafted in accordance with letter from the Federal Reserve Bank of New York dated January 18, 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 consist so far as possible of those bearing

the names of American drawers, or indorsers, 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 indorsers, 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 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 shillings 10 1/2 pence 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 shillings 10 1/2 pence 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 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 cancelation 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 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.

Denver, Colorado,
February 2, 1917.

Dear Mr. Cokayne:

Your kind letter of January 15th is just received and by the time this letter reaches you my official letter will be in your hands and that in great part covers some of the matters mentioned in your letter just received.

As you say, all the apparent difficulties seem to have been smoothed away and I am now hopeful that we can conclude our arrangements promptly.

You have undoubtedly by this time received from your other correspondents on this side further particulars in regard to that announcement by the Federal Reserve Board. It is difficult for me to comment when I am so far from headquarters and so much out of touch with what is going on. I agree, however, with much that you say, particularly as to the dangerous character of some of the expansion which has taken place in connection with purely domestic developments.

If the present exceedingly tense situation with Germany develops as it well may, all of these difficulties to which you refer and particularly those of the foreign exchanges will be promptly resolved.

Will you be good enough to thank the Governor for his good wishes, which I heartily reciprocate, and take this means of conveying the same to Norman and your good self.

Yours sincerely,

Brian Cokayne, Esq.,
Bank of England, London.

BS/CC

Denver, Colorado,
May 19, 1917.

PERSONAL.

Dear Mr. Cokayne:

Your recent communications addressed to New York have been read with great interest and official reply will be sent forward by early mail.

I am writing to express to you personally the gratification which the conclusion of this arrangement has afforded me and which feeling is shared by all of my associates in New York. Of course the complete value of this close alliance will not develop until after the war, unless war emergencies later develop which will make the services of our respective institutions of importance in connection with government financing. Nevertheless, you may be assured that we here regard this arrangement between the Bank of England and the Federal Reserve Bank of New York as simply one manifestation of the growth of the strong feeling of kinship between your people and ours, the fruits of which I trust we will all be able to enjoy to the fullest possible extent.

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

Very sincerely yours,

Brien Cokayne, Esq.,
Deputy Governor, Bank of England,
London.

BS/CC

January 21, 1918.

Dear Sir:

X 147
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,

Sir Brien Cokayne,
Bank of England,
London, England.

BS/HAB

January 21, 1918.

My dear Sir Brien:

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,

~~Sir Brien Cokayne,~~
Bank of England,
London, England.

BS/LRR

April 27, 1918.

My dear Sir Brian:

This may appear to you a rather belated note which is intended to convey to you my congratulations and hearty good wishes upon your accession to the Governorship of the Bank of England.

During the last year I have begun in a small way to realize what a tremendous responsibility you gentlemen of the Bank management have had to carry since the outbreak of the war, and that fact is so thoroughly realized in London, that it seems to me no higher compliment can be paid to a banker than to achieve the position which you now occupy.

I am sending you the warm wishes of the youngest member of the Central Bank fraternity that your administration will be one of great achievement and success and will bring honor to the bank and to the new Governor.

With warmest regards, I am,

Faithfully yours,

Governor.

Sir Brian Cokayne,
Governor, Bank of England,
London, England.

BS *VCM

LIBRARY

APR 17 1919

FEDERAL RESERVE BANK

April 16, 1919.

PERSONAL:

FILING DEPT.

APR 17 1919

FEDERAL RESERVE BANK

Dear Sir Brien:

For some time I have been hoping to send you a little account of how things are going with us, but continued absence in Washington has made it difficult for me to keep up with my correspondence.

I am sending you a cable to-day, as per enclosed confirmation, which explains itself. The last forty-eight hours has witnessed one of those curious somersaults in opinion which now and then, in fact all too frequently, occur in this country. There has been a widespread demand for a 5% loan of some sort when the Government again appealed to the money market, everyone apparently overlooking the fact that with the war ended our Treasury could probably work itself into position to reduce its borrowing demands to a descending scale, instead of continuing the ascending scale while the war was on. It has been found possible to do that; in consequence the amount of the loan has been limited to four and a half billion dollars (of course one must smile when speaking of a loan limited to four and a half billions) and this decision, coupled with the terms announced, which are described in detail in the enclosed statement, has afforded such relief, particularly to the Liberty Loan Organization, that the satisfaction is complete and widespread.

I have no doubt the loan will be a great success. Our aim will be to effect the widest possible distribution of the 4 3/4% notes, which enjoy exemption from normal taxes, upon the theory that there will be very large subscriptions for the notes which are tax-exempt from those who pay heavy surtaxes; that those subscriptions will be the ones to be cut down, and the subscribers will be forced into the market to buy the 4 3/4% notes and convert them. The mechanical difficulties of

handling this loan will be tremendous, but, barring that, it presents advantages such as have not been possible in any previous loan and are only made possible by the approach of that time when our Government will no longer be a borrower.

Much perplexity was caused in our bank councils by the disparity in rates between the various issues of Government bonds and notes created in this offering. Our bank now makes fifteen-day advances upon the collateral of Treasury Certificates of Indebtedness or the Government's bonds at 4% and we discount subscribers' notes, for periods up to ninety days, when indorsed by our member banks at 4 1/4%, being the coupon rate on the old loans. Inasmuch as the Treasury certificates, which run for short periods, bear 4 1/2%, the old issues of Liberty Bonds, with one exception, 4 1/4%, and the new issues bear 3 3/4% and 4 3/4%, we will face a situation of much difficulty. This has been somewhat exaggerated by the fact that many of our national and state banks made commitments to subscribers for the Fourth Loan to carry them for a year at the coupon rate, and we were reluctant to make an advance in rates which would penalize the banks that were still carrying those loans.

The solution of the problem was easy, however, when the amount of the next loan was limited to four and a half billions as our position is still so strong that we feel justified in maintaining our rates unchanged at their present level. Of course it invites the possibility of considerable expansion should our conclusion be wrong that the loan can be placed without much employment of bank loans. We have notified the bankers privately, however, that we reserve entire freedom of action to enable us to deal with any situation that arises, and I am hopeful that the general feeling of optimism will result in good distribution of the notes without excessive demands upon us. This, in brief, is our new situation, and I am optimistic of a satisfactory outcome.

It was somewhat due to my own oversight that there arose some possibility of a misunderstanding of our action in making that small cable transfer to our credit on your books and I should have written you and explained the situation.

4/16/19.

We attach great importance to the understanding which we now have with your great institution. The settlement of the earmarked gold account might have appeared to you, and to us, as indicating that the agreement was a formality rather than an actuality and so I asked to have this transfer made simply that the account might be maintained under your eyes as an active reminder of something that exists and is not forgotten. We have no expectation of asking you to ship gold, in fact, for us to accumulate exchange at this time and put the agreement literally into operation would be the last thing that we would consider except you yourselves proposed gold shipments and desired to have us join you in the arrangements under which they would be made. And while on that subject, may I suggest the advisability that we keep each other closely informed of developments along this line?

Of course your action in discontinuing support of exchange makes the gold embargo effective positively, rather than passively. Our problem now is what we shall do about our embargo. There seems to be some doubt as to the powers conferred by the Trading with the Enemy Act and as to how long they continue. Our belief is that the Act intended that the President should continue to exercise this power after the war ended so that determination of our course as to gold exports will be upon grounds of policy entirely. I am wondering what your own views are as to what we should do and would be glad to hear from you about it. No doubt it would be unwise to make any change until after this next loan is placed as there is a possibility of a considerable exodus of gold to neutrals at once the embargo is removed and we do not wish to create an unfavorable sentiment as to our reserves while the loan is in course of being placed.

It seems to me that the important thing just now is for us to exchange information as fully and frequently as possible on this important subject.

Will you not give my best regards to your associates, and the same to your good self.

Faithfully yours,

Sir Brien Cokayne,
Governor, Bank of England,
London, England,

PERSONAL:

LIBRARY

May 23, 1919

FEDERAL RESERVE BANK

Dear Sir Brien:

Original

Your letter of May 2d has been read with a great deal of interest. I am hoping in the near future to send you a fairly complete report on conditions over here and write you more fully than I have yet been able to in regard to this difficult subject of the gold embargo. By good fortune our friend Grenfell is on this side and I hope to-day to have a rather full discussion with him on this subject, the substance of which he will doubtless convey to you.

copy

I agree with much that you say in regard to our own position. We know, substantially, what the possibility of gold demand may be, with the exception of India and Egypt, those being the only real danger spots with the possible exception of Japan, who has accumulated very large balances in this country as doubtless she has with you, a considerable part of which balances has been temporarily invested in our Treasury Certificates of Indebtedness.

I have all along felt that whatever action was decided to be taken in regard to our embargo on gold exports should, if possible, be coupled with an arrangement between the Bank of England and this bank so as to bring our policy into harmony. I am writing Mr. Strauss on the subject to-day and will write you further.

You doubtless have on hand a copy of the Trading with the Enemy Act and will observe that that paragraph relating to the embargo on gold exports does not seem to be limited to the period of the war, as do other sections of the bill. It may be, therefore, that the President's power to exercise this

control will continue until definitely terminated by executive act.

If opportunity occurs, I will cable you something of our plans about the gold embargo as soon as known.

