

STRONG PAPERS, Strong to Norman, 1921

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~~Sept. 1 (G. Beyer to Strong)~~
Sept. 14
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Dec. 16 (*by Jan*)

C-cable

STRONG PAPERS, Strong to Norman, 1921
(List created 6/2004)

January 27	November 1
February 3 (missing its attachment from Kiddy)	November 1
February 4	November 2
February 8	November 3
February 21	November 17
March 15	November 25
March 16	December 16 (by Jay)
{March 21 (Note: original copy is missing; copy of photocopied letter is now in originals' file)}	
March 28	C = cable
March 28	
April 5	
April 18	
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May 24, with poem	
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(August 1 C)	
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September 14	
(September 24 C)	
(October 3 C)	
October 24	
November 1	

Strong Papers Key for years 1922, 1927, 1928:

06/15/04

- () = Document is in Papers but prior to now had not been photocopied and included in research binders
- [] = At earlier date, item was listed as present but no original or copy is now in Papers
- { } = Photocopy exists but original is missing

January 27, 1921.

My dear Norman:

It was necessary for me to defer writing an answer to yours of the fifth until today, because I was unable to get an appointment with my doctor until yesterday. He is not through with me yet, but, in brief, he says that I have shown an astonishing improvement, and in general that I have gained all the benefit from my trip that could be expected, and even more. Further than that he thinks it was a better treatment for my particular case and temperament than to sit twirling my thumbs in some lonely but agreeable climate in Colorado or Arizona. He wants me to observe the following rules: - Office hours, 9:30 to 5; Lunch, one hour; Lie down for half an hour before dinner and go to bed early. A further and more particular report must be deferred until some X-ray pictures are developed. But on the whole I regard it as pretty satisfactory. At any rate he seems to think that I can expect to last three years, and indefinitely if I take care of myself. I balk at the "indefinitely" and for the present will be content with the three year program.

It will not be possible for me to write a really considered account of the situation over here for another week; for one reason I have not yet been to Washington, and for another I have been so absorbed in catching up with routine that I have not yet seen many people.

In general let me say that things are looking up here. There seems to be a better movement of goods. Also labor is much more efficient and in various lines wages are being reduced moderately. I would caution you, however, against entertaining the view that we shall have a period of easy money. The banking institutions of the United States are paying between 6% and 7% on something over three billions of money, borrowed directly or indirectly from the reserve system, and I doubt if money gets much below those rates so long as the pressure is on for them to liquidate. Certainly it is a better banking investment for any bank to pay off a 6% or 7% loan than it is to loan the money outside at a lower rate.

Our statistical department gets up some interesting charts now and then and I am enclosing three of them to see if they prove to be of any interest.^{to you} If so, we can send some on now and then.

I have left my last word to reply to your question about my visit to London. It did me no end of good! It not only was good for me, physically, to have that inter-regnum of half work and half play before settling into full harness. But it did me no end of good mentally to have those quiet talks with you, and especially to realize that the work in which you and I are engaged is beginning here and there to show results.

1.27.21

I will try to write you a decent letter in the course of the next week.

My best to you.

Faithfully yours,

Montagu C. Norman, Esq.,
The Bank of England,
London, England.

BS.MSE
Enc.

CONFIDENTIAL.

February 3, 1921.

My dear Norman:

Enclosed is a communication which I received a few days ago from Mr. Kiddy, together with a copy of my reply, which I thought might be of interest to you, particularly at a time when discussion of this question of rates is becoming rather acute here, as I judge it is with you. As an indication of this, I am enclosing a clipping from the New York Times of February 1, and a news slip which appeared yesterday morning. At the moment I think it would be most unfortunate for Mr. Kiddy to invite embarrassment by references of this sort to the policies of the two institutions and the extent to which they may or may not be synchronized, and I hope that you will agree with this.

It is still impossible for me to write you anything very definite about developments here. So much has transpired and the situation is so complex, "visibility" still being "low," that I find myself embarrassed in trying to send you an opinion that seems conclusive.

Supplementing our cables, I may say that there has been some little evidence of improvement in business; farm products are moving a little better, retail prices are gradually, - but only gradually, - coming down, the reduction in the prices of wheat and steel being important exceptions to the major reductions with which you are familiar.

As to the rate situation, - what I last wrote you is emphasized by recent developments. The loan account at this bank does not go down to any considerable extent, I believe, because strong pressure is being exerted by interior banks to liquidate ~~for~~ bank loans, particularly borrowings from the local reserve banks, which results on the one hand in withdrawals of deposits from New York, and, on the other hand in some increased borrowings from the Reserve Bank. A particular thing which we notice is the constant drain upon our reserves to the interior, which would amount to \$50,000,000 a week or more were it not that our reserve position is readjusted every week by various special transactions of the Treasury, is partly relieved by regular imports of gold coming from abroad, and whenever deficiencies below the legal minimum remain after these transactions, the reserve position is from time to time readjusted by our transferring a portion of our portfolio to other reserve banks which are growing stronger. You will observe that this movement of funds away from New York is contrary to the movement to be expected at this time of the year in normal years before the war.

It is safe to say that considerably lower money rates cannot be anticipated here for the present, and it is difficult to say how soon they may be expected. My personal disposition would be at the moment to leave rates unchanged except, of course, were we obliged to make some slight increase in the special rates allowed for borrowings by bankers upon Treasury Certificates of Indebtedness.

2.3.21

I am beginning to have a feeling, although still not very definite until developments more fully justify it, that we are not through with the pressure for liquidation of commodities. There was a general return of better feeling after the first of January, but with the least indication of tightening money, such as we have had this week and late last week, a cold chill seems to go through the air, which is at once reflected in the stock market and elsewhere.

Furthermore, there is much uncertainty as to the policy of the new administration. No one knows who will be in command of our foreign policy or our financial policy, and there is important financing hanging over the market, such as the Ford Company, with a great deal of mystery as to the real conditions which exist, and out of which the financing arises.

I notice evidence in the papers of a rather formidable drive at the Bank of England to reduce rates. You will, I hope, keep me informed, by cable if necessary, of anything important transpiring, and I shall try to do likewise.

I hope you had a first rate vacation and that you have returned to the Bank feeling as refreshed and energetic as I.

Please give my warmest regards to your associates.

Faithfully yours,

Montagu C. Norman, Esq.,
The Bank of England,
Threadneedle Street,
London, England.

ES.MSB

CONFIDENTIAL:

February 4, 1921.

My dear Norman:

Immediately after dictating my letter to you yesterday, we rather unexpectedly took action on the rate which we charge for loans on certificates of indebtedness issued by the Treasury Department, of which you are being advised by cable today with the usual confirmation. Action was hastened by the fact that our Treasurer may make a small issue of certificates in the near future and it did not seem wise or fair to postpone the rate change until after the issue was sold.

In my former letter I omitted to mention that one cause of the increasing loan account of the commercial banks in New York at the present time is the delay in the payment of the claims of the railroads against the United States, growing out of the period of Government operation. These unadjusted claims amount to something like \$350,000,000 and the deferring of payment, due to some legal technicality throws some pretty heavy loans upon our banks.

With best regards, I am,

Faithfully yours,

Montagu C. Norman, Esq.,
The Bank of England,
Threadneedle Street,
London, England.

BS.MSB

REGISTERED MAIL

February 8, 1921.

Dear Norman:

One important matter I overlooked before leaving Thorpe Lodge, which was, to get from you that picture which you promised, and which I am very keen, indeed, to have. I know your prejudice against photographs, but hope you will, nevertheless, let me have one of yours. One of my hobbies is to collect the pictures of my friends, and I would be very sorry if yours was not among them.

Enclosed is the number one, \$2.00, Pittman Act, Federal Reserve Bank Note, issued by the Federal Reserve Bank of New York. The numbers on the note have various indications. The serial letter and number in the four corners, "B-2" is the alphabetical and numerical designation of this bank, being required by the statute to number all the currency which we issue. The blue number, "B1A" indicates that this is the first note of the \$2.00 denomination issued.

As you know, these are the notes which are issued to enable us to retire the silver certificates which were, in turn, surrendered to the Treasury, to enable our Government to furnish silver to your Government for exportation to India, and this note may, therefore, appear to have some sentimental value in connection with our war relations.

This is not a business letter, and there is, in fact, little in the way of news to send you, anyway. We are rocking along just about the same, and if any change occurs, I shall promptly advise you.

Just now we are a bit uncertain as to Government borrowings, because of the uncertainty as to whether our Congress will pass the pending bill providing for the reimbursement of the amount owing by the Government to the railroads, by installment payments. Due to some peculiarity of the existing law, balances on claims not yet settled, can only be paid when the claims are proved and audited in full. As the Government owes the railroads \$350,000,000, or thereabouts, which the railroads badly need, we are urging that the bill be passed promptly, so that the railroads may get out of the money market, where they are now heavy borrowers, and so that they may pay their supply bills more promptly. It looks to me now as though only about \$100,000,000 would be required by the Treasury to leave a fairly comfortable position for the new Administration, unless this bill is passed, when they will, doubtless, need a considerably larger amount to take care of such payments as may be made to the railroads as above indicated.

2/8/21.

Possibly I might say to you, very confidentially, that the statement by your Chancellor, which was reported here some days ago, to the effect that his Government had approached our Government with a scheme of debt cancelation, had, for the moment, a rather unfortunate effect. I do wish we could sit around the table and discuss these matters face to face, in the spirit of friendship, and avoid public discussion in this way, although possibly it cannot always be avoided. We certainly are guilty enough here of indiscretions of that sort, if indeed it was an indiscretion, but possibly the return of your Ambassador and Lord Chalmers will get matters straight.

With warmest regards to you, and looking forward to a letter before long, I am

Sincerely yours,

Montague C. Norman, Esq.,
c/o Bank of England,
London, England.

BS:MMcC
Enc.

February 21, 1921.

PERSONAL

Dear Norman:

Last week I had opportunity for a long chat with our Mr. Snyder, who is an economist of more than ordinary ability and common sense, with a view to his preparing a memorandum which I might send to you to enlighten you a bit upon the present situation in the United States. The memorandum is enclosed. It is very rough, but I shall save the time required for re-writing by sending it as it is.

I should like to add the following comments:

Loans and Reserves.

The reserve banks are generally marking up the rates at which they make advances on Treasury certificates of indebtedness to 6 per cent. These certificates now have a splendid market and there is no excuse for the commercial banks buying them, nor for us to encourage them to do so by offering inducements in the way of preferential rates. As the result of this policy, this leaves only about \$125,000,000 of loans of that character in the Federal reserve banks, although the total amount of the Government's borrowings is nearly \$2,500,000,000. The preferential rates for loans secured by our war bonds have all been marked up to 6 per cent., and we still are carrying about \$1,000,000,000 of loans of that character at that rate in the Federal Reserve System. In my opinion, it would be dangerous, both from the standpoint of the market for Government securities, as well as the general credit situation, to make a further advance in that rate at this time.

Investment Market.

Foreign loans have been coming along pretty fast and for the moment I think the power of absorption has been considerably exhausted.

Money Rates.

Two special difficulties have been encountered in the money market. One is the situation with the railroads which need money badly. The Government owes them about \$350,000,000 on unadjusted accounts growing out of war operations which, under the terms of the old law, cannot be paid in installments, as claims are made, but must be paid in full when the entire amount of the claim of each railroad is proved. This will take a long time. An act is

April 18, 1921.

hope may be adopted, although it is not yet decided. This seems to be a rather different view of our refunding problem than that suggested in your own letter about the conversion of the national war bonds. Our view has been to keep a series of maturities constantly in front of both the Treasury and the Congress. It is the most impressive argument for economy in public expenditure. If we refunded all of the present floating debt, including the Victory Loan (which I regard as quite an impossible undertaking), I fear Congress might take the view, as did that famous borrower, that having succeeded in signing a note his debt was paid and he was now free to continue his riotous living.

I hope the new Chancellor proves to be all that you would have him as an associate as well as Finance Minister. Secretary Mellon, while a man of very few words and of great diffidence and modesty, is I believe a man of prompt decision and sound financial wisdom. If the politicians will let him alone so that he has time to think about his job, I am hopeful that we will have a first-class Treasury Department administration.

My fear about the reduction in rates by your treasury did not arise from the mere fact that a reduction had been made, but rather that it indicated the possibility of a reversal of the old problem which would mean that you would need to reduce whenever the treasury reduced and vice versa, with the possibility of getting out of line with true market conditions so that your ways and means advance account would again begin to roll up just because the public would not take the current issues of treasury bills. Putting it the other way around, if the public did take treasury bills under these conditions, it would really be as the result of an inflated condition.

In conclusion, I do not see the possibility for the moment, of important rate reductions by the reserve banks, and especially not here in New York, so long as rates in the market are still considerably above ours.

April 18, 1921.

I have seen nothing in the press, and heard nothing from you finally in regard to your re-election. Has this taken place? It is a matter in which we have a feeling of deep interest and concern.

The appearance of the first number of "The Old Lady of Threadneedle Street" has given us a real thrill. You may, in fact, see some note of it in an early number of our Club magazine.

Finally, how do you defend the proposed schedule of reparation payments to be made by Germany which contemplates building up these payments on an increasing scale until they reach so large a figure as 8 billion marks, and then suddenly stopping all payments? It would appear to me that, assuming that Germany is able to pay, (which I doubt), this plan might result in the re-creation of Germany's war making ability, with a budget at the end of the 42 years almost completely designed for the re-establishment of the war machine. Why would it not have been preferable to have the payments increase over a period of 25 years, or slightly more, and then decrease for a period of 15 years, or slightly less?

With warmest regards,

Sincerely yours,

Montagu C. Norman, Esq.,
c/o Bank of England,
London, England.

BS:MM

Enc.

April 26, 1921.

Dear Norman:

Not at all to my surprise, the pressure for reduction of rates, to which I referred in a recent letter, has crystallized in Washington, and even gone so far as to result in the introduction of bills in Congress providing that the rates of discount to be established by the reserve banks shall be limited, in the case of one bill to 6%, and in the case of another to 5%. Our difficulty at the Capitol largely originates with the agricultural interests of the country. The farmers have been hard hit by the decline in the value of almost everything that they produce. Many of them failed to sell last year's crop promptly and they are consequently heavily in debt still, and at a time when they need to borrow money for the purpose of making the new planting. There is much real distress due, I fear, in a large number of cases, to their own unwisdom in speculating in their own produce. On the other hand, they feel the pressure resulting from this condition seriously. We are beginning to feel it, and I was only yesterday advised of a very determined effort, originating I regret to say, with some members of the present administration, to bring about a reduction in the rate of discount of this bank, and of some of the other reserve banks, if not all of those which have rates above 6%.

Knowing that you would have an important decision to make this week, it seemed best to keep you posted by sending you a cable as per the confirmation enclosed, which was dispatched yesterday. I still have some hope that action can be deferred until conditions more justify it than at present. Our chief difficulty undoubtedly lies with Congress which, even with the best intentions, may be led into unwise legislation, if our resistance is too determined to meet

April 26, 1921.

their extreme views. Another week or ten days will probably disclose just what has to be done to avoid the possibility of some extreme or unwise action. It may be that we can hold our present position indefinitely, but I am beginning to doubt it.

This comes as an unpleasant surprise after our Conference in Washington, where, with one or two exceptions, everybody agreed that lowering the discount rates was unwise at the present time.

You see, we suffer from somewhat the same difficulties that you do.

Yours sincerely,

Montagu Norman, Esq.,
c/o Bank of England,
London, England.

BS:MM

Enc.

PRIVATE

May 5, 1921.

Dear Norman:

While I was able to send you a preliminary warning of possible rate changes, the situation was such that no definite prediction of our action could be made until the hour of our meeting. My various letters and cables to you may have given the appearance of vacillation, so I shall explain the circumstances in some detail for your personal enlightenment, but would rather that you regard my letter as quite confidential.

The effect of the great price liquidation which we have suffered in this country has been more felt by the agricultural and live-stock classes than any other. They are themselves partly to blame, but some responsibility also rests upon agitators and politicians, who started an organized propaganda last year, and to some extent the year before, to induce the farmers to withhold their crop from the market. It was the same old talk of 50 cent cotton, and \$3.00 wheat. The result was that many of them were caught carrying their own crops, in which they were in fact speculating. But, I firmly believe that as to the great mass of these people they were the victims of circumstances over which they had no control. Our crops are made very largely on borrowed money, and the sudden decline left the farmers literally unable to dispose of their product for sufficient amounts to liquidate the loans incurred to make the crop.

With this situation widespread in the West and South, enormous pressure has been felt in Washington from the agricultural sections of the country that measures be taken to ease up credit conditions. So far as I can discover, the demand came from no other class than those engaged in agriculture. They made an

impressive showing and their complaints reached all classes of Congressmen and executive officers of the Government right up to the President.

This was all put up to me most earnestly by my friends and associates in Washington, and the feeling generally prevailed that the New York bank was causing the dead-lock. My own belief is that the principle followed so long by your institution, and as I recall, first enunciated by Bagehot, that in such times as these, money should be loaned freely, but at high rates, is the principle which should now govern our operation. On the other hand, a bullheaded resistance in this situation is always liable to invite political retaliation, and I finally concluded that the wisest course was to meet, in part at least, the demand for lower rates. The last week of this discussion witnessed developments which made it rather easy to do this, as our Treasury certificates of indebtedness are now selling on a 5 1/2% basis, or better, prime bankers bills at 5 5/8 and 5 7/8%, and even the best grades of commercial paper are now squarely at 7%, and to a limited extent sales are made even below that.

