

STRONG PAPERS, Norman to Strong, 1926 (List redone 5/2004, to include all materials)

1926

January 21

[January 29 (from Anderson)]

February 2, w/ letters to Lepreux, Dec. 8;

Hautain's replies, Dec 15 & Jan 30

February 5, w/ Janssen's letter, Feb 3 (2 in Fr,
one translation)

February 11, Belgium General Summary

[February 11 (from Anderson)]

February 19, w/ memo on Belgian Loan

March 4

March 5

March 9, w/ memo on Belgium

March 9

March 11

March 18 (3 cables)

March 23, more on Belgium, with Mance letter
to Norman, March 16

March 24, w/ questions for American witnesses

[March 30 C (from Anderson)]

[April 1 C (from Anderson)]

[April 1 (from Anderson)] NOTE: attachment
(memo of Norman's and Addis' evidence) is in
Papers

[May 10 (from Harvey)] NOTE: attachments
(Ryti's letter, May 4; Norman to Hautain, May 8,
May 10, & May 12; Hautain's cable May 10) are
in Papers

[May 19 (from Harvey)]

[May 19 (from Harvey)]

(May 19)

May 20

(May 20)

May 31

[May 31 (from Harvey)]

June 8

June 12, w/ A. Miller's letter, June 3

[July 3 (from Harvey)]

(July 15)

July 19

(July 19, w/ July 16 letter from Vissering)

August 19 C (to Harrison)

August 30, with letter to Harrison, Aug 23, [and
letter from Harvey to Ryti, July 27]

(September 18 C)

(September 21)

October 10

October 17, w/ note to Harrison, Oct 18

October 21, w/ clipping

(October 29)

[November 17, (Peacock to Mrs. Lundie)]

November 17

(November 23)

November 28

December 12

[December 15 (from Lubbock)]

Also: Hautain to Norman, Dec 15, w/
amendments

[October 8 (from Peacock)]

[October 25 (from Peacock)]

[November 1 (from Peacock)]

Strong Papers Key:

[] = At earlier date, item was listed as present but no original or copy is now in Papers

06/01/04

() = At earlier date, item was not on list but original is in Papers and was copied if no copy existed

STRONG PAPERS, Norman to Strong, 1925 - 1926

1925

Jan. 15 (from Anderson)
 Jan. 18
 Jan. 24
 Feb. 10
 Feb. 26
 Mar. 9
 Apr. 3 from Osborne, with clipping and Monthly
 Review of Midland Bank
 Apr. 8
 Apr. 8
 Apr. 15
 Apr. 15, with draft Report of Committee
 Feb. 5, 1925
 Apr. 20
 Apr. 22
 Apr. 24
 Apr. 30
 May 5
 May 8
 May 11, with memo on Cooperation between Central
 Banks
 May 13
 May 15, Copies of Report with Norman's Compliments
 (Not in this file)
 May 19
 May 26, with clipping
 May 28, with 2 copies of Gold Standard Act, May 13, 1925
 June 4
 June 5
 July 28
 Aug. 15
 Aug. 16
 Aug. 17
 Aug. 19 C
 Aug. 20 C
 Aug. 21
 Aug. 22 C
 Sept. 19, with German communique, Sept. 8, and cable to
 Schacht Sept. 14 and latter's reply, Sept. 15
 Sept. 21
 Sept. 25 (from Anderson)
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 Oct. 19
~~Oct. 21~~
 Oct. 25
 Nov. 1
 Nov. 8
 Nov. 12
 Nov. 18
 Nov. 23
 Nov. 27
~~Dec. 3~~
 Dec. 10
 Dec. 22 (from Anderson)
 Dec. 29 (from Anderson), with 2 cables to Norman
 Dec. 19 C

1926

Jan. 21
 Jan. 29 (from Anderson)
 Feb. 2
 Feb. 5, with letters to Lepreux
 Dec. 8 and Hautain's reply
 Dec. 15, Jan. 30 and Janssen's
 letter, Feb. 3, 1926--
 Feb. 5, with Janssen's letter, Feb. 3
 Feb. 11, Belgium, General Summary
 Feb. 11 (from Anderson)
 Feb. 19, with memo on Belgian Loan
 Mar. 4 (copy)
 Mar. 5
 Mar. 9, with memo on Belgium
 Mar. 9
 Mar. 11
 Mar. 18 (3 cables)
 Mar. 23, more on Belgium, with Mance
 letter to Norman, Mar. 16
 Mar. 24, with questions for American
 witnesses
 Mar. 30 C (from Anderson)
 Apr. 1 C (from Anderson)
 Apr. 1 (from Anderson) with memo of
 Norman's and Addis' evidence
 May 10 (from Harvey) with Ryti's
 letter, May 4, Norman to
 Hautain, May 8, 10 + 12 and
 Hautain's cable May 10
 May 19 (from Harvey)
 May 19 (from Harvey)
 May 20
 May 31
 May 31 (from Harvey)
 June 8
 June 12, with A. Miller's letter
 June 3
 July 3 (from Harvey)
 July 19
 Aug. 19 C (to Harrison)
 Aug. 30, with letter to Harrison,
 Aug. 23, and Harvey to Ryti, July
 27
 Oct. 10
 Oct. 17, with note to Harrison, Oct. 18
 Oct. 21, with clipping
 Nov. 17, ~~Peacock to Mrs. Lundie~~
 Nov. 17
 Nov. 28
 Dec. 12
 Dec. 15 (from Lubbock)
 Also. Hautain to Norman, Dec. 15,
 with amendments
~~Oct. 2 (from Peacock)~~
~~Oct. 25 (from Peacock)~~
 Nov. 1 (from Peacock)

(Copy of handwritten letter)

21. Jan 1926

On board S. S. Majestic

My dear Ben

If I had come away a couple of weeks earlier I should have an uneasy mind about you: as it is I feel somewhat reassured. I don't complain about your health which is wonderful, all things considered, & which even with the wise care you give it, may be somewhat beyond your control now & then. But I may rightly complain about your preoccupation - if not worry - for weeks on end over political & to some extent remote questions. It is a detail that to me your real self was then unapproachable: but it is of first rate importance to all of us, & especially to your well-being, that you were not then giving yourself a fair chance or making a good showing.