With kindest regards, believe me,

Faithfully yours,

Sir Brien Cokayne,
Bank of England,
London, England.

B3/MSB

Hotel Astoria, Brussels,

August 5, 1919.

My dear Sir Brien:

With this I am enclosing to you copy of a dispatch which I am sending through the American Ambassador at London in order that it may be transmitted through the Embassy code.

In explanation of this telegram, I find that it will be difficult for me to make such arrangements as would seem to be necessary to ensure the prompt dispatch of the gold held by the Banque Nationale de Belgique to the Bank of England because of our having no organization near at hand to take charge of it.

The Governor of the Banque was good enough to explain to me the method which you had employed, which has led me to make the suggestion which I am transmitting by telegraph.

Please be assured that if you find it possible to comply with this request it will be very greatly appreciated and I shall certainly make it my business to reciprocate at the very first opportunity.

I beg to remain,

Faithfully yours,

Sir Brien Cokayne, Governor,
Bank of England,
London.

BS/V

TELEGRAM

URGENT

August 5, 1919.

AMERICAN AMBASSADOR,

London

Benjamin Strong Governor Federal Reserve Bank of New York desires following message transmitted promptly as possible to Governor Bank of England quote On arrival Brussels I find approximately two hundred and ninety million marks gold could be shipped at once to London for treatment as discussed with you but considerable difficulty will be experienced in effecting transportation without necessary arrangements being first made in London as was done with shipment recently made by you stop Would it be possible for Bank of England to handle this gold in behalf of Federal Reserve Bank of New York by same method stop In this event National Bank of Belgium would be instructed to act upon direction of Bank of England in arranging details of transportation stop Also could Bank of England arrange for insurance cover in London preferably through Chubb and Sons to cover all risk and payable in dollars in New York stop Federal Reserve Bank would of course expect to pay all costs and service charges and would greatly appreciate courtesy stop Kindly telegraph reply both to Brussels care Banque Nationale and Amsterdam care Nederlandsche Bank unquote

STRONG

TELEGRAM

Amsterdam, August 8, 1919.

GOVERNOR BANK OF ENGLAND

London

Many thanks for your telegram stop The total amount both
Brussels and Amsterdam probably four or five million pounds less than
amount mentioned your telegram stop About one third of this is in
Brussels and two third here stop Would appreciate your telegraphing
me care Nederlandsche Bank advising if arrangements for shipment can
cover Amsterdam as well as Brussels

STRONG

HOTEL RITZ, PARIS, FRANCE.

Aug 16/19

Dear Sir:-

Permit me to express my great appreciation of your telegram just received advising that you will be happy to arrange shipments from both Amsterdam and Brussels and that you have cabled to New York respecting the business.

I presume that the cable to New York relates to insurance and regret to inform you that I already have advised that Messrs. Chubb & Sons hardly expect that insurance in dollars can be effected for more than four million dollars on any one shipment.

Owing to the necessity for my being absent for about four weeks, possibly somewhat longer, I have requested Mr. F. I. Kent to discuss with you the arrangement of the details for moving the amount of gold now to be shipped which will be for the present as follows:

From Brussels to London 200,000,000 Marks, leaving 90,000,000 Marks for the present with the National Bank of Belgium. These 200,000,000 Marks I hope you can arrange to ship for us by the same method which you pursued with your own shipments covering the insurance in dollars by cable to New York. Concerning this, Mr. Kent will discuss all details.

At Amsterdam I have arranged that they shall complete an exact count and weight of 200,000,000 German gold Marks, the shipment of which cannot well be arranged until my return in any event. This leaves 240,000,000 Marks not all German coin but in part bars, some rubles and some sovereigns as well possibly as another gold coin which I have arranged with the Nederlandsche Bank to weigh in the bags and report directly to New York, and it is this amount which I would like to have shipped to London as promptly as it can be arranged by the same method which you pursued with your own shipment and covering by insurance in dollars.

Mr. Kent who has a copy of this letter will also hand you the authorization furnished me by the Federal Reserve Bank covering my powers to deal with this matter which I intended to leave with you previously.

With many thanks for your assistance in this matter which is deeply appreciated, I beg to remain,

Faithfully yours,

To the Governor of the Bank of England.

Hotel Ritz, Paris,

August 16, 1919.

The Governor of the Bank of England,

London, England.

Dear Sir:

This note will be presented to you by Mr. F. I. Kent, who has accompanied me to Europe to assist in various matters, including the arrangement for the shipment of gold from Amsterdam and Brussels to London.

Owing to my expected absence of a few weeks I am asking Mr. Kent to carry on the matter during my absence. He is thoroughly familiar with it and has the necessary code and check words to enable him to communicate promptly with the Federal Reserve Bank.

It is not intended in any way to alter the arrangements that you may make for effecting the shipment of this gold from Brussels and Amsterdam to London, but Mr. Kent will act in my place during my absence so that we may have someone on the ground with whom to communicate.

Again with many thanks for your courtesy, I beg to remain,

Faithfully yours,

BS/V

TELEGRAM

Paris, August 19, 1919.

Governor Bank of England

London

Replying your telegram regarding insurance I am just advised by Federal Reserve Bank that Chubb quote rate about seven and one half cents per hundred dollars covering all risks from Brussels to London stop No rate yet arranged from Amsterdam stop Also advised if entire amount placed in America none elsewhere probably possible to insure seven million five hundred thousand dollars one conveyance and possibly might increase to ten million dollars one conveyance stop They cannot now guarantee this amount but request advice if business is likely to eventuate and will then advise rate definitely stop Am cabling New York there will be ten or more shipments of maximum amount and to quote definite rate both Brussels and Amsterdam direct to you stop Kindly advise Kent

STRONG

Hand 48

Hotel Ritz, Paris,

August 19, 1919.

Dear Sir:

I am just in receipt of confirmations of cables passing between us, dated the 12th August, over the signature of your Deputy Chief Cashier, and beg now to confirm the receipt of the telegrams mentioned, together with the following:

1. August 12. Your telegram of 8th received stop Will be happy to arrange shipments both Amsterdam and Brussels stop Have cabled New York respecting business (insurance?).
2. August 14. Learn from New York insurance can be arranged terms unknown to Bank but understood cabled you direct.
3. August 15. We are ready to send to take delivery at both centres as soon as authorized. We await terms upon which to insure with Chubb.

I now beg to confirm the advices sent to you with Mr. F. I. Kent that I have abandoned for the present my intention of visiting Constantinople, but will greatly appreciate Mr. Kent's assistance in arranging the details of the gold shipments while he is in London.

I also beg to confirm sending you today the following telegram:

"Replying your telegram regarding insurance I am just advised by Federal Reserve Bank that Chubb quote rate about seven and one half cents per hundred dollars covering all risks from Brussels to London stop No rate yet arranged from Amsterdam stop Also advised if entire amount placed in America none elsewhere probably possible to insure seven million five hundred thousand dollars one conveyance and possibly might increase to ten million dollars one conveyance stop They cannot now guarantee this amount but request advice if business is likely to eventuate and will then advise rate definitely stop Am cabling New York there will be ten or more shipments of maximum amount and to quote definite rate both Brussels and Amsterdam direct to you stop Kindly advise Kent"

The amount of gold to be included in the present shipments consists of approximately 200,000,000 marks out of a total of 290,000,000 marks now held by the National Bank of Belgium and approximately 240,000,000 marks out of a total of 440,000,000 marks held by the Nederlandsche Bank.

The gold held in Brussels, I am advised, is entirely German coin. The gold held in Amsterdam is reported to consist of the following: "320,999,999 marks, 1,554,500 sovereigns, 18,300,000 Austrian crowns, 5,500,000 roubles, 1,999 bars, fine weight 21,837 kilograms, or a total of 440,000,000 gold marks value."

The 200,000,000 marks to be left for the present in Amsterdam will consist entirely of German gold coin and the gold to be shipped is to include the balance of the marks and the other coin and bars.

I am just advised by the United States Treasury Department that it may be necessary to make a payment on behalf of the United States government of approximately \$10,000,000 to the Bank of Spain in Madrid, and should other arrangements for making this payment prove impossible within the limited time at our disposal, would the Bank of England be willing to set aside out of the gold to be held for our account an amount of approximately \$10,000,000, earmarking it for account of the Bank of Spain pending the completion of other arrangements?

I shall endeavor to make a direct shipment to Madrid out of the balance of the gold held in Amsterdam, or Brussels, but, failing that, would greatly appreciate being able to conduct the transaction through your good institution.

May I also ask that you be good enough to show this letter to Mr. Kent, who will be glad to do what he can to facilitate the arrangements.

Again thanking you for your many courtesies, I beg to remain,

Very truly yours,

The Governor the Bank of England,
London, England.

BS/V

Hotel Ritz, Paris,

August 22, 1919.

Dear Sir:

I am this morning in receipt of your telegram of the 21st instant, reading as follows:

"Received your letter 19th stop Our representatives have started for Brussels and Amsterdam stop We are in touch with Kent and await his completion of insurance with Chubb before definitely arranging shipment stop Shall be happy when you so direct to transfer a portion when held on your account to order of Bank of Spain."

and much appreciate your assistance in arranging matters with Mr. Kent.

With this I beg to enclose confirmations of telegrams as follows:

August 8, 1919.
" 19, 1919.