I think we have done a wise thing, although I would have preferred to wait a few weeks longer. Our rate change follows the completion of the important C. B. & Q. financing, and on the other hand, precedes the first step in the Treasury's program of dealing with the Victory loan maturity of something over \$4 billions, which falls due in May 1923.

The plan now being discussed for dealing with the floating debt, that is the Treasury certificates, the maturing War Savings certificates, and the Victory loan due two years hence, the whole aggregating \$7 1/2 billions, is a simple, and, I believe, thoroughly sound program. Every six months, or thereabouts, the Treasury will offer notes authorized under the Victory Loan Act, in round amounts of say \$500 millions, and with the proceeds will purchase the Victory notes in anticipation of their maturity. The result will be to spread the maturities over the period between 1923 and 1928, when the Third liberty loan matures. I anticipate a large combined offering

of three-year notes, and of short Treasury certificates sometime next week, although the particulars have not been definitely agreed upon.

Enclosed is the confirmation of my private cable of yesterday; also a copy of our circular announcing the new rate.

After receiving the first copy of the new magazine, "The Old Lady of Threadneedle Street," I offered a little prize for a poem relating to this important event in the history of the Bank of England, and the prize was awarded to one of our men in the Statistics Department. Enclosed is his reply, which I thought would interest you to read.

There is not much in the way of news to send you. I would greatly appreciate a letter from you telling me just what is going on in the coal strike situation, and what you feel able to send me about the Reparation dispute. We hear so much that is unreliable, that a word from you would be most enlightening.

With kindest regards,

Yours very truly,

Montagu C. Norman, Esq.,
c/o Bank of England,
Threadneedle Street,
London, England.

BS:MM

Encs. (4)

May 9, 1921

PERSONAL

My dear Norman:

Your letter of April 27 has just arrived, and with it the interesting set of photographs of the Bank games with the Bank of France team. I am ashamed to have omitted this important function of the Central Bank from the recent schedule which you were good enough to send me, and now must tax you with an equal serious omission in not advising me of the outcome of the matches with the Bank of France. Did your boys win?

Since writing you last week, I am advised that the Treasury program, of which I sent you some details, has for the moment been deferred. For just how long, I am unable to surmise, nor can I give any very satisfactory reason, except that interest rates still seem a bit high for any considerable operation.

I have just returned from spending a week-end with Moreau Delano. We played golf every day, and indulged in some games of chance in the evening with some of your friends at Morgan's office, at all of which the Central Bank representative was able to maintain the prestige of the institution.

With warmest regards,

Sincerely yours,

Montagu C. Norman, Esq.,
c/o Bank of England,
Threadneedle Street,
London, England.

BS:MM

PERSONAL

May 13, 1921.

Dear Norman:

I am grateful to you for your note of April 29, enclosing a copy of the Statement of Claim just issued in connection with the Soviet Gold Test Case. On first reading, it impressed me as being almost hopeless, just as you said. At the same time, I have read a cable from London, dated May 12, published in the New York Times, describing the decision reversing the lower court in the so-called "veneer-wood" case.

The distinguishing difference between your position and ours, lies in the so-called "trade agreement." I have always felt that with that trade agreement in existence, your courts were likely to brush aside all technicalities in favor of a de facto Russian Government, which would involve recognizing all of their titles, and this, as I construe the cable, is about what the Court of Appeals has done.

With us, however, all of the acts of our government appear to have been consistent refusals to recognize that Russia had a de facto or a de jure government, or any other kind of a government, with which a civilized government could deal, and if our courts are governed by the same principles which seem to have governed your courts, it would clearly imply that we would recognize no titles as resting in a government, the existence of which our government declined to recognize.

It might be a good plan if you could give us some information as to the test shipment, to which you recently referred. For various reasons, as I think

May 13, 1921.

I wrote you, we are now only purchasing at the bank gold certified to be new production of the mines of the British Empire; but when the congestion in the Assay Office becomes somewhat relieved, we may decide to extend the scope of our purchases, and it would be well for us to know something of the character of the gold now being shipped to Morgan's, so that we would not be in danger of rejecting gold simply because we were unable to determine whether it was or was not shipped for the purpose of making this test.

Of course, we have not brought this matter to official attention. We think it might be well to explain to some of our Treasury officials your program. I cannot say that it will do any harm, and it may facilitate getting a clear issue established. If necessary I hope you will cable me.

With best wishes,

Very sincerely yours,

Montagu C. Norman, Esq.,
c/o Bank of England,
Threadneedle Street,
New York, N. Y.

BS:MM

May 24, 1921.

My dear Norman:

Under separate cover, I am sending you a marked copy of the Federal Reserve Club Magazine, containing the poem (if such it may be called) commemorating the appearance of the "Old Lady of Threadneedle Street."

The poem which received honorable mention, that is, which was regarded by the committee as next in merit to the one published is enclosed herewith.

We do not claim great merit along literary lines, but possibly the sentiment will appeal to you and your colleagues.

I have a most interesting letter from you, which I shall defer answering until my return from Washington, where I am obliged to go to-night.

With warmest regards,

Sincerely yours,

Montagu C. Norman, Esq.,
c/o Bank of England,
Threadneedle Street,
London, England.

BS:MM

Enc.

TE SALUTAMUS !

A new magazine, of a very high rank,
From England, produced by the Staff of the Bank,
A Journal of general interest, you see,
Was sent over here by our bank vis-a-vis.

A shilling its price, the volume is I,
Of number the first, dated March '21,
With art of the best, 'tis an issue complete,
And called, "The Old Lady of Threadneedle Street."

The frontispiece pictures a fair knight of old,
With visage sedate, despite ringlets of gold;
The Latin word "salve" next catches the eye,
"Te Salutamus, Old Lady," we cry.

Their Governor Norman, Mr. Trotter, D. G.*
Sir Nairne, the Comptroller, Sir Harvey, C. G.**
Did see "Iolanthe" an opera played
By the Bank's employees in fine raiment arrayed.

So though it's a tryo and not very old,
We are sure that all honor 'twill reach and enfold,
And we wish it the best of success, B. of E.,
May it soon rival that of our own F. R. B!

* - Deputy Governor.

** - Chief Cashier.

CONFIDENTIAL

March 21, 1921.

My dear Norman:

I have before me your fine letters of February 17 and 22, and to-day received yours of March 1, much delayed in arrival for some unexplained reason.

I was greatly interested in the comments contained in all of these letters on general subjects we discussed so fully in London; that is, the drive for lower rates, easy money, and a more liberal discount policy, etc. All of this we have read of in the press dispatches, and we have heard a great deal of it from various quarters here, where the pressure of liquidation has developed weak spots. One of the officers of our Government, who has just retired from office, has been an urgent advocate of such a policy. It has originated in various parts of the country, where distress is felt due to the sharp decline in the value of agricultural and farm products, such as cotton, wool and meat, but so far I have been unable to determine the slightest indication among my own associates in this bank, with the Federal Reserve Board (with the exception of one member, recently retired), nor in fact with the Secretary of the Treasury, that any such policy is justified by conditions. Only yesterday I learned definitely and authoritatively that the remark attributed to the Secretary in regard to rates, which was cabled to your side, was never made by him at all. The newspaper note to that effect may have been what we call "flying a kite." In other words, an attempt to draw a statement in denial. We do see, however, that you have been subjected to insistent pressure and almost every day I am asked by banking or newspaper friends whether your rates are not likely to come down, and whether that will not necessitate a reduction in our rates, or whether we may not reduce our rates and so necessitate a reduction in yours. The question is propounded directly, indirectly, by innuendo, subterfuge, and in every form which might be likely to disclose our policy and position. So far, we have managed successfully to avoid any disclosure of what we believe the future policy of this institution should be. It is more than likely, however, that we will be subjected to pressure of the same character as we encountered last fall, and as you apparently are encountering now, for lower rates. This may be of political as well as general origin, and we do not look forward to such a development with much pleasure. It likely will not arise until after Congress meets in special session on April 11th.

The sale of certificates of indebtedness, of which a minimum of \$400 millions was offered, with choice of six months at 5 1/2%, or one year at 5 3/4%, resulted in subscriptions of about \$520 millions, and the large number of subscribers, with the wide distribution evidenced on the original subscription, indicates that the market will absorb the whole issue very promptly, without expansion of banks loans for more than a temporary period. It also indicates that the slight rate reduction by the Treasury of 1/4th of 1% was justified by market conditions, particularly as all reserve banks are now charging 6% for advances upon these certificates, and the banks which subscribed for them must have felt certain of marketing them promptly or they would not have gone so well. Something less than 500 millions of the subscriptions were accepted by the Treasury. Our problem in connection with the Government's borrowing is to fix a rate not so attractive that the banks will be induced to hold the certificates for a profit, nor so low that they must be forced

pending in Congress to permit partial settlement. If it passes, the Treasury will borrow the money on certificates of indebtedness, which will be taken up by investors and not by the banks, with the result that the railroads will pay off their current borrowings and pay off their outstanding accounts for material purchased, and greatly facilitate bank liquidation. The other difficulty arises from uncertainty on the part of commercial banks as to what sort of credit statements will be made by the large industrial and commercial borrowers, following the tremendous decline in commodity values. Hesitation in taking the paper of these concerns, pending the issue of statements, has led to the bidding up of rates for commercial accommodation. The statements have been delayed in many instances because of the necessity of conferring with tax authorities as to the valuation of inventories. This will gradually clear up as the 15th of March, which is tax day, approaches.

Stock Exchange Liquidation.

Confidentially, we have here experienced the greatest liquidation in New York of any single department. Stock exchange loans are now not probably over two-thirds of what they were at the peak of last year, and a very large proportion of the amount now carried has been transferred from New York banks to interior banks.

Government Borrowings.

This Congress has very confidently voted appropriations of about \$5,000,000,000. I fear they have overlooked the fact that we are liable to experience a tremendous reduction in receipts from income and excess profits taxes, due to last year's liquidation, and what with the railroad settlements, and with the vast program of expenditures referred to, we may see the Government short borrowings considerably increased.

Unemployment.

This is increasing right along, and movements toward wage reductions are successful in many lines, although so far completely unsuccessful in railroad wages which are governed now by a war-time agreement, and in the building trades which have so far been operating under agreements in this section, and I believe, generally in the larger cities. What is observable, however, and very markedly so, is the increasing efficiency of labor. During the war, a good workman was laying only 500 bricks a day, and working at a reasonable capacity could have completed a day's work in four or five hours. In our new storage building, we get an average of 1,000 bricks per man per day, but there were a good many men standing on the other side of the street waiting for jobs. The same is true of other cities.

2/21/21.

#3
Conclusion.

The stabilizing effect upon the minds of both bankers and business men, brought about by the existence of the Federal Reserve System, and its successful operation during the past four or five years, has done much to enable us to escape commercial and bank failures during this unprecedented liquidation.

My personal view would be that after a period of some activity this spring, when the farmers are planting their crops, and buying their supplies for the active season, the summer will see us relapse into a very dull period, and if the reserve bank rates are maintained, as I hope they will be, liquidation will extend into the retail trade, to some extent to labor and wages, and then at last we will see bank loans and currency being reduced. Unless I am very much mistaken, we have had the worst of the shock, and the so-called classical "panic" period is past.

I observe with much interest the evidence of tight money in your market, which has not surprised me after what you said about the tax situation. What I do not understand is the abandonment of the excess profits tax at a time when all tax revenues will automatically decline. Is it an indication that your Chancellor believes that he could afford to abandon this revenue, simply because it had abandoned him?

I would give a good deal for a chat with you just now about politics, and the like. Various indications that reach me, encourage me to believe that our new President will have some very strong men in his Cabinet, including, I hope, Hughes, Hoover, Hayes and Weeks, but the final announcement has not yet been made, except as to Hughes.

I hope your holiday was all that it should have been, and that you are not overworking again. Please do not disappoint me about the photograph.

With warmest regards, I am,

Sincerely yours,

Montagu C. Norman, Esq.,
Governor, Bank of England,
London, England.

ES:MM
Enc.

March 16, 1921.

Dear Norman:

See Theo. Wald

Enclosed is a copy of a note of introduction which I am sending to an old friend of mine, who is proposing shortly to visit London and Paris. Our association terminated some years ago, but he is a fine fellow, and desires particularly some letters to bankers. I shall only ask that you give him an appointment if you are not too pressed to be able to do so. Wald can tell you a good deal about conditions in the north-west of our country, where we have been struggling, as you know, with a very extreme socialistic movement.

I have two fine letters from you which will be answered at a later date, as I want to give a little time to preparing a letter which will tell you something of value of what is going on here, but absences in Washington have made it difficult to find the time.

Grenfell is here. He was good enough to lunch with us at the bank yesterday, and to-day I met him again at a luncheon given by Lamont. He returned from his cruise looking as brown as a berry and very well, but in great ignorance of what had been going on, as he had been quite out of reach of mail and telegrams.

I went over some of our recent cables with him and have no doubt that he will take back a better report than I am able to put in writing about what he learns of conditions on this side.

With warmest regards to you, and all at the bank,

Faithfully yours,

Montagu C. Norman, Esq.,
Governor, Bank of England,
Threadneedle Street,
London, England.

ES:MM

Enc.

FEDERAL RESERVE BANK
OF NEW YORK

45A

Hotel Victoria

Northumberland Avenue

42A
45B

*

March 15, 1921.

Called by phone; staying
a week - wants nothing

Dear Mr. Norman:

This letter will be presented to you by my friend,
Mr. Theodore Wold, Vice President of the Northwestern National
Bank of Minneapolis. In the early days of the Federal Reserve
System we were intimately associated, Mr. Wold at that time
being Governor of the Federal Reserve Bank of Minneapolis. He
is now an officer of one of the most important financial
institutions in the northwest. I am sure you will be glad to
meet him and learn something of conditions in that part of our
country, and he will indeed value anything that you are able to
give him in the way of information and advice regarding affairs
abroad.

You may be sure that I will appreciate very much any
courtesies that you are able to show Mr. Wold during his visit to
London, and with assurance of my esteem, I beg to remain,

Faithfully yours,

Ree. Strong

Montagu C. Norman, Esq.,
Governor, Bank of England,
Threadneedle Street,
London, England.

March 28, 1921.

upon the banks and cannot be resold. In other words, they must be sufficiently unprofitable to restrain the banks from holding them but sufficiently profitable to induce the public to buy them; and, that is exactly what happened with this issue. It will give you a line upon our market sentiment and conditions, because commercial paper is selling at 7 1/2%, the rate for stock exchange call loans is from 6 to 7%, and the rate for prime bankers bills about 6%. The general feeling of uncertainty about the goodness of commercial loans and credits induces many individuals and corporations to buy Treasury Certificates, which is also indicated by the fact that the year certificates sold in larger volume than did the six months certificates.

I want to give you a little view of general business conditions. With but few exceptions, prices are still falling. The steel business is literally going to pieces, the United States Steel Corporation now operating considerably under 50% of capacity, and the independent steel mills somewhere from 20 to 25%. Such business as is being taken I believe represents considerable cuts from quoted prices, but steel prices cannot go very much lower so long as labor rates are maintained, and that wage policy seems to be the policy of the Steel Corporation to the "last ditch." Common labor in New York has now been much reduced. We are undertaking to get figures on wage reductions and until they are assembled I shall only say generally that the cost of labor is coming down, but the real crisis in the wage adjustment will probably not arrive until the railroad labor problem has been dealt with. Railroad traffic has literally melted away. The earnings of a very large percentage of the mileage represent little, if any, margin over operating costs, and the railroad companies, in despair, are making an earnest drive not only to reduce labor costs, but to make it more efficient, and also to get rid of the useless working men who were forced upon them during the period of Government operation, who do little more than stand around and draw a day's wage for a very few hours work.

The great price reductions of which we have kept you advised are now being reflected in the annual statements of condition of the large borrowing firms and corporations. They show losses on inventories of such extent as to make it difficult for the commercial paper houses to sell the usual volume of commercial paper which these concerns generally float in the market; and, of course, the pressure on the larger banks where these borrowers keep their bank accounts is by so much the greater. All of that we feel in New York more than in any other part of the country. The decline in cotton, wool, meat, copper, etc., has been extremely severe, and, probably, in these and some other important commodities quoted prices are below cost of production. There are bright spots here and there. One of them is in the retail trade which keeps going astonishingly well, considering that prices have not yet been very much reduced. But, it is a fact that new goods are coming along at very much lower prices, due to the reduced cost of raw material, and these goods, in competition with old stocks, are having a competitive effect upon retail prices, which are, and will continue, declining.

If there had been no Federal Reserve System in this country, bankers would now be insisting that borrowers pay their loans, and, were this to force sacrifice sales of inventories at present quoted prices, we would have a long list of insolvencies, closing mills, unemployment, etc. The assurance given to bankers generally by reason of the existence of the reserve system has resulted in a much more temperate and courageous treatment of this whole credit situation than in past times of crises, and makes one hopeful that we may escape the worst effects of this period of price reduction.

Temporarily, our reserves show improvement due to the last certificate sale, collection of income taxes, etc. I shall not explain the technical reasons which cause this, but it is usually the case on our quarter days, and we are taking advantage of this occasion, when our reserve percentage is artificially enlarged, to

March 21, 1921.

change the method of calculating reserves, to one much sounder in principle than the method formerly employed, which has the effect of reducing the reserve percentage about 1 1/2%. This will show when the effect of the Government's borrowing and tax collection wears off.