That is my protest, coming from affection & need for you. Before I came away you had largely shaken off the preoccupation so that the real Ben was again on deck: now you are wisely going west to the desert air & the past is just history.

But the past shows you must work out a plan for the future. I shall try & do so too, with the help of the letter you wrote Anderson & sooner or later I will write you as to any development.

My time in N.Y. was always a pleasure the more so because had nothing to do but to rub shoulders & aim at an increasingly good understanding among all of ourselves. But your thought & care made it that pleasure & gave me a perfect atmosphere uptown & downtown, with the Mellon & with the Strong family.

We are having as good a trip as could be desired & RCL is pleasant & companionable. We have had much talk about Belgium & below the surface there is very little difference between you & him: less than I had expected to find. There remain various points about the whole situation which are either obscure or unsatisfactory & which we shall not clean up in a few weeks. So my guess is that the best we can hope for is a short Loan to stabilise the Bank & to give time during its currency for a proper house-cleaning.

I hope you can do something to help the Bk of France along the lines of Monnet's talk. It seems clear that for one reason & another I am no good about this but equally clear that you have an opportunity

As to general plans I suppose your Mother will give up the idea of a visit to London & you will go to Rome about Apr 1st after that you will need a real rest (as well as a Vacation) which is not an easy matter. I never manage to take much of a rest so the less advice I give you on the subject the better!

That's all I have to say. But we all need you Ben & some of us love you: don't forget it. You have my thanks for all you are to me & for all you did for me - especially this visit. And the same to Phil & your colleagues.

As ever

MN

21. Jan 1926



ON BOARD S.S. "MAJESTIC"

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of weeks earlier I should have an
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You have my thanks for all you
are to me & for all you did for
me - especially this visit. And
the same to Phil & your colleagues.

as ever
Miv.
~



*noted.
copy sent to you by Mr. Case
2/1/26*

CONFIDENTIAL.

BS P -

Bank of England,
London, E.C. 2.

2nd February, 1926.

My dear Strong,

The Case //

1. The cable which Prosser sent me a few days ago makes the Polish prospects seem rather hopeful, although Hammerling's views are entirely unofficial and expressed by one who is influenced by having lived in the United States. Evidently Prosser is as good as his word and means to be helpful. I hope you will thank him, as in a sort of way I did on your behalf as well as my own in the cable sent yesterday through your Bank.

I am now trying to find out, unofficially and privately and without commitment, what the attitude of the League would be to such a proposal if it were to come from the Polish Government: but it is not going to be easy to get anything definite out of Geneva. ✓

2. Referring to our talks about the gold standard in India and to the cable which we jointly sent to Blackett two or three weeks ago, I may tell you that some of the Members of the Indian Currency Commission have just arrived in London and the remainder are expected by the end of the month, after which sittings will be held in London. I have been told nothing directly, but I gather there is some idea that the Commission should

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Page 2.

Benjamin Strong, Esq.

2nd February, 1926.

should go to New York to get evidence on the general questions of gold and silver. It seems quite certain that all the Members would not go and some would strenuously oppose the idea on account of the time it would occupy. I am going to suggest that the Commission should arrange to take advice from yourself (and one or two others who might be induced to come to Europe from New York) during April or May.

I rather gather that Blackett's proposals as you know them will not be recommended and that the Commission are seeking about for some scheme which is between a gold ^{circulation} ~~standard~~ and a gold exchange standard and which none the less somehow continues the internal position of silver. This is vague but I know no more about it.

3. I have received your letters of the 18th and 22nd January, and you may be sure that immediately after my return I took up the question of the form of the Central Bank Credit to the National Bank of Belgium. It appeared that the Credit had been duly arranged in letters exchanged between the Bank of England and the National Bank under date of 8th and 15th December, of which I enclose copies; but that no authorisation of the points you raised had actually been received from the Ministry of Finance. This is now being obtained. The enclosed

copy

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Page 3.

Benjamin Strong, Esq.

2nd February, 1926.

copy of a letter from Hautain will show you why the matter was thus delayed, a delay in which our people here had concurred for the reason that they did not consider the Central Bank Credit to be effective or likely to be required for some time.

As to the general question of a Loan, there is nothing to report, and all I can do is to send you a draft of the Bank Law with its latest amendments on a separate typescript sheet. It seems to me, however, that Article 24 (which remains unchanged) is contrary to that freedom from control which Hautain had led you to expect and that no steps have been taken to provide that the State debt to the Bank (whatever amount may remain) shall be converted into a marketable Security (see your cable No.22 of the 14th November).

4. You may care to see the enclosed copy of "L'Information Financière" of the 29th January, which gives the fullest report we have seen of the account which Robineau gave at a recent meeting of the Bank of France of his protests to his Government.