I beg to remain,

Faithfully yours,

The Governor the Bank of England,
London.

BS/V

(Two enclosures)

Hotel Ritz, Paris,

August 23, 1919.

Dear Sir:

Since my letter to you of August 19, asking that you be good enough to make the shipment of 240,000,000 marks from Amsterdam to London, I am in receipt of more precise information as to the amount of gold required to be moved and am now writing to know if this can be increased to a total of 360,000,000 marks, leaving 80,000,000 marks in four lots of 20,000,000 each, which have been exactly counted, weighed and examined, for safekeeping with the Nederlandsche Bank.

Dr. Vissering, of the Nederlandsche Bank, is being advised by me to this effect, and I have asked him to inform your representatives who are now in Amsterdam, but they will undoubtedly desire instructions direct from you, which I will greatly appreciate your conveying to them as well.

Mr. Kent probably explained to you the possibility of our being under the necessity of moving some gold to Paris or Madrid. I am awaiting cable instructions in this matter and have decided that it would be more convenient to make the shipment from Brussels than from either Amsterdam or London, if it is possible to arrange it, and it may be that I shall telegraph you and the Banque Nationale de Belgique making some change in the amount to be shipped before that shipment is completed, which I trust will cause you no inconvenience.

I am sending a copy of this letter to Mr. Kent at Claridge's Hotel, London, in order that he may be informed, and again wish to thank you for your courtesy in this matter which has relieved me of considerable anxiety and is very greatly appreciated.

Very sincerely yours,

The Governor the Bank of England,
London.

Hotel Ritz, London,

September 8, 1919.

The Governor of the Bank of England,
London.

Dear Sir:

With this I am enclosing transcript of a resolution passed by the directors of the Federal Reserve Bank of New York, under the authority of which I have been acting in arranging for the shipment of the gold which you have been good enough to handle in our behalf, and which you may desire to place on file.

I am today in receipt of a cable from the Bank containing the following:

"we have increased insurance to a total of \$136,000,000 and further that it is understood and agreed that in cases where shipments by two vessels arrive at ports in England and both or parts of both of these shipments should go forward by one train or other land conveyance to destination in London the (clause in policy?) as to limit of liability is waived as regards these shipments while so conveyed by land to London".

A later cable contains the following:

"We have covered insurance 440,000,000 marks from Amsterdam and 200,000,000 marks from Brussels",

and a still later cable, dated September 5, states:

"Chubb has succeeded increasing insurance from \$6,500,000 to \$7,500,000 effective on and after September 8th".

It has been decided to move all of the gold, that is, 440,000,000 marks held in Amsterdam and 290,000,000 marks held in Brussels, to London, and from the above you will observe that it will now be possible to make shipments from each point of a total of \$7,500,000 by each separate conveyance, advice of which I would appreciate your conveying to your representatives in those places.

The total amount of insurance must again be increased to cover the 90,000,000 marks additional to be shipped from Brussels, and I am writing to the Bank asking that this be arranged at once, with immediate effect. I am also asking you to advise to me, of which I will advise you on receipt. I am also

asking that an effort be made to increase the total amount covered on one shipment to \$10,000,000, as the time required to ship the entire now to be moved will, I fear, cause you considerable inconvenience.

With much appreciation of your courtesy, I beg to remain,

Faithfully yours,

BS/V

(1 enclosure)

London, September 11, 1919.

The Governor of the Bank of England,

London.

Dear Sir:

I am just in receipt of a cable from the Federal Reserve Bank of New York asking if I will arrange with you to send a cable to the Bank on Saturday of this week advising the total amount of the German gold which has actually arrived at the Bank for our account up to date.

Of course, I understand the impossibility of getting an exact statement upon the responsibility of the Bank, but I presume it will be possible to send a cable indicating the amount reported by your representatives to have been shipped in each lot, and consequently the amount understood to have been received.

I am asking whether any further special cable advices of the arrival of shipments are needed and will advise you of the reply.

Thanking you, I am,

Very truly yours,

BS/V

London, September 15, 1919.

Dear Sir:

I beg to thank you for your note of the 12th instant informing me that the Bank expected another shipment of 27,000,000 marks on the 13th instant.

Yours very truly,

E. M. Harvey, Esq.,
Chief Cashier,
Bank of England,
London

V

London, September 16, 1919.

My dear Sir Brien:

Replying to your letter of the 12th instant, it will suit us admirably to deliver to you £608,000 in sovereigns now held for our account in Amsterdam, receiving in exchange the corresponding value in London.

The Nederlandsche Bank reports holding bags reported to contain sovereigns 1,554,500, of which they estimate the weight at kilos 12,413,607.

My understanding is that these sovereigns have been weighed in the small canvas bags in which they are packed and sealed and an allowance made for the weight of the bags and seals, so that these weights may not be accurate within some small percentage.

In other words, I am unable to determine the quality of the sovereigns and suggest that an account be made of the exchange so that I may be able to include it in the accounting required of us in connection with the total gold received from the Germans.

Thank you for the suggestion to expedite the completion of our shipments.

I am just advised by cable from the Federal Reserve Bank of New York that the total amount of insurance has been increased to \$184,325,000, which is supposed to cover the allowance of one per cent. for shipping costs, but I am not certain, even after allowing for £608,000 which will not now be shipped, whether this total is sufficient to cover the entire amount. If it is not, may I ask you to be good enough to advise me, or if I have already sailed, to advise the Federal Reserve Bank of New York by cable.

I am also advised that so far it has been impossible to increase the amount of insurance above \$7,500,000 for any one conveyance.

Yours very truly,

Sir Brien Cokayne,
Governor The Bank of England,
London.

BS/V

London, September 18, 1919.

My dear Sir Brien:

In response to a cable addressed to the Federal Reserve Bank suggesting an arrangement by which the Indian government would accept gold in London instead of New York against sales of council bills in New York, I am advised by the Federal Reserve Bank of New York that the arrangement meets the approval of the Bank, but, under the conditions still maintained relating to gold exports, it will be necessary to obtain the further approval of the Gold Committee of the Federal Reserve Board.

In case no advices reach me prior to my sailing on Saturday, I shall take the matter up on arrival in New York and advise you of the outcome.

Yours very truly,

Sir Brien Cokayne,
Governor The Bank of England,
London.

BS/V

London, September 18, 1919.

My dear Sir Brien:

I am this morning in receipt of a cable from the Federal Reserve Bank of New York asking if I will arrange with the Bank of England to send cable advices of arrivals of gold, in addition to those advised last Saturday, whenever they aggregate an amount approximating 100,000,000 marks, in order that the necessary entries may be made on the books in New York. This I trust you may be able to do without inconvenience.

It seems desirable that all of the gold received should be melted and reduced to bars, with the exception of the sovereigns and such of the gold as may be in fine bars, the value of which is known to the Bank and would in the usual course be acceptable without remelting and assaying.

We would also greatly appreciate receiving advices from time to time of the actual values ascertained after melting, to include a report of the actual fine gold value of sovereigns, whether those originally received or the equivalent in gold bars, which you may deliver to us in exchange for sovereigns.

You will also, I understand, in due course submit to us a statement of the charges and disbursements incurred in handling this matter for us, which may be charged to our account or which we will remit, as you may prefer. We greatly appreciate your good service in this matter.

Faithfully yours,

Sir Brien Cokayne,
Governor The Bank of England,
London.

BS/V

London, September 19, 1919.

My dear Sir Brien:

I am advised by the Federal Reserve Bank of New York that the New York agent of the Bank of Montreal has offered to deliver the gold received by them in payment for rupees sold in New York for account of the Indian government, in exchange for an equivalent amount of gold held by the Bank of England for account of the Federal Reserve Bank of New York.

This we understand to be pursuant to the arrangement which we have discussed, and the amount involved is, I am advised, about \$3,500,000.

In reply, I am advising the Federal Reserve Bank that the proposal made by the Bank of Montreal should be accepted if approved by the Gold Committee of the Federal Reserve Board, and that I understand the Bank of England will accept the equivalent value in gold bars, allowing 5 cents per \$100 for fine bars, being the equivalent of what such bars would cost if obtained from the mint or assay office in the United States.

I take the liberty of suggesting, however, that any English bars which may be received direct from Amsterdam and which you are willing to accept without remelting, at the values at which received, should not be subject to the charge of 5s per \$100.

If, upon further consideration, this arrangement seems to require revision, I am sure you will not hesitate to suggest it, and we will do the same.

Faithfully yours,

Sir Brien Cokayne,
Governor The Bank of England,
London.

BS/V

October 6, 1919.

My dear Mr. Governor:

You will, I am sure, understand what a great pleasure it was to me to spend a few weeks in London in such delightful association with you and your fellow associates and directors in the Bank of England. I am writing now to advise you of my safe return home after a most comfortable trip and one of great enjoyment on account of the opportunity which I had for seeing quite a little of Lord Grey.

Almost immediately upon my return, Mr. Albert Rathbone, an Assistant Secretary of the Treasury, sailed for Europe to undertake some work for the Treasury, going, I believe, as financial adviser to the Peace Organization in Paris. I am anxious that you and your associates should know Mr. Rathbone, and, although he left on too short notice for me to furnish him with a letter of introduction, I am sure that when he calls you will recognize him as one of my intimate associates in the work of the Treasury Department during the war period.