There are certain special matters mentioned in your letter that I must refer to.

As to Soviet Russia; we get intimations that gold from Russia is creeping into us through various roundabout channels. They say some is coming through Mexico, that some is coming from Sweden, and even France. It is a difficult matter for us to deal with and we have put the responsibility squarely up to our Government. If the gold is melted, say, in Sweden or in France, or in Mexico, or even if they receive Soviet gold, but keep it and ship us their own gold in place of it, how can we very well check the movement? They might even ship us their own coin for an amount equivalent to the amount of Russian gold received. This whole gold matter is giving us a good deal of concern. We have received from the present movement over the past twelve months, or so, \$135 millions in excess of what we have exported, and it still continues to come. Hence my cable to you, the reply to which has just reached me. I shall write separately on this subject, as we shall likely ask you to help us deal with the matter.

It does not look as though the trade agreement which you have entered into with Soviet Russia will be very popular over here. Certainly, from a distance, it has more of the appearance of a political move than a sound business venture, as our people seem skeptical of the possibility of any desirable business resulting, with the possible exception of such limited sales of goods as may be paid for with "tainted" gold.

The flood of security issues here seems, temporarily, to have been arrested. I guess our markets were getting a little congested. We had quite a number of foreign loans, and some domestic loans, all of which were going pretty well until a few weeks ago, when one or two failures, or at least only partial successes, slowed up the offerings.

I am interested in what you write about the Imperial Bank. Possibly you have talked with the Secretary of State for India, and he may have told you what I said to him after you left London. I have gone over the memorandum entitled "Central Banks," numbering the paragraphs from one to twelve, and enclose a memorandum in reply, to which I have added paragraphs 13, 14, and 15, which I hope will be of some aid. Your own memorandum covered the ground pretty thoroughly. While I was in India, although not attempting to make any special study of the subject, I was struck by the absence of a well organized method of dealing with the domestic exchanges, collections, etc. The Imperial Bank with its system of branches, and with its expert knowledge of native credits, and of the inland bill, should be in a position to deal with domestic collections and exchanges better than any other. Such a scheme could be made to synchronize with currency and redemption operations, and, I should think, would very much stabilize banking operations. I was told that large denomination Rupee notes are sometimes sold at a premium in various sections of India, because of their convenience in effecting interior settlements. Possibly the Imperial Bank might take a leaf out of our book in this matter, but the important thing is to persuade them, or require them, to conduct their operations in London with you, in harmony with your policy, and so as to avoid such a situation as has developed in Australia.

As to the latter, we were having such difficulty in getting settlement of collections and accounts, that permission was granted to our banks to accept finance bills, that is, bills drawn in settlement of collections, and our banks, generally, offered these facilities to their Australian correspondents, but so far as I can learn the offer has not been generally availed of. It might be in the interest of the Commonwealth if the Commonwealth Bank used some sterling balances for the purpose of making settlements in this country. Exchange on New York has been quoted in Sydney and Melbourne at a considerable premium.

Cuba, as you know, has been struggling with a bad banking situation, largely brought on, I fear, by improvident management of the local banks, but to a great extent by the sharp decline in sugar. Their election having been successfully concluded, with General Crowder there representing this Government in a general advisory capacity, I look for improvement. A commission has been appointed, consisting of a few experienced men, to advise the President of Cuba, in regard to banking and financial matters, and the general economic situation, one member of the commission being an old associate of mine, Mr. Oscar Wells, formerly Governor of the Federal Reserve Bank of Dallas, and now President of the First National Bank of Birmingham. He happens to be in New York just now and tells me that conditions are really looking up, although slowly. A new sugar crop will be needed to help them out of their difficulties, and I have no doubt that it will be successfully financed. You know they have no currency of their own, American currency circulating very freely, particularly notes of our Federal reserve banks. Their favorable trade balance has given them command to our paper money, and now they have put an embargo upon its export so that they probably have a redundancy in circulation. There can, of course, be no depreciation in this currency, although during the moratorium period checks drawn by depositors upon their local banks have sold at tremendous discounts, some below 50% of their face value, and the effect of this has been to liquidate deposits and loans to such an extent that the condition of some of the banks has been much improved.

Unfortunately, we have a situation in the Philippines which requires drastic treatment. I fear it is due to mismanagement, rather than to inherent unsound conditions. You probably have heard stories of the difficulties of the Philippine National Bank. We are urging our Government to step in and take authoritative control and give necessary assurance to the bank's creditors that their interests will be taken care of. Their difficulties largely grew out of speculation in exchange by the manager of their Shanghai branch, as well as making some slow loans in Manila. If our Government takes vigorous steps to clean up the situation, I have no doubt it will be handled without loss to anyone, except possibly the Philippine Government; that is, the stockholders, of which the Government is the largest.

What you say of Mr. Kiddy's correspondence I really understood without hearing from you. It would, as you say, be a thousand pities if our two institutions were accused of getting up a "money trust." I have always taken the position that both you and we had three possible courses in our relations with each other: One was to deal wholly independently with our respective problems, without any relations, and in complete ignorance of what the other was doing, in other words, to ignore each other; another might be to pursue a wholly selfish policy, each disregarding completely the interests of the other, and possibly pursuing a policy antagonistic to the other; and the third might be to adopt a policy of complete understanding, and exchange of information and views, and to cooperate where our respective interests made it possible. How can there be any choice between these three, nor any ground of complaint, so long as we are right and not afraid of our critics?

March 21, 1921.

As I explained to you in London, we keep no register by numbers of our note issues. The only exception being gold certificates of large denomination, where records, I believe, are kept by the Treasury Department, but these of course are now very little used, the great bulk of the certificates being in the hands of the Federal reserve banks. We have always felt that the advantage gained in keeping such a register was trifling in return for the enormous cost involved in a country where the volume of currency in circulation is so great as with us.

I am so glad that you had a nice visit with Ben. A letter recently received from him gave a glowing account of your hospitality and his reception at the bank. I consider it a great compliment to him, and to me, that you should have given him the opportunity to lunch with the directors, and appreciate it as thoroughly as he did, which is a great deal. Ben and his brother returned from Europe Saturday, both of them looking exceedingly well and very glad to be back home. Also, many thanks for the little parcel which I will greatly value, more even than you realize, although I had circumvented your modesty about your picture during a recent visit with Moreau Delano, when I found that he had an extra one, which he was good enough to give me.

I expect shortly to write Sir Ernest Harvey in regard to the attempts at forgery. He was good enough to send me a report, and the people in our Bureau of Engraving and Printing, I hope, will have some suggestions to make about ink, with a view to protection.

The Winslow bill authorizing a more prompt method of repaying the Government's debt to the railroads has been passed and became law. We expect the present payment to be about \$200 millions, and ultimate total payments of about \$340 millions, on this score. But, after all, this ends railroad payments, whereas during the last twelve months, or so, the railroads, one way or another, have taken a total of one billion dollars out of the Treasury, so you see there is an encouraging outlook as to Government expenditures on that account.

Just now there seems to be a gradual influx of foreign visitors which has a significant, but I should not say ominous, appearance. British, French and Japanese are here or coming. Very privately and confidentially, all that I have been able to learn of the policy of the new administration in matters in which you and we are both interested, is rather encouraging in the belief that it will be neither Bourbonistic nor reactionary. I am sure that they want to do the right thing, but they will suffer through having so few of the old responsible heads of the Government at hand, who know the history of the past. We have, on the whole, a very good Cabinet, and the juniors for the various departments, I learn, are being chosen with great care. I sincerely hope that we may shortly start upon a period of constructive work of reconstruction, and that this country will do its share.

I am not at all hopeful about the Ter Meulen scheme and have become discouraged of the success of the proposed large export credit corporation which is being organized under the provisions of the Edge law by the American bankers. This scheme has encountered rough weather, the banks are hesitating about subscribing to the stock, and, I fear, that it will make but a halting start, if it starts at all. They were a bit too ambitious, apparently, and they, in common with Ter Meulen, overlooked the fact that the volume of business to be done is limited, not by the amount of capital which can be raised by stock issues or borrowings, so much as by the quality of the business which is available to be done abroad, and people are now learning that the political risks inherent in Central Europe are still so grave as to require insurance before capital can be invited into such enterprises.

Replying, now specifically, to yours of March 1st, the Prime Minister seems to have encountered the same difficulty which we have all encountered. He seems unwilling to deal with things as they are in this matter of export credits, and prefers to emphasize a hypothetical condition which he would like to create but ~~cannot~~ well create so long as the risks of exchange and political uncertainty are as grave as at present. I cannot for the life of me see what object is gained by asking the bankers to make bad loans and then blaming them and abusing them if they do not make them. I was particularly pleased to get your explanation of the incident, which makes the situation clear enough.

It would be a pleasure to see Lord Chalmers when he arrives if I have the opportunity of doing so. The President has appointed, and the Senate confirmed Mr. Eliot Wadsworth as Assistant Secretary of the Treasury, to succeed Nicholas Kelley, who in turn succeeded Mr. Rathbone, in charge of Foreign Loans. Wadsworth is a very old and intimate friend of mine; a splendid fellow and with considerable knowledge of European conditions, as he was the operating head of the American Red Cross under Davison during almost the entire war period. He was formerly a partner of the firm of Stone & Webster; you will recall meeting Mr. Stone recently in London. He is still one of our directors.

What you say about Ben Guinness was not surprising as most Americans who visit Europe, I fear, assume to know a good deal more about our policy, and about such matters as ~~credit~~ conditions here than is always justified. What I have written you on this subject is absolutely the fundamental and controlling factor, that is, the debt of member banks to the reserve bank. Until that is much reduced, or until we reduce our rates, I hardly see how money conditions can ease. It has been estimated that to reduce the loan and investment account of the reserve banks from three billions to one billion would in turn involve a loan contraction by all the banks of the country, running all the way from four and a half billions to nine billion dollars, according to the varying views of different estimators. My own view is about half way between these two extremes, that is, from six to seven and a half billions, although it is little more than a guess. As a matter of fact, the loans of all of the banks of the country, according to our present estimates, have actually been reduced only something like 4%, while the contraction, such as I have indicated, means about 20%.

In conclusion, and for your own eye, I want to write that my best opinion, just now, is that we should maintain our rates on this side unless we see, as still may be possible, that the pressure is so great that it may force insolvencies that are, what I might call "legitimate." In other words, that are not the result of improvident, reckless speculation, and adventures, but are simply the misfortunes resulting from price declines. If our situation should become serious on that score, it might be that we would be forced to modify our policy. Meantime, a conference of the Governors of the reserve banks has been called at Washington for April 12, when we are going to get down to "hard pan" and discuss a policy for the whole system, exchange views, and, I hope, develop something constructive. It is still too soon to form any estimate of what the policy of our Government, and the country generally, will be as to foreign finance. So many questions are pressing upon us, such as our new tax and revenue legislation, possible tariff legislation, relief to the farmers, a great plan of departmental reorganization, which the President has in mind, (and, you will observe, are domestic questions) that I fear, that the development of a national policy in this particular matter

March 21, 1921.

will be of very slow growth. I have dictated the above just as I would talk to you were I at Thorpe Lodge, and apologize for the length of the letter.

With warmest regards,

Sincerely yours,

Montagu C. Norman, Esq.,
Governor, Bank of England,
London, England.

BS:MM

Enc.

CENTRAL BANKS

- (1) Yes, without question. ✓
- (2) Yes, without question. ✓
- (3) Yes, with possible exception of nearby dependencies.
- (4) Yes, without question; understand this to mean commercial business with the public.
- (5) Yes, without question. ✓
- (6) Yes, without question. ✓
- (7) Yes, except that such protection can only be effectively afforded by one of two methods:
 - (a) By doing a more general commercial business than is done by our Federal reserve banks, which deal only with their member banks, or,
 - (b) By supervision of banking in detail, such as we have under the Controller of the Currency. In this connection, it should be noted that bills are pending before our Congress, to transfer all of the functions of the Controller of the Currency to the Federal Reserve System, and when this legislation becomes law, as it likely will, the supervision of member banks by Federal reserve banks will be fairly complete.
- (8) Yes, without question. ✓
- (9) Yes, without question. ✓
- (10) Yes, except that occasions will unavoidably arise when rate policies cannot always be adopted, which will avoid some conflict, greater or less, according to circumstances and conditions; but, the principle of cooperation should be complete between the central banks, and where an agency is established in another country the policy of that agency (if not a central bank) should be to observe and conform to the policies of the central bank in the country in which the agency is located.
- (11) Yes, without question. ✓
- (12) Yes, without question. ✓

To the above are added:

CENTRAL BANKS

- (13) The central bank should act as the settling agent for clearing house balances arising between the banks of its own country, and to the widest extent practicable.
- (14) Should, according to our experience, handle domestic collections for its members and so regulate the domestic exchanges.
- (15) Should have power to examine banks which come to the central bank for credit and assistance.

March 28, 1921.

My dear Norman:

Replying to your letter of March 14th, commenting upon Mr. Snyder's memorandum, I hope you understand that material of that character is prepared in our information department by men who invariably have their own point of view, with whom Mr. Jay and I are not always in complete agreement.

As to my own comment in regard to the preferential rate; the total loans held by the Federal Reserve System, secured by government collateral, and which enjoy a preferential rate (now 6% in most of the reserve banks) aggregate no less than one billion dollars, our own proportion of this total being nearly \$400 millions. I have long been convinced that in theory this preferential rate is a mistake, that it encourages borrowing, and has no relation to the government's finances, and is merely one outlet through which banks may seek and obtain credit from us at rates which are not justified by general market conditions. On the other hand, we seem to have reached about the maximum of borrowing of that character. At one time it comprised over 80% of all of the System's loans, and has now been reduced to a point where it is only a little over 40%; in fact, this particular type of credit seems to be taking care of itself pretty well, and were we to increase our rates to 7%, the effect would be, first, a very sharp decline in the government's bonds; second, a more urgent demand than now exists for borrowers to liquidate loans secured by government bonds and, I fear, some distress among corporations, firms and individuals, who patriotically subscribed for more possibly than was prudent, but are still willing to hang on to their bonds for better days. The loans, in a sense, are frozen simply because the holders are reluctant or unwilling to sell their

bonds and take losses of 10% or more, or else are unable to reduce the amount out of current savings by a moderate amount each year. The time will come, I hope, when this differential can be eliminated, but to do so now would invite a very sharp and dangerous contraction beyond what has already taken place.

The other comment in regard to Mr. Snyder's memorandum, I think is justified, and I should have explained it in my letter. Mr. Snyder is a determined believer in the quantity theory of money and credit. He sees an immense decline in the value of staple commodities with a very small corresponding decline in bank credit, and believes that unless bank credit and currency is forced to contract in a volume corresponding to the contraction in the value of commodities, the invariable result will be that commodity prices will rise again in response to the maintained volume of credit. My own belief is that the charts exhibiting this situation present an empirical picture rather than an analytical picture of the situation; bank credit is gradually declining, but the rate of reduction of bank loans and currency is measured not by the fall in prices but by the rapidity at which sales take place at the lower level of prices. We have struggled for some years with the views of those who rather slavishly stick to the quantity theory of money, assuming that it explained all of our financial and economic ills, and that an increase in bank loans and currency is the invariable cause of higher prices, but are unwilling to accept the view that sometimes bank loans and currency expand in response to advances in prices, which arise from other causes than the "quantity" of money or credit.

I have recently written you fully in regard to rates and policies generally, so will not repeat.

What was quoted incorrectly about Mr. Mellon was unfortunate. My meetings with him recently have failed to disclose the slightest inclination on his part to bring about a reversal of policy, and I gather that he is a man who will be very much influenced by the counsels of his associates; in fact, is one of the last men to attempt to dominate the policy of the System, as might have been indicated by the quotations in the newspapers. I would certainly have cabled you had it

March 28, 1921.

seemed worth while, in fact did do so after hearing from you.

Your picture I regard as excellent, and once more let me say how delighted I am to have it.

Ben starts work in the National Bank of Commerce on Friday, and is looking forward to it with keen anticipation.

With warmest regards,

Sincerely yours,

Montagu C. Norman, Esq.,
c/o Bank of England,
London, England.

ES:MM

CONFIDENTIAL

March 28, 1921.

My dear Norman:

The news contained in your letter of March 14th, just received, so far as it relates to yourself gives me immense satisfaction. It means, I hope, that you will remain as Governor of the bank for at least another year.

The other changes, to which you refer, are not a surprise to me as both, I recall, were anticipated as possible when I was visiting you.

The appointment of Mr. Peacock should be most helpful in connection with your proposals for Canada. I am frank to say that while the Canadian banking system has been somewhat advertised as functioning admirably, and well designed for the needs of that country, I have nevertheless felt that the difficulties about exchange, which we have met in this country, might at times be dealt with more effectively had they been operating under a central bank of issue which conducted the business of the Dominion Government, and represented all of the Canadian banks.

As I understand it, most of the business of the Dominion Government is conducted with the Bank of Montreal, which is nevertheless a private commercial institution competing with other banks, and one which we would hesitate to appoint as our correspondent because of its considerably different status than our own.

If, in the course of the evolution of your plan, Mr. Peacock should visit this country, I hope he will give me the opportunity of a visit with him.

