

STRONG PAPERS, Strong to Norman, 1923 – 1924 (List redone 5/2004, to include all materials)

1923

(February 16)  
(February 21)  
(February 21)  
February 22  
(February 28)  
March 6  
May 15 (from Case)  
November 23

1924

January 4  
(January 11)  
(January 11)  
(February 15)  
(February 19)  
February 21  
March 3  
March 6  
March 11  
(March 17)  
(March 17)  
May 29 C  
June 3  
July 9 (original list: June 9; assume it was typo)  
(July 9)  
(July 15)  
July 25  
[September 10 (to Lubbock)]  
October 20 (from his secretary)  
October 28  
November 4  
November 6  
November 18, with clipping  
December 2  
December 8  
December 10

Strong Papers Key:

[ ] = At earlier date, item was listed as present but no original or copy is now in Papers  
( ) = At earlier date, item was not on list but original is in Papers and was copied if no copy existed

06/01/04

STRONG PAPERS, Strong to Norman, 1923 – 1924  
(list redone 5/2004, to include all materials)

1923

February 16  
February 21  
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February 22  
February 28  
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May 15  
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STRONG PAPERS, Strong to Norman, 1923 - 1924

1923

Feb. 22

Mar. 6

May 15 (from Case)

Nov. 23

1924

Jan. 4

Feb. 21

Mar. 3

Mar. 6

Mar. 11

May 29 C

June 3

June 9

July 9

July 25

Sept. 10 (to Lubbock) *in Sub file*

Oct. 28

Nov. 4

Nov. 6

Nov. 18, with clipping

Dec. 2

Dec. 8

Dec. 10

Oct. 20 (from his secretary)

FEDERAL RESERVE BANK  
OF NEW YORK

Reb'd  
6.3.23

34  
37

\*

February 16, 1923.

Montagu C. Norman, Esq.,  
Governor, Bank of England,  
Threadneedle Street,  
London, E. C. 2, England.

Dear Norman:

I take pleasure in sending you herewith a copy of the  
Eighth Annual Report of the Federal Reserve Bank of New York for  
the year ended December 31, 1922.

On page 34 you will find references to our transactions  
with the Bank of England.

Very truly yours,

*Benj. Strong*

Benj. Strong,  
Governor.

Enclosure

20<sup>A</sup>

FEDERAL RESERVE BANK  
OF NEW YORK

~~X~~

February 21, 1923.

not called to fair 15/5

Dear Norman:

I am enclosing copy of a letter which I am giving to Mr. G. B. Ceccato, (who is to be attached to the Italian Embassy in London,) at the request of a friend of mine, Mr. Guy Emerson, Vice President of the Bankers Trust Company. I do not personally know Mr. Ceccato, but I have the utmost confidence in Mr. Emerson's judgment, and it may well be that your meeting with him will prove mutually enjoyable and profitable.

I am hoping to write you a real letter shortly, but this is just to give you notice in advance of Mr. Ceccato's expected call.

Sincerely yours,

*Rees: Boston*

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

Enc.

\*

February 21, 1923.

Dear Mr. Norman:

I take pleasure in introducing to you the bearer of this letter, Mr. G. B. Ceccato, who has for ten years been attached to the Italian Embassy in Washington and in charge of the various official Italian business offices in New York. Mr. Ceccato is now to be attached to the Italian Embassy in London, with the rank of Commercial Counselor. While Mr. Ceccato is not known to me personally, he is vouched for by one of the Vice Presidents of my old institution, The Bankers Trust Company.

I am advised that during his long residence in America Mr. Ceccato has, through his skilful handling of the many problems of an important nature which have arisen during that period, won for himself the admiration and friendship of a very large group. It is a great pleasure to be able to put him in touch with you and to say that anything you could do to facilitate his work in London from time to time would be greatly appreciated by my friends in America.

Sincerely yours,

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

PERSONAL AND CONFIDENTIAL!

February 22, 1923.

Dear Norman:

My delay in writing you has been due partly to absence and partly to illness, - concerning which I write separately. I'm now writing from my apartment.

The situation about our rates has been most puzzling and difficult, and I fear that my absence, as well as the need for unexpectedly prompt action, has resulted in your being less well informed than I had wished.

Need for a change of rate has been indicated for some time, as I explained when you were here. The chief reason for the delay since then has been my fear that an increase would interfere with prompt passage of the funding bill. Some of the critics of the plan might easily have made a loud noise about the low rate charged Great Britain just when our rate advance was forcing our own Government to pay higher rates, etc. That is now behind us, if advices from Washington are reliable; and the advance to 4-1/2% will have no effect upon the legislation.

A higher rate in New York has been forced by developments which I shall only summarize in order to give you the picture as we see it.

1. Market rates got to be about 1% above our rate.
2. Stock Exchange loans at top figure, and advancing, with an active bull speculation.
3. Our loans in New York Bank up from low of last year by \$300,000,000 or more.
4. After declining in January, rapid increase in our note issue.
5. Production in practically all lines at maximum and nearly at capacity in most industries.
6. Railroad car loading up to capacity.
7. Inventories generally increasing.
8. Prices in nearly all lines steadily advancing on top of largest

percentage in like period since Civil war (barring late war).

9. Rather general labor shortage.

10. Convincing evidence that any further supplies of our credit to the banks would accomplish no more than to mark up prices, with no increase in production, and probably support an extending speculation. ✓

Never, I suppose, have the factors which should move us in our rate policy been so carefully examined and considered, as recently. The results convinced me that our action was required, and that with our excessive gold stock we must entirely ignore any statutory or traditional percentage of reserve, and give greater weight to what is taking place in prices, business activity, employment, and credit volume and turnover. ✓

Of course we must not close our eyes to the bearing this may have upon Europe, simply in its indication of our state of mind, and of future policies. Enlightened opinion on this score must appreciate that should we dissipate our credit resources in speculation and price boosting, in the long run Europe will suffer. The advantage, - a very temporary one, - of a high price market in which to sell us goods would be more than offset by the ultimate disorders of readjustment.

With the debt settlement concluded, I am coming to feel that the future, in many respects, is more in your hands than ours. Should it now be possible to put sterling, yen, guilders, and possibly a few other currencies firmly at gold parity with our dollar, - and keep them there, - then with resumption of free gold payment our mutual problems of rates, reserves, credit and prices would largely solve themselves. You may be sure that inflation has no charms which have not been analyzed by Reserve Bank men and rejected as spurious. ✓

Please send me a letter with your views when you can, and be generous in judging my delay in writing you.



2.22.23.

I'll not comment on the debt settlement until my next letter.

Best regards to you,

Very sincerely,

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

BS.MSB

P. S. Sometime you might tell Hawtrey that his understanding of American Credit and of the Federal Reserve System is too much from books and magazines and not sufficiently from the source. I usually disagree with him on those subjects, as I do that "money is one of those concepts which, like a teaspoon or an umbrella, but unlike an earthquake or a buttercup, are definable primarily by the use or purpose which they serve" (Chapter I "Currency and Credit")

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FEDERAL RESERVE BANK  
OF NEW YORK

\*

CONFIDENTIAL !!

February 28, 1923.

37

My dear Norman:

I have your cable No. 7 of February 21 in reply to mine of the previous day with regard to an earmarking charge on gold. We have made a charge of  $1/10$  of  $1\%$  per annum for earmarking gold in all cases where we have been asked to perform that service for foreign banks, the only exception being in our agreement with you, which you will recall does not contemplate such a charge.

Recently we have been doing more business for de Nederlandsche Bank, particularly in the way of buying bills for them with our guarantee, for which we get a commission of  $1/4$  of  $1\%$  per annum, and we decided, in view of these closer relations, to reduce our earmarking charge in their favor to  $1/20$  of  $1\%$ . They countered with the suggestion that we agree to the reciprocal earmarking of gold without charge, and before coming to any decision in such an important question in the relations between central banks, I ventured to cable you, because I have felt, as you do, that we both should adopt a similar policy in these matters.

The question was brought up at the meeting of our board of directors this morning and it was decided that in the case of foreign correspondents, with whom we have reciprocal agreements and have established close relations, no charge should be made for earmarking gold provided (1) it is reciprocal, (2) a moderate free balance is maintained, and (3) the account is on a reasonably profitable basis due to remuneration received through commission on investments.