By profession Mr. Rathbone is a lawyer, a partner in the firm of Joline, Larkin & Rathbone, and enjoys the reputation of being one of the foremost corporation lawyers in the city. He gave up his practise in order to assist in the work of the Treasury Department and has done so solely from patriotic motives.

Mr. Rathbone is a man of the highest character and of much ability. I am anxious that you should know him well enough to understand the high purpose which has actuated him in all of his work for our government, and I am sure that you can assist him when he is in London, in any matters where he is brought in contact with your own Treasury officials and other officers of your government.

You will also, I am sure, not object to my having asked him to call upon you for advice and information when he needs it.

Assuring you of my appreciation of anything you are able to do to facilitate the object of Mr. Rathbone's trip, I beg to remain,

Faithfully yours,

Sir Brien Cokayne,
Governor The Bank of England,
London.

BS/V

October 29, 1919.

Bank of England,
London, England.

Dear Sirs:

Under date of October 9, Messrs. Morgan Grenfell & Company informed us that they had deposited with you for our credit in current account £160:12:0. We would appreciate receiving your confirmation of this in due course, together with a statement of our current account to date.

To enable us to verify our records periodically, may we ask you to furnish us quarterly with a statement of our account, say at the close of business December 31, March 31, and June 30 and September 30. We feel that quarterly statements will suffice for the present while our account is inactive.

Assuring you in advance of our appreciation, we remain,

Very truly yours,

J. E. Crane,
Manager, Foreign Department.

JEC/M

46

Catharine

PRIVATE:

November 10, 1919.

My dear Sir Brien:

It was a great pleasure to have your letter of October 20th and to get all of the interesting news that it contained. My visit with you was really more than a pleasure, it was an education, and I profited a great deal by it.

Mr. Rathbone expects to take the first opportunity to call at the Bank, but I am sure that he has been very busy in Paris and probably unable to reach London without serious interference to his work.

You will observe the slight change in our rates, concerning which I wrote Norman, and I have, likewise, read with interest of your own rate increase. It seems as though we were both moving along in the same direction although I confess that our own position is still somewhat cramped, as I think it should not be, by the views of our Treasury. On the whole, however, we have taken a strong step in the right direction and if further must be done we will find a way to do it. Our trouble here just now is an excessive and dangerous speculation which applies not only to stocks, but to real estate and commodities to some extent, and the country is being flooded with promotions of all kinds, good, bad and indifferent, the consequences of which, as you realize, are the inevitable "headaches."

I am disappointed by the private information which has come to me in regard to the distribution of your new loan. The loan is most attractive and I should guess that in course of time it will be well absorbed, but, at the moment our people seem to be preoccupied with a speculative mania which

11.10.19

makes the task of the bond distributor a difficult one.

I hope that our policy, which has been, as you realize, toward higher money rates, is not embarrassing your own policy in regard to foreign balances. The newspaper accounts would indicate that these are being drawn home, but I may say that the same experience is being felt here. Heavy balances heretofore carried by neutrals are being checked upon, which is a natural enough development with exchange as it is and only adds to my conviction that credit from now on will be an expensive commodity, for which the world is going to bid high prices. A few clippings enclosed will possibly be of interest as bearing upon this general subject.

Taking the German gold into our reserve, unfortunately, was done during my absence, in fact while I was on the ocean, and once done cannot be changed. I think it was a mistake, but, as we are handling this matter for all of the twelve reserve banks, I suppose they had some right to adopt their own policy.

Is there any prospect of your paying us a visit? It would be a great pleasure to have you here, and we would make a very determined effort to have it a profitable trip.

With kindest regards and again many thanks for your many courtesies to me, I am,

Sincerely yours,

Sir Brien Cokayne,
The Bank of England,
Threadneedle Street, London.

BS.MSB
Enc.

B.S. Personal File

PERSONAL AND CONFIDENTIAL:

December 4, 1919.

My dear Sir Brien:

Your note of November 8th in regard to the gold account reached me by the same mail bringing a most interesting letter from ^{See} Norman, which I believe you read before it was dispatched. He tells me that he is leaving for the South of France so I shall take the liberty of writing you in reply to both letters and possibly you will be good enough to show him my letter on his return, or before.

As you have observed, we were successful in starting rate advances in the Federal Reserve System early in November, but our efforts to bring about further changes, which I, personally, strongly believe should be done, have so far not met with favor in Washington and it now looks as though no further increase will be possible until after the turn of the year. This I greatly deplore, because the country seems to be absorbed in a riot of extravagance and speculation such as I have never before witnessed, and I know of nothing which will check it quite so effectually as a strong rate policy by the Reserve Banks. The difficulty, as you may surmise, still rests with the Treasury, whose officers feel that much higher rates will force severe declines in the Government's war bonds and necessitate paying much higher rates for their present short borrowings. We shall hope in due course, however, to reconcile our views and policies and the Treasury's, and, if we do not succeed in doing so, I fear that we will not succeed in checking further price advances, a recurrence of the speculation which was temporarily checked by our previous action, and, of course, a further reduction in our reserve percentages. I may say to you quite confidentially that this Bank submitted

higher rates for approval by the Federal Reserve Board a little over a week ago and they were disapproved, although this was never announced.

There is much discussion of the position of the foreign exchanges and people are wondering whether there is any bottom. I personally, cannot see any improvement in present conditions, in fact, believe they may grow worse unless steps are taken to restrict purchases in this country which are not of an essential character; this will make financing of food stuffs, raw materials and necessities much easier for you and us. In the meantime, little progress seem to be made in the way of any general, organized credit arrangement for Europe. The Treasury seems opposed to Government credits, and possibly with good reason, and the general condition of the money market makes it difficult, just now, to place foreign loans at anything like reasonable rates.

What can I say in regard to the unfortunate situation about the treaty? It is distressing to many of us who feel that our country should be exerting every means in its power to give moral and material aid to Europe, but a small body of determined men in the Senate have led a revolt which has been successful so far in preventing ratification without reservations which seem to be fatal to the main provisions of the league of nations covenant. I do not look for the passage of any resolution declaring the war ended, such as has been discussed, and still have some hope that a compromise will be arrived at, although I fear the reservations which will be required for any such compromise will still be rather severe.

What has transpired in our money market is rather curious and significant. The speculation in stocks assumed dangerous proportions, and, following the slight advance in our rates made in November, we undertook to caution the bankers in the city that our facilities must not be employed for furnishing credit for these speculative operations. They have shut down rather sharply on the stock exchange borrowings with the result that we had a

considerable liquidation and a rather panicky collapse in stock values, but, after all, the difficulty is only in small part the stock exchange loan account. The demand for every kind of goods, and particularly those of a luxury character, with the accompanying advances in prices of all kinds, has caused constant expansion of the loan account of all the banks of the country. This is supported, of course, by increasing demands upon the Reserve Banks and is reflected in the gradual decline in our reserves. So long as this extravagance continues, we are building up a structure of credit which some day will have to come down, and I deplore delay in sound measures to check it. There seems to be the feeling also that our tax laws operate to prevent liquidation of accounts in which large book profits are carried but which cannot be realized without incurring liability for heavy excess profit payments, and, on the other hand, an insistent selling of these securities where losses, if realized, will reduce tax payments, such, for instance, as some of our war bonds. Our Treasury is alive to the danger of this situation and Secretary Glass's recommendations just submitted to Congress for changes in the tax law are aimed to remedy the difficulty.

I wish very much that you could come and visit us. The views you have expressed to me, which I assure you have been greatly appreciated, might well be expressed to others in our councils. and, I believe, would do us all much good.

Finally, don't think too harshly of us over here because of this unfortunate treaty muddle. It will work out in some way or other and I think the heart of the country is all right, but just a bit misled just now.

With kindest regards, I am,

Sincerely yours,

Sir Brien Cokayne,
Bank of England,
Threadneedle Street, London.

B. Personal File

December 10, 1919.

My dear Sir Erien:

Since writing you last week, I have received your most interesting letter of November 19th, which is only partly answered by what I have written.

Our situation is very similar to your own, but, of course, you have been able to advance your rates to a level which has given you a control of the market somewhat beyond anything which we can claim here, our rates for advances upon Treasury certificates of indebtedness remaining at 4-1/4% and 4-1/2%. There is a great bulk of borrowing from our bank in the form of short advances secured by these obligations (of which there is over three and one-half billions outstanding) so that it will require still further rate advances by both the Bank and the Treasury to enable us to obtain control.

My own feeling is that while your higher rates would ordinarily help the exchanges, and, in the long run will do so, much difficulty will, nevertheless, persist so long as unregulated imports continue by Europe and so long as our own money markets must remain as high as now, or even higher. The reports of our export trade indicate where the difficulty lies and it may require even lower rates for sterling and francs to erect the barrier that is required against luxuries. What I, personally, deplore is the possibility that your importers may be entering into contracts, no one possibly for a very large amount, but the aggregate being considerable, without having exchange cover in hand, and, when pay day comes, dollars must be had at any price on your side, or sterling sold at any price on this side, with a constantly lower quotation for sterling resulting. If your importers are buying for cash and selling on credit, the situation is by so much the worse!