It has sometimes occurred to me that some development along the lines of your proposal is justified in the Straits Settlements, and the Federated Malay

States. I discussed it briefly with Sir Lawrence Guillemard when I saw him in

March 28, 1921.

Singapore, and had one talk with the Treasurer, or Fiscal Officer, of the Federated Malay States. He is a native but a man of considerable intelligence.

Canadian bankers will be, I fear, subject to the same influences which have long characterized American banking, and I should suppose that the bankers associated with the large commercial banks would not welcome the establishment of a central bank which deprived them of any part of the strong position, and possible valuable business, which they now enjoy with the Dominion Government, but, I hope, nevertheless, that your plans will be well promoted by this addition to your Board.

Many thanks for writing me about it.

Sincerely yours,

Montagu C. Norman, Esq.,
c/o Bank of England,
London, England.

BS:MM

PERSONAL AND CONFIDENTIAL

April 5, 1921.

My dear Norman:

Absence from the city prevented my writing you in regard to our cables on the subject of the so-called South African gold. In elaboration of what is contained in the cables already sent you, I should explain that this considerable and steady increase in our monetary gold is causing some of us concern, lest it give an appearance to the credit and reserve situation by reason of the fortuitous increase in our reserve percentage, which, in fact, does not reflect the actual conditions in credit throughout the country, nor such as might justify a change in our rate policy. Some weeks ago, we went into the subject very thoroughly in Washington, and a number of suggestions were brought forward for dealing with the matter. The plan indicated in our cables was my own suggestion, believing that it was a natural and normal procedure for us to impound gold in this way, in anticipation of its expected export at a later date, even though much deferred. It also involved no fundamental change in the principles of the reserve system, or in the rulings of the Reserve Board, or in the form of our published statement.

Another plan suggested, however, was to impound the gold behind our note issue, which did not appeal to me as being quite as sound or defensible under the law, but which nevertheless had attractive features. After starting our cable correspondence in the expectation that we would go ahead with my plan, it developed that it would be desirable to discuss the matter further at a meeting to be held in Washington next week, so I cabled you last night, indicating our intention to defer any final decision until after this meeting. I hope we have not given you unnecessary trouble, or caused any embarrassment pending some sort of a conclusion, and that meantime the regular procedure will not be changed by reason of our cables.

April 5, 1921.

As to rates, I enclose a sample of what appears to be a fairly regular mass emanating from this, and other like sources. There are some who claim that it is propaganda, but I have no knowledge of where propaganda might originate.

So far as I can now see, the only possibilities of a changed policy here are those which would result; first, from indications that we might suffer a credit breakdown, with many insolvencies, because of the decline in commodity values, and which I now regard as an unlikely development, and the other, political pressure upon the reserve system, which is always a possibility with us, as with you. Of course, when I say political pressure, I mean pressure from political sources as distinguished from influences confined to the system itself.

The increase in our reserve in New York is due to the flow of funds from the interior, as well as the regular additions to our gold stock, the flow of funds from the interior being an immediate result of the transactions in certificates of indebtedness and tax payments occurring during the month of March. There are some indications that we will not maintain this position for very long.

We shall probably go ahead with our building at once, in anticipation that the next two or three years will afford us the best opportunity we may have for a long period to let contracts at lower prices than those of the past two or three years. If we do not take advantage of this opportunity, it may be that our building would be long deferred, and that we cannot afford.

With warmest regards,

Sincerely yours,

Montagu C. Norman, Esq.,
c/o Bank of England,
London, England.

BS:MM

Enc.

CONFIDENTIAL

April 18, 1921.

My dear Norman:

Thank you for your confidential cable of April 15, which reached me in Washington; also for your letter of April 2, which I find on my desk this morning on my return from the Conference. Our translation of your cable No. 15 reads as follows:

"Strictly confidential for Governor - referring to enclosure in my confidential letter February 17 have received account representatives of Soviet Government small parcel of gold roubles formerly property of State Bank of Russia for the purpose of test case which anticipate will be decided in favor of Soviet ownership. Eventually expect to forward same parcel on Soviet account to New York to ascertain if freely saleable at full gold price. Propose forwarding J. P. Morgan & Company unless you prefer to act on above line which fear might embarrass you."
Underlined word mutilated.

As to the gold matter, we have arrived at the following general decision of policy for this bank;

First, we will continue to make advances upon, or purchase gold imported by Messrs. Kuhn, Loeb & Company, in connection with Messrs. Rothschild & Company, upon the former's assurance to us that the gold is specifically the product of mines of the British Empire, until further notice.

Second, we have discontinued all advances upon, and all purchases of gold, other than that above mentioned, and will hereafter accept it from the Assay Office after it has been assayed.

The effect of this is to simply discontinue the position of volunteer in facilitating these transactions, placing the entire responsibility upon the Assay Office of passing upon the title. We have been acting as a volunteer for the purpose of facilitating the handling of the gold by American firms and institutions

April 18, 1921.

which imported it, principally to enable them to avoid the inconvenience of delay in treatment of the gold, which is now experienced as a result of the overcrowding of the Assay Office during a period of heavy movement.

Third, we cannot state what will transpire in respect of the gold mentioned in your cable No. 15, to which we are replying as per the enclosed confirmation to-day. The cable reached me in Washington too late to arrange for a reply last week. I am greatly obliged to you for the further light which your letter throws upon the situation regarding the Rothschild account. Some of us feel that their partners in this business in this country are laboring under the delusion that they are performing a patriotic service to the country in handling this gold movement; at any rate, they speak with pride of the amount which they have handled. I suppose they do not realize that it somewhat resembles the attitude of a toper who brags about his capacity to absorb alcohol.

Since your letter was dictated, Secretary of State Hughes has addressed a letter to Mr. Samuel Gompers, President of the American Federation of Labor, in reply to an inquiry by him, which pretty fairly sets out the position taken by our new administration toward Russia, which seems to be, briefly;-that they believe Russia is an economic vacuum,-that there is no trade to be realized under such a trade agreement as you have entered into, certainly no trade of any particular moment,-that the outside estimate of gold in the hands of the Soviet Government is about \$175 millions,-and that Russia's regeneration will depend upon the speed with which they develop a new and more enlightened system of government. Personally, I applaud the decision.

The Conference at Washington was a rather strenuous affair, lasting all of last week. The Boston reserve bank developed a keen appetite for lower rates, which they have been threatening for some time, and finally last week reduced their commercial paper rate to 6%, which is the same as the rate charged for advances on government collateral. Other than Boston, I discovered no sympathy with the idea of lower rates in the minds of any of my colleagues, and believe that the general disposition was to maintain the present level all around until,

April 18, 1921.

First, retail prices, and the general cost of living is somewhat more reduced.

Second, Money rates in the market are somewhat lower.

Third, a clearer insight into the labor situation has developed.

The fact is, that very considerable distress was reported to exist throughout the agricultural sections in the west and south, due to the sudden and extensive decline in the values of almost all farm commodities. Many of the small country banks are carrying large amounts of farmers' paper with no hope of liquidation without heavy losses, unless prices advance, or until a new crop is produced at very much less cost to the farmer than was the old crop. I urgently advocated liberality in making fresh advances to these banks, but maintenance of at least the present level of rates, that all direct pressure upon member banks to liquidate their borrowings be discontinued except in cases where it appeared that the member banks were abusing our facilities. My suggestion was met with a good deal of enthusiastic approval by the Class B directors of reserve banks which are located in the west and south, and I believe was helpful in crystallizing opinion that in this period we should advance liberally, but not lower rates, which might revive the activity of the speculator both in stocks and commodities. It remains to be seen whether this policy will be observed. I think it will here in New York.

The only very important matter which came up, outside of routine subjects which would not interest you, related to the treatment of the public debt.

For your eye alone, I have been urging for some time that the Treasury begin to anticipate the maturity of over \$4 billions of so-called Victory Notes falling due in May 1923, by quarterly or semi-annual issues of about \$500 millions each of three or four year notes, the proceeds of which would be employed in retiring a like amount of the present issue of Victory Notes. This will cut down a large maturity that would be difficult to handle in one chunk, and distribute it over a period in which there are no maturities, between May 1923 and 1928 when another bond issue matures.

The proposal was favorably received, is now being considered by the Treasury, and I

CONFIDENTIAL:

June 2, 1921.

Dear Norman:

I now have before me your letters of May 3, 14 and 17 (2).

I am very glad to have the statements and hope that you may be able to continue to send them. What interested me especially in your letter was the rather cryptic reference of "various reasons" for doubting whether they may be regularly published. Does this mean that the plan of regular publication may be abandoned? I hope not. We feel that the weekly publication of the statement of condition of the banks in this city is important in the interests of the public.

Referring first to yours of May 3: It is, at the moment, difficult to give any forecast of what may be done as to our general policy on rates. There is a widespread propaganda to bring pressure upon Congress and the Administration to make money easy, particularly in the agricultural sections. A great variety of impossible and foolish schemes of legislation are proposed in Congress, and I cannot help but sympathize with the difficulties with which President Harding and his Cabinet are faced in dealing with the great variety of cases of real distress, especially among the cattle and cotton people, caused by the immense reduction in the value of their products, much of which is still in their hands. Being unable to write anything very certain, I fear the effect of writing anything at all lest you be misled. My own position with the members of the Cabinet and the members of the Federal Reserve Board has not been changed, and I see no prospect of changing it, except as a concession to a situation which might result in dangerous legislation affecting possibly even the fundamentals of our system. I have maintained that all pressure for liquidation should be removed, except that exerted by the reasonably high rates which we still maintain, but that, on the other hand, at these rates the Reserve Banks should extend credit liberally in those sections of the country where it is needed and to those member banks which show a disposition to stand loyally by their customers and see them through this period of depression, especially those who are in need of credit to make new crops and to continue as producers and earners. I would rely upon fairly high rates to check speculation and inflationary developments, and upon a generous credit policy to take care of cases of distress. But now and then I feel rather lonely in my position, especially when I am in Washington. The last sentence of the second page of your letter of May 3 expresses very much my own view, - a classical policy, sound in theory, might be practically unsound because of social and political consequences more serious than a little inflation.

The plan regarding the Victory notes was deferred for a month, partly because objection was made to the rates which we urged, and partly because of market conditions. But I hope to see the program under way within a week or two.

You must not assume from not hearing from me that your reelection was other than a matter of deepest interest and concern to me. I would have felt much concern had you not been at the helm during this year, and, in my own mind, am planning another trip to London next year when, if you do finally retire, I hope that you will give me your aid in establishing a real understanding with your

successor.

It looks as though this bank would be the depository for the dollars accumulated by Germany for the reparation payments. We are glad to have it so, and I think, on the whole, it was well that you and we should be in close touch with this operation. It gives me some concern to feel that Germany will now be driven into a frantic chase for dollars all over the world, wherever the Germans can sell goods or borrow money, and that we may be entering upon a period of further exchange disorders, and, from our own standpoint, further difficulties in keeping an export trade going. The enclosed account, published in yesterday's New York Times, did not emanate from this bank. We, of course, never give the press information about the private affairs of our customers, but the bankers who represented the Reichsbank over here, - that is one or more of them, - probably did some talking which may or may not have been inspired.

Referring to yours of May 14, again I find that the first paragraph, with a few word changes, could apply directly to our own situation. I sometimes set my teeth with a determination to fight for a policy to the last ditch, and then again I take the view that an attempt to strictly observe tradition and the rules of experience which should, in ordinary times, govern our policy, may be a mistake under conditions which are so abnormal and difficult as the present, and that we are still in the position of choosing the lesser of evils which may, indeed, involve a series of compromises more or less distasteful to both parties.

What you write about Austria is exceedingly interesting. I hope the Committee of Control, if appointed, will have the courage to force a policy of taxation and the retirement of notes by loans and otherwise so as to avoid what must be an almost unendurable pressure upon the poor, who, as usual, are forced to pay the worst penalties of such a situation.

I have not cabled you in regard to the specific suggestions regarding export taxes contained in your letter, partially because of uncertainty as to just what I should cable, and hesitation to send some word which might be misleading. I should suppose that an export tax upon commodities would be levied all right, but how could it be paid in gold? Where will the gold come from? Might it not resolve itself to an export tax payable in dollar exchange? I think that with some sort of insurance of political risks a small, but probably very small, amount could be raised by a loan issue in this country, but subscriptions would, probably, be confined to the Austrian and German element in our population, unless, indeed, very strong insurance of political stability was actually afforded by the League of Nations. Just now there isn't a great deal of confidence in this country either in political stability in middle-Europe or in the ability of the allied nations or the League of Nations to produce it, and it would, in my opinion, be rather hazardous to count upon raising any considerable amount in this country. I do not think that the idea is ridiculous, but I think that the transaction would be exceedingly difficult and would need to be handled by a group of houses who had the imagination to make just the right sort of appeal to the proper element in our population. Another present difficulty, I think, would be found in the tendency of our present administration to encourage only those foreign loans in this market the proceeds of which will be spent here. And they do not always seem to understand that no loan can be placed in this market and the proceeds literally exported for expenditure elsewhere. The proceeds, of course, must be spent here, whether by the original borrower or by those to whom the borrower makes payments of debts or for goods purchased in other countries. The political effect of some of these foreign loans has not been

fortunate because of current reports that their proceeds are used in the first instance for purchases elsewhere than in the United States.

With cordial regards, believe me

Faithfully yours,

Montagu C. Norman, Esq.,
Governor, Bank of England,
Threadneedle Street, London.

BS.MSB
Enc.

June 2, 1921.

Dear Norman:

Since dictating my separate letter of this date I have your cable of May 31 which is exceedingly interesting and throws some light on the strike situation which I am very glad to have.

It would be most helpful if you could send me some word as to what you anticipate will develop in connection with the German reparation payments: How much will be accumulated in dollars; where and how they will get the dollars; and to what extent they will be a disorganizing element in the exchange markets.

I have just declined an invitation to attend the meeting of the International Chamber of Commerce to be held in London the last of June, but am writing to some of my friends in that organization urging that the principles adopted at the Brussels Conference should be indorsed by the organization. I do not mean the Ter-Meulen Scheme especially, but the general principles which resulted from the discussions, particularly by the British delegates. If some of your friends can give this idea a little push I think it would be helpful.

With cordial regards, believe me

Faithfully yours,

Montagu C. Norman, Esq.,
Governor, Bank of England,
Threadneedle Street, London.

ES.MBB.

CONFIDENTIAL

June 3, 1921.

My dear Norman:

Your note of May 20 just reached me, and it is very good of you to keep me advised of the matter referred to.

I hope the change of plans, or lack of plans, intimated by your letter do not arise from disagreements. I have heard no suggestion of that being the case. It would certainly be unnecessary and deplorable.

The Assistant Secretary of the Treasury in charge of these matters is a warm personal friend of mine, and a very fine fellow. I have had hopes that his appointment would facilitate these negotiations, and that they would have a happy outcome.

Again, thank you for your note.

With best regards,

Sincerely yours,

Montagu C. Norman, Esq.,
c/o Bank of England,
Threadneedle Street,
London, England.

BS:MM

PERSONAL

June 8, 1921.

My dear Norman:

The enclosed cartoon does not apply particularly to the New York bank. The whole Federal Reserve System is being blamed for bringing on the deflation, so called, and especially some of our colleagues in the West, where the farmers, cattle men and wool growers have been rather hard hit. I am tempted to paraphrase Sherman's famous remark by saying "Deflation is Well."

I have before me your cable No. 29, which was partly answered by my last letter that had not yet reached you.

The enclosed confirmation of the cable I am sending you to-day gives the best indication I can of this perplexing situation. There is no confidence whatever, generally, in this country in the Austrian outlook. It has been advertised in widespread fashion by the press as desperate to the last degree, and with that background it seems to me that nothing but the direct political or economic interest which people understand would make a loan of any sort a possible success here.

Of course we have a considerable population, largely people of small means, who came from Austria and that region, as well as the German population of Austrian sympathy, who might be led to subscribe for loans in small amounts if offered through just the right channels and in just the right way. It would be rather expensive because it would require widespread propaganda and the employment of an extensive selling organization.

As to the release of the claim of the United States Government; that I find upon making unofficial inquiries is going to be a rather difficult matter to bring about. Our government does not directly hold a claim against the Austrian Government. The United States Grain Corporation, a creature of Congress, with \$50 millions capital stock, all owned by the government, holds, I am told, something over \$24 millions of obligations of the Austrian Government delivered in exchange for supplies furnished after the Armistice. It appears from examination of the law that no authority rests anywhere, so far as has yet been discovered, for any officer of the grain corporation or the United States Government to make the release of this claim, or to subordinate the claim to other claims, and it looks as though it would require an act of Congress. It is impossible for me to forecast the official attitude of our government. Those with whom I have talked seem to have been fully familiar with the whole subject, and already to have been approached to do something about it. Quite personally and unofficially, I would venture the opinion that our people are not unfriendly to a proposal to subordinate the debt in some proper way, but that such an attitude by our government, which would necessitate a request for legislation by Congress to authorize this subordination, would be promoted if the plan in general of dealing with the Austrian situation were one that appealed to them as sound and proper. I do not mean to imply that improper plans are being proposed, but merely that if claims are to be subordinated, a

June 8, 1921.

recommendation to that effect made to Congress would stand the test of inquiry and discussion very much better were our Administration in a position to say that the general scheme of dealing with the Austrian situation appealed to it as sound and fair.

I am writing to you quite frankly and very confidentially, giving this personal impression of the situation, and am sure that you will deal with it in such a way that no possible embarrassment can arise.