Believe me,
Yours most sincerely,

Livingston

Benjamin Strong, Esq.

P.S. Since writing the above about India, I have seen the accompanying article in to-day's "Financial Times."

Livingston

RECEIVED

FEB 17 1926

*See Schaine
2/5/26*

COPY

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J. H. C.

8th December, 1925.

Dear Mr. Vice-President,

I now write to suggest terms for the credit which the Bank of England (in conjunction with the Central Banks of New York, Holland and Switzerland) have agreed to grant upon the security of three months' prime Bankers' Bills - drawn in Belgian Francs - from the portfolio of the National Bank of Belgium.

1. The Bank of England to grant advances in sterling upon the security of the said Bills up to a total not exceeding the approximate equivalent of \$2,000,000 outstanding at any one time.

2. Such advances to bear interest at the rate of 1% above the Bank of England rate varying with a minimum of 5% and to be repayable in full in sterling in London not later than the 31st March 1926.

3. The National Bank of Belgium to guarantee the repayment at maturity of all Bills pledged from time to time and to undertake to repay to the Bank of England any sum by which the value of the said Bills when converted into Sterling may fall short of the sum advanced against the Bills. Having regard to the provision of Articles 8 and 9 of the Bank Law effective steps to be taken to render these guarantees indisputable.

4. The Belgian Government to agree not to prevent the National Bank of Belgium from fulfilling its obligations under the preceding Clause even by the shipment of gold should such be necessary.

5. The said credit of \$2,000,000 to form part of a total credit for the approximate equivalent of \$10,000,000 divided amongst the following participants in the proportions stated -

Federal Reserve Bank of New York	\$5,000,000
Bank of England	\$2,000,000
Nederlandsche Bank	\$2,000,000
National Bank of Switzerland	\$1,000,000

The National Bank of Belgium to undertake that all advances taken under the credit shall be borrowed from the several participants in shares proportionate to their respective shares of the total credit and that every repayment shall be divided amongst the participants in like proportions.

6. Bills deposited as security for advances made by the Bank of England to be lodged with the Bank of England, and the National Bank of Belgium to undertake to defray such charges (if any) as may be incurred for stamping the Bills.

I have informed the other participants that all arrangements regarding this credit will be made with them direct by the National Bank of Belgium. The terms will of course be the same in all cases except in so far as variations may be necessitated by the different forms in which the credit is to be provided respectively by the Federal Reserve Bank of New York and by the European Banks. I have thought it well, however, to send you my suggestions without waiting to hear from you in the hope that by so doing I may possibly save you some time and trouble.

I confirm and enclose a copy of the Bank's cable of the 5th instant.

I am, dear Mr. Vice-President,

Yours most faithfully,

(Sd.) M. NORMAN.

Monsieur O. Lepreux.

COPY
TRANSLATION

Brussels, 15th December 1925.

The Governor,
Bank of England,
London.

Dear Mr. Governor,

I beg to acknowledge the receipt of your letters of the 4th and 8th December and the duplicate of the contract signed in London on the 2nd instant regarding the new provisional credits granted to the National Bank.

I note that the original of this document is being kept at the Bank of England in the interests of the various contracting parties, who have received a duly certified copy.

As regards the discount credits totalling \$10,000,000 opened at the National Bank of Belgium by yourselves, the Nederlandsche Bank, the Federal Reserve Bank and the National Bank of Switzerland, I have to inform you that I have communicated with these Institutions direct and that so far we are agreed as to the procedure to be adopted.

As I have just stated in a letter to Dr. Vissering, I do not anticipate any difficulty in bringing about these operations by means of advances covered by securities in our portfolio, in preference to a discount operation.

With reference to your letter of the 8th instant, I am quite agreed on the following points:-

- (1) Advances by your Institution are to be made in sterling and may reach a maximum equivalent to approximately \$2,000,000; they are to be repaid in sterling by 31st March 1925 at the latest.
- (2) The rate of interest shall be 1% above that of the Bank of England, but must not be less than 5%.
- (3) Our Institution shall repay to the Bank of England the amount actually advanced in sterling; Articles 8 and 9 of our Statutes shall be amended so as to make this obligation binding.

- (4) The Belgian Government will previously undertake not to interfere with the engagements entered into by the National Bank as far as the preceding clause is concerned even if the National Bank are obliged to export gold.
- (5) The withdrawal of any amounts from this credit shall be effected simultaneously at the four issuing institutions in proportion to the share allotted to each; repayments shall be effected in the same proportion.
- (6) The securities delivered as cover shall be deposited at the Bank of England; stamping expenses are to be borne by the National Bank of Belgium.

I have pleasure in informing you that the Sveriges Riksbank are prepared to combine with the four issuing Institutions in bringing about the discounts described above.

I thank you for communicating with the other parties concerned regarding the arrangements to be made for effecting this operation and I am deeply grateful to you for your personal assistance in bringing these to a satisfactory conclusion.

I am delighted at the co-operation which is growing closer and closer between our two Institutions - co-operation of two-fold value to my country in the present circumstances.

I enclose the text of the announcement published by us in the Belgian newspapers.

Yours most faithfully,

(Sd.) F. HAUTAIN.

I have this moment received your letter of the 14th instant, which has my attention. In a few days I intend to send my collaborator Mr. van Zeeland to the Deputy Governor, in order to give the latter an account of our journey and any information on the subject of stabilisation operations which may be required.

I send my good wishes for your journey and look forward to meeting you on your return.

COPIE.

BRUXELLES,

Le 30 Janvier, 1926.