Your policy in regard to long credits masquerading as 90 day bills is quite similar to our own, and, of course, causes some complaint among our bankers and ex-

What you say about the reserve depletion is interesting, because I remember the discussion at luncheon one day when some one, I think it was Kindersley, advanced the theory that loss of gold in itself caused a contraction in credit. I will be very much disappointed if your policy of adding cover to the currency notes out of your own note reserve, with resulting lower reserves and pressure to maintain a high bank rate, does not, in the long run, effect the check upon both credit and note expansion which becomes imperative when your reserves decline. But the rate is what does it! I have been confronted here with the insistent argument that rates alone will not check our constant expansion. My own position is that without rate advances we cannot check it. If we do advance rates, which is the first and fundamental step, then other steps can be successively taken, such as remonstrance with our banks, education, etc; all, however, supplementary to the operation of the rate and wholly ineffective to check expansion unless the rate advance is first made.

To be sure rate advances here will not only not attract gold, but, I fear, will not check gold exports to the East and South America, but I feel very confident that as it becomes unprofitable to borrow from the Reserve Banks, member banks will find it necessary to make it unprofitable for their customers to borrow from them, and gradually the loan and deposit account will come down, together with lower prices induced by the liquidation required in order to pay loans.

While we had a sharp liquidation in speculative stocks, I must say that new issues of stocks of various industrial enterprises, which are making phenomenal profits in this period of extravagance, have sold literally like "hot cakes" whenever offered. Much of this, I fear, is capitalizing earnings which will not be permanent, or, possibly, I might say capitalizing enhanced values of productive industries, brought about by our expanded condition, which some day must contract.

Our Government's revenues and expenditures are, in my opinion, now in such shape that we will be justified in addressing ourselves aggressively to this problem of expansion, but, as I wrote you recently, it looks unlikely at the moment of writing

12.10.19

earliest.

We are much interested, but personally I am not deeply concerned at the moment, by the rise in silver. Our silver dollars can be melted and exported when silver reaches something above \$1.30. They are now leaving the country for the East, but I hope in the near future to see an arrangement made by which this movement will be regulated and the rates for exchange in China brought under some control. Our subsidiary coin does not become endangered until silver reaches at least \$1.40 or somewhat above, the exact melting point, I believe, being about \$1.388, without allowing for abrasion and expenses. One hesitates to say what may or may not happen in silver after this recent spectacular performance, but I should hope that with the large reserve of silver dollars still in the country there would be little likelihood of our subsidiary coinage being endangered, at any rate for a long time to come. Meantime, worse things could happen to us than to pay for our imports from the East by melting silver dollars and selling the silver at better than \$1.30!

Possibly, you will be good enough also to show this letter to Norman when you have opportunity as being equally addressed to him, and give him my warmest regards, which I also send to you.

I hope Norman gets a good rest before taking on the responsibilities of governorship of your great institution, and I certainly wish him such a success as you have had in your administration.

Sincerely yours,

Sir Erien Cokayne,
c/o The Bank of England,
Threadneedle Street, London.

BS.MSE

OFFICE CORRESPONDENCE

Date H Jan. 3, 1920

To Mr. Case

Subject: *Print 44. Print*

From Benj. Strong (telephoned)

419c
Print 44. Print
~~*X*~~

Strong
-1/3/20

1/3/20

Will Mr. Case kindly read attached cable from Sir Brien Cokayne and my reply, and communicate both privately and confidentially to Governor Harding?

BS.MSB

JAMES
GN

FEDERAL RESERVE BANK
OF NEW YORK

Sent by

BS.MSE

12:20 noon

1419
(SEND TO FILES)

TELEGRAPHED IN CIPHER

January 3, 1920

FILING DEPT
JAN 10 1920
FEDERAL RESERVE BANK
COKAYNE - ~~BANK OF ENGLAND~~ - LONDON

Many thanks for cable Saw Paish yesterday and I realize
the situation fully

BENJ. STRONG

Confidential

Phoenix, Arizona, March 30, 1920.

Sir Brien Cokayne,
c/o Bank of England,
London, E. C. England.

Confidential

My dear Sir Brien:

Your letter of February 2nd only reached me yesterday on account of my two months absence on our camping trip, and I hasten to answer it quite personally and confidentially because I am returning the letter to our Mr. Jay with the request that he write you fully on the various matters which it contains.

In general, I am anxious that you and Norman should feel that every care is exercised to keep you posted as to our developments and particularly as to the development of our policy, and furthermore, that the cables and letters which you are good enough to send me reach the eyes of a very limited number of people, and will be covered with such safeguards as you yourself feel should surround them.

It has been the greatest possible help to me and to my associates to have the benefit of these frequent and unreserved exchanges of views, and I sincerely hope that nothing will be allowed to interfere with them for the benefit of yourself and your successor, if it is a benefit, as you are good enough to say, and certainly for my own assistance in which it has been invaluable.

Writing to you as I do without any reserve, I feel justified in explaining that it is very difficult for some of my associates in this country to understand the traditions and for want of a better word, may I say, the peculiarities of your great bank. We, here, are inclined to publish everything broadcast, as you have probably noticed if you have ever taken the time to glance through the Federal Reserve bulletin. Possibly, I am also justified in stating in behalf of my associates that they have none of them had the opportunity of visiting you in London as I have, and until they do, which I hope will be the case before long, my absences may sometimes make you feel reluctant in continuing our correspondence. You need have no such feeling, however, as I think Mr. Jay, after reading my letter, will have a better understanding of our

Sir Brien Cokayne

"2"

London, E. C. England

relations, and give these matters his personal attention.

It is hardly possible for me to send you anything in the way of comment on affairs over here, as I have been out of reach of mail and newspapers for nearly two months. What little I have gathered since reaching Phoenix is encouraging neither as to affairs abroad or at home. My own state of mind is such that I am glad to be leaving for a trip such as I have ahead of me, where I shall be out of reach of news and all the depressing developments that seem to be piling up one after another.

You must be concluding your term of service as Governor of the bank with much satisfaction. I fully realize what a burden you have carried and equally well what a great piece of work you have accomplished. I can only send you my congratulations, and with them my best wishes to your successor.

With kindest regards, I am

Sincerely yours,

COPY.

PRIVATE.

Bank of England,
15th June, 1916.

Dear Mr. Strong,

The Governor is taking a short holiday and asks me to thank you for your letter to him of the 23rd May.

You seem to have pretty nearly surmounted the difficulty about the days of grace, and we shall no doubt hear from you before long either that the amending Act has been passed or that your Counsel found it unnecessary.

The basis for earmarked Gold and for Gold shipments is more difficult to arrange, especially in such unsettled times as these, for we have seen that even Gold can be at a discount, as in Sweden at the present moment.

Probably we shall, as you suggest, have to establish some tentative basis to start with and see how it works out, and we see no reason why all the Gold should not be dealt with on each side on the actual value of the Gold contents. The fixed price at which this Bank is compelled to buy all Standard Gold (11/12ths fine) is $77\frac{s}{9}^d$ per ounce, which is a fairer standard of value than the Mint price of $77\frac{s}{10}^d\frac{1}{2}$, as the former represents the price that can be obtained directly Gold is delivered while from the latter has to be deducted the varying cost of waiting till the metal, at the good pleasure of the Mint, is turned into coin. The Governor suggests that this fixed price of $77\frac{s}{9}^d$ should be the basis for such ear-

marking as was contemplated by the Memorandum. It would no doubt be a very convenient figure for the earmarking on this side as it would represent the price at which the earmarked Gold could always be turned into cash at a moment's notice. But I do not myself see how, in view of possible fluctuations in the Exchange, we could fix a sterling price for earmarkings in New York. It seems to me that the basis price for such operations should be the American counterpart to our price of s d 77/9, i. e., the prompt cash value in dollars of the United States Mint price of the Gold contents of the earmarked Gold.

We are much pleased to see that your associates favour the general plan we discussed. I do not think the Governor intends to discuss it with his colleagues here until we hear from you that you are ready to act.

Our purchases in America in the coming Autumn will no doubt be very heavy and will have to be paid for largely out of Capital, either in the shape of American Securities, which is the most convenient form, or otherwise - e. g., in Gold. So that the course of Exchange will probably depend, as you say, more on the extent to which we can collect these Securities than anything else. (There seem, however, to be plenty of them left here and we have taken in some £20,000,000 worth a week since the surtax was threatened). It is wonderful how the patriotism of our holders of Americans has been stimulated by a little fillip of additional taxation!

With very kind regards and hoping to see you here again before long,

Yours faithfully,

(Signed) Brien Cokayne.

Benjamin Strong, Esq.

12-A-11
Bank of England
OCT 20 1916
28th September, 1916.

Dear Mr. Strong,

Thank you for your letter of the 3rd August, in which you need not have expressed regret for delay in writing, firstly, because there is really no hurry at all and, secondly, because you will see that with less excuse I am just as dilatory in answering you.

I see that I had misunderstood the suggestion in your letter of the 23rd May that we should try to establish "a definite price per ounce at which gold should be earmarked in both institutions". I took this to mean that you wanted the same price to rule on both sides of the Atlantic, and that is why I suggested on the 15th June that the London (sterling) price could hardly be made applicable in New York.