One of your earlier letters indicated that the controller, or administrator, or receiver, or whatever he might be called, would be a responsible person selected from some neutral country. I have been privately told that this plan will not be carried out, but that a commission will be appointed, one from Great Britain, one from France, and the third from some neutral country. It occurs to me that this may not be a wise program, viewed from our standpoint; but rather the first suggestion contained in your earlier letter might insure a treatment of the Austrian difficulties more definitely from an economic than from a political point of view. Please do not take this remark too seriously. It just occurs to me as containing a possibility of question.

I am much interested in your letter of May 25, which was also awaiting my return from Washington this morning. We will now know a little better what to expect in connection with the gold shipments. I hope you will excuse this hastily dictated letter. My desk is piled with work accumulated in my absence.

With warmest regards,

Faithfully yours,

Montagu C. Norman, Esq.,
c/o Bank of England,
Threadneedle Street,
London, England.

BS:MM {Cartoon from N.Y. Tribune June 4
Encs. {copy of cable

P. S. Both Mr. Jay and Mr. Treman will be in England this summer, and I will give them letters of introduction to you.

B. S.

June 9, 1921

Dear Norman:

I am sending you with this a copy of the Business Summary, which is prepared particularly for the use of our directors, and attached to it is a confidential discussion. The yellow pages are treated as quite confidential because they sometimes contain suggestions as to the future course of events, concerning which we never like to be quoted.

I thought you would be interested in seeing the way this kind of work is prepared by our information department.

Sincerely yours,

Montagu C. Norman, Esq.,
c/o Bank of England,
Threadneedle Street,
London, England.

BS:MM

Encs.

June 13, 1921.

Dear Norman:

During the past month, I have been literally commuting between New York and Washington, and in the resulting confusion of mail on my desk, fear I have failed to acknowledge the receipt of your letter of May 23. Most of the matters you refer to, have developed to a point where comment would be a bit "stale."

I am glad that you maintained your athletic supremacy in France. We are just now participating in a variety of such things over here, with more or less success; my own share being confined to golf, as I am prohibited from playing tennis.

The Treasury refunding program was deferred only one month, and possibly wisely so, because conditions have since somewhat improved for the success of the undertaking. Subscriptions close this week (Wednesday) and on Friday something over \$500 millions of subscriptions to two varieties of notes will have been already filed. We expect them to run up to about \$750 millions, one-half of that amount being for the three-year notes, the proceeds of which will be employed in purchasing the Victory notes that mature in 1923. This operation will be continued from time to time as conditions are favorable; but I think I have already sent you the details of the plan. It was necessary to cut down to 5 $\frac{3}{4}$ %, which I fear has flattened out the success of the three-year note issue; at the 6% rate it would have been a stunning success.

About our rates, I have not yet confessed it to any one, and probably still am not justified in cabling you; but it is not impossible that we will recommend reducing to 6% at our directors meeting on Wednesday. Our reserve is now over 66%, computed upon combined deposits and note liabilities, where, looking at it as you would, deducting the 35% reserve required upon deposits from our total reserves, our note issue would be almost 100% covered. I would not hesitate to make a recommendation were I as

June 13, 1921.

confident as you seem to be, of increasing our rate later on should necessity arise.

The delay in my replying to your cable in regard to the Austrian plan was entirely due to my absence, and to being locked up in almost continuous meetings in Washington. I cannot discover any lack of appreciation among our friends in Washington of the seriousness of the Austrian situation; nor any reluctance to cooperate within the limitations which seem to apply here, in plans for relief. But I cannot help foresee some difficulties in placing loans here, as I have already written and cabled you. The technical situation as to the Austrian debt (at present \$24 millions of relief advances), and whatever other indebtedness may arise by reason of reparation claims and claims under the treaty, is such that some Congressional action seems to be required if any subordination arrangement is to be carried out, as suggested.

If a currency reform is brought about in Austria through the establishment of a bank of issue, with a stable gold reserve at home and exchange balances abroad, how can such conditions be made permanent unless Austrian trade can be placed in balance? In other words, will not Austria for some time be a large purchaser abroad on balance, and be tempted to use the exchange reserve for the settlement of balances? Is it not the same old story, that any nation which has a favorable trade balance can establish any kind of a currency system that it wants, and a nation which has an unfavorable trade balance can only have a sound currency system if it is able to negotiate extensive credits abroad?

What I particularly liked about the suggestion contained in Blakett's cable to Morgan's, was the indication that the actual internal administration of Austrian economic affairs would be in the hands of able and impartial commissions. It must be said that the composition of these commissions should be such as to appeal to our people as being disinterested and fair, and not likely to have selfish purposes in mind. I hope you do not mind my mentioning this quite frankly. There have appeared in our press many stories of political maneuverings in Middle Europe of the kind that arouse distrust, that all suspicions of that character would need to be allayed at the outset.

June 13, 1921.

I am sure that you and Blackett, and the others interested have this all in mind.

Your cable No. 32 is most interesting, and I am delighted to learn of the possibility of the settlement of the coal strike. The sooner the better. We are most anxious to learn of developments in the Austrian matter, and I would appreciate your keeping us informed, as you were good enough to suggest.

I am enclosing for your very confidential use a copy of a letter which I have just written to Mr. Gilbert, Assistant Secretary of the Treasury, about the reparation payments. This situation presents many puzzling features, and I would very much value and appreciate your views after reading the enclosed.

With warmest regards, and many thanks for your letters and cables, I am

Sincerely yours,

Montagu C. Norman, Esq.,
c/o Bank of England,
Threadneedle Street,
London, England.

BS:MM

Enc.

P. S. Occasionally, you will notice articles similar to the enclosed, speculating upon the rate policy of the Bank of England, which might lead to the thought that it came from this office. These are, however, based upon dispatches from London, and nothing is ever stated or suggested at the bank, which would be the basis for such publications. I suppose you realize this without my writing it.

B. S.

CONFIDENTIAL

June 15, 1921.

My dear Norman:

You have doubtless heard some rumors of banking difficulties in New York, and I am writing you most confidentially what the facts are, as I think you should know them, and you will then be in a position possibly to answer some inquiries with a better knowledge of the facts.

Some years ago, some of the leading New York bankers and banks organized a foreign trade company called the Mercantile Bank of the Americas. The principal interested parties were: J. & W. Seligman & Co., Brown Brothers & Co., Guaranty Trust Co., Shawmut National Bank of Boston, and some other out of town banking institutions. It was, in a measure, an outgrowth of the old Bank of Nicaragua, which was largely controlled by Messrs. Brown & Seligman, and whose business originally was trade banking in Central and South America, Cuba, and more recently in the East. The collapse of commodity prices, and the shut-down of remittances on South America left them tied up with a large amount of goods and contracts for financing goods, so that some months ago the interested bankers had to step in and furnish the necessary funds to take up their bills. Matters seemed to have gone from bad to worse recently, and in order that a thorough cleanup might be effected, some \$20 millions of new capital was furnished to the Mercantile Bank, and in addition, credits of from \$35 to \$40 millions were provided, which, of course, is ample to put the bank in condition to meet all engagements, and to continue as a going concern, with an unimpaired organization and personnel. From information received from the officers of the bank, I gather that while they must sustain some severe losses, they will now be well protected, and no apprehension need be felt by any of their creditors, nor the creditors of their allied institutions. The liquidation in South America will be slow, but it seems now to be at the low-water mark of prices, and I should look for

The largest single interest in the Mercantile Bank is held by the Guaranty Trust Company. A rumor that assistance had to be rendered to the Mercantile Bank by its principal stockholders, and credits furnished by the New York banks, led to a lot of unwholesome gossip about the Guaranty. It happens that there had been some political attack on the Guaranty Trust Company recently, which led to our making a review of their affairs. They have, as you know, a capital of \$25 millions, a surplus of a like amount, and have shown in the neighborhood of \$10 millions of undivided profits. They had undisclosed profits in addition amounting to about \$10 millions more. Our review of their affairs, based upon the last examination by the State Banking Department, leads us to believe that even though a liberal allowance for undisclosed losses due to merchandise depreciation, etc., were made, they will have considerable profits over and above their capital and surplus. The bank does a large business and has a large earning power, and is aggressively managed. I find nothing whatever to be uneasy about, except such uneasiness as one always feels where rumor and gossip is flying about in regard to any bank. There was some talk about the bank, as you will recall, six months ago, or thereabouts, all of which died down, and I anticipate this will also. Their deposits show no appreciable decline, and the only outward evidence of the whisperings about the street, is a decline in the quotation of the stock to about \$240 or \$250 a share; a loss of \$50 or \$40 a share from recent high price.

The Guaranty, of course, is no different from any other bank in this country or abroad, in that it has accumulated a certain amount of slow loans. No bank which has remained in business over this period could have done otherwise. I suppose you realize that the mere fact of the existence of our bank in itself allays these feelings of uneasiness; and I have no hesitation in stating that I expect to see nothing of a disagreeable character happen in connection with this or any other matter of a like character in New York. We keep pretty closely posted on banking conditions here, and in general I think it may be said that we are in excellent shape in this part of the

June 13, 1921.

country, considering what we have been through.

The banking difficulties now being experienced are principally in the agricultural sections, where in the South, cotton has been a great problem, selling, as it is now, below the cost of production; in the middle West, where land speculation undermined the stability of the banking situation in the rural sections, especially in Iowa; and in the far West, the Dakotas principally, where the ridiculous performances of the non-partisan league led to local troubles.

So far as we are aware, the banking situation in all the large centers is sound and getting stronger every day.

Please treat the above with the confidence which it requires.

With warmest regards, I am

Sincerely yours,

Montagu C. Norman, Esq.,
c/o Bank of England,
Threadneedle Street,
London, England.

ES:MM

FEDERAL RESERVE BANK
OF NEW YORK

III^A

*

June 16, 1921.

110 B
111 B

Dear Norman:

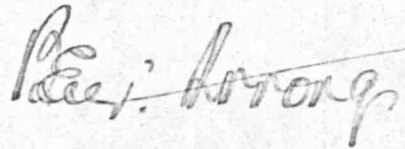
I thank you for your cable No. 33, received June 14,
reading as follows:

"No. 33. STRICTLY CONFIDENTIAL FOR GOVERNOR.
Your second letter June 2. Position regarding
Reparation payment unchanged but meeting of
Entente Treasuries may be held shortly to con-
sider temporarily accepting payment in European
currency at agreed rates. If meeting success-
ful no subsequent dollar purchases by Germany
should be needed. Meanwhile no further payments
are actually due by Germany to Reparation Commission
but Germany may of course acquire dollars for future
use."

Your courtesy in keeping me informed as to the matter of
reparation payments is fully appreciated.

With cordial regards,

Yours sincerely,



Montagu C. Norman, Esq.,
c/o Bank of England,
Threadneedle Street,
London, England.

June 20, 1921.

Dear Norman:

With this I am enclosing copy of a note of introduction which I have given to our Mr. Pierre Jay, concerning whom I want to write you a few separate lines.

He is visiting Europe with his wife and daughters for recreation, primarily, but wishes to take the opportunity of meeting some of my friends in London, and especially your good self.

Mr. Jay, I think you will recall, is a member of one of the most distinguished families in this country, and, after over six years of intimate association with him in the Bank, I feel that he exhibits, as well as any man I know, the old adage "Blood will tell." We entered the service of this institution together; have run it as partners ever since; and it has proved to be one of those happy associations, with no difference of views or policy to mar it. I know of no one for whom I have a higher regard.

You may discuss matters with Mr. Jay as freely and frankly as you would with me, and you will find him exceedingly well informed upon conditions and matters in this country, and especially sound in his point of view in those matters in which we are particularly interested.

While I have not wished to burden him with a lot of letters, nor, on the other hand, to burden my friends in London with any obligation of courtesy, I have given him notes to the following: Sir Robert M. Kindersley, Mr. Gaspard Farrer, Mr. Hartley Withers, Sir R. V. Vassar-Smith, Mr. Henry Bell, Mr. Arthur W. Kiddy, Sir Brien Cokayne, and the Right Honorable Reginald McKenna, some or all of which he hopes to present during his stay there.

Just before he leaves (he is absent the first of this week on account of the marriage of one of his daughters) I shall have a long talk with him about the Austrian matter, concerning which you have written me so fully under date of June 9, also in regard to the Reparation payment snarl which we have been watching as closely as possible.

To refresh your memory as to the organization of the Bank, Mr. Jay's position as Federal Reserve Agent makes him the representative of the Federal Reserve Board, which is the supervising body. He is one of the three Government appointed directors of the Bank, and the Chairman of the Board. In assense he represents the supervisory authorities of the system, as distinct from the operating side. In the case of this Bank, as distinguished, possibly, from the other Reserve Banks, we have not permitted this line of demarcation to influence the Bank's affairs more than nominally, as Mr. Jay carries much of the responsibility of actual management

and is regarded as an officer of the Bank just as much as I am.

I do hope that you find him, as I am sure you will, a most satisfactory and helpful visitor at this time.

I shall write you separately in reply to yours of the 9th.

With warmest regards, believe me,

Sincerely yours,

Montagu C. Norman, Esq.,
Bank of England,
Threadneedle Street,
London, England.

BS.MSB
Enc.

June 20, 1921.

Dear Norman:

This letter will be presented to you by my friend and associate, Mr. Pierre Jay, concerning whose visit to London I am writing by separate letter.

I feel very sure that you will find pleasure in having a chat with Mr. Jay, and he is looking forward to the pleasure of meeting you during his stay in England.

I have not hesitated to assure him that he will receive a cordial welcome from my friends in London.

Assuring you in anticipation of my appreciation of any courtesy you may show Mr. Jay, I beg to remain,

Faithfully yours,

Montagu C. Norman, Esq.,
Bank of England,
London, England.

BS.MSB

June 20, 1921.

My dear Norman:

I received the second edition of the "Old Lady of Threadneedle Street," which I shall take pleasure in reading.

Sincerely yours,

Montagu C. Norman, Esq.,
c/o Bank of England,
Threadneedle Street,
London, England.

GB:MM

FEDERAL RESERVE BANK
OF NEW YORK

X
June 20, 1921.

111^B
111A
111C

My dear Norman:

I have for acknowledgment your letter of June 7,
enclosing recommendations as to the financial restoration
of Austria, issued by the Economic and Financial Committee
of the League of Nations, together with the report made to
that committee by the special Commission of Enquiry. I am
glad to have these reports, and shall read them at the first
opportunity.

Sincerely yours,

Ben. Hoover

Montagu C. Norman, Esq.,
c/o Bank of England,
Threadneedle Street,
London, England.

FEDERAL RESERVE BANK
OF NEW YORK

*
June 21, 1921.

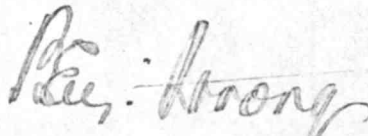
111^E
J
111^D
111^E

My dear Norman:

This is to acknowledge with thanks copy of
amended statement of claim in connection with the Soviet
gold test case, which you so kindly sent to us in your
favor of June 7.

104

Yours very truly,



Benj. Strong,
Governor.

Montagu C. Norman, Esq.,
c/o Bank of England,
Threadneedle Street,
London, England.

June 21, 1921.

Dear Norman;

This letter will be presented to you by my friend and associate, Mr. Robert H. Treman, concerning whose visit to London I am writing by separate letter.

I feel very sure that you will find pleasure in having a chat with Mr. Treman, and he is looking forward to the pleasure of meeting you during his stay in England.

I have not hesitated to assure him that he will receive a cordial welcome from my friends in London.

Assuring you in anticipation of my appreciation of any courtesy you may show Mr. Treman, I beg to remain,

Faithfully yours,

Montagu C. Norman, Esq.,
Bank of England,
London, England.

June 21, 1921.

Dear Norman:

I beg to enclose copy of a note of introduction which I am giving to my friend and associate, Mr. Robert H. Treman, who is sailing for Europe on the Celtic on Saturday of this week.

As you are doubtless aware, Mr. Treman is one of the members of the Board of Directors of this Bank, and was, until recently, one of its officers.

While his trip to Europe is primarily for pleasure, he will, I hope, take the opportunity, if time affords, to call upon you.

You will, I am sure, appreciate the opportunity of having a chat with Mr. Treman, and I will greatly appreciate anything you are able to do to make his visit an agreeable and profitable one.

With kindest regards and best wishes, I beg to remain,

Faithfully yours,

Montagu C. Norman, Esq.,
Bank of England,
London, England.

June 24, 1921.

My dear Norman:

The monthly statement of London clearing banks for May 1921, has just been received, and I thank you for letting me have a copy for my personal information.

Yours very truly,

Benj. Strong,
Governor.

Montagu Norman, Esq.,
c/o Bank of England,
Threadneedle Street,
London, England.

GB:EM

June 27, 1921.

My dear Norman:

I am grateful to you for your fine letter of June 9. Also for your cable No. 38, to which I have replied under No. 40, as per confirmation enclosed. And I also now have to acknowledge your cable of June 23, advising the reduction in your discount rate to 5 per cent.

As to the Austrian matter, there is little to be said beyond what I have already written you. Mr. Speyer sailed for Europe on the Olympic on Saturday, and I believe the same steamer took Mr. Hanauer, one of the partners of Kuhn, Loeb & Company, so that if approaches are to be made to either, or both, of these houses, they will have representatives on the ground. To refresh your memory, however, it is well known that these two firms are not on the best of terms with each other and rarely become associated in floatations, I believe the only exception being the Baltimore & Ohio Railroad financing, in connection with which I have been confidentially informed they have an old joint contract.