I understand from your cable that this is substantially the policy which you have adopted and I have written you quite fully, as I feel that we must go hand in hand in these matters.

Cordially yours,

*Benj. Strong*

BENJ. STRONG,  
Governor.

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

March 6, 1923.

Dear Norman:

I have gone over the documents which you were good enough to send me with your note of February 23 with a great deal of interest.

At the time I can send you no more than this acknowledgment, but I do want to say that one of these days, as I see it, our various difficulties in setting up real cooperation among banks of issue will be solved!

With kind personal regards, I am,

Sincerely yours,

*Bo*

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

BS.WSB

5000  
FEDERAL RESERVE BANK  
OF NEW YORK

CONFIDENTIAL

May 15, 1923.

Dear Governor Norman:

I have your letter of May 2 and am obliged to you for the explanation of your cable of April 28. As you suggest, loans in increasing amounts to the Reichsbank will undoubtedly have an unhealthy effect on your market through easy money and low rates, which may result in some inflation and be likely to depress further the New York - London exchange. The recent weakness in sterling and the disparity between your bank rate and ours suggests to you, I understand, the possible need for an advance in your rate as the normal corrective of these conditions.

As to the other methods which you suggest in your letter to counteract advances to the Reichsbank, i. e. either borrowing in London or elsewhere, perhaps New York, might not the former accomplish the desired results more readily? By borrowing here you would, of course, strengthen your exchange and tend to ease our money rates. This course, while tending to ameliorate conditions with you, resulting from the Reichsbank loans, would not, it seems to me, actually curb inflationary tendencies on your side, as would be the case if you borrowed directly in your market. You will, of course, appreciate that borrowing here, whether by means of advances from us or by sale of bills, would have to be done at a higher rate than you are loaning to the Reichsbank. It does seem likely, as you suggest, that the Reichsbank must eventually contemplate the probability of repayment by sale of the gold, and in that event it would sooner or later come to us. An inflationary impetus has already been given to this market through the importation of gold during the past two years. In this connection I might mention that one of the banks here is shortly bringing in

about \$15,000,000. in gold from the Reichsbank, while at least one of the other banks of issue which you mention is gradually selling its American bill holdings in this market for the purpose of stabilizing its exchange.

You have probably observed that there are indications of some slackening of business here during the past few weeks, and the pace does not seem to be as rapid as it was in March and April, particularly in the matter of forward buying, which has slowed up considerably. This is undoubtedly a healthy sign but it is not expected to affect materially the volume of production, distribution and consumption. The recent suspension of a number of large new building projects is particularly note-worthy and has been brought about by rapidly advancing costs of construction. The stock market broke sharply at the beginning of last week, rallied, and at the end of the week was again weak. As to money, the tendency towards firmer rates, which was in evidence during March, abated somewhat last month and the trend now seems to be toward greater ease. Similarly with bank credit, the increasing volume of loans by member banks for commercial purposes during March, which was accompanied by a reduction in their investment holdings, has been followed by a more moderate expansion in such loans. It is apparent that since the middle of March the demand for credit for commercial purposes has distinctly moderated. These changes in the loan accounts of our leading member banks have been almost without reflection in the Federal reserve banks' figures. Imports of gold and liquidation of investment holdings have enabled member banks to meet the credit demands of their customers without recourse to the reserve banks.

With kindest personal regards, believe me,

Faithfully yours,

J. H. CASE,  
Deputy Governor.

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

November 23, 1923.

My dear Norman:

The sign for which you ask must have reached your hand but a day or two after despatching your letter of November 13, as I think I wrote you somewhere around the 6th or 7th of November, after seeing Dr. Coakley. I am here at the apartment, both the boys being home, and still able to send a good report after seeing both of my doctors again this week. The throat seems to stand the racket alright.

The regular semi-annual meeting of the Reserve Bank officers was held in Washington during all of last week. I did not preside but sat at the meeting and felt that I was gradually learning a little of what had taken place during my absence.

The two new members of the Federal Reserve Board, James of Tennessee and Cunningham of Iowa, the latter being the farmer appointment, have turned out very well indeed. Of course, they are neither bankers nor economists nor specialists in any line in which we are directly interested, but both seem to be practical, good common sense fellows with minds open to conviction and keen to hear from the men who have been running the System. I was much encouraged by what I observed.

Mr. Mellon keeps astonishingly well, but as Mr. Gilbert's resignation has just taken effect, and he has a new Under Secretary to break in who has had no experience in the Treasury, I fear that the Secretary will have to carry a heavier load than heretofore. Mr. Mellon's tax reduction proposal has brought forth a

burst of enthusiasm from the newspapers and from taxpayers. I am not as optimistic that it will kill bonus legislation and go through promptly as some people are, but it is a move in the right direction.

The return flow of funds to New York has started and we are liable to see easy money rates for a time. I doubt if we have any such ease as will justify reductions of rates. The Reserve System's position is briefly as follows:

In January of 1922 we were lending to the banks of the country in one form or another between \$1200 and \$1400 millions. The Reserve Banks purchased at that time something over \$500 millions of short-time Government securities which enabled borrowing banks to repay to us their borrowings of almost exactly that amount, so that at one time, I think it was in August, 1922, they were only borrowing \$400 millions. When things got booming a bit too fast last spring, a gradual liquidation of most of the balance of our investments, which had been under way for some months, threw the burden back on the banks of borrowing from us the equivalent of what we had furnished the market through our investments, so that our loans to the banks directly have gone up to around \$900 millions again, which, with our investments in bills and a few Government securities, leaves us with about \$1100 millions of earning assets today. I have a feeling that \$900 millions of bank borrowings from the Reserve Banks results in a little pressure being put upon borrowers all over the country, and our job now is to determine whether that pressure has been on long enough or in fact possibly too long and whether it should not be relieved.

In past years we have had so many hitches in our inter-bank relations and between the banks and the Treasury that we finally agreed among ourselves to put the handling of the management of the entire open market operations of all twelve banks in the hands of a committee of five of the Governors, that is, Boston, New York, Philadelphia, Cleveland and Chicago. I shall remain as chairman of that committee, and the program will be to have the committee meet at regular intervals with the Board, agree upon a policy, and then turn its execution over to the committee. This

November 23, 1923

is, of course, quite confidential, but indicates that circumstances are stronger than anything else in controlling these developments, and the need for uniformity in what we do must eventually tie these Reserve Banks and their affairs together just as tightly as the lawmakers thought they should be kept apart. ✓

There are some signs of business reaction developing. New England cotton mills are pretty slack; unfilled steel orders are falling off; we have had a rather sudden letdown in the automobile tire business; there has been some setback in the agricultural implement business; we have had, as you know, six or eight months of liquidation in the stock market; the wheat farmer in the middle northwest is in hard straits; and finally, there seems to have developed a gross overproduction of hogs in the corn section which may become a bothersome problem within a few months; - so that our own skies are not entirely cloudless.

Compared to your situation, however, it seems calm here indeed. I cannot understand your Prime Minister's tariff proposal. There may<sup>be</sup> and doubtless are certain industries which will actually require tariff protection, possibly of a temporary character, during this period when continental labor is so frightfully impoverished; but it struck me that the announcement of this most radical change by the present government, followed so immediately by an election, would not give the British public, and especially that class of public in the northern industrial centers, an opportunity to find out what it is all about. He is a rather slow thinking fellow, and unless I am mistaken, this generation in England has been brought up in the belief that free trade was settled for the country 40 years ago or thereabouts. Isn't it a bit like asking the American public to vote on the acceptance or rejection of the fourth dimension or Einstein's theory of relativity?

The inflation scare that you mention shocked me a good deal. I wondered at the moment whether all the anchors were not dragging in Europe; but didn't it grow out of McKenna's resistance to deflation being interpreted as advocating a policy of inflation? Then again, I was encouraged by the appearance of a better alignment



November 23, 1923

of your parties which might result after this election in having an opposition which was at least neither socialistic nor labor. This was the natural conclusion which came to us after hearing that George and Asquith had patched up matrimony again after their temporary separation.