Cher Monsieur le Gouverneur,

Répondant à votre lettre du 26 janvier 1926, il m'avait semblé qu'il était inutile de faire exécuter ces formalités avant le vote de la loi prorogeant le privilège de la Banque Nationale.

Mais puisque vous le désirez et que nous sommes d'ailleurs complètement d'accord, je fais demander au Ministre des Finances de m'adresser sans plus tarder la lettre en question et je m'empresserai de vous la communiquer.

Veuillez agréer, cher Monsieur le Gouverneur, l'assurance de mes sentiments bien dévoués.

(Sd.) F. HAUTAIN.

Monsieur Montagu Norman,
Gouverneur de la Banque d'Angleterre,
LONDRES, E.C. 2.

Bank of England,
London, E.C. 2.

ACKNOWLEDGED

MAR - 5 1926

5th February, 1926.

B. S.

My dear Strong,

I have now received from Monsieur Janssen an assurance on behalf of the Belgian Government in the form of a letter, of which I enclose you a copy.

It is clear that, while the required assurance as regards the shipment of gold is now in order, there can be no question of the credit being drawn upon until the amendment to Article 8 of the Bank Law has been passed by the Belgian Parliament and has received the Royal Assent. I do not know how much longer we shall have to wait for this, but the Belgians are some weeks already behind the time-table they originally put forward.

With the exception of this amendment the papers covering the Central Bank Credit to the National Bank of Belgium are in order and copies are on the way to you. I take it therefore that the requirements of the Federal Reserve Bank will be satisfied.

But as you are in California and I may have to cable on this subject I shall have a set of these papers sent by to-morrow's mail to be put among the files of your Bank.

Believe me,

Yours sincerely,

Livingston

Benjamin Strong, Esq.

COPY

Bruxelles, le 3 Fevrier 1926.

No. 515

Monsieur le Gouverneur,

M. HAUTAIN, Gouverneur de la Banque Nationale de Belgique, m'a mis au courant, en temps voulu, des pourparlers qu'il a menés avec les banques centrales d'émission des principaux pays à étalon-or, en vue de conclure avec elles un arrangement permettant à la Banque Nationale de leur réescompter ou d'obtenir d'elles des avances en devises étrangères sur son portefeuille commercial belge.

La Banque Nationale s'est engagée à garantir le remboursement, à l'échéance, des opérations d'avances ou de réescompte qui seraient effectuées conformément à cet arrangement.

Le Gouvernement belge a déposé à l'article 8 de la loi organique de la Banque Nationale, un amendement conçu en ces termes:

"Art. 8.- 2^o A réescompter à l'étranger les effets de son portefeuille; à remettre ces effets en gage; à garantir la bonne fin de ces effets ou des opérations d'escompte et d'avances y relatives; à acquérir des avoirs à l'étranger en des monnaies à base d'or ou sur des places payant en or."

Cet amendement sanctionne d'une façon nette et absolue la tradition en vertu de laquelle la Banque Nationale s'était toujours estimée fondée à effectuer des opérations

de ce genre. Cet amendement sera certainement voté.

En outre, le Gouvernement, pour répondre au désir de la Banque Nationale, prend l'engagement de ne mettre aucune entrave aux mesures que la Banque jugerait nécessaire de prendre à un moment donné, pour s'acquitter des obligations qu'elle aurait contractées envers les banques centrales d'émission intéressées à ces opérations, et en particulier à ne pas s'opposer à ce qu'elle exporte de l'or.

Veuillez agréer, Monsieur le Gouverneur, l'assurance de ma haute considération.

(Sd.) A.E.JANSSEN.

A Monsieur NORMAN,
Gouverneur de la Banque d'Angleterre,
LONDRES.

CABINET DU MINISTRE
DES FINANCES

BRUXELLES,

RECEIVED

17 1926 le 3 JANVIER 1926.

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A.E. JANSSEN

A Monsieur NORMAN,
Gouverneur de la Banque d'Angleterre,
LONDRES.

Brussels, February 3, 1926.

Dear Governor Norman:

M. Hautain, Governor of the National Bank of Belgium, in due course informed me of the negotiations carried on by him with the central banks of issue of the principal gold-standard countries, with a view to making an arrangement with them permitting the National Bank to rediscount to them or to obtain from them advances in foreign currencies against its Belgian commercial portfolio.

The National Bank has undertaken to guarantee the repayment at maturity of advance or rediscount operations which might be effected in accordance with this arrangement.

The Belgian Government has added to Article 8 of the law organizing the National Bank an amendment which reads as follows:

"Article 8 :- (2) To rediscount abroad the bills in its portfolio; to deliver these bills as security; to guarantee the repayment of these bills or of the discount and advance operations relative thereto; to acquire credits abroad in currencies on a gold basis or in markets which pay in gold."

This amendment sanctions in a clear and absolute fashion the tradition which the National Bank has always had, that it had a right to effect operations of this kind. This amendment will surely be voted.

Furthermore, the Government, following the wishes of the National Bank, undertakes to place no obstacles in the way of the Bank, whenever the latter may take steps such as it may deem necessary, to carry out the obligations which it may have contracted toward the central banks of issue involved in these transactions; and in particular, not to oppose the Bank's exporting gold.

Respectfully yours,

(signed) A. E. JANSSEN .

To Mr. Norman

Governor of the Bank of England,
LONDON.

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12-816
Bank of England,
London, E.C. 2

ACKNOWLEDGED

11th February, 1926.