Since I last wrote you, the administration bill, designed to give the Secretary of the Treasury authority to negotiate the funding of the debt of the allied governments to our government, has been submitted to the respective committees of the Senate and the House of Representatives, and I am told that it will likely pass, although it is bound to meet some opposition because of the broad authorities which it provides to be given to the Secretary of the Treasury.

I have not been able to be in Washington for two weeks or more and am not posted as to how these matters are developing. It is obvious, however, that the power to negotiate must be vested in a single individual, and naturally the Secretary of the Treasury, and I should hope that Congress will grant this authority promptly. It seems to be broad enough to cover the Austrian situation, but of course I have no knowledge what attitude the Secretary will take towards the scheme of subordination. I should hope it will be favorable because it appears to be so obviously necessary.

While dictating this letter, I had a call from J.P. Morgan, who has intimated that under certain conditions his firm might be interested in handling the proposed Austrian loan on behalf of the League of Nations organization, or of the commissioners appointed to administer Austrian finances, and have accordingly sent you at once my cable No. 43, confirmation of which is enclosed.

What you say about the possible political aspects of Austrian rehabilitation has been in my mind very strongly and is by all means to be avoided. It should be non-political, based upon sound economic principles, and avoid any taint of political maneuvering either on the part of the allied governments or on the other hand on the part of that element in Germany which feels that the only outcome for Austria is absorption into the German Republic. If such a fate awaits Austria, it

certainly should not be undertaken at a time when Austria is helpless and limp, but rather at a time when a suitable Austrian government can deal with regard to their own welfare and development.

I am led once more to comment upon the proposal for a foreign loan for the purpose of establishing a gold exchange fund and of giving anything like artificial stability to the Austrian exchanges. To-day I do not believe it is possible for any country to stabilize exchange rates or conduct such an operation as the British Government conducted during the war in "pegging" sterling at a given level, or even holding fluctuations within a range of levels. Were Austria to attempt this, it seems to me most likely that the German arbitrageur would not hesitate to take advantage of the situation for the accumulation of foreign exchange, which might be needed for reparation or other foreign payments. The credit required by Austria to stabilize exchange rates would be too large for Austria to obtain, even upon such security as could be offered, and with the friendly assistance of the League of Nations.

Adverting now to the reparations problem. As I think I wrote you, I cautioned our Treasury, and State Department as well, against the possibilities of exchange disturbances resulting from Germany's signing this huge obligation payable in dollars, and hoped that the warning might have some effect; I know it was conveyed to our representative. I had assumed that with such men as now compose that body (the Reparations Commission) an appreciation of these matters would be apparent at once. But that does not seem to have been the case. The powers of the Commission, under the Treaty, as I recall, are broad enough to enable them to do wise things, and possibly broad enough to permit them to do unwise things. Certainly it would not be a wise thing for them to force Germany into competition with their own countries, without limit, in the purchase of dollars the world over. It is only one more convincing evidence of the fact that the reparation will be made by the delivery of goods and the performance of services by Germany, and whether the reparation bank account is carried in New York, or London, or Paris, or in all three of these places, or elsewhere, makes no difference in the long run. Those who get the dollars, and pounds, and francs, will employ them ^{either} in buying goods from Germany, to the detriment of our own trade for the time being, or else Germany will run against the stone wall of exchanges so adverse, that further payments will be impossible. I can see no outcome from the situation except through long years of readjustment with constant disturbances to trade, finance and exchange. Of course, if the German industrial organization becomes so busily engaged in turning out cheap goods, with which to flood the world and gain the credits to enable reparation payments to be made, Germany's workmen will wake up to the fact that they are only able to do this because of the low standard of living and low wages, and their labor organizations will in time begin to make demands which will increase costs again to something like a competitive basis with the rest of the world, and then again we will see further depreciation in the mark, and eventually some readjustment of a fundamental character in Germany; in a word, the outlook as to reparation payments does not strike me as alluring or hopeful.

Commenting upon your suggestion of a possible combination between the central banks of the countries concerned; that might be a good plan, or at least that might be the instrument through which to work out a good plan, if any plan is possible. What is most in my mind just now is to insure that the allied governments which receive reparation payments in dollars, use those dollars as promptly as possible for the payment of debts in this country, or for the purchase of goods here. It is the only way in which the pressure upon the dollar exchange will be removed. If dollar balances are permitted to pile up in this country indefinitely, and no ^{goods} drawn against them, then indeed the outlook for the exchange is bad.

June 27, 1921.

On one point I feel great uncertainty. If cooperation between the central banks, which might mean yourself, the Reichsbank, the Bank of France, and ourselves, were undertaken, how could anything be accomplished toward avoiding exchange disorders so long as marks must be converted into the other currencies more rapidly than Germany exports goods? Is Germany going to be able to float loans abroad? I see no hope for it here. And if large loans are floated abroad, then Germany has the added obligation of interest in addition to the regular reparation payments.

It strikes me that the operation under present world trade conditions becomes an almost impossible one, and is liable to keep us in a state of suspended specie payments and disordered exchanges for the rest of your life and mine.

These comments are simply thinking out loud, and somewhat as we might chat at Thorpe Lodge, where I should like to be with you.

During the past two weeks I have been reviewing in my mind our conversation of last Christmas time, in regard to future policies. It seems as though the great price reduction which has swept over the world (in other words, the liquidation which we were then discussing) has reached a point, certainly in Cuba, the Philippines, some parts of South America, a considerable part of the East, and possibly in Europe, where the very peril which we anticipated may be arising. With the great reduction in trading profits and incomes, are not government budgets, certainly among the weaker nations, liable to be imperiled? For the sake of the better good, in the long run would a deliberate policy of inflation be justified? I have puzzled over this subject endlessly during the past few weeks, seeing as I do, sugar selling at one-tenth at its high price, cotton at about one-fifth, rubber at about one-sixth, wool at one-fifth, &c., &c. The twelve basic commodities which we reduce to index values, to-day show prices at only about 5 per cent above the 1913 level, the premium being principally due to steel and wheat. For how long can the merchants and bankers of the world stagger under this situation? I am inclined to think that we can go through without any serious difficulties here, but how is it in Europe? I would give a great deal to have an opportunity to chat these things over with you, and last week was tempted to cable to inquire if you could run over, if only for a week.

I hope you have not been disturbed by rumors of bank troubles in New York. We have followed the situation very closely. Of course, some of our banks have slow loans, but after a review of the whole situation I am satisfied that the banks of this district, and generally of the larger cities of the United States, are in good sound condition, considering all that we have been through. There may be one or two weak banks, but not of great importance, in the Middle West, and there are certainly a good many of our small country banks in the agricultural sections which have hard weather ahead of them, and we probably will see a succession of small bank suspensions from time to time, but beyond this I anticipate no difficulties, certainly none with which we are not fully able to cope, and the rumors with which this town has been especially busy lately are the products of disordered imaginations, and possibly speculators for declines.

If you have time to write me what is in your mind, quite fully, about general conditions and policies, I would greatly appreciate it. I would much prefer

June 27, 1921.

to have a visit with you. Especially, I would like to hear in detail what the reparations plan will be, so that we may look forward a bit in our plans here.

With warmest regards,

Yours sincerely,

Montagu Norman, Esq.,
c/o Bank of England,
Threadneedle Street,
London, England.

BS:MM

Encs. (2)

PERSONAL

July 5, 1921.

My dear Norman:

Your dictated note of June 22, also your hand written note of the same date, both reached me to-day. The first calls for no particular comment. We at the bank will be glad to see the Soviet gold situation cleared up. I presume they will have the same feeling in the Treasury, although, as you say, there is likely to be little gold left for us to quibble about.

We were all delighted with the news of the settlement of the coal strike, but I am still wondering whether the terms are sufficiently definite and final to remove causes of contention for some time to come.

Referring to your cable No. 40, and my cable No. 44, I think I can review the rate position of this bank in a way that may make my subsequent cables a little more intelligent.

Our general policy would ordinarily be to reduce our rates as a consequence of reductions in rates in the markets; in other words, we would follow rates down. The market rates which would govern our action would be (1) the rate for bankers bills (just now about 5 ^{and less} 1/2% in the market), (2) the rate for treasury certificates of short maturity (just now about 5 1/4%), (3) the success of the Treasury in its recurrent offerings of three-year notes, and the rates paid on such notes (the last issue made at 5 3/4%, now selling in the market at a slight premium), (4) the rates for commercial paper (now at about 6 1/2% in the market), (5) the stock exchange call loan rate (now varying between 5 and 6%).

You have it in mind, of course, that our commercial paper rate corresponds, roughly, to the rate which your joint stock banks charge on their overdraft accounts. The difference between your position and ours being that

Commercial paper can be offered for discount at this bank with the indorsement

member banks, whereas your overdraft accounts are not capable of "melting."

The only other considerations entering into our policy are (1) general consideration of public policy where, under present conditions, classical methods are not always the wisest, and (2) strictly political considerations brought about by the change of administration.

With money market conditions as they are to-day, we are hardly justified in making a further reduction. This is after duly weighing the five factors of market rates above referred to. Consideration of general public welfare leads me to believe that the process of deflation has gone dangerously far here and abroad. I gather that your own budget will show a deficit because of reduced tax returns. The same may be true of ours, and if not true, it will be wholly due to a determined public pressure supported by the new administration, to bring about economy in appropriations. I firmly believe that the time for all credit pressure passed some months ago, and should we feel that the 6% rate is causing pressure of a serious character upon borrowers generally, we would not hesitate to reduce it to 5 1/2%. But I am not yet convinced that such is the case.

As to political considerations, those are quite perplexing. Our new administration is determined to make business good, if means can be found to do so. It is not an easy thing to do, and I am quite out of sympathy with some of our new associates, who think that lower rates will do it. The lowering of our rate from 7 to 6%, in two bites, has created a certain sense of assurance, but has had much less to do with the sentiment than has our very high reserve percentage.

From all of the above, you may gather that there is always a possibility of a further reduction; that it is not imminent, but would become imminent upon any further general lowering of outside rates, or even if indications arose that such a development was immediately in prospect. I shall cable you the best warning possible, even though it were not more than a thought in my own mind.

#3

July 5, 1921.

A separate reply to your other note accompanies this.

With warmest regards,

Sincerely yours,

Montagu Norman, Esq.,
c/o Bank of England,
Threadneedle Street,
London, England.

BS:MM

Enc.

ANS'D BY CABLE. DATE
ANS'D BY LETTER "
CONFIRMED "
RELATIVE CORRESPONDENCE

Norman's letter 7/22/21
" cable # 40
Strang's cable # 44

CONFIDENTIAL

July 5, 1921.

My dear Norman:

Your hand written note of June 22, gives me a great deal of real relief and satisfaction. Were there not a prospect of some such program, as indicated in your letter, I would feel some anxiety about the future. The time will come, and it may not be far distant, when we will likely have important things to do together, and these can be better arranged if you and I are in harness than under any other auspices; so I look forward hopefully to the future, and with the assurance that I would not otherwise feel.

What you say in your letter is, of course, strictly confidential. You will not mind my letting you know how pleased I am that the chances at least favor what I want very much to see done, and what obviously should be done.

With warmest regards,

Yours sincerely,

Montagu Norman, Esq.,
c/o Bank of England,
Threadneedle Street,
London, England.

ANS'D BY CABLE, DATE
ANS'D BY LETTER "
CONFIRMED "
RELATIVE CORRESPONDENCE
Norman's letter of 6/22/21

BS:MM

July 11, 1921.

Dear Mr. Norman:

I am desirous of forwarding to the Treasury Department, for their information, a printed copy of the original and amended "Statement of Claim" (as amended June 3, 1921), in the case of Marshall v. Grinbaum and the Governor and Company of the Bank of England, in connection with the Soviet Gold Test Case.

As I have only one copy which I do not wish to release, would you be good enough to forward us several copies for our confidential use, if they are obtainable.

Thanking you in anticipation,

Yours very truly,

Benj. Strong,
Governor.

Montagu C. Norman, Esq.,
Governor, Bank of England,
London, England.

GB/AMP

CONFIDENTIAL

July 12, 1921.

My dear Norman:

Thank you for your note of June 27. Since I wrote you, the Mercantile Bank situation has been developing under the direction of some new blood which has been introduced into the management, and while it is complicated and difficult and presents many puzzling aspects, I am hopeful of the eventual outcome. One of their chief difficulties lies in the scattered nature of their business over various parts of South America, and in the delay in collecting up-to-date information. I shall know more of their affairs by the time you are in this country and can then tell you about them in detail.

There is nothing very new here, except that the gossip and depression has in part disappeared, which is a great relief.

The confidential discussion attached to the Business Summary is usually contained in the yellow pages. Those pages for June 6 were not particularly confidential, but they sometimes are of that character, and are expected to be left in the board room by our directors.

I can't tell you how delighted I am by the news contained in your cable No. 44, received to-day. I have cabled you in reply, as per the enclosed confirmation. Your cable left me in some doubt as to whether you would be visiting friends in Bar Harbor, or whether you were planning to stop with Addis and me at the hotel, which is, as you know, called The Malvern Inn.

It just happens that I have never spent a holiday in Bar Harbor. It is supposed to be a very delightful place, but rather foggy in August. I know that you wish to visit there and will be delighted to do so, but I hope that you

July 12, 1921

will nevertheless spend sometime in or near New York. I have a beautiful house at my disposal down on Long Island, where we can have a quiet and restful time, take some motor drives, and do exactly as we please, and where we will be near enough to New York, so that I can at least persuade you for one evening to take dinner with some of my banking friends and associates.

If you are not wedded to the idea of visiting Bar Harbor, there are no end of nice places where we could spend a week or two with enjoyment, and where it would be cool. If it is possible for you to spend a day or two in Washington, I know that it would be greatly appreciated by my associates on the Board, all of whom would greatly like to meet you.

All that I have written about your visit applies equally to Addie. It would be a perfect delight to have a nice holiday with both of you, and my plans will be shaped entirely to meet your plans, and in the hope of making the holiday worth while.

I shall await further word about your arrival, and when and where you would like to have me meet you. I could go to Montreal, or join you at Bar Harbor, if you would prefer, or anywhere else, in case you settle upon some other place.

With best regards,

Yours sincerely,

ANS'D BY CABLE. DATE
ANS'D BY LETTER "
CONFIRMED "
RELATIVE CORRESPONDENCE

Norman's letter 7/12/21
.. cable #44

Montagu Norman, Esq.,
c/o Bank of England,
Threadneedle Street,
London, England.

BS:MM

Eda.

126A

FEDERAL RESERVE BANK
OF NEW YORK

124
128B

*

July 13, 1921

Dear Norman:

Our Statistics Department is going to find most useful the monthly statement of the London clearing banks, the May copy of which was sent me. If you would be kind enough to ask the proper authorities to place the Reference Library of this Bank upon their mailing list, it would be keenly appreciated.

Yours sincerely,
Benj. Strong
BENJ. STRONG,
Governor.

Montagu C. Norman, Esq.
Governor, Bank of England,
London, Eng.

asked by Ho. for
3rd copy 25/7 @
June statement posted to
25/7 @
Library

July 21, 1921.

Dear Norman:

I thank you for your cablegram No. 51, advising of the reduction in your bank discount rate to 5 1/2%.

As cabled you under date of July 20, similar action was taken by the New York, Boston, Philadelphia, and San Francisco Federal Reserve Banks, effective today.

Yours sincerely,

Montagu C. Norman, Esq.,
c/o Bank of England,
Threadneedle Street,
London, England.

GB:MM

FEDERAL RESERVE BANK
OF NEW YORK

SENT BY

SEND TO FILES

COPY OF TELEGRAM

4:50 p.m.

August 1, 1921.

Montagu C. Norman
Bank of England
London

Shall be engaged in Washington this week attending hearings
Committee of Congress investigating operations/reserve system result of
which I believe will do good in educating public to purposes and affairs
of system stop Please cable ship and date of sailing and telegraph
hour of arrival New York so that I can meet you and have accommodations
reserved

Strong

FEDERAL RESERVE BANK
OF NEW YORK

*

August 9, 1921.

136
141

Dear Norman:

The three copies of the amended statement of claim, as well as the three copies of the judgment in the case of Marshall v. Grinbaum and the Bank of England, were duly received in your letter of July 27, and for which we thank you.

133

The copy of the London Clearing Banks' June Statement has likewise been received, and we note that this statement will be regularly sent to us from month to month.

Yours sincerely,

Wm. Strong

Montagu C. Norman, Esq.,
c/o Bank of England,
Threadneedle Street,
London, England.

September 14, 1921.

Dear Norman:

Your wireless message via Quebec has given all of the officers of the bank very much pleasure. We hope that you and Addis left feeling that you were indeed members of the family. It has done us all a great deal of good to have you here. It has done me more good than any one else for reasons which I explained to you verbally, and now I am looking forward to hearing the result of your meetings with Jay.

On reaching the office yesterday I found a letter from Hoover, stating that he wanted to see me before sending any further communication on the subject of our discussion, as some matters had come up which require further talk. I shall see him next week.

To-day will be my first opportunity to write Mr. Jay something of what has been going on, and meantime will you be good enough to tell him when he calls that things are reasonably quiet at the bank, and while we miss him we do not expect to see him back until about the 15th of October.