The Scandinavian bank rates are a bit of a puzzle to me. I don't know just what is going on. Your own bank rate from the traditional standpoint of the protection of the foreign exchanges seems to have been a failure, and I am inclined to think that politics has had more to do with the failure than an urgency to buy cotton or anything else from us. Is it not a fact that the climax in the Entente led many timid people to convert securities and buy dollars? We hear quite a little in New York of French, Swiss, British, and, of course, German funds being transferred to this country. I wish I could see the picture abroad more intelligently than I seem able to. My long absence has given me altogether too much of the newspaper flavor of things. A visit with you would help tremendously if I could only bring myself to believe that another absence from the office could be thought of. I especially want to see the picture through your eyes, notwithstanding that your glasses are generally too blue.

This is a rambling sort of letter without any real point to it except to make clear that I am back here, able to keep my correspondence going, and expecting gradually to work into active duty at the bank. So far I only go down for a couple of hours mornings and then only about four times a week. Please remember me to your associates, and write me a little more fully about politics. I would tell you something of the outlook for our election next year except that I have not yet formed any opinion myself. I am, however, very sure of one thing, and that is that it was a colossal mistake not to go ahead with Mr. Hughes' program on some reasonable basis, even though that program itself was not a very hopeful one.

With my warmest regards and many good wishes to you,

Very sincerely yours,

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

January 4, 1924.

Dear Monty:

Not a word from you since my last letter, but I am not charging you with any high crime, for you probably have been exceedingly busy with the affairs of the year-end and negotiations in connection with this new reparation development. Keynes' little book arrived safely, and I am just now reading it. So far as I have read it, the book follows conventional lines. I expect later it will depart somewhat from convention, and as I took a peek at references to the Federal Reserve System, I am prepared to say that some of his conclusions are thoroughly unwarranted and unsound and show a great lack of knowledge of American affairs and of the Federal Reserve System. It may be that when I have digested the book a bit I will write you some comments, and if you feel that it is wise to do so, you might take some opportunity to show the letter to Keynes or talk to him about it. I have a great respect for his ability and the freshness and versatility of his mind, but I am much afraid of some of his more erratic ideas, which impressed me as being the product of a vivid imagination without very much practical experience.

The outstanding prospects from my point of view just now in this country are not altogether reassuring as to our own position but rather satisfactory as to the country as a whole. Business is about normal and as yet there has developed nothing speculative or unsound in either the business or banking situation. We have pending, however, an important revision of our income tax law, which will likely pass with possibly some modification. There is now a prospect that the bonus legislation will be definitely killed. There is a distinct trend all through the country in favor of Coolidge and his Administration and more likelihood of another Republican Administration than ever before, and there is a feeling spreading throughout the country that European affairs must turn for the better because they cannot get much worse. If these prospects become certainties, we might have a speculative outbreak which it would be difficult to control, and you must realize that anything like an advance in discount rates this year would be quite difficult to bring about, even though we should urgently need it. We are shaping our policy of operations so that our influence can be felt without a change in rates. The Treasury this fiscal year, which ends June 30, will probably show a surplus of revenues of about \$300 millions, which would be applied to debt reduction and the fiscal year following will show the effect of tax reductions. The Treasury's position is very comfortable, but of course we are already looking ahead to the large maturity of the Third Liberty Loan early in 1928, which will need some anticipatory management.

January 4, 1924.

I would like very much to hear something about you and your personal plans. My own are reasonably uncertain. Our new building will be completed in a few months and I expect by mid-summer we will be all settled and working smoothly in the new plant. The temptation is constantly before me to wind up my work and quit, do some travelling, a little writing, and take things easy. Both the boys are contemplating matrimony, which will justify a reorganization in my domestic plans and leave me much freer. So far, however, I am simply flirting with the idea as it depends upon three major considerations: First, the family; Second, the bank and developments in the Reserve System; and Third, of course, my health. As to the last, I have been taking the very best care of myself, coming to the office mornings only, resting every afternoon, and the effect of this good behavior is distinctly shown. Dr. Miller tells me that my lungs are in the best shape they have been in for years, and Dr. Coakley says that the cure of my throat is complete, and even the scar tissue, of which there was a certain amount in the larynx, is being absorbed and is disappearing.

I have been much interested by the news reports of your prospective service on this commission of inquiry and then of your retirement. Viewing the matter from this distance, I am glad you are not involved in that job. It will be a puzzling and difficult one and only too likely to encounter failure or a deadlock, and your own stunning success in the bank and various outside activities I feared might be marred by the outcome of this matter.

Sometime ago you or one of your associates wrote about the possibility of sending two of our men to London to make a visit to the bank similar to what your men did with us. I have been considering this a good deal and wonder whether it would be satisfactory to you to have us send Mr. Stewart - who occupies a position with the Federal Reserve Board somewhat similar to Snyder's, and who is a perfectly delightful fellow and very reliable - together with one of our own men from this bank. If Stewart went, he would want to make a rather broad study of the London money market, and I have tentatively committed myself to go at the same time. On the other hand, this is all a very tentative idea, anyway, and I am writing to ask you to express your views most frankly.

A week from Sunday I am leaving for the South and will probably spend two or three weeks at Palm Beach, playing golf with some friends, as Dr. Miller (S.A.) wants me to get more exercise and says that with this little preliminary preparation, I can count upon playing golf regularly this summer.

Do write me when you have opportunity, and give all the news, and especially whatever you feel willing to send me about your own personal plans.

Sincerely yours,

Right Hon. Montagu C. Norman,  
 Thorpe Lodge,  
 Campden Hill,  
 London, England.

123 B.

FEDERAL RESERVE BANK  
OF NEW YORK

*Holt*

*X*

January 11, 1924.

*New York*

Dear Norman:

You will, I believe, recall meeting my old friend and former associate in the Bankers Trust Company, now one of our directors here, Mr. Gates W. McGarrah, who is the chairman of the board of directors of the Mechanics & Metals National Bank.

He is sailing for Europe on the 16th of January and desires me to furnish him with a letter of introduction to you, which I am doing with a good deal of pleasure. Let me say that Mr. McGarrah is one of the older type of more substantial bank officers, who enjoys the respect and confidence of the entire banking community. He is a very cautious, thorough and conservative banker. His institution has been so managed that it has escaped any suggestion of criticism in any way, and his election to the board of this bank was really brought about at the suggestion and request of Jay and myself.

Of course, you know how frequently we are asked to give letters of introduction, many of which I fear have burdened you with callers who return nothing but trouble for your courtesy, but in this instance I am anxious that you should get to know Mr. McGarrah well, for he is not only an influence in the counsels of the bank here, but in the banking community as a whole, and I am glad to say that he is a man of independence, intellectually and in every other way, and one in whom you can have entire confidence, and talk with freedom about our affairs. It is very seldom that I am able to write you of Americans bearing letters from me in this wholly unreserved fashion. He occupies much the same position with us that Alexander did.

I sincerely trust that you find opportunity for a visit with him and get to know him well.

With every good wish, I am,

Very sincerely yours,

*Ree: Hoover*

Right Honorable Montagu C. Norman,  
Governor, Bank of England,  
London, England,

copy

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January 11, 1924.

Dear Mr. Governor:

This note will be presented to you by my old friend and associate, Mr. Gates W. McGarrah, Chairman of the Board of Directors of the Mechanics & Metals National Bank of this city. Mr. McGarrah was a director of the Bankers Trust Company from the time of its organization, and now is a director of the Federal Reserve Bank of New York, so we have been associated in one way or another for a good many years.

I am sending him with every commendation, both as a friend and as an associate, and will be grateful to you for any courtesy which you are able to extend to him while he is in London.

With cordial regards, believe me,

Yours very truly,

Benj. Strong,  
Governor.

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

BS.MM

FEDERAL RESERVE BANK  
OF NEW YORK

\*  
February 15, 1924.

IN REPLY PLEASE REFER  
TO

My dear Norman:

It will be a great pleasure to see Mr. Wallace when he arrives, and I shall look for him shortly after the arrival of the Berengaria.

You may not recall that I had the pleasure of meeting some of his partners in India.

Upon the remote chance that I may not be at home when he arrives, I am taking the liberty of asking Mr. Jay and Mr. Case both to be on the lookout for him.

Thank you for writing me, and especially for urging him to call.

With best regards,

Very sincerely yours,

*Ben. Hoover*

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

BS.MM

134<sup>A</sup>

FEDERAL RESERVE BANK  
OF NEW YORK

February 19, 1924.