MAR - 5 1926

B. S.

My dear Strong,

There has not been much to say to you lately about Belgium, chiefly because we have been waiting for final Budget amendments and for information as to actual Treasury receipts and payments, excluding borrowings, during the last two or three years. The latter figures they cannot give us, but we have arrived at them in another way and I feel we have now gone far enough to reach a conclusion; of this I gave a hint to van Zeeland when he was in London a week ago. At the same time I offered to go without delay to Brussels and explain the position to Hautain, an offer which he has declined for a week or two on the ground that it would be best to await the passing of the Bank Law (in this connection please refer to my No.31, paragraph 3). In order that you may be informed generally of the result of our investigations, I enclose a memorandum on the Belgian position which Mr. Osborne has put together for the purpose.

So far, none of the Bankers has had any communication with the Belgians since I came here from America and, by agreement, I have been trying to act on their behalf. I have supplied them, and especially Leffingwell, with such figures as Hautain sent to us, and they may have reached their own

conclusions:

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Page 2.

Benjamin Strong, Esq.

11th February, 1926.

conclusions: these I know are not very different from what you will have read in my cable which I have mentioned in the previous paragraph.

My own view on the three main points is this:

1. Considering the criticisms to which Janssen's Budget is open: considering, too, the promises made by Theunis, and the statements published in the Belgian prospectuses in New York, I do not think that much confidence can be felt in an equilibrium of receipts and payments during 1926.

2. It is doubtful how the Belgians can deal with their Floating Debt, including a heavy maturity next December. For this they have the idea of a forced conversion if necessary - in which case the fat would be in the fire!

3. The ratio of stabilisation is to be fixed by decree after the passing of the Bank Law. I understand that confidence requires it should be fixed quite shortly after the Stabilisation Law is passed. The ratio is still undecided, but like yourself I mistrust the 4 to 1 or even 107 to the £ (4.52 cents to Fc.1) as too favourable to Belgium.

Believe me,

Yours most sincerely,

W. S. R.
W. S. R.

Benjamin Strong, Esq.

Bank of England

12th February, 1926.

Enclosure for letter of the

11th February, 1926.

CONFIDENTIAL

BELGIUM

GENERAL SUMMARY

February, 1926.

Bank of England.

CONTENTS

1. Budget 1926
2. Consolidated and Floating Debt
3. Bill for extending the Bank's Charter, etc.
4. Balance of Payments
5. Prices
6. Economic Position.

B E L G I U MSummary of Position(in millions
of francs)1. Budget 1926

The combined Budgets as amended to
date show an admitted deficit of about 560

This appears to be, however, rather an under-estimate
of the probable deficit for the following reasons -

(a) Upon removing from the Ordinary Budget Fcs.200
millions of reparation receipts, the estimated yield
of the new taxation was increased, for what reason is
not apparent, by 80

(b) No allowance is made for arrears in the collection of
taxes. In view of the fact that Fcs.235 millions of
Revenue were outstanding for the year 1925 on the 1st
November, although methods of collection had been
improved in that year, and in view of the further fact
that new taxation is always difficult to get in during
the first year, arrears for 1926 may be put at 300

(c) No provision appears to have been made for the
possibility that the interest rate on the Floating Debt
may have been raised, following an increase in the Bank
Rate, which may not impossibly be necessary in the first
year of stabilisation. If this be put at $1\frac{1}{2}\%$ on say 6
milliards of internal Treasury Bills, there should be
added another 90

(d) A new charge on the Budget is contemplated in the
Bank Law, being the State subscription to the new
capital amounting to 75

(It is, however, rather uncertain that this amendment
will be accepted)

1,105

There

(e) There are certain credits granted by the State to industry through the Banks in 1919, the balance of which, Fcs.50 millions is to be received back during 1926. It would seem safer to reduce this expectation by half, the proportion of the estimate apparently realised in 1925.

25

(f) Credit is taken in the extraordinary Budget for the disposal of deliveries in kind made before the introduction of the Dawes Plan and amounting to about Fcs.206 millions. It seems likely that the first item composing this total, viz., Fcs.168 millions, must be coal and coke. The other two items are dye stuffs Fcs.12 millions and "tugs and barges" Fcs.26 millions. As the Government have already taken credit for the sale of about Fcs.600 millions coal, it is unlikely that they will be able to sell any more in the present state of the Market, and as none of these items has been saleable during the last 18 months, it seems not unreasonable to add to the deficit the coal item of
and half the "tugs and barges" figure, say,
This brings the total deficit to

168

13

1,311

To meet this deficit the Government are relying upon the collection of Fcs.555 millions arrears of taxes for all years up to and including 1924. Since this figure includes Fcs.168 millions of Excess Profits, and since nearly half of all arrears has been outstanding since 1923 or earlier, it seems doubtful if the whole can be gathered in in 1926. If reduced by one-third it leaves available

370

The sale of sequestered alien property is expected to yield

Fcs.75 millions. There is no information as to what the property consists of or how the estimate is arrived at but as such estimates in all countries tend to be excessive it might be well to reduce this to

	<u>50</u>	<u>420</u>
Net Deficit		891
		==

In this summary no allowance has been made for two items which are really in the nature of loans and which should not therefore, perhaps, appear among budgetary receipts. These are repayments of Advances, Fcs.150 million from the Congo and Fcs.75 million from the City of Antwerp. The Congo has no surplus moneys, for it is issuing a loan for Fcs.700 million, and it is not stated that Antwerp possesses spare funds sufficient to cover its debt.