We quite agree with what you now write, viz., that any dollars which we may hold with you should be converted into their gold equivalent in New York if we wanted to earmark gold. But did you not make a slip of the pen in writing that we should receive the equivalent in standard bars less the Assay Office charge of 50^{cs.} per \$1,000? I gather from the table of Assay Office charges which you kindly sent us that 50^{cs.} per \$1,000 less than the nominal value will be paid by that Office

for

for standard bars tendered, so I suppose that you would earmark bars to the nominal value of \$100,000 for us against a credit of \$99,950. Is that right?

On the general question of the mutual earmarking of gold, Norman has already mentioned to you the fear which I expressed to him the other day that circumstances might - though not very probably - arise in which it would not suit the debtor institution to earmark unlimited amounts of gold. So I will not go over that ground again, but confine myself to passing on the Governor's answer to this point, viz., that the earmarking of gold should not be obligatory though in 99 cases out of 100 any request to earmark would be willingly complied with.

I do hope you are quickly regaining your health and will soon be as well as ever again.

The war is going satisfactorily and we seem to be "in the straight" now, though we cannot tell how far off the winning post is.

The Governor sends his best wishes, in which he is cordially joined by

Yours very truly,

Brien O'Keefe

Benjamin Strong, Esq.

B.A. Co.
FEB 3 1917

Bank of England

15th January, 1917.

Dear Mr. Strong,

I am heartily ashamed of my delay in answering your letter of the 20th October (!) but we have really been up to the eyes in work, and I knew you would understand and forgive.

Your letter most fully and clearly explains the bearing of the 5 cents charge on bars. The reason why we did not understand it before is that we thought it was a charge on taking standard bars and giving current coin for them, whereas I now see that it is a charge for providing such bars.

I am glad to see that you have got rid of the obstacle of the "days of grace" and have got powers to open accounts, both at home and abroad, with foreign clients; also that you thoroughly appreciate the fact that unlimited earmarking might be inconvenient and that the extent of it would have to be determined by mutual agreement.

All the apparent difficulties seem thus to have been smoothed away, and there appears no reason, except lack of the necessary time, why the matter and its expediency

expediency should not now be discussed with our colleagues. Other difficulties will no doubt crop up, but as you most truly say actual experience is the only sure guide. begin

The premature announcement of your authorization to appoint us as agents did not really do the faintest harm. The Governor particularly wishes me to thank you for your courteous telegram on the subject and to say that he quite realized what must have happened. As a matter of fact the announcement, though premature, was probably useful as it tended to allay the feeling of soreness which had been caused by the Federal Reserve Board's warning against taking either long or short loans of the belligerents. We ourselves, while declining to regard that warning as intentionally unfriendly, are still somewhat at a loss to divine its real purpose. I almost wonder that the Board, when it saw that millions of money were being invested in ephemeral works to supply the enormous temporary requirements of the Allies did not issue a warning in time to check such dangerous expansion. And if it had done so a year or two years ago it would have benefited not only the United States but also perhaps, indirectly, ourselves by forcing us to become more self-supporting. When however the huge outlay had been incurred and the gigantic orders placed, it did seem rather odd that a warning should have been given against facilitating the raising

raising of funds with which to pay for them. However we realize that, as the Spaniards say, everyone is master in his own house, and that we have no right to enquire the motive for your internal warnings and regulations.

Fortunately the American Exchange position, which has given us plenty of anxious thought, seems easier now, and I hope that if money rates keep low on your side it may continue so. We have still a fair amount of gold to spare in case of need and our good friends the Japanese are helping us to a good many American dollars. But the War is not over yet in spite of all the peace talk.

The Governor joins me in wishing you all happiness in the New Year and above all complete restoration of your health and strength.

Yours sincerely,

D. Ven. C. Payne

Benjamin Strong, Esq.

2 Feb 1918

BANK OF ENGLAND.

My dear Mr. Strong,

I shall always
be delighted to see any
friend of yours & especially
one whom you commend
so highly as you do Mr.
Charles Pratt in your
letter of 21 Jan just received.
I only hope he will give
me the pleasure of meeting
him.

As you write from New
York say nothing about
your health. I trust I may
assume that you are

quite well again.

The Governor has just returned from Spain to home to get away for a week or two soon to freshen myself up. But holidays give one no real enjoyment in these times.

With all good wishes

yours sincerely

Drien McKayne

MEMORANDUM.

[Feb 28, 1918]
[See Cabot's letter
Feb 2, 1920]

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) _____

Bank of England

FILING DEPT.

8th February, 1919.

MAR 5 1919

FEDERAL RESERVE BANK

My dear Mr. Strong,

Thank you so much for sending me Mr. Kemmerer's pamphlet about the Federal Reserve System which I have never thoroughly got into my head though I often wish I had. I believe that this little book will help me to do so and if it does I shall be very grateful.

I was extremely sorry to hear from Mr. Strauss, who was with us yesterday on a fleeting visit, that you have had to go off again to the country to recruit. I hope you will take a real good holiday and set yourself up for good.

I hope the visit of Mr. Strauss and Mr. Lamont to Paris means that the Peace Conference are going now to devote more thought to the great financial questions which are so vitally important to all of us.

Yours sincerely,

Benjamin Strong

Benjamin Strong, Esq.

Sir Brian Cokayne

LIBRARY

Bank of England
MAY 23 1919

R.A.L.
MAY 23 1919

2nd May, 1919.
FEDERAL RESERVE BANK

Dear Mr. Strong,

I have to thank you for two letters, one from Lake George of 5th February and the other from New York of 16th April.

I cannot help thinking that the inflation in America to which you refer in your earlier letter must be relatively so insignificant, compared with that of Europe, as to be almost negligible. Here it is unfortunately still increasing, and although, as you say, it is impossible to settle down seriously to house-cleaning till the Government stops borrowing, I hope we shall before long remove one of the special contributory causes, viz., the comparatively low level of money rates here.

We are much interested in all you write about your somewhat complicated Liberty Loan and I have no doubt it will be a great success. I only hope that we too may soon be able to raise a good loan to pay off a large part of the swollen issues of Treasury Bills and advances to the Government.

Thank you very much for all you write about our agreement with you and about gold exports generally.

I was quite sure you had no intention whatever to expose our nakedness by making large demands on us for gold, but as the agreement would strictly have entitled you, after buying sterling exchange in your market to any amount, to ask us to earmark or ship the equivalent in gold, I thought it more businesslike to give previous notice (as provided for in the agreement) that we should not be prepared for such large demands. This we did, you must remember, before our Government prohibited exports of gold except under licence, and indeed before we thought there was any likelihood of such a step being taken. This prohibition has of course deprived us meanwhile of the power of implementing our agreement with you unless we can get the corresponding licence to export or earmark the gold. The prohibition made wonderfully little stir because 99 people out of 100 believed that gold exports were already prohibited by law.

I had a little talk with Mr. Strauss when he was first here about your embargo on gold shipments and then told him that I should rather have liked our two countries to open their free gold market simultaneously. At that time I hoped that the question of Great Britain's huge debt to the United States would be quickly settled in Paris and that we should take early steps to protect our Exchanges by bringing our money rates at least up to international level.

But

But nothing has been done about our debt to America, and our Government, whose $3\frac{1}{2}\%$ Treasury Bills really make the market rate for money, has not seen its way to put up rates; so that there does not seem to be any prospect of the Exchange righting itself sufficiently to allow us safely to reopen our free gold market yet awhile.

Although, therefore, I should still like our two countries to act simultaneously in this matter, I cannot honestly pretend that we ought to ask you to wait for us. I am really rather sceptical about the "considerable exodus of gold to neutrals" which is however, as you say, possible when your embargo is removed. I do not believe that neutral Europe requires any appreciable amount and I doubt whether she would even consent to receive any large quantity. South America might take a goodish lump but not more than you could comfortably afford. The only real danger spot, I believe, as I told Mr. Strauss, is India whose digestive powers for gold seem to be boundless. I fancy that at present no imports of gold into India are allowed except to the Government, and although that may be only War legislation I daresay you could make some arrangement with the Indian Government to prevent India from absorbing (if she can afford to draw it) too large a quantity of gold which, if left to herself, she would simply waste by hoarding it in the earth from which it came. I think

Mr. Strauss was to see the India Office here to enquire whether any such arrangement could be made. Egypt is also a hoarder of gold to some extent but I do not expect she would be a real danger.

I am interested to see that you think your embargo on gold exports could, if thought well, survive Peace. There is little doubt that ours would lapse at the end of the War (though that may only mean the Ratification of the Peace Treaty which might be many months ahead) and would require fresh legislation for its revival.

In confirmation of what I said above about neutral Europe, I have just heard that Sweden is enquiring at what rate she could ship gold either from here to America or from Sweden via London to the United States.

I shall be very much interested to hear what you decide, or think of doing, about your gold embargo.

I hope you are keeping well and will not overwork yourself again in pushing the new Loan.

Always yours sincerely,

Benjamin Strong

Benjamin Strong, Esq.

(Received at Paris August 16th)

London, August 10, 1919.

BENJAMIN STRONG

Governor Federal Reserve Bank,

Care Nederlandsche Bank, Amsterdam.