\*

Dear Norman:

*- to Ref. Lib.*

The enclosed is a copy of the Ninth Annual Report of the Federal Reserve Bank of New York for the year ended December 31, 1923, which I am sending with the compliments of our directors and officers.

Yours very truly,

*Benj. Strong*

Benj. Strong,  
Governor.

The Right Honorable Montagu C. Norman,  
Governor, Bank of England,  
Threadneedle Street,  
London, E. C. 2, England.

Enc.

PERSONAL

February 21, 1924.

My dear Norman:

The circumstances relating to my attempt to slip over to visit you for a week or so have altered from day to day, and I am still unable to send you a final definite cable, which I hope, however, to send early next week.

In the meantime, I am not attempting to answer your last letters, which would be superfluous if I succeeded in getting away.

Mr. Wallace has been here, and I am proposing to take him to Washington with me tomorrow to give him a little look at the Capitol, as I must be there on Monday to attend a committee meeting. The limitations upon my activities have been such that I may have appeared a little indifferent to his visit, but I think he thoroughly understands that, and indeed you may be willing to explain it to him when he returns.

With every good wish to you, old friend, and hoping greatly that I can manage to see you soon, I am,

Faithfully yours,

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

BS.MM



CONFIDENTIAL

March 3, 1924.

My dear Norman:

At last I seem able to send you the beginning of a reply to your letter of January 30. Since its receipt I have been obliged to be in Washington for so much of the time, and the situation as to a possible trip to Europe has been in such suspense, that I hardly felt it was worth while to write you when everything was so indefinite.

As to a trip abroad just now. Without going into particulars, a variety of things combine to make it impossible. Until a few days ago I had a lingering hope that I might sail on the Olympic with Cullen and Wallace, but that hope faded too shortly before sailing day to permit me to write you by that Steamer. There is a tiny remnant of a chance that I may get away on her next sailing on the 22nd of March, returning on the same boat, and having just a few days with you in London for a discussion of all of the matters which seem to require face to face treatment.

A number of things have been causing me a bit of uneasiness. One was the possibility of a conflict of fundamental policy between your new Government and the Bank. My uneasiness on this point was relieved by the pronouncement that the general features of the Cunliffe report would be the guide to the present Government in monetary matters, which I interpret as being the reply of the Government, on the one hand, to inflationists, and, on the other hand, to those who deprecate aiming at the ultimate goal of returning to the gold standard.

Then I have been wondering whether your own rate policy may not be hereafter and might not have been in the past too much inspired by consideration of the condition of the sterling exchanges and given too great emphasis to the hope of an influence on the dollar rate which could not be realized. Advancing discount rates in various quarters abroad for a time had a rather ominous appearance, associated as they were with the general uneasiness due to the belief that the flight of capital to this country was extending. I really feel too much out of touch with your own situation to discuss it in a letter, and you doubtless feel the same as to ours; so the need for a meeting has been growing in my mind for sometime.

March 3, 1924.

Then again we may have to face decisions here in regard to rates dependent upon what unfolds within the next month or two. It is very difficult to appraise the future of the New York money market. It has been distinctly easier since the turn of the year, and we have had an immense inflow of currency and a sharp reduction in the earning assets of the Federal Reserve System. Besides that, the influence of the inflow of gold is constantly felt. Were we to slide into a period of dullness this summer with consequent eased money, our whole rate structure might require review and possibly revision. But then our discount rate is very different in its relation to the money market, and changes in our discount rate have a very different relation to the money market than have yours. The reserve percentage has lost much of its significance, and the important factor in the relation of the Federal Reserve System to the money market is the total of our earning assets. The effect of changes in the discount rate is more like a sledge hammer blow to sentiment, while the effect of our transactions in the open market in the purchase and sale of bills and Government obligations is much gentler. Besides that, this is a political year with political high lights almost unendurable to the eye, and the noise of political developments deafening to the ear.

I shall write you again when I am able to do some work quietly up town. But this letter is particularly to let you know that there is still a remote possibility of my sailing on the 22nd; but if that fails I may then urge you to carry out your plan of coming over here a little later, or in fact just as early as you can arrange to do so. My plans must be shaped a little bit by Ben's expectation of being married on the 25th of April. It is an event of too great consequence for me to be away except because of dire necessity.

Now a personal word about my own plans. What I wrote you about the possibility of retiring indicated nothing imminent. Possibly it meant that at the moment I was tired. My health is better than it has been for years. But I do sometimes feel that this is a thankless job, that I have paid a tremendous price for carrying on, and that selfish considerations finally justify my seeking leisure and more especially freedom from the responsibility of it all.

As to the inwardness of the Reserve System, I think the fear so often expressed that politics is creeping in is really unfounded. We will always be subject to a certain amount of nagging by Congress. Maybe it is good for us. We enjoy the most complete freedom from anything like Treasury domination, and in respect of that particular fear that you may have heard expressed by Americans abroad, I don't think you need have concern.

Owing to my absence in Washington, I missed opportunities for anything like a decent visit with Cullen. He was only here a week, one-half of which I was in Washington. But I did have some interesting times with Mr. Wallace, all of which he will tell you about.

Please understand that this is preliminary to a more detailed reply to your letter. I wish I could be a more systematic correspondent.

Let me know just how you feel about my plans, and please understand that I have the keenest possible desire to have a good visit with you. It delighted me to hear that you appeared well and vigorous and not as much worried as you sometimes are. My best to you, old man, as always,

Yours sincerely,

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

PERSONAL

March 6, 1924.

My dear Norman:

I am writing in a personal and preliminary way about a matter which I had hoped to discuss with you either in London or New York in case one or the other of us made the trip.

There has been from time to time some suggestion made to me by my associates, and I think a question has arisen in the minds of the officers of the other Federal Reserve Banks, as to whether the time had not arrived when we should be making some earnings on the balance which we carry with the Bank of England, which now amounts to about £165,000.

The account was opened particularly as a complimentary account, and we had felt that we had called upon you in the past to do quite a little work for us on gold and one or another matter, and possibly it would be unreasonable for us to ask that the provisions of our original agreement should be made to apply so far as interest is concerned. I am not sure just what your policy is now in regard to interest on foreign balances; whether this is the type of balance on which you have in the past allowed interest; and if not, whether you adopt a practice identical with the one we have in buying bills for foreign correspondents. Won't you give me the benefit of your own ideas before I make anything in the way of a more formal suggestion?

March 6, 1924.

It would convenience me a good deal if you could give me some hint as to a suggestion to the Bank of France. Do you buy bills for them? We have an account with them - not as much as the one with you, but still with a substantial balance, and I shall defer writing them until I hear from you in regard to our account with you.

Yours sincerely,

Right Honorable Montagu C. Norman,  
Bank of England,  
London, England.

BS.MM

PERSONAL

March 11, 1924.

Dear Norman:

It hardly seems worth while to write you letters when almost from day to day I have some expectation of being able to sail and have a short visit with you. It now seems a little more likely that I may be able to get away on the Olympic on the 22nd. In fact, I have my reservations made and am only awaiting the arrangement of some final details before deciding definitely. Meantime, I shall not inflict you with a long letter. There is much that I must talk with you about, and I would sail a week earlier were it possible for me to get away, which it is not.

With best regards,

Very sincerely yours,

Right Hon. Montagu C. Norman,  
Bank of England,  
London, England.

BS.MM

123

FEDERAL RESERVE BANK  
OF NEW YORK

IN REPLY PLEASE REFER  
TO

\*

March 17, 1924.

Rec'd 31

My dear Norman:

I hate to bother you with letters of introduction, but the one I have just given to Mr. Decker, copy of which is enclosed, I felt obliged to give at his request because of our long association and personal friendship in connection with Federal Reserve System matters. He is one of the ablest bankers of the Northwest, and we regard him as a man of exceptional ability and character. If you are able to spare time for an appointment with him, I am sure that he will appreciate it as I will.

Yours sincerely,

*Res. Hoover*

Right Honorable Montagu C. Norman,  
Governor, Bank of England,  
London, England.

BS:MM  
Enc.