It is also very probable that supplementary credits will have to be voted. Such credits totalled over 10% of the Ordinary Budget in 1925. There is already talk of credits for flood damage, and it would not seem excessive to allow at least 2% of the combined Budget, say, Fcs.180 million, for possible supplementary expenses.

BELGIUM

ANNUAL TREASURY CASH DEFICITS

The Belgian Ministry of Finance's accounts are not kept in such a way as to enable these deficits to be ascertained, but Monsieur van Zeeland agrees that the following statement, showing the annual movement of the Consolidated and Floating Debt, approximately represents the Treasury deficit (or surplus).

The movement of the External debt is the difference in the totals outstanding at the end of each year converted into Belgian francs at the average rate of the franc for the period in terms of the currencies concerned.

The funding of the American debt has been eliminated from the figures and the net result for the three years is as follows:-

1923	Treasury Deficit	1,505.3	million francs
1924	Treasury Surplus	64.8	do.
1925	Treasury Deficit	950.2	do.

MOVEMENT OF DEBT

(In millions of francs)

<u>Movement in 1923</u>	<u>External</u>	<u>Internal</u>	<u>Net Total</u>
Floating Debt	- 418.5	+ 419	+ .5
Consolidated Debt	+ 353.8	+ 1,151	+ 1,504.8
	- 64.7	+ 1,570	+ 1,505.3
	=====	=====	=====
<u>Movement in 1924</u>			
Floating Debt	- 568.0	- 1,950	- 2,518.0
Consolidated Debt	+ 499.2	+ 1,954	+ 2,453.2
	- 68.8	+ 4	- 64.8
	=====	=====	=====
<u>Movement in 1925</u>			
Floating Debt	- 5,713.0	- 608	- 6,321.0
Consolidated Debt	+ 12,129.2	+ 1,305	+ 13,434.2
			- 6,163.0 *
	+ 6,416.2	+ 697	+ 950.2
	=====	=====	=====

SUMMARY

Consolidated

1923	+	1,504.8	
1924	+	2,453.2	
1925	+	<u>7,271.2</u>	+ 11,229.2

Floating

1923	+	.5	
1924	-	2,518.0	
1925	-	<u>6,321.0</u>	- 8,838.5
			+ 2,390.7
			=====

* This figure is made up as follows:-

(1) \$245 million, the portion of the American Debt not previously shown in published statements, at

Fr. 22 per \$ 5,324

(2) Amount of outstanding Reparation Bonds which are actually held by the Belgian Treasury

839
6,163
=====

BELGIUM - BUDGET BURDEN, 1926

(In millions of francs)

There are several ways of estimating
the total Budget Burden -

(1) Taxation	= 4,328
(2) Taxation <u>less</u> internal debt service (adjusted) = 4,328 - 2,261 x .85	
= 4,328 - 1,922	= 2,406
(3) Total of all Budgets	= 9,078
(4) Total of all Budgets <u>less</u> internal debt service (adjusted) = 9,078 - 1,922	= 7,156

1926 Budget Burden compared with -

	(1)	On basis of -		
		(2)	(3)	(4)
		Francs per head		
A. Population (7.7 millions)	Fr. 562	Fr. 312	Fr. 1,178	Fr. 929
do.	25.6	£ 3.1	£ 11.8	£ 9.3
		Percentages		
B. National Wealth				
1. Fr. 280,750 million (10 times income)	1.5	0.9	3.2	2.5
2. Fr. 120,000 million (Sir J. Stamp)	3.5	2.1	7.5	5.8
C. Circulation (Fr. 8,000 million)	54	30	113	87
D. National Income (Fr. 28,075 million)	15	9	32	25
E. Foreign Trade (Fr. 30,830 million)	14	8	29	23

Previous Belgian Budgets - total of all budgets, corresponding
to Column (3)

(Figures supplied by National Bank of Belgium)

1925	Fr. 8,218 million	=	£82 million (Fr. @ 100)	=	£10.6 per head	
1924	Fr. 10,338	"	=	£108 " (Fr. @ 96)	=	£14.0 do.
1923	Fr. 8,897	"	=	£101 " (Fr. @ 88)	=	£13.0 do.

(Figures taken from Statesman's Year Book)

1911	Fr. 659 million	=	£26 million (Fr. @ 25)	=	£3.7 per head
------	-----------------	---	------------------------	---	---------------

Other Budgets

(Figures taken from Statesman's Year Book)

Germany 1926 = M.6,380 million = £319 million or £5.3 per head

France 1926 = Fr. 32 milliard = £320 million or £8 per head

England 1925 = £790 million or £18 per head.

Italy 1925 = L.20 milliard = £200 million or £5 per head.

Conclusion

The figures shown are not in all cases strictly comparable: but it appears probable, in view of the depreciation of the Belgian currency and the consequent presumable diminution in taxable wealth, that Belgium is not at present undertaxed.

2. Consolidated and Floating Debt

This amounts to about Fcs.5,820 millions, which, according to figures supplied by the National Bank, was divided on the 23rd December as follows -

Small investors	3,680
Banks	1,200
Bills taken by Banks on special terms	740
Short-term Treasury Certificates	<u>200</u>
	5,820
	=====

Different estimates have been given as to the amount of foreign money invested in internal Treasury Bills and these vary between Fcs.700 millions as a maximum down to Fcs.230 millions as a minimum, but the National Bank say that such figures are pure guesses. A table is attached of short-term and long-term maturities and it will be seen that in 1926 the chief difficulty is the Treasury Bonds for Fcs.1,880 millions maturing on the 1st December. It is understood that the Government will, if necessary, compel the renewal or conversion of these Bonds.