Bank will be happy to make all arrangements for transport to London of not exceeding the thirty five million pounds you mentioned verbally stop The amount mentioned in your telegram is mutilated stop Bank will also attend to insurance if possible in the manner you desire. Governor Bank of England

London 0-89-15/8-4/15

8/15/19

BENJAMIN STRONG Governor

Federal Reserve Bank care Banque Nationale Brussels

We cabled you Amsterdam as follows August eleventh your telegram of eighth received will be happy to arrange shipments from both Amsterdam and Brussels have cabled New York respecting insurance stop Thirteenth learn from New York insurance can be arranged terms unknown to Bank but understood cabled you direct stop Fourteenth we are ready to send to take delivery at both centres as soon as authorized we await terms upon which to insure with Chubb stop

GOVERNOR BANK ENGLAND

London 13824 67 21 18H58

Governor Strong
Federal Reserve Bank
Ritz Hotel Paris

Received your letter 19th stop Our representatives have started for
Brussels and Amsterdam stop We are in touch with Kent and await his completion
of insurance with Chubb before definitely arranging shipment stop Shall be
happy when you so direct to transfer a portion when held on your account to
order of Bank of Spain.

GOVERNOR BANK OF ENGLAND

6 Sept. 1919

BANK OF ENGLAND.

My dear Mr. Strong,

Now that I am back, Norman is taking a little bit of holiday & will not return till Monday week. But I have opened your telegram to him & am much pleased to see that you expect to be in London again on Sunday aft.!

If you have nothing better to do that afternoon will you please come straight along to Cester

House & stay to tea and
supper. If it is still as hot
as today you will feel more
like sitting under a tree
than staying in London.

Tell your driver that the
house is on Putney Heath
about half way between the
"green man" & Richmond Church.

I hope you will come
but in any case I shall
hope to see you here on
Monday. Your office is
all ready for you.

yours sincerely
Drien (Kayne)

Bank of England

9th September, 1919.

Dear Mr. Strong,

Thank you for your letter of the 8th instant, enclosing transcript of a resolution of the Directors of the Federal Reserve Bank of New York giving you full authority to act on their behalf in connection with the gold now being shipped from the Continent.

I note that the insurance has now all been provided for with the exception of 90,000,000 Marks in Brussels and that each shipment may be increased to the equivalent of \$7,500,000. We have accordingly instructed our representatives in Brussels and Amsterdam to send Marks 31,000,000 by each boat: allowing for 1% charges this will represent Marks 31,310,000 which at 23.82 cents per mark equals \$7,458,042.

I also note that in the event of two or more consignments arriving at the same port at the same time there is now no objection to their coming forward to London together.

Yours very faithfully,

Benjamin Strong

Benjamin Strong, Esq.

Bo. H. E. S.
11th September, 1910.

Dear Mr. Gubbay,

I have spoken to Governor Strong about the matter I mentioned to you this morning and without making any definite promise on behalf of his Bank (The Federal Reserve Bank of New York) he sees no reason why they should not be as willing to give you gold in London as gold in America.

You may therefore suggest to your representatives in America that in future when they apply for gold they should propose that delivery of it be made in London and meanwhile Mr. Strong will tell his Bank that this proposal will probably be made.

Yours very truly,

(Sd.) BRIEN COKAYNE.

M.M.S. Gubbay, Esq., C.S.I., C.I.B.

New York

Bank of England

12th September 1919.

Dear Mr. Strong,

In reply to your letter of yesterday we shall be very pleased to send a cable to New York to-morrow stating the approximate total value of gold we have at present received on your behalf from the Continent. As you say, we cannot of course give any exact statement at present.

Briefly, you may like to know that we have received Mks.94,000,000 from Brussels and the equivalent of, say, Mks.87,000,000 in a mixture of Bars, Austrian Crowns and Roubles from Amsterdam: we shall not get any more before the close of business to-morrow, and so these figures will be what we shall cable.

I take this opportunity of mentioning that we were under the necessity of shipping £680,000 in Sovereigns from London to Brussels o/a The National Bank of Belgium, but having in mind your Sovereigns in Amsterdam, we thought it would be a considerable saving to all concerned to offer the National Bank of Belgium £680,000 from your Sovereigns for delivery in Amsterdam, while in exchange

we

we proposed to set aside for your Bank's account here the corresponding number of Sovereigns we had previously earmarked for Belgium. By this means you will of course save both freight and insurance on the £680,000.

The National Bank of Belgium have readily agreed to the proposal, and we are now making arrangements to carry it through.

Yours very truly,

D. W. C. C. C.

Benjamin Strong, Esq.

File

Bank of England

19th September, 1919.

Dear Mr. Strong,

I have received your letter of yesterday and shall be pleased to make arrangements for your wishes to be carried out with regard to

1. Cabling advices of arrivals.
2. Melting all the gold, except sovereigns and such fine bars as the Bank of England would ordinarily accept without re-melting and assaying.
3. Advising you from time to time of the results of melting and reporting particulars of the bar gold exchanged for sovereigns.
4. Sending you a statement of charges and disbursements in due course.

Yours very faithfully,

D. Menzies

Benjamin Strong, Esq.

BANK OF ENGLAND

20th October, 1919.

My dear Mr. Strong,

Thank you very much for your farewell note with its

kind messages to us all which I passed on to my colleagues. I can assure you that your visit was a real treat both socially and financially to all of us and I hope it will not be long before you pay us another. It seems an age already since you were here.

I have also to thank you for a telegram about your gold in Holland which is being acknowledged officially, and for a letter of the 6th received this morning introducing Mr. Rathbone whom I am most anxious to meet as I had of course already heard much of him. I shall be only too delighted if I can be of any use to him but at present he is in Paris - out of my reach.

.....

Yours sincerely,

(signed) Brien Cokayne

You will have seen that the Chancellor of the Exchequer has broken the spell and raised Treasury Bill rates to 4 1/2% and 5% for 3 and 6 months respectively, which move has brought our Bank Rate at last into harmony with market rates. But if it is true, as I have heard rumoured, that Belgium is desisting from her long pending loan in the United States, "because she can borrow the money cheaper here", it is evident that we shall have to raise rates further to protect our position and even our reputation for sanity. The idea that we should, in our present situation, undercut the United States in lending money to Europe is preposterous.

On the other hand I hope our Government will soon get clear of debt to any other country than America. There is very little outstanding in Europe now.

You will have seen by the time this reaches you that some gold is going from Canada to Japan, and not the least attractive feature of this arrangement

of this arrangement is that I expect it will suit your book very well.

I see that you are gradually taking into your Reserves all the gold which we are receiving for you here from Holland and Belgium.

I hope the new loan which Morgans are bringing out for our Government will be a success and that the exchange option will before long be so largely availed of that the obligation will become a purely sterling one for our Government. The only other early debts of our Government to the American public are the \$150,000,000 maturing in two years' time and that awkward Anglo-French Loan due next year which will be a difficult problem to tackle. I wish I could see some way by which we could "shoot our half of the camel."

FEDERAL RESERVE BANK
OF NEW YORK

Translation of Incoming
CABLEGRAM

4117
Date Jan. 3, 1920

From Cokayne - Bk of England
London

No. C 179

Reply - 1/3/20

TRANSLATION OF CABLEGRAM

LONDON

DATED: JAN. 3, 1920

REC'D: JAN. 3, 1920

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

Press telegram from America indicates that Paish is advocating hugh loan to Great Britain (stop) For your private information he has no connection with or mission from authorities here and in advocating any such loan does not at all represent their views.

COKAYNE.

TELEGRAM SENT TO BENJAMIN STRONG, ESQ., ON THE 3rd JANUARY 1920.

Press telegrams from America indicate that Paish is advocating huge loan to Britain. For your private information he has no connection with or mission from authorities here and in advocating any such loan does not at all represent their views.

3rd January, 1920.

My dear Mr. Strong,

Whenever I find time to write you a line I discover that I have several letters of yours to answer, and I do hope you will not think that the fact of my being such a bad correspondent indicates any lack of courtesy or any want of appreciation of your most interesting communications which I can assure you are immensely appreciated. I have now before me your letters of 10th November and 4th and 10th December, all teeming with comments of the utmost value and interest to us on the situation both there and here.

The "Treaty muddle" as you call it is quite intelligible and I have no doubt it will work out all right, but I wish it would hurry up a bit in doing so. I have seen a document drafted in Holland by several allied and neutral notables, among whom I believe was your Mr. Kent, recommending joint relief action in Europe. It strikes me as excellent but it all depends upon America who ought to lead, not to follow, in such matters. I know that the best Americans realize that the "white man's burden" is - almost exclusively - on the shoulders of their country just now, but one can hardly expect the country as a whole to enthuse about carrying the burden until the "Treaty muddle" is out of the way.

My own feeling is as you know that while this country is not justified in borrowing further ^{abroad}, it is not in a position to lend to other countries. But if America were to make our co-operation a condition of her assistance to the devastated countries

countries of Europe, or were even to request us to join her. I consider we should be justified in doing so to a reasonable extent. As a matter of fact I believe, as I told you, that however much we at this Bank may set our faces against lending to Europe, a certain amount of exporting on credit does and will go on.

As regards further borrowing by this country, we were startled to see reports from America in our papers yesterday implying that Sir George Paish was applying for a loan of £3,500,000,000 to Great Britain and Europe, and I at once sent you a confidential telegram, of which I enclose a copy, to say that our Government had no connection with Paish and desired no loan for themselves. I see I need not have made my telegram confidential as the Treasury openly disowned Paish who also appears himself to have contradicted the report. I have very little doubt that poor Sir George, who is honestly and sincerely concerned about the destitution of parts of Europe and was probably trying to enlist your country's sympathy therewith, has been either deliberately or unintentionally misrepresented.