FEDERAL RESERVE BANK  
OF NEW YORK

IN REPLY PLEASE REFER  
TO

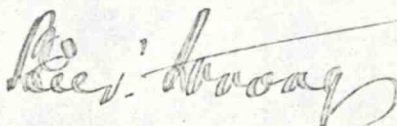
~~\*~~  
March 17, 1924.

*Decker  
do not call*

My dear Mr. Governor:

This note will be presented to you by my friend Mr. Edward W. Decker, President of the Northwestern National Bank of Minneapolis, who has been one of my intimate banking friends for a good many years and who has had, either as director or as member of the Advisory Council, a relationship with the Federal Reserve System since it was established, and I commend him to you without reserve.

Yours sincerely,



Benj. Strong,  
Governor.

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

BS:MM

COPY OF CABLEGRAM OUTGOING

May 29, 1924.

Bank of England,

London, England.

No. 47 STRICTLY CONFIDENTIAL FOR GOVERNOR:

Your No. 80 Paragraph 4

Bank officers and bankers having needed experience and theoretical knowledge will not likely be interested on account of generally larger incomes and greater opportunities here. A year's service might be tempting to some for example James S. Alexander John E. Rovensky or Joseph A. Broderick of National Bank of Commerce George E. Roberts National City Bank. As advisers without practical banking experience some university men might be considered for example E. W. Kemmerer of Princeton Henry E. A. Chandler of National Bank of Commerce Walter S. Stewart Federal Reserve Board Wesley C. Mitchell of Columbia J. H. Roberts of University of Missouri. Two men of high character and good experience now free are Alfred L. Aiken formerly governor Boston Reserve Bank and chairman Shawmut Bank S. H. Voorhees formerly vice president National City Bank and New York manager Royal Bank Canada. Norman H. Davis whom you know might also be considered. Have no idea whether any could be secured if wanted. Reply delayed by absence in Washington.

Strong



CONFIDENTIAL

June 8, 1924.

Dear Norman:

Since returning home I have been commuting back and forth to Washington and found little time free to write you at any length about the way I find things.

You will be glad, I am sure, to learn that Dr. Miller has given me a very excellent report on what he found after a most careful examination made by him and by my brother. He describes the occurrence in Paris as simply an accident and not an indication of any development that need cause me concern.

One of the first things I encountered was the report of the Federal Advisory Council on the Dawes plan, in which were interjected certain remarks in regard to dollars and sterling! It sometimes strikes me that we are unduly burdened with people in this world who believe that human ingenuity and efforts of imagination can perform miracles.

My own view of the stabilization of German currency I think you understand. If they are going to have a gold valued currency, they must rely to a very great extent at first upon dollars, which means American credits; that temporary necessity cannot be a matter of controversy nor even of opinion; it will be arranged by natural law, not by wish or design. Then when you and your confreres are ready to put sterling back to par and keep it there and get back on a gold basis, the question will be entirely eliminated as subject for controversy or discussion. I don't see any advantage in raising the question anyway just now, and the report seems to have called for more comment than the subject deserved.

June 3, 1924.

Also I find at home growing evidence of business recession. Political and other developments have made people cautious in some lines, notably the motor industry, where there has undoubtedly been some overproduction. The result of this slowing down of business and of the general feeling of caution - and, of course, of gold imports, - all makes for easy money. I look for a period of lower rates than we have seen for many a long day. But, unfortunately, our declining prices may add somewhat to your exchange difficulties and I am wondering just what, if anything, you propose to do. Thinking aloud, my general inclination here would be to favor developing just such a disparity between your rates and ours as would promote more borrowing in this market and less in yours, and generally work toward such a program as we discussed in London. It may be helpful in more ways than one.

I am not commenting on the payment on the 16th, concerning which I have been cabling you, as anything by mail would be out of date on arrival. I may cable you again in a day or two.

It is difficult to make suggestions about those technical advisers in Austria and in Hungary. Our most experienced bank men who have developed just the right kind of knowledge together with adequate sense of responsibility, as you know, get very large salaries - far beyond anything which could be paid for the services that are needed - and I believe the only inducement to such men as I have named to undertake the work would be the interest and experience and then probably for a limited time only so as not to interfere with their careers at home. On the other hand, some of our University men who get very small salaries are able to get a year off now and then, and some of them are very able men indeed and well qualified to act as advisers, although possibly not so well qualified in operating matters.

The world has suffered during the last ten years from bad advice from this class of gentlemen here and there. On the other hand, it has suffered greatly through ignoring their advice.

June 3, 1924.

On the whole, I think you have recommended one of the best men who might be available (Davis), and if you need my assistance with him or in any other direction, please do not hesitate to call on me.

Since dictating the above, your letter of the 17th of May has just arrived, but I shall reply separately on returning from a trip which I must make to Washington this week.

With best regards to you and to your associates, believe me,

Faithfully yours,

Right Honorable Montagu C. Norman,  
Governor, Bank of England,  
London, England.

BS.MM

CONFIDENTIAL

July 9, 1924.

My dear Norman:

It was most satisfactory to have your long letter of June 16, but as you say, the scenes change so rapidly that letters are out of date before they are received.

2. As I think I wrote you, I am most regretful that anything of a controversial nature on the subject of "dollars" versus "pounds" should have arisen upon what appears to be initiative on this side. Whatever may be our views of the present, I am sure that you and I agree that this question will solve itself in the future, i.e. - whenever sterling returns to its former position. I have believed and stated that under present conditions it is natural to expect that the London money market by reason of its better organization and its better knowledge of German conditions will be able to do more in the way of credit assistance for Germany than we can expect to do at first; that that fact should be recognized, certainly to the extent that no discrimination should be directed against the London market in the pending plans. On the other hand, it will obviously be to Germany's advantage to obtain all possible credits in this market because (a) it is the gold market, (b) it is to the advantage of Germany to borrow in the market where the currency is not at a discount with gold so as to escape the loss which might arise through the enhancement of the value of sterling vis-a-vis a German currency at par with gold, and (c) because the credit burden on the London market is one of the present difficulties in the way of a return of sterling to par. Our interests in this subject are mutual and interdependent and should not be the

July 9, 1924

subject of any controversy or dispute. It is also obvious, as you stated in London, that embarrassment will arise to you if Germany does succeed in stabilizing her new currency at par with ours, unless England is also prepared to return to a gold basis.

3. The reduction of our rate to 3 1/2 per cent., which has been generally followed throughout the System by reductions to either 3 1/2 or 4 per cent. is an indication, to my mind, of three developments:

(a) To a small extent of the influence of gold imports upon money rates.

(b) To some extent, of no mean importance, of the policy of the Reserve Banks in building up a portfolio of short paper.

(c) Of some recession in business which has resulted in releasing funds and so caused further ease in money.

You will, of course, have in mind our discussion in regard to policies. My own belief is that your interest in price changes and the reaction upon the exchange rate is really greater than ours, but that at the present moment our rate policy, which has been made to conform to conditions as they develop in this country, should be helpful to you, especially at this juncture when an advance in your bank rate might prove embarrassing because of unemployment. But both your prices and ours seem to be declining. However, so far as the price equation is concerned, I cannot see that you have gained anything as yet, nor in fact have I ever believed that general prices are or could be so strongly influenced by bank rate under present conditions as to give you any power or control which would be effective towards the objects which you outlined to me in London. The changes are too slow, and arise from too great a variety of causes. Nothing has occurred to alter my belief that the first step towards your own monetary reconstruction is the adoption of the Dawes plan and its successful inauguration through the placing of the 800,000,000 mark loan. The next step, in order to create a sound basis for your own return to gold payment,

July 9, 1924.

is just what it has been for five years, - that is to say, debt readjustment on a basis of certainty rather than uncertainty, and within the capacity of the debtors. Were these two steps taken, I believe <sup>indeed</sup> that money market and credit conditions in this country and yours favor a policy along the lines we discussed, and that they present some prospects of success provided your own local and political conditions (especially unemployment) do not make an advance in the bank rate impossible. It is difficult just now to forecast what further changes in our discount rate may take place. On the whole, I feel that we should await further developments in the money market before considering any further change. As you say, there may be no great hurry in returning to gold parity, but there is need for taking advantage of the opportunity which now seems to exist for pursuing a policy by progressive stages which will facilitate that object, whether it be at the end of months or a year or years.