With warmest regards,

Very sincerely,

Montagu C. Norman, Esq.,
c/o Bank of England,
Threadneedle Street,
London, England.

C A B L E

September 24, 1921.

Bank of England.

No. 90. Strictly confidential for Governor.

Replying your number 78 and Jay's separate cable:

First. Have so far been unable to see Secretary Hughes but hope to in next few days.

Second. Believe advances for food relief desirable notwithstanding last paragraph my number 82 upon theory that fall of present government which enjoys reasonable confidence in Europe would greatly jeopardize possible future reconstruction plans more than anything else that could happen.

Third. Think Jay should get Vissering's point of view if time permits even though you unable to go.

Fourth. I am sending copy your cable and Jay's to both Hughes and Hoover asking latter whether it would be permissible to suggest application here for America to participate in food relief.

Fifth. Think there is some danger involved in holding out even remote prospect of reconstruction relief if we can give no assurance now that such relief will be ultimately forthcoming, as ultimate collapse would then be more serious and difficult to deal with.

Sixth. Show this to Jay.

Strong

Copy

73 Words.
Via W U

October 3, 1921

Bank of England.
London.

#95 Strictly confidential for Governor Referring to paragraph first
my #90 please discuss following with Jay. 1st Interview with secretary
disclosed no objection to plan^{of} investigation but any obligation commitment
or official sanction by administration impossible at present. 2nd Probable
ratification German treaty October 15 may facilitate matters somewhat
3rd Refer paragraph fifth my #90 will it be safe to undertake investigation
now and raise hope of American assistance so long as doubt exists as to

- A passage of act enabling subordination of claims
- B ultimate cooperation of American Government so far as required for carrying out any plan adopted
- C American Bankers willingness to consider furnishing required loans

4th As there is no objection to our proceeding entirely upon our own
responsibility and without publicity suggest that Jay inform himself fully
while in London and we postpone decision as to our attitude until his return
after treaty probably is ratified

5th Cable views and suggestions Strong.

FEDERAL RESERVE BANK
OF NEW YORK

178A

Ans'd. 14.11.27

** In Central Ref. Library*

October 24, 1921.

176 / 178B

My dear Norman:

I am sending you under separate cover a report of the Hearing before the Joint Commission of Agricultural Inquiry on the Federal Reserve System, early in August.

I am sending this with some diffidence. It must be regarded as the effort of an amateur, so far as the discussion of economic questions contains expressions of my own opinions. But it includes a great deal of material concerning the organization and policy of the System which has never before been put into print. Our testimony was of necessity impaired by interruption, but I think you will find the volume of some interest.

Yours sincerely,

Rees. Strong

Montagu C. Norman, Esq.,
c/o Bank of England,
Threadneedle Street,
London, England.

PERSONAL

November 1, 1921.

Dear Norman:

I am trying to catch up with the terrifying accumulation of work which includes various matters that I have been intending to write to you about for some weeks past, so you may expect to be deluged a bit with letters.

In order that you may be posted as to a most recent development in the Austrian affair, I some time ago received a call from Mr. H. E. Benedict, who is a friend of Mr. F. A. Vanderlip, and who left with me a letter from Mr. Vanderlip, advising that the latter had arranged with the Austrian Government to have a delegation of government officials and financial people visit this country in an effort to negotiate arrangements to carry out the League of Nations' program of last May.

Mr. Benedict called at the Treasury, the situation was explained to him as you and I understand it, but I am unable at this writing to advise you whether or not the Austrian representatives still expect to visit this country.

It may have been natural enough for Mr. Vanderlip to make the suggestion, but it would have been more prudent to cable in advance to see if the suggestion was a wise one. If these gentlemen visit America, I shall endeavor to make use of that opportunity to get some first-hand information, but beyond that see little that they can accomplish.

The funding bill has been amended in the House so as to vest power to negotiate adjustment of the foreign loans in a commission of five, one of whom shall be the Secretary of the Treasury. The commission is to be appointed by the President in the usual way. There seems to be no provision for their compensation, and it would appear likely, although I have no knowledge

November 1, 1921.

on this point, that the appointments might comprise one or two representatives of the legislative branch of the government, as well as men from private life, who have some knowledge of these matters. It seems to me also quite likely that Mr. Hoover might be appointed. This is, of course, surmise. The bill has yet to be introduced into the Senate in amended form, and no one can prophesy what action will be taken there. It will not be considered, I hear, until after the pending revenue bill is passed in the Senate, probably some time this week, and until the emergency tariff bill is also out of the way.

My talk with the Secretary of State in regard to the non-political arrangement for Austria brought out the fact that further consideration had apparently convinced Mr. Hughes of the unwisdom of a formal commitment by our government at this time, even to the extent of expressing no objection to such a program. Between the lines I read that there would in fact be no objection if the matter were undertaken privately and without governmental support or responsibility. On the other hand, it leaves any such program in a perilous situation because political or other developments might, without some such preliminary understanding, lead to a subsequent repudiation and withdrawal of support, which would necessitate complete abandonment of American participation. My continued absence has prevented discussing the matter with Mr. Jay, but I hope to do so to-morrow, or next day, and will then endeavor to advise you more definitely of what we propose to do. My personal inclination is to take the first opportunity to visit the other side so as to form my own opinions on the ground.

With best regards,

Faithfully yours,

Montagu C. Norman, Esq.,
c/o Bank of England,
London, England.

ES:MM

PERSONAL

November 1, 1921.

My dear Norman:

This letter is intended to round up a variety of matters not touched upon in my separate letter of this date, and especially to reply to yours of October 13.

You were certainly very kind to Jay, and I venture to surmise that what I had prophesied as to his fitting into a comfortable niche in your circle proved to be the case, at least the pleasure with which he speaks of his visit with you at your home and at the bank would indicate that you found him all that I had described.

I am anxious to promote the plans we discussed exactly along the lines indicated in your letter of October 12 to Vissering, and am pleased that he appears to take a like view of the advantages of such relationships.

A letter recently received from Vissering indicates that he is expecting to strengthen and extend the relations now established between his bank and ours, and I am wondering to what extent you brought out the point which we discussed when you were here, as to the exclusive nature of such agreements. I believe, as you do, that if we are to represent De Nederlandsche Bank, (or any other bank of a like character,) in this country, we should do all of their business here, and that they likewise should transact all of our business in Holland. The same should apply to any other relationship of like character. The practical difficulty in applying this principle at the moment would be with the Bank of Japan, where we, as no doubt you, find that they have important relations with branches of their own Japanese banks in foreign countries.

I have never raised that matter in correspondence with the officers of the Bank of Japan, but it happens that Mr. Fukai, Vice Governor of the Bank,

November 1, 1921.

is shortly to be here as financial advisor to the Japanese Delegation to the Conference on Limitation of Armament, and I could well make that the opportunity of discussing our plans in general, and this point in particular. How do you feel about that?

My own mind is set toward the desirability of making a trip to Europe some time this winter, possibly immediately after the first of January, but not until the passage of the funding bill by our Congress, and I am able to learn with a little more certainty what the prospects are for dealing with the Austrian indebtedness to the Grain Corporation. On this point, I would also appreciate your views, especially with regard to developments in Austria, subsequent to your visit, which seem greatly to have increased the difficulties which any program is likely to encounter.

" As a separate subject, I am sending you another letter by this mail containing the roughest sort of a suggestion in regard to exchanges, which I discussed informally at a meeting of the Governors of the twelve reserve banks with the Federal Reserve Board last week, and which was very well received. It is not a matured proposal at all; hardly more in fact than the glimmering of an idea which would require a great deal of discussion before I would myself be willing to recommend it. (see postscript) "

The attacks upon the Federal Reserve System have really received no substantial support among responsible people, so far as I can discover, and those who are making the attacks have now descended to the point of charging extravagance in the management of the bank, payment of outrageously large salaries, &c., &c. It has become rather fantastic, and, if I may say, puerile, and I shall not even burden you with an account of the affair.

We are cabling you in regard to rates yesterday and probably to-day, the subject just now being considered by all the reserve banks most earnestly, and being further considered to-day at a meeting of the eastern members of the

November 1, 1921.

Federal Advisory Council. I cannot tell what the outcome will be until telephone message reaches us from our representative, who happens to be Mr. Alexander in Mr. Warburg's absence. If there seems any prospect of the suggestion which Mr. Jay and I are now prepared to make, being favorably considered by the Council and by our board, we will of course cable you later to-day. Jay and I both wish to see rates at New York reduced to 4 1/2, but some of the other Federal reserve banks maintain present rates and our lower rates will then have the effect of making New York a cheaper borrowing market for those sections of the country which are just now somewhat extended.

By late afternoon we hope to send you a cable giving some better indication of our possibilities than we were able to do yesterday. Money is not easing at New York quite as rapidly as I had expected, principally I believe because of the large amount of new security issues which are being issued, and the distribution of which to investors throughout the country, of course, takes time.

Yours sincerely,

Montagu C. Norman, Esq.,
c/o Bank of England,
London, England.

BS:MM

P. S. The letter to which I refer, requires further thought, and I shall hold it for further opportunity to discuss it with Mr. Jay before mailing.

B. S.

ANS'D BY CABLE. DATE
ANS'D BY LETTER " "
CONFIRMED " "
RELATIVE CORRESPONDENCE

PERSONAL

November 1, 1921.

*Enclosed in a
letter of Feb 7, 1922
not to give*

My dear Norman:

It has always seemed to me that the many plans suggested for remedying the foreign exchange difficulties were fundamentally unsound and practically impossible of adoption for various reasons, but principally because they failed to take adequate account of the fundamental causes of the present disturbances and fluctuations in the relative values of the different foreign currencies.

The principal causes of these disturbances are mostly the following:

- (a) Unbalanced government budgets;
- (b) Unrestricted issues of paper currencies;
- (c) Suspension of gold payment;
- (d) The uncontrolled payment of reparations by Germany in amounts, and at a rate probably more rapid, than Germany is capable of paying;
- (e) The existence of a fluctuating current account of indebtedness between certain of the nations in excess from time to time, and at the moment required, of available supplies of exchange with which to meet the indebtedness;
- (f) And as a possible additional factor, no certainty as to what will be done about the payment of interest and principal of the inter-allied debt.

To attempt to stabilize exchange between most of the nations under these conditions would simply mean that vast sums would need to be loaned, principally in connection with the settlement of existing indebtedness, the repayment of which would often be most uncertain, and the final effect of which would be simply to postpone the day of settlement and possibly lead to conditions worse than now exist.

It is, however, a fact that certain of the European nations to-day have budgets reasonably in balance, are not inflating their currencies, have a substantial

gold reserve in their banks of issue, and present a reasonable possibility for stabilizing their exchanges, as measured in dollars, between certain limits, although not necessarily the so-called gold shipping points. These countries are Holland, Switzerland, Denmark, Sweden, Norway, and in the East, Japan. None of these exchanges is at very great discount as to dollars. No plan for stabilization, however, would produce the results broadly desired without including sterling, and the difficulty with sterling, as distinguished from the six named, is the size of the discount and the probable impossibility of entirely eliminating it.

Certain studies which we have made at the bank would indicate that a relatively small amount of credit employed in dealing in exchange, if the dealings were skilfully handled, could probably be made the means of stabilizing the exchanges between the six countries named and the United States at about gold par of the respective currencies; and I have some confidence that much the same thing could be accomplished with sterling at some arbitrary points to be fixed from time to time, only provided a considerably larger amount of credit were employed for the purpose.

reference to France
The difficulty which the banks of issue would encounter in undertaking any program for stabilizing exchanges with this country is the ^{unlimited} (enormous) risk of loss on exchange fluctuations in case the plan failed and they found themselves short of dollars when such trading account had to be settled. My thought of dealing with this matter always reverts to the illustration which I recall repeating to you; that an exchange map of the world would to-day show the United States occupying the only territory, colored say yellow, which was squarely on a gold basis, the colors of all other countries shading away from that to black, where the discount on exchange was so great, and the fundamental causes so hopelessly beyond control that no hope of recovery to gold par could be entertained for many years. Therefore, the suggestion to group around the United States those countries which most nearly approached our own condition (a shade off of gold) and endeavor to set up an arrangement which would arbitrarily and artificially

promote stability at about gold par; and those are the nations which I have named. Now the only way in which the risk of exchange can be eliminated is by basing any operation undertaken upon gold; that is to say, ultimate loss in any large amount can be limited to the extent that the "position" is limited to the amount of gold which each participant would be willing to ship in settlement of his share of the account.

This leads me to the suggestion that if each of the countries named, in proportion to their means, to the volume of their trade, and consequently to their exchange transactions and balances, were willing to enter into a gold contract with each other and with us, to ship gold ultimately, and possibly at some quite distant date, in settlement of the net balance of the exchange trading account, we might then establish an organization for furnishing exchange when it was needed, and for buying exchange when it was not needed, so as to introduce the stabilizing influence of organized central bank buying and selling. Let us suppose that this plan was extended to England; your contribution being much larger than the others, might it not then be possible to reasonably stabilize your exchange within certain limits even though as much gold would ultimately be required from you as from all other participants combined?

Mr. Snyder has been looking into this matter and gains the impression that ^{something like} a total account of \$300 millions gold would support the total possible commitment to furnish dollars which might ultimately arise from the operation of such an account; that is to say, suppose you furnish \$150 millions, and the other six nations together furnished a like amount, that would be the capital, so to speak, of the trading account. The entire amount of dollars required might be furnished by advances made by the Federal Reserve Banks during the period of operation. An organization might be set up in London and New York for a central control of this trading. I am not sure to what extent the trading should be exclusively in dollars, and to what extent in other currencies; in fact, the detailed operation of such a trading account I have not thought out

November 1, 1921.

at all. It is, however, a fair statement in my opinion that I believe the current existing balances of trading between these nations are not so excessive but that they might be dealt with upon some such plan as the above, provided always that the parties could be insured at the outset against the intrusion of reparation purchases of various currencies out of credits obtained by Germany in various parts of the world. It, therefore, seems to me that the possible necessary preliminary step to any such plan as this would be a better understanding of how reparation payments may be regulated and controlled so as to avoid throwing further burdens upon the world's exchanges due to Germany's frantic selling of marks at constantly declining values in various markets. It is not at present the trade which is causing the difficulty; it is the payment of old debts without any regulation of the amount paid with relation to capacity to pay.

If this plan succeeded, there would be seven nations with exchanges practically restored to parity with ours, and with maximum fluctuations reduced to a mean, and sterling would be stabilized at some level comparable to the present. The plan might, and should, preclude such a spectacle as the decline in sterling from \$4.01 to \$3.53, and subsequent recovery to ⁹⁵\$3.85, in a few months.

It might also be borne in mind that [if after the end of a year or two, or even longer, it was found that the account could only be settled by shipments of gold; in other words, that the premium on dollars had gotten beyond control, then it might be possible for the governments of these various countries to negotiate long-time loans in the United States for the sole purpose of settling balances owing.

It seems to me that while this plan is open to the charge of experimenting, it also has the advantage of insurance against heavy loss because of the gold commitment, and it has the very great advantage of affording an experience which I regard as essential to the development of any ultimate solution of the Exchange troubles. With best regards,

Yours sincerely,

Montagu C. Norman, Esq.,
c/o Bank of England,
London, England.

BS:MM

November 2, 1921.

My dear Norman:

Thank you for your letter of the 21st ultimo, advising of your visit with M. Lepreux of the National Bank of Belgium. I had the pleasure of meeting him, and, in fact, when I was in Belgium in 1919 discussed in a very general way something of this sort. We have relations with the bank in connection with reparation matters, and I have had opportunity to meet most of the officers, as well as to entertain two of them when they were in New York in 1919, following my visit in Brussels. They impressed me as men of ability, and with a keen appreciation of the importance of such an arrangement as you discussed with the Vice Governor. I would be much interested to learn of the possibilities of some discussion along this line with any of the Scandinavian banks. When this preliminary ground has been covered, it will then be important to get a more concrete discussion of objects to be accomplished, and of methods as well. Whenever you feel the time has arrived to make progress to that extent, please do not hesitate to write me and give me your best suggestions.

Referring to our cables of the last few days about rates, it looks as though a general reduction would be made by the reserve banks, with the highest rates 5 1/2 in Richmond, Atlanta, Minneapolis and Dallas, all four of which are now borrowing from other reserve banks; with 5% rates in Cleveland, Chicago, Kansas City, St. Louis and San Francisco; and 4 1/2% rates in Boston, New York and Philadelphia. This will be a rather notable reduction, and as it will be substantially simultaneous, should have a

November 2, 1921.

considerable influence upon public opinion as to what is developing in credit matters. I hope that you will not only not be embarrassed but rather assisted in dealing with your own problems as the result of this new development here.

With cordial regards,

Yours sincerely,

Montagu C. Norman, Esq.,
c/o Bank of England,
Threadneedle St.,
London, England.

BS:MM

ANS'D BY CABLE. DATE
ANS'D BY LETTER "
CONFIRMED "RELATIVE CORRESPONDENCE

Norman's letter of 10/21/21

November 3, 1921.

Dear Norman:

We had two distinguished visitors from London recently, and I want to advise you something of their reception here.

Mr. McKenna seems to have visited about everybody of importance here and in Washington, and so far as I am aware has made one public address, the burden of which was to urge wiping out all ^(inter-allied) war debts. While his remarks, and the statement which he made upon the eve of sailing, have had considerable publicity in the press, I cannot say that they have made a very deep impression. He is an interesting talker, and while I was unable to meet him, except for a short visit in my own office, he has been entertained privately by bankers and others, and I have no doubt has advanced the views that he holds with a good deal of vigor.