BELGIUM: CONSOLIDATED DEBT

(In millions)

<u>Date of final Repayment</u>		<u>Amounts now outstanding</u>		<u>Rate %</u>	<u>Description</u>
	<u>Currency</u>	<u>Belgian Francs</u>			
<u>External</u>					
31 Dec.1937	Fl.39.9	356		5	Cost of internment of Belgian troops in Holland
1939	£7.33	784		3	Sterling Loan of 1914
1st Feb.1941	£22.8	502		8	£30 millions issued 1921
1943	F.F.400	320		6½	Issued in France in 1923
1st June 1945	£40	880		7½	£50 million issued 1920
1st Sept.1949	£28.4	625		6½	£30 million issued 1924
1st Jan.1955	£48.2	1,060		6	£50 million issued 1925
1st June 1955	£49.7	1,093		7	£50 million issued 1925
1st Jan.1956	£9	963		Various	British "Reconstruction Credit"
1987	(£171.8	3,780		"	U.S.War Debt
	(£246	5,412	15,775	"	U.S.Post-Armistice Debt
<u>Internal</u>					
1955		(599		5	30 Year Bonds issued 1925 for War Damages
		(
		(2,204		6	Bonds of Association Nat. des Industriels & Commerçants (Fr.839 million are held by Belgian Treasury)
		(
		(
		(469		-	The amount of outstanding "Titres Nominatifs" for War Damages which are to be converted into one of the two classes of 30 Year Bonds shewn above.

BELGIAN INTERNAL FLOATING DEBT

Postal Cheque Funds	638,697,493
Revolved in 3 months Bills	23,300,000
Revolved in 6 months Bills	
Banks 1,961,214,000	
Public <u>3,669,559,000</u>	<u>5,630,773,000</u>
	6,292,770,493
	=====

Bank of England,

5th February, 1926.

BELGIAN SHORT-TERM DEBT MATURITIES.

Not yet funded	French Post-Armistice Debt F.F. 241,024,890 at 80		192,819,912
<u>1926</u>			
June/July	Bons ordinaires	2,000,000	
1st December	5% 5 year Treasury Bonds	<u>1,879,405,300</u>	1,881,405,300
<u>1928</u>			
December	Bons ordinaires		10,000,000
<u>1929</u>			
1st January	Debt to Bank (or balance thereof)	5,680,000	
12th May	Bons du Tresor 5% Chevaux Canadiens £930,480 at 107	<u>99,561,360</u>	105,241,360
<u>1928-1930</u>			
From 1st Dec. 1928 to Sept. 1930	5% 5 year Bonds issued in exchange for Interprovincial Debt		647,510,000
<u>1930</u>			
31st December	5% Bonds issued to withdraw Marks in Eupen-Malmedy		45,000,000
<u>1932</u>			
1st October	5% 10 year Treasury Bonds	<u>769,743,000</u>	<u>3,651,719,572</u>

3. Bill for extending the Bank's Charter, etc.

The points raised by Mr. Strong in his cable No. 22 of the 14th November are satisfactorily met, with the possible exception of Autonomy and the undoubted exception of the conversion into a marketable security of the State's debt to the Bank. Thus, the authority of the Bank to borrow upon and to guarantee Bills of Exchange is confirmed by the amendment to Article 8 of the old Law. Apart from a promise to deal with the question before 1930 (embodied in a Clause of an Agreement between the Government and the Bank) nothing has been done about making the State debt marketable; partly because the amount thereof is still uncertain and subject to the size of any Loan that can be arranged, but chiefly, no doubt, because the State can only with difficulty keep afloat the present volume of short indebtedness and, moreover, does not want to have to pay interest at a high rate unnecessarily. As regards freedom from Government control, a step in the right direction has been taken by a provision in the new Bill that the approval of the Minister of Finance is no longer to be required to the rate charged for Advances. There is, however, an Article in the old Law which will remain unrepealed, giving the Government the right of controlling all operations of the Bank. The Government "may oppose the execution of any measure contrary to Law, to the Statutes of the Bank, or to the interests of the State". No doubt this regulation is primarily the expression of Latin logic, but the words "in the interests of the State" are obviously capable of great latitude of interpretation, and such terms are not usually to be found in the Statutes of Continental Central Banks. It is possible that the Bank find the Law convenient, as it enables them to claim Government approval of all their actions on the ground that these have not been vetoed. It seems none the less objectionable and likely to cause dispute as to where responsibility actually rests.

Another matter which is not clear is whether the Government actually keeps all its funds with the National Bank.

4. Balance of Payments

Visible Trade Figures. The adverse balance calculated in gold Francs is diminishing.

In 1913 it amounted to	Fcs.1,334 millions
1923	Fcs. 931 millions
1924	Fcs. 868 millions
First 10 months of 1925	Fcs. 674 millions.

Expressed in another way, exports as a percentage of imports have moved as follows -

1913	73.5
1923	73.6
1924	79.2
First 10 months of 1925	81.0

It is estimated that the adverse balance for 1925 will be about 3,100 million paper Francs.

Invisible Items. Different estimates have been made, the most detailed which has reached the Bank of England being one prepared by the Department of Overseas Trade but not yet published. Another has been made by Professor Baudhuin, a Belgian. These two authorities put the net deficit at from Fcs.600 to Fcs.950 millions, not allowing for reparation receipts or foreign borrowings. After allowing for reparation receipts the deficit is not more than Fcs.100/550 millions.

The Swiss Bank Corporation publish no figures but say, "We have a distinct impression that the Belgian net "balance of payments is favourable".

5. Prices - some academic considerations.

Wholesale prices in Belgium are about $5\frac{3}{4}$ times as high as they were before the war, prices in the United States are about $1\frac{3}{5}$ times as high: hence, Belgian prices are about $3\frac{3}{5}$ times as high as American prices now are. More exactly, taking the latest figures available, viz., for November, 1925, the Belgian price index is 569, the American 157.7, which means that Belgian prices were then 3.61 times as high as American.

Turning to the Belgian exchange, reckoned in terms of dollars, it is found that in November last the rate was $4\frac{1}{4}$ times as high as pre-war - more exactly 4.26.

It follows that the internal purchasing power of the franc is greater than its external purchasing power, by the difference between 361 and 426 expressed as a percentage of 361; the calculation for November last being 18%.

It appears therefore that if the Belgian exchange were stabilised at 107 and devaluation took place on that basis, prices in Belgium would rise about 18%.

(5) But Belgian prices before the war were probably always somewhat lower than American prices and will continue to be so. It is possible therefore that the actual rise as calculated on the November figures would only be 12 or 14%, or perhaps even less.

(6) Now the exchange rate, except when pegged, is chiefly influenced by purchasing power parity; hence no further increase in total purchasing media (chiefly Notes) should be required to cover the probable rise in prices upon stabilisation. On the other hand it is equally true that no further deflation should take place after stabilisation.

Tables are attached showing, from 1923 onwards, the extent to which Belgian internal prices were below gold prices. There is also a table of the Cost of Living, on a 1921 basis, which shows an upward tendency since May 1925, but a level in December not much above the previous January.

BELGIUM

	A	B	C
1923			
January	278	318	+ 14
February	302	357	+ 18
March	303	352	+ 16
April	302	335	+ 11
May	304	337	+ 11
June	316	357	+ 13
July	334	395	+ 18
August	353	424	+ 20
September	334	394	+ 18
October	337	379	+ 12
November	349	407	+ 17
December	361	421	+ 17
1924			
January	384	461	+ 20
February	422	503	+ 19
March	417	499	+ 20
April	375	369	- 2
May	378	397	+ 5
June	390	423	+ 8
July	385	424	+ 10
August	365	384	+ 5
September	369	391	+ 6
October	365	402	+ 10
November	372	399	+ 7
December	361	389	+ 8
1925			
January	349	382	+ 9
February	343	380	+ 11
March	339	381	+ 12
April	344	382	+ 11
May	346	384	+ 11
June	351	410	+ 17
July	350	417	+ 19

1925 (cont.)	A	B	C
August	353	426	+ 21
September	361	438	+ 21
October	365	426	+ 17
November	361	426	+ 18

- A. This is an index showing the increase of Belgian prices over American prices. The figure is ascertained by dividing the Belgian price index by the index number of the United States Bureau of Labor Statistics and multiplying the result by 100.
- B. This is an index showing the cost of the dollar in Belgian currency as a percentage of its cost at par.
- C. This is the difference between columns B and A expressed as a percentage of A. The plus sign shows the excess of the internal purchasing power of the Belgian franc over its external purchasing power. The minus sign denotes the exact reverse.

BELGIUM

Wholesale Prices

Base 1914 = 100

1922	Average	367
1923	"	497
1924	"	573
1924	XI	569
	XII	566
1925	I	559
	II	551
	III	546
	IV	538
	V	537
	VI	552
	VII	559
	VIII	567
	IX	577
	X	575
	XI	569

From the League of Nations Monthly Bulletin.

BELGIUM

Cost of Living

		<u>Menage ouvrier</u>	<u>Menage bourgeois</u>
		Base 1921 = 100	
December	1922	96	100
"	1923	120	123
November	1924	137	138
December	"	138	137
January	1925	140	139
February	"	139	137
March	"	138	135
April	"	134	132
May	"	131	128
June	"	135	131
July	"	136	133
August	"	138	136
September	"	140	139
October	"	141	142
November	"	141	143
December	"	142	144

From the "Recueil Mensuel de l'Institut International du Commerce",
Brussels.

6. Economic Position

The economic situation of Belgium is on the whole fairly satisfactory, if allowance be made for strikes and the unfavourable market for coal, two adverse factors which have been in evidence for some months.

Coal. The monthly production of coal for the first ten months of 1925 is about the same as in 1924, but stocks were about twice as large. The total production for 1925 was about 1,900,000 tons which is only slightly less than in 1913.

Iron and Steel. Production was ahead of 1924 until May when the output was affected by a strike. The total for the year is, however, about 200,000 tons in each case, which again is about the same as in 1913.

Transport. The number of tons-kilometres worked on the railway in 1924 was 7,000 millions, which compared with 4,500 millions in 1920 and 5,725 millions in 1913. Generally speaking, there seems to be a tendency for trains to carry a greater number of trucks and weight, which should be profitable. Railway tariffs have not been increased in proportion to the rise in prices, passenger rates being now about 4 times pre-War and goods about $4\frac{1}{2}$ times, whereas wholesale prices are $5\frac{3}{4}$ times pre-War.

Port of Antwerp. In 1913 7,058 ships with a tonnage of 14,059,845 tons entered the port; in 1919 3,699 ships entered the port with a tonnage of 4,214,970 tons; in 1925 9,971 ships with a displacement of 20,201,598 tons came to anchor in Antwerp.

Engineering. This industry has been adversely affected by a strike which lasted from