4. Your reliance upon an advance in bank rate to help the exchange has always struck me as somewhat open to question and based upon past experience in a free gold market. Aside from its possible influence upon prices, are not the direct results of importance, usually but three:

1. A transfer of balances to London.
2. Discount of bills elsewhere (New York).
3. Reduced foreign loans in London.

As to (1), I apprehend that so long as you are not paying gold and sterling fluctuates over so wide a range, the risks of exchange loss will deter this movement and London balances will remain at a minimum, at least so far as American houses are concerned.

As to (2), the total cannot be very large in any event, and as to all bills owned by American banks, which are drawn in sterling, they will not be "carried" in London with American funds, to any great extent, again on account of exchange risks.

As to (3), undoubtedly our market now becomes more attractive for foreign loans than it was, but your bankers are too reluctant to forego the

July 9, 1924.

business to make this market any permanent relief, and investment funds here will likely demand higher returns still than in the English market. Opportunity for safe and profitable investment here is still the chief factor.

So on the whole I do not look for any great results in the exchange rate until something more fundamental is undertaken than simply an increase in your rate.

5. Since your letter was written, the New York bankers grouped under the leadership of Messrs. Speyer & Company have successfully sold \$7,500,000 of the Hungarian loan. One of the issuing houses informs me that the bonds were very well distributed. What you say about the relation between the Hungarian currency and sterling and dollars is answered by what I have written in regard to the German currency. The same principle applies in both cases, but of course Hungary will experience even greater difficulties in getting credits in New York, than will Germany. This is indicated by the fact that while your market takes nearly eight million sterling of the Hungarian loan, and our market only seven and a half million dollars, the discussion in regard to the German loan seems to assume that our market will take at least one-half of it. After all, the relation of Hungarian currency to sterling and dollars will no longer be a problem when sterling is once more at par, and the question uppermost in my mind is whether sterling is not now rather far behind in the procession.

6. What you write about Logan is most interesting and illuminating. I sincerely hope that he has not aroused any prejudices and would be surprised to learn that he had. During his long service in Europe he has done much for the United States and much for Europe as well; he is a high-minded conscientious and energetic fellow devoted most earnestly to aiding in the solution of these serious problems.

July 9, 1924

7. As you say, it is difficult to suggest anyone suitable for these positions in Austrian and Hungary. I would like very much to help. One of the best men suggested in my cable is Stewart who is now the technical adviser of the Federal Reserve Board. He is a quiet unassuming person but thoroughly sound from the theoretical point of view, and I believe he is a man of some administrative ability; but of course he belongs to the University type.

8. Mr. Saunders has returned and was much pleased at the courtesy you showed him. I hope you had a good visit with Case. He is due home next week, and Jay sails Saturday.

9. I have just left my doctor - James A. Miller - who gave me a last thorough overhauling before he sails for Europe. He tells me that my throat now appears to him to be about normal with no evidence of activity in the old infection whatever. As to my lungs - he says notwithstanding the accident in Paris, he considers them in better condition than at any time during the past eight or nine years that he has been taking care of me. As he expresses it, he is convinced that while I may be a chronic old case, I am as tough as a piece of shoe leather and something else than T.B. will "get me" in the end.

This is about all the news except politics, concerning which I have such a feeling of aversion that I am not going to inflict you with even a line on the subject. My best to you, good friend, Don't work too hard, and if you find that you can slip away for a few weeks this summer do come over and see me. You will be interested to know as a last word that Owen Young and I had one very good meeting with some of our Washington friends, and I think we have illuminated them a good deal as to the situation in Europe.

Yours sincerely,

Right Hon. Montagu C. Norman,  
Governor, Bank of England,  
London, England.



July 9, 1924.

My dear Norman:

Your letter of June 19th troubled me because I now fear that the expressions I used in my letter on the subject of the Houblon tankard were not as adroit as they might have been. The Clearing House association really would like very much to carry out such a program as I took the liberty of suggesting on my own responsibility, but they felt they should have some sort of a letter from you which would contain some indication of the sentimental value which you attach to the piece of silver.

Why not write a letter to Mr. William Woodward, Chairman of the Clearing House Committee, care of the Hanover National Bank, giving him the history of the tankard, refer to the conversation which I had with you in London about it, and say that while the Bank of England cannot very well request the return of the piece of silver to which attach associations of such moment for the Clearing House, nevertheless you understand I have discussed a plan by which its return might be arranged and that anything that the Clearing House Association decides to do about the matter would be gratifying to you and to your associated, and that you appreciate his friendly interest. Word it any way you please, but do put me in a position to get it done. I suggest that you send the letter through me, so that I may have a look at it.

Yours sincerely,

Right Honorable Montagu C. Norman,  
Governor, Bank of England,  
London, England.

BS.NM



Norman

July 25, 1924.

Dear Mr. Governor:

It was most kind and thoughtful of you to send us copies of those two old pamphlets - "Brief Account of the Intended Bank of England" and "Useful Reflections." They have been read by me and by some of my associates with a great deal of interest, and I must confess in places with some cause for amusement; but at once the reflection is unescapable that we in this country are indeed infants in experience and tradition when compared to the venerable institution over which you so ably preside.

It was a strange coincidence that at the same time that these little volumes reached me, I had just had delivered a set of the medals of the Presidents of the United States which are struck off by our mint, under some old statute, which I had the opportunity to acquire and which I am sending to you with our compliments and best wishes. One of our directors, Mr. Clarence Woolley, is sailing to-morrow and will take the package with him. They would have been mounted in a suitable form were it not that I had no means of surmising just what disposition you would like to make of them. Doubtless when your new building is completed, you will wish to put them in some of the drawers where articles of this sort are allowed to accumulate until age and association give them some value.

I am, as always,

Yours sincerely,

Right Honorable Montagu C. Norman,  
Governor, Bank of England,  
London, England.

BS.MM

Personal

October 20, 1924.

Right Honorable Montagu C. Norman,  
Bank of England,  
London, England.

My dear Governor Norman:

I regret to advise you that in installing Mr. Strong's private telephone at his new residence, 270 Park Avenue, the Telephone Company found it necessary to again change the number to Murray Hill 5179. The service is now in operation under this number.

Will you, therefore, please be good enough to disregard the advice sent to you under date of September 25.

Very truly yours,

Secretary to  
Mr. Benj. Strong.

Norman

October 28, 1924.

My dear Monty:

You have learned from letters from some of my associates that I ran off for a month's vacation, and, as I was not quite as well as I wanted to be, I attended to no correspondence at all while I was away, and am only now reading an accumulation of mail, including your letters of September 20 and October 16. It will take some time to reply to the latter.

But as to the former, please don't feel that Lubbock and I really conspired in the matter of that taskard. Our Clearing House people were really quite keen to carry out the suggestion I made, but, for some reason, possibly due to a rather meticulous regard for form, Mr. Woodward thought that we ought to have a letter from you. I would have much preferred to have the action appear quite voluntary and not expected, but now that it is done, - and I am delighted that it has been done, - I hope that it proves to be a little souvenir of association and respect which will remain in the memory of our associates for some time.

I am grateful to you for finding a way to put your name to those letters, which were the means of bringing this all about.

Very sincerely yours,

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

BS.MSB

517  
(Private and Confidential)

November 4, 1924.

My dear Norman:

Our correspondence has suffered unfortunate interruption because of your preoccupation and my absence in Colorado. This is my first opportunity to send you a reply to yours of the sixteenth.

Your political "upheaval," as I view it, appears to make plans for a strong policy as to the exchanges and a return to gold payment much easier than would have been the case had not the conservative party had such a sweeping victory and gained such a large majority in Parliament as to indicate the possibility of the new cabinet continuing in power for some time. I frankly did not look for any such development and it has made me wonder whether your natural conservatism in dealing with the problem may not now be somewhat modified. With Baldwin as Prime Minister, and Home as Chancellor (as rumored), with the perils of sudden changes in Government and general elections much reduced, and with the Dawes plan adopted, then, indeed, are not some of the political uncertainties of the future less likely to make you hesitant in facing this important matter?

You are, of course, the judge of whether notice should be given; how long the notice should be; and whether it is possible to cross this Rubicon before or after the expiration of the statutory embargo. But there are certain considerations which I believe we must bear in mind which you do not mention in your letter and which, from our standpoint, might appear to make the next year a more favorable opportunity than may arise later.