(See P.S.)

I have been greatly interested in all you tell me about your money rate policy and the points of similarity with our position add to its interest. The Government's reluctance to pay more for its borrowing - the irritation of Bankers and others at the depreciation in their securities - and the taunts that the poor silly old Bank seems to think it can attract gold - are all part of our daily bread. Your remark

that

that while dear money may not by itself effect a cure no cure is possible without it, puts the whole question in a nutshell. I see you have now fixed an all round rate and see your way to making it effective, so that I hope you may not need to raise rates further. There is no doubt that if your rate were to come up to ours and remain there we should be forced to go up again and we are anxious to avoid as long as possible exceeding a 6% Bank Rate as anything above that bears hardly on legitimate borrowers. But I agree with you that credit is likely to be a costly commodity for some time to come.

Just at present the plethora of money created by the ridiculous "window dressing" of our Banks at the end of the year has rendered our rate completely ineffective and the Banks are eager buyers of January bills at $4\frac{1}{2}\%$! But I think this ease, though it may last a few weeks, is only temporary and the activities of the tax-gatherer will be on our side before long.

Thank you for your kind remarks about my visiting America, but much as I should enjoy it there is no chance of my being able to get away during the three months that remain of my Governorship, and after that I must really lie fallow for a bit and then resume my duties to my own partners who have carried all my burden as well as their own for the last five years.

You will see that our position here shews some signs of mending. The recent Revenue returns were distinctly encouraging and the labour situation seems a bit more hopeful. Above all I think we are just about at the end of fresh Government borrowing.

borrowing. Indeed if Revenue comes in fast we may be quit at the end of it, and if your plan (of which I am always thinking) for settling international Government indebtedness could be arranged I think we should really begin to see daylight.

Since I last wrote to you the Treasury have put into force several more of the Currency Committee's recommendations. Thus the Bankers' gold, something like forty millions sterling, is gradually to be transferred to our vaults, but as they will no doubt take Bank Notes in its place it will not increase our Reserve.

Then again the maximum of the Currency Note fiduciary issue for the present year has been fixed at £320,600,000, being the maximum attained in the early part of last year. The Currency Note Department hold £28,500,000 of gold and £4 millions of Bank Notes. So that any Currency Notes issued in excess of £353,100,000 according to the weekly published figures will have to be covered pound for pound by Bank Notes. Now I look forward with some confidence to a slight and gradual deflation of credit as a result of the ^{probable} cessation of fresh Government borrowing and the probable commencement of repayment of Government indebtedness about the end of this quarter. But if by any chance such deflation should not take place and on the contrary further inflation of credit were from any cause to occur, then Currency Notes would expand again and the effect of withdrawing Bank Notes as cover for the additional issue of Currency Notes might be to deplete our Reserve to such an extent that penal rates for money

would

would be imposed.

Thank you for your interesting remarks about silver. It is astonishing that with the price of standard silver round about $6\frac{1}{6}$ ^{s d} per ounce all this time our token coinage, which is legally worth only $5\frac{1}{6}$ ^{s d} per ounce, should not have largely disappeared. Indeed the drain on our central supply of silver here has been no more than the normal. If there should be, as I hope there will, any contraction of credit shortly, then the silver coinage should tend to return to us and there are many different opinions as to whether anything, and if so what, should be done. Personally I advocate - not as an emergency measure but deliberately - debasing the token silver coinage in order to put it out of the reach of a premium over its legal value for the future. I see Holland has already decided to do this and I expect other countries will follow suit. Our smallest silver coins, such as the 6d. and 3d. which are very wasteful, might well be replaced by Nickel coins.

I have no doubt you have read Keynes' book on "The economic consequences of the Peace". It is a brilliant piece of writing and I hope it will do as much good as it will do mischief but it cannot fail to do some of the latter.

Hoping that you are keeping well and with every other good wish to you for the new year,

Always yours sincerely,

John Maynard Keynes

P.S. 4th Jan. I have just got your telegram saying that you had seen Paish and fully realize the situation, which I am glad to hear.

JK

7

CONFIDENTIAL.

ans v. 2-
May 8

BANK OF ENGLAND, LONDON, E. C. 2

2nd February, 1920.

My dear Mr. Strong,

I am indeed distressed to hear from Norman that your health has given way and that you are ordered a long rest; and I most devoutly hope that this prescription will set you up for good.

If you should already be away when this letter arrives, I have no doubt it will be opened by someone who will treat it as confidentially as you would have done yourself, so I am making use of our personal correspondence to write on two matters which cannot well be dealt with in the Bank's official letters.

First as to your enquiry by cable on the 27th about the proper treatment for branches of foreign Banks. The Bank of England could not well express any formal opinion on this subject without ascertaining the views of the Government which have not yet been definitely formed, but my own view is entirely in accord with the suggestions made some time ago by a Committee of Bankers which was presided over by Lord Cunliffe. These suggestions are embodied in a confidential report of which I now enclose a copy, relying upon your treating it with all reserve and taking care that even the fact of your holding a copy does not become known.

You will see that the report is addressed to two other matters, besides the treatment of branches of foreign Banks, viz., to the definition of the term Bank and the prevention of its use by unauthorized persons and also to the abolition or

mitigation

[See File 41916]

mitigation of the ridiculous "window dressing" which now takes place at the end of every year.

You will also observe that the Committee have not specified what percentage of their liabilities the branches of foreign Banks should hold in British Government securities but have left this to the Government to settle. I understand however that something in the neighbourhood of 20% was in their minds.

The matter was allowed to sleep for some time (I fancy under the impression that the Currency Committee would take it up) but I have quite recently obtained the promise of the Board of Trade, in whose province it lies to propose the necessary legislation, to push the matter on again.

The other subject on which I want to say something unofficially to you is your telegram received to-day in reply to our enquiry of the 27th about your money rate policy. I hope you will not have thought that we were asking too much in inviting your opinion on such a matter, and I need hardly say that your kind reply is very greatly appreciated, for although it does not give us any clear guidance as to your present policy I quite understand your difficulty in giving it. I was surprised, by the way, to see that your telegram arrived in plain language. Would it not be better that any messages we may exchange on such subjects should be put into code?

It is extremely difficult to see even a short way ahead in these days, but we are hoping that our present rates will prove more efficacious at this time of year when revenue collections

collections are heaviest than they could possibly have proved in the autumn. But there are several evils which no reasonable increase in money rates will cure. Thus the profits obtainable (on paper) by exporting on credit are such as to be merely "shaded" by interest at 10% per annum.

I do not believe there is any very serious amount of speculation here on borrowed money. But the anxiety to avoid the present heavy taxation by investing for a chance of appreciation rather than for a certainty of income, is so strong as to create an unwholesome demand for speculative securities. Indeed this is carried to such a pitch that large blocks of "Shell" shares are believed to have been placed here recently both by Dutch and American sellers.

Can we wonder that, with this sort of aggravation to the demands that we have to meet, both for ourselves and for our Allies, on the American Exchange, the dollar should continue to appreciate in sterling? I am not unduly disturbed by the fall in the American Exchange, and only hope that we may continue to be spared an actual breakdown in the Exchange until it reaches a level at which it will provide its own remedy. We are anxious, as I have already said, to give present money rates a fair trial, but the one thing which would to my mind necessitate a further rise would be that your rates should overtake ours. Hence our anxiety for some guidance as to your rate policy

Always yours sincerely,

Benjamin Strong

Benjamin Strong, Esq.

P.S. While

P.S. While writing I have received your Bank's telegram asking us to send our weekly cabled message every Monday order that it may be presented at your Board meetings on Tuesdays, and we shall of course be pleased to telegraph you a report on conditions here every Monday. But I feel that I ought to add that the confidential messages which we have sometimes indulged in were not intended for a Board of Directors and that we on our part have never thought it proper to exhibit to all our colleagues such information as that contained in your telegram of the 29th ultimo about money rate policy, and shall not feel at liberty to do so in the future. I think it would be better if for the future such confidences were exchanged in personal telegrams.

I enclose copies of all the telegrams recently exchanged about which I am writing in this letter.

D.C.

Pero
7/11

9 Feb 1920

Bank of England

My dear Mr. Story,

Thank you much for your kind note of 14th Jan! about poor Cunliffe's sudden death. It was a cruel blow to me, to whom he had been one of the best of friends, and a very great loss to the dear old Bank.

I do hope your health is really benefiting by the change to Arizona & that your present rest will set you up for good. Your absence from New York must be greatly felt by your colleagues

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and you will see that I
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There are many things that
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which are not suitable for
official correspondence, and I
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of views which you have allowed
me to make with you. I only
hope that my successors will
always enjoy the same privilege
& that it will prove the same
benefit to both sides that it has
already been to me.

With most cordial good wishes,
especially for your speedy recovery,
yours very sincerely
Brien C. Kayne

C O P Y

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There are many things that can be said in personal letters which are not suitable for official correspondence, and I am most grateful to you for the friendly + informal interchange of views which you have allowed me to make with you. I only hope that my successors will always enjoy the same privilege + that it will prove the same benefit to both sides that it has already been to me.

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[signed] Brien Cokayne