As to Sir Drummond Fraser; he has been making addresses in various parts of the country, and either because of conviction, or the natural desire to be courteous, or because of lack of understanding of the whole problem, or for all three reasons, I think he has been fairly well received in the plans he has been advocating for the extension of the ter Meulen scheme.

But this can hardly be regarded as more than an expression of views, as no crystallization of opinion into action seems possible without a far better understanding of the European situation than is now held generally in this country. The American Bankers Association appointed a committee, of which Mr. Kent is chairman, to look into the subject further and make a report.

These visits are interesting and instructive, but I feel that reservation is needed as to any concrete results being anticipated.

Yours sincerely,

Montagu C. Norman, Esq.,
Federal Reserve Bank of St. Louis, Mo.
of Bank of England.

ANS'D BY CABLE. DATE
ANS'D BY LETTER " 11/14/21
CONFIRMED " "
RELATIVE CORRESPONDENCE

November 17, 1921.

Dear Norman:

This note is to confirm the receipt of your cable #96 and my reply #7, which I can assure you has been the cause of the most profound satisfaction to both Jay and me.

I suppose it is a fact that in none of our business relations has the personal relation played so large a part as in banking. It has long been the cause of some uneasiness to me that when the time comes for you to retire as Governor of the bank, your successor may not feel the same interest and be inspired by the same purposes that have characterized your attitude from the start in building up an understanding between your institution and ours. There is so much to be done from now on that is important to both of us, and our success in accomplishing anything depends so much upon these personal relations that I look forward with dread to the day when you will be succeeded by some unknown person with whom I may not have the same intimate and affectionate relations that I have enjoyed so greatly with you.

At least now we have the assurance of sixteen months without change, and I am delighted beyond expression, and it inspires me with hope which otherwise I would not feel at all.

I have been shamefully dilatory in sending you a letter which in fact has been drafted, but is still being considered by Jay and myself before mailing. It relates to the first move toward something actual in our relations, and I will send it just as soon as I feel that I am justified in doing so.

November 17, 1921.

With warmest regards to you and to Mr. Trotter, and my congratulations and good wishes to you both, I am,

Very sincerely yours,

Montagu C. Norman, Esq.,
Governor, Bank of England,
Threadneedle Street,
London, England.

BS:MM

ANS'D BY CABLE, DATE
ANS'D BY LETTER "
CONFIRMED "
RELATIVE CORRESPONDENCE

Norman's cable # 96
Strong " # 7

CONFIDENTIAL

November 25, 1921.

My dear Norman:

Your letter of October 28 has had a few days consideration by both Jay and myself prior to attempting a reply. On page four you write "What I want to know from you is what is your opinion of the idea, what the attitude of your Administration would be and of course any better idea that may occur to you." I am not certain from the language whether you wish me to sound our government or not, so have cabled you to-day as follows:

"#8. Referring your letter October 28 do you desire me to sound our government regarding proposals contained in accompanying memorandum or simply express my personal opinion."

If you wish inquiry made, I can do so discreetly and will advise you later of the result.

First as to your visit from President Havenstein and Mr. Kauffmann. I am very much impressed indeed by what you write. It may be that this is partly sentimental for your letter indeed presents a sad picture of an old man heart broken and disappointed and apparently helpless in the face of events. I have been told that he is a most reliable and conscientious banker, but that he has lost his prestige in Germany because of the failure of the Reichsbank to withstand the pressure of political domination. This seems to agree with what he himself stated of conditions in Germany.

It is difficult to comment upon the contents of your letter, excepting to add that it seems to add a few more strokes of the brush to a desperate and hopeless picture. I am very much discouraged by recent developments in Germany, and by what has been told me by Herr Bergmann of the Deutsche Bank, who has been here discussing the possibilities of a loan for the purpose of protecting the position of the mark vis-a-vis the dollar.

November 25, 1921.

Of course we will be most pleased to correspond with the Reichsbank.

I would like to establish relations with them of the right character and do everything that we can for them in a helpful and constructive way, but it is an arrangement which, it seems to me, should be predicated upon a very clear preliminary understanding that we will be unable to interpose with credits for reparations account. I would indeed feel shaken in my confidence in my own judgment if we permitted our resources to be employed in furthering and continuing the impossible situation which has developed out of the reparations muddle. It is better to have the break promptly, in my opinion, rather than to promote indefinite postponements with an ultimately more serious breakdown than would occur if reconsideration of the matter were forced in the near future by realization of Germany's inability to continue payments at the proposed rate.

If President Havenstein writes us, as I presume he will, I shall endeavor to send him as definite a reply as possible and one which will be satisfactory up to the point of extending credits, which I do not think we should do at the present time; nor in fact do I feel that he is likely to solicit them.

Herr Bergmann has in mind a loan of \$25 to \$50 millions for six months to be furnished by a strong group of American banks with the sole object of buying marks, in an effort to restore them to a value of about 1 1/2 to 2¢. He thinks the sentimental effect of the announcement of such a loan will drive the German speculator or hoarder of foreign currencies to selling them, and that the German Government can acquire this foreign currency through the instrument of a large gold mark loan, which would in effect be a domestic dollar loan, subscriptions to which would be made in dollars, or any other foreign currency now held by German citizens, at rates of conversion to be fixed by the German Government.

I doubt if the project can be carried out. In fact doubt the wisdom of it anyway, upon the same grounds mentioned above. I have told Herr Bergmann that our attitude towards promoting such a transaction would be governed by the attitude of some of our officials in Washington. There seems to be too much

conspiring just now to risk complications, which would defeat other matters of major importance.

If you are able to send me any advice on the subject, I should much appreciate a confidential line as to any expectation that may exist in London, either as a part of the present disarmament efforts or as a postscript to them, that there may develop any international discussion of economic and financial matters. My reason for inquiring is the growing concern at the favor with which such visionary plans as Vanderlip's seem to be received in some quarters, and confidentially I am inclining to the view that some sort of international discussion will soon develop to be necessary. If it is undertaken, and I have no information whatever on the subject, I sincerely hope it will be as nearly non-political in character as is possible under the circumstances.

Commenting upon the last part of your letter and the memorandum, please understand that what I am sending is a combination of Mr. Jay's views and my own, expressed with the utmost frankness because I know that you wish no reservation in what I express.

1. It is assumed that the Reparations Commission is authorized to accept the specific securities in lieu of cash or goods, or that such authority may be obtained.

2. It is an ingenious method of resurrecting dead assets for the purpose of making payments to creditors who are insisting upon real cash.

3. It would not appear to interfere with France's receiving payment in kind, as contemplated by the Loucheur-Rathenau understanding.

4. It would defer France's realization of an income toward putting its budget in balance.

5. It would to some extent substitute French and Italian treasury bills for payments which would otherwise be made in England in cash.

6. It could only be pursued as a fixed policy if imposed upon the French, and would make reparation payments a farce from the French point of view, and I think

ould cause bad feeling in France toward England.

7. If it were to be forced upon the French, while it would be an almost irresistible pressure on them for revision of the reparations program, it would be most unwelcome to them, and seems a rather circuitous method to that end.

8. It strikes me as more ingenious than practicable, and the crux of the whole program depends upon whether it is attempted by force majeure, or through existing powers of the Reparations Commission, or by mutual agreement. If by the first method it seems likely to fail; if by the second method it seems certain to cause bad feeling.

9. It would confuse later consideration of the reduction, offsetting or cancellation of the inter-allied debts by galvanizing into life certain of these debts which are now quiescent. By this plan England in effect calls on France and Italy to recognize and pay certain of their debts. If this is done it will certainly confuse the issue should the question of debt cancellation be taken up here in the United States.

In general, is it not again temporizing with a situation which needs radical treatment? Might it not have the effect of deferring or suspending more thorough-going measures for an understanding of Germany's capacity to pay, and a better regulation of the method of payment and rate at which payments are required?

My point of view is emphasized by the language of the last sentence:

"But could she refuse her own Bills?"

As to the attitude of our own government, I can only surmise what it would likely be. The chances are that Mr. Hughes would state that any adjustment of that character agreeable to the parties would not be objected to here, as it is a matter of concern only between those parties to the Treaty of Versailles, who are interested in the recovery of reparations from Germany. This is only a guess.

The suggestion of any better plan would involve abandoning my own convictions, which are briefly: that Germany cannot pay at the rate set out in the present schedules, and by the method contemplated; that nobody knows yet definitely

that Germany can pay; that as to such payments as Germany can make, there is not

#5
November 25, 1921.

an adequate regulation of the means employed; and that the whole reparations program can not and will not be adequately dealt with so long as expedients are employed defer the date of actual revision of the program. Frankly, that is why I would not feel inclined to make an explicit statement to President Havenstein as to credits; why I could not encourage Herr Bergmann as to the banking loan; and why I cannot see merit in the plan outlined in the memorandum. Possibly I am too extreme in my views and might revise them were I on the ground. Confidentially, I am satisfied that our own unofficial representatives on the Commission are convinced that the whole present plan is unworkable and must be moderated if a central European breakdown is to be avoided.

I hope you will pardon a very rough illustration of my point of view about Germany at the moment: She appears to be a prize-fighter staggered by repeated blows, and being held upon her feet by some anxious partisans who have heavy wagers on the result of the fight, in the hope that the final and fatal blow, which will render her unconscious, will by chance not be delivered.

Many thanks for so illuminating and so interesting a letter. I wish I might write as well and as concisely as you do. With many good wishes to you, in which Jay heartily joins,

Yours sincerely,

ANS'D BY CABLE. DATE
ANS'D BY LETTER "
CONFIRMED "

RELATIVE CORRESPONDENCE

Norman's letter of Oct 28

Strong's cable #8

Montagu C. Norman, Esq.,
c/o Bank of England,
Threadneedle Street,
London, England.

BS:MM

P.S. Your cable No. 100 has just come and reply is going to-day as per confirmation.

December 16, 1921

Dear Norman:

I started a week ago to prepare for Strong's signature a letter which would reply to several weeks' accumulation of your most interesting letters to him. But, as Delano will have told you before you receive this about Strong's illness and the little setback he had the early part of this week, which I am delighted to say he has thus far overcome most vigorously, I am going instead to write you myself acknowledging and commenting on some of these letters, as I do not think he should be bothered at this time with anything not absolutely necessary.

He saw your cables 10 and 11, and approved the reply to them, but did not see either your or our succeeding cables on that subject. It was the intention that Alexander and I should go to Washington to carry your message, and we have had our bags packed for the purpose for the last three days. Yesterday, on receipt of your No. 17 I had a feeling which I somehow could not overcome, that you felt we had been rather uncooperative and only showed you the difficulties. But this noon your No. 18 has entirely relieved my mind on this point and made it clear that, as a matter of policy, it is considered unwise for your Government to have any part in such an inquiry. While the inherent difficulties in the situation here are, as I have cabled you, very great, the newspaper reports from London, of which our papers have been full all this week, would undoubtedly have added very greatly to the difficulties of such an inquiry as you proposed. They have led to a semi-official denial of any intention to call a conference, to an official statement by the British representatives to the Armaments Conference that they had no intention of discussing

for FRASER
er. st. d. s. d. g.
ese. Bank of Paris
the introduction of a resolution in our Senate by Senator Harris of Georgia to

Montagu C. Norman, Esq.,

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December 16, 1921.

The effect that the United States had no intention of cancelling any debt owed to it by foreign governments and that it was only proper that the Governments should recognize this and proceed accordingly. I enclose clippings from today's Times and Post dealing with the subject, which are more or less typical of what we have had all the week. Unfortunately, this publicity in itself, as you yourself have apparently sensed it, made the inquiry an almost impossible undertaking, and had we made it I am afraid we should have found that the publicity had hardened the hearts of Washington. I am writing this on the train to Washington and hope that I may have the opportunity while there to post myself a little on the subject. Strong's approaches to the Administration are so good that I have not attempted to create any for myself, but as I am inclined to think that he will necessarily have to be away for several weeks of recuperation after he leaves the hospital I believe that I should begin to establish some contacts of my own. If I am successful in doing so I will let you know something of the atmosphere.

Your unanswered letters run back to November 7. Vissering's report of his visit to Switzerland is very illuminating, and the conditions under which he finds the Swiss National Bank operates, while disappointing, seem to tally closely with the forecast he made to us in Amsterdam.

With regard to the intimation you gave of Ter Meulen's attitude on Vissering's going to Vienna should a plan of rehabilitation be devised, I cannot remember whether I told you that Ter Meulen, when I lunched with him, mentioned Vissering as a good man to undertake it, but did not pursue it further.

Referring to your letter of November 16, fourth paragraph, in writing to Vissering on November 10, replying to a suggestion of his regarding modification

of the basis on which we were transacting business with him, we broached the sub-
junctive relationship, but have not yet received his reply.

December 16, 1921.

Since our rate reduction to 4 1/2 per cent, bills have been a trifle easier, and commercial paper has since fallen about 1/2 of 1 per cent. The response to the rate reduction in the bond market was very prompt and emphatic. Bond prices have advanced and bond offerings increased. Rates which banks charge their customers have fallen somewhat in the past month.

I am glad to hear that you have escaped the chairmanship of the Committee on Guaranteed Loans. You have enough on your hands without undertaking such a difficult outside job, and one concerning which my recollections incline me to feel you would not be any too enthusiastic.

It is extraordinary how little one hears of the unemployment question in this country since the Unemployment Commission adjourned six weeks ago. One hears very little about distress in industrial centers. The subject is hardly mentioned in the papers.

In your letter of November 14, you refer to the report of the hearings before the Joint Commission of Agricultural Inquiry. On October 14, the Senate passed a resolution directing the Federal Reserve Board to send the Senate information regarding salaries, expenses, etc., of Federal reserve banks, and in order that you may be kept in touch with these Congressional inquiries, I am sending you a copy of the Federal Reserve Board's reply. Sometime you might find an opportunity to read pages three to nineteen, which are the pages that include the Federal Reserve Board's letter. Whether this resolution, and the reply which has been referred to the Senate Committee on Banking, will lead to another inquiry of our expenses and operations, I do not know, but if so, we believe that we have an excellent record to stand on.

Mr. Vanderlip has returned and has made a long speech (1 3/4 hours) at the economic clubs a fortnight ago at which he brought forth his novel plan of dealing with the inter-Allied debts, doubtless reported in your papers. He has

got but little encouragement from our newspapers here. One or two export associations have passed resolutions favoring his plan, but they are willing to catch at any straw which might help them, just as Messrs. Ford and Edison are now proposing that the Government should issue its circulating notes to the extent of \$30,000,000 based on "energy" to be derived from water power which they propose to develop on some Government property in Alabama; the \$30,000,000 to be used to develop the water power.

I sat beside Vanderlip at dinner the other evening and he told me of his conversations with you. I am told that the condition of Europe is an obsession with him and that he thinks of nothing else.

Your letter of November 24, sending the memorandum regarding the Copenhagen conference, reminds me of a memorandum Strong had intended to send you regarding some thoughts he had in mind for dealing with some of the exchanges. He has mentioned it to you in one or two of his letters. He decided, however, about a fortnight ago, that he would not send it at the present time, but has not advised you to that effect. The Copenhagen resolution seems to be an interesting mixture of the Brussels conference declarations and Casselism. The course of exchange during the last three weeks cannot, I should think, have given great encouragement to the stabilizers.

Your letter of December 1 was most interesting, and the cables which you have sent us since then have kept us wonderfully advised as to the progress of the reparations negotiations and the final development of a policy which, presumably, will be determined on at to-morrow's meeting of the British and French prime ministers. We in the bank are entirely sympathetic to your idea that reparations and debts should be considered simultaneously, but, unfortunately, reparations cannot wait while debts can. My thought concerning the third paragraph of your cable No. 16 is that if the reparation agreement is contingent upon some adjustment of the debts to the United States, it should be done, if possible, in such a way as not

to inflame further the already heated feelings on this subject which seem to prevail in our Senate. It might well be considered here as a challenge, and the effects of it should be carefully considered in advance.

About the loan to Austria on art objects, I wired you yesterday after talking with Morrow and getting him to look over the correspondence. As far as he could make out the Government attitude was practically negligible, if existent at all, though the cable which was sent across rather indicated by inference a larger element of government opposition.

The possibilities you indicate in the last paragraph on page 4 of your letter of December 1 are portentous. People on this side realize hardly at all the commercial difficulties which are sure to arise in Germany with any improvement of the reparations matter, though the papers have begun to report some difficulties as the result of the rise in the mark.

Your letters about the visit of Havenstein, and the data you send regarding their relations with you, were very helpful to us in considering the letter we received from the Reichsbank a fortnight ago proposing opening an account and borrowing against gold, to which we replied, as I have cabled you, affirmatively regarding the account but expressing a preference that the question of credit should not be raised at present.

After such a budget of vital news as you have been sending us, I am sorry to be able to send you so little in return from this side. Great things are doing in Washington, but of these you are doubtless fully advised by the newspapers and perhaps by your representatives. The conferences are conducted, I believe, with great secrecy until decisions are reached, when they are announced at the open meetings. Shortly after the conference opened it was stated that only nine people knew in advance of the proposal for naval reduction, among whom were none of the foreign delegates. The four-power treaty seems likely to be