Certain domestic developments in America, combined, to be sure, with a sympathetic appreciation of your own position, have made it desirable, in fact necessary, for the Federal Reserve System to adopt a policy in the money markets

11/4/24.

which has, in part at least, contributed toward establishing a lower level of interest in New York than in London. And I think it is safe to attribute in part to this present relation of our two money markets, the arrest of imports of gold, the transfer of the demand for foreign loans from the London to the New York market, and the movement of balances from New York to London. So far as our credit policy (both yours and ours) is concerned, it has at least resulted in a situation rather favorable to your plans, and we must consider whether this can last much longer and what influences may now develop which would cause higher rates in this country and wipe out that disparity between the two markets, upon which we must somewhat rely for your successful return to gold payment.

You know there is no great surplus of loanable banking funds held by American banks generally. The surplus which is so much advertised in the papers is that represented by the large reserves of the Reserve Banks; and the very easy money in this country is the result of the competition for loans between member banks which have recently had some moderate surplus reserves because of gold imports, and, latterly, because of our investments in the market, - this surplus only arising after borrowings from the New York Reserve Bank were entirely liquidated last summer. Today we are lending nothing to the large member banks. Therefore a continuance of easy money depends upon the extent to which it is safe and we are willing to use our funds in the market in making investments, and not to the willingness of member banks to borrow from us in order to meet customers' demands. With our 3% discount rate they cannot borrow from us profitably, and with the credit and economic situation as it is, the Federal Reserve Banks from now on will probably make no further purchases in the market beyond (a) those which are made more or less automatically in the form of bills, and (b) such small purchases as may be necessary from time to time to offset any loss of gold.

As to the former, our bill holdings are constantly increasing and it seems likely that they will do so as long as we are willing to take bills from the market at 2-1/4%, which is promoted by our discount rate for commercial loans of 3%. As to the

latter, we have, in fact, as a result of the large foreign loans and for one reason or another, had quite a demand upon us for shipping (presently) and earmarking gold. I expect the Reserve System, or the market as a whole, may lose something over \$100,000,000, including what we have already set aside in the course of the past few weeks. This has a tendency to stiffen money rates because it operates directly to reduce the reserves of our members.

The Secretary of the Treasury has announced that the 4% Government Loan of 1925 will be paid off on February 1 next. There are \$118,000,000 of these bonds outstanding, of which something over \$80,000,000 are pledged to secure national bank note circulation. We cannot tell what the early effects of this retirement of national bank note currency will be. Probably it will have some effect to slightly harden money rates. Of course this can be offset, as in the case of gold exports, by our purchases in the market.

But there is another factor which may become of controlling importance. The election now seems certain to be overwhelmingly for Coolidge, notwithstanding the confusion of having three candidates in the field. And there is even a possibility that the Republicans may gain a majority in both the House and the Senate. This will be satisfactory to most business men. During the past few months there have been many signs of a gradual improvement in business, and if the election is satisfactory to the business interests of the country, it will be further stimulated. This will, to be sure, take place, if it does occur, at a season of the year when money usually flows back to New York from the agricultural sections and after the holiday demand, and the immediate effect upon the money market may not at once appear. But in the long run business activity in this country means demands upon the Federal Reserve Banks, and demands upon us will mean higher rates unless we are willing to run the risk of an inflation which, once under way, might be difficult to arrest.

So we must also consider the subject of relative price levels, concerning which



I have always felt that a great deal of nonsense has been written. We may not adequately take into consideration that changes of prices are not always a cause of a change in the exchange rate; in fact, it may at times be the case that changes in rates of exchange are themselves the chief influence upon the relation of international prices. I am inclined to the view that the latter is the case under present conditions when no movement of "inflation" or "deflation" is under way, and would illustrate in this way:

When a Liverpool cotton importer today buys a shipment of cotton, his dollars cost him, say, \$4.50 to the pound. The value of the cotton in America, compared with the value laid down in Liverpool (allowing for transport cost), is exactly equal to the purchasing parity of the two currencies. If there is a depreciation in the value of sterling, the sterling value of cotton advances without any corresponding change in the dollar value of the cotton, and if sterling advances the sterling price of cotton declines without any change in the dollar value. In fact, as to cotton, and all other similar commodities which are graded, standardized and closely dealt in, often by cable, the parity price is maintained in the two countries, - is maintained at exact equivalent of currencies, - after allowing for cost of shipment, etc. This applies equally to other standardized raw materials, but as soon as they go through the process of manufacture, differences in value, and therefore in price levels, arise because of differences in wage scales and all of the other factors which enter into cost of manufacture. Therefore, the prices which concern us are those applying to the raw materials which you import.

It is quite possible that were sterling forced back to par, or 8% above the present level, and you bought your raw materials in this country 8% cheaper than at present, or, expressing it differently, bought 8% more goods than at present with the same amount of sterling, you would be in better position to develop your export trade than you are at present. Your costs of manufacture would be slow in readjusting to any higher levels. The difficulty about such a program lies in the fact that your manufacturers who sell in world markets, would be at an 8% disadvantage as to cost of raw materials as against those who suddenly got the benefit of lower prices for raw materials

caused by the higher purchasing value of sterling; and the cost to the world of what you sell would equally increase the whole 8%, - in a general way meaning that stocks of goods on hand would have to be marked down and some loss fall on your industries and merchants because of readjusted cost of raw materials and higher cost of exports to foreign buyers. This would not occur overnight, however, and I cannot feel that the shock to your business establishments would be any greater as a result of an advance in sterling from 4.50 to 4.87, than that already experienced in recent months in the advance from below 4.30 to 4.50, or the greater shock resulting from the fluctuations which occurred when sterling advanced to above 4.70 and then declined to below 4.30.

In a general way the situation appears to me to be somewhat as follows:

1. Your program has been facilitated by the movements of our respective money markets, which has caused some return flow of funds to London and has diverted borrowings from the London market to the New York market.
2. The outlook is improved by the adoption of the Dawes Plan, which should eliminate reparation payments, certainly for the next few years, as a seriously disturbing element in the exchange market.
3. Your election gives a greater political certainty than you have enjoyed for some years, and, presumably, the new cabinet will be sympathetic to a gold program.
4. If business improves, some action will be forced upon you as to currency notes.
5. You must either return to gold payments before the end of next year, or secure legislation extending the period of the embargo.
6. A continuance of lower money rates in New York than in London cannot be expected to continue indefinitely and may end some time next year.
7. It is illusory to expect price readjustments of themselves to effect a recovery of sterling. Sterling cannot return to par and gold payment be resumed without an act of "force majeure."
8. Consideration must be given to the general broad effect of debt payments to the United States Government and the added burden of interest payments resulting from

our private foreign loans. The payments on the Government debt, in addition to those being made by Great Britain, are enlarged by the regular payments for war materials sold by the American Government in Europe, on various of the relief loans made after the Armistice, and by refunding agreements now concluded or being negotiated with some of the smaller nations, and, finally, by whatever payments are to be made to the American Government in settlement of the American Army of Occupation costs and claims against Germany arising out of damages to American citizens, etc.

It is difficult, of course, to estimate what this will all amount to, but I should say that the interest requirements on foreign loans made by our citizens are now well in excess of \$300,000,000, or possibly \$350,000,000, a year, and that the total payments which will be made to the American Government annually in the course of the next year or two may be in the neighborhood of \$250,000,000. This is making no allowance for any possible payments which France and Italy may undertake.

As to these items in the "balance", I have always felt some uneasiness due to the fact that the payments to the American Government are for liquidation of "old accounts" at a rate far beyond anything of the kind that has heretofore been attempted. It will continue for many years and it will require much readjustment of world trade and finance to make sure that it can be effected without periodic strain upon the exchange market.

One cannot take the responsibility of volunteering advice on a complex matter like this. I have great confidence in the British nation finding the means of paying its debts in gold, both public and private, whenever general conditions appear to favor their undertaking to do so. And the most important suggestion which I can offer is that you attempt to arrive at no decision which would involve any assumption as to American conditions without we have opportunity to discuss all of the facts, so that there is no possibility of your overlooking or misappraising the situation here. You know with what earnestness and sympathy we would consider any suggestion or endeavor to

#7

The Right Honorable Montagu C. Norman

11/4/24.

enter into any agreements which would make your plan a success whenever you have one.

I had a very enjoyable visit with Booth, but our engagements interfered with having more than one afternoon together. He will tell you something of the new bank.

Please write me as often as you find time and feel able to do so, and let me know what, if anything, I can send you in the way of information or suggestion about your plans which may be of value.

With warmest regards, I am as ever,

Yours very sincerely,

The Right Honorable Montagu C. Norman,  
Governor, Bank of England,  
Threadneedle Street,  
London, England.

BS/MSB

Washington, D. C.,  
November 6, 1924.

(Confidential - Please destroy)

My dear Norman:

The attached was written Election Day and I brought it over to Washington yesterday to read over and mail. In the meantime the election results indicate that not only has Coolidge swept the country and carried every State outside of the South, except Wisconsin, which was carried by Fafollet; but there is a strong probability, when all of the returns are in that the Republican party will have a clear majority not only in the House, but in the Senate as well.

From this I think it may be concluded that after the winter session of the old Congress, we are facing a period of little, if any, interference of any serious consequence with the policies and affairs of the Federal Reserve System, except such as may be of a constructive and helpful character. At least I would gather that to be the consensus of view from the feeling of satisfaction expressed by almost all of my associates, both Democratic and Republican, at the outcome of the election, and the elimination of the possibility of serious differences between the executive and legislative branches of the Government, or a possible recalcitrant minority in both houses of Congress which might have been an impediment to any progress along any sound line.

Yours very sincerely,

The Right Honorable Montagu C. Norman,  
Governor, Bank of England,  
Threadneedle Street,  
London, England.

**RETAIN MONTAGU NORMAN.**

**Reelection as Governor of Bank of England Is Recommended.**

LONDON, Nov. 14.—The directors of the Bank of England have unanimously recommended that the proprietors reelect Montagu Norman Governor of the bank for the coming year, this to make his sixth consecutive year in office. Such an honor is unprecedented. The governorship is nominally limited to two years, a previous rare exception being Lord Cunliffe, who served five years.

While it is recognized that the directors have paid a high compliment to Mr. Norman, it is also pointed out that the post-war financial problems, such as the funding of the British debt to America and participation in European reconstruction schemes, have made continuity of the governorship almost a necessity. It is understood that the customary two-year limit will be resumed when the situation becomes normal.

ber 18, 1924.

Dear Monty:

The news of the action of the directors of the Bank of England in recommending to the proprietors that you be reelected Governor for the coming year reaches me, and possibly quite naturally, through a cable dispatch from London to the New York Times.

Some intimation of the possibility of this had already reached me, and to tell you the truth, I had been waiting with a good deal of anxiety for some word on the subject.

You will now have another year within which to complete a splendid work, which I know is very near your heart. Probably you are the one person in the world who knows better than anyone else how anxious I am that you shall succeed in everything that you set out to accomplish, not the least important being to leave the Bank of England with the pound sterling and the gold dollar firmly established as before the war. What a great achievement, indeed, will this be!

I send you my warmest good wishes for success and do not hesitate to express my confidence that you will have the satisfaction of accomplishing it.

Yours sincerely,

The Right Honorable Montagu C. Norman,  
Thorpe Lodge,  
Campden Hill,  
London, England.

ES.LS

December 2, 1924.

Dear Norman:

I am enclosing confirmation of the confidential cables which we have recently exchanged.

The reason for suggesting an earlier visit is because of the rather rapid change which is taking place in our money situation, the future of which it is almost impossible to forecast. Ordinarily we would expect considerable activity from now until the end of the year, and somewhat higher rates; after the turn of the year considerable reduction in our circulation and some easing of money rates.

There are, however, influences afoot which may force rates quite a bit higher than we would ordinarily expect before the end of this year, and without as much reaction after January 1 as usual at that season, in which event the whole market level of interest rates may be established somewhat higher than during the recent period; possibly even forcing our hand somewhat as to our discount rate.

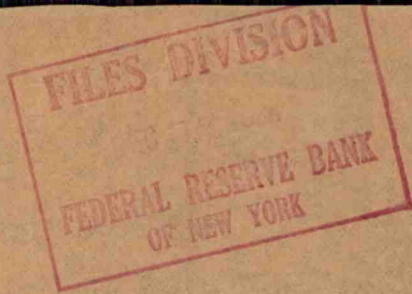
This, of course, has an intimate bearing upon your program for the future concerning which I am very much in the dark, (and probably you are also). Just now what is most in my mind is uncertainty as to whether you would be able and willing to meet a slight rate advance by this bank, say to  $3\frac{1}{2}\%$ , either by a similar advance in London, or by your market policy, - or whether you would feel that such a move by you would be unwise or injurious if undertaken under present conditions.

It may be that I shall cable you the substance of this in a day or two, after we gain a little further insight into local conditions. It would be a good plan for you to write me as fully as you can, and possibly cable me, all of which, of course, will be dealt with most confidentially.

Sincerely,

BENJ. STRONG  
Governor.

Right Hon. Montagu C. Norman,  
Governor, Bank of England,  
London, England.



Norman

December 8, 1924.

Dear Norman:

We have enjoyed having Mr. Scott and his associates at the bank, and while I have been too busy to give them very much time personally, the men who are especially informed about our building and its construction have, I am told, made every effort to further the object of their trip.

They have had contact with the architect and general contractor, with the engineer who superintended the installation of the power, heat, light and ventilating plants, and they have done a good deal of work with the man who designed the office equipment, as well as with our own superintendent, who has been associated with the bank in its building operations from the very beginning.

Mr. Scott, on Friday, expressed himself as well satisfied with the result of his visit, except that there is so much to do in order to gain a complete knowledge of the whole structure that he feels it might later be necessary for someone to come over for a period of two or three months. If you should undertake that, we have ample facilities to make whoever comes comfortable, and can even arrange the necessary space for a drafting room with adequate light, and any clerical help that might be needed.

I have been a good deal impressed by what these gentlemen have told me of the differences between your method and ours in various mechanical matters. If the Bank of England proposes any radical change in such operations, looking, say, to the greater employment of machines in the bank, it would, of course, involve some study of organization as distinguished from equipment.

The very best man that I know of in the matter of equipment is Mr. Abell, who did our work for us. He is a young fellow, but tremendously



enthusiastic about the work. He has done a wonderful job for us and I have no doubt would be of great value to you if you decide to engage such a man. The fact is he became so interested in the work for us that he was quite neglectful of his own personal interests, and I fear that his work for us has been done under a rather improvident contract which he made with our contractors and that it has, for the moment, resulted in a large financial loss to him. We are endeavoring to find means to relieve him of this misfortune. I want you to know that if this question should come up, I could endorse Abell very fully as the best possible man you could have.

If your studies are intended to go further than this, in fact into organization matters, I think I could arrange to lend you one of our men who is peculiarly competent along those lines. He would, of course, find it necessary to go to London for the purpose.

All of this, of course, is just by way of assuring you that we wish to do everything possible to place our own experience at your service.

It was a great pleasure to have these gentlemen with us, and we feel that it was a compliment for you to send them.

With kindest regards, I am,

Most sincerely yours,

*MS  
meB*

The Right Honorable Montagu C. Norman,  
Governor, Bank of England,  
Threadneedle Street,  
London, England.

December 10, 1924.

Dear Norman:

This letter will be very much out of date by the time it reaches you, on account of our frequent exchanges of cables.

I am delighted by the prospect of seeing you and Mr. Anderson. As I am living at the Hotel Marguery, 270 Park Avenue, I have taken the liberty of making reservations there of two bedrooms with baths, and a sitting room, and they will have a room also for Dick. By good fortune I believe it will be possible to get rooms on the same floor that I am on.

I shall feel gratified in being able to show you a little hospitality at last, even though it is only in a hotel. Please tell Mr. Anderson that I shall be delighted to see him here with you, and am looking forward with keen anticipation for your arrival.

I will attend to all the arrangements about disembarking, which I hope can be done in such a way that your visit here will not be known to the press.

With best regards,

Sincerely yours,

Right Honorable Montagu C. Norman,  
Thorpe Lodge,  
Campden Hill,  
London, England.

BS.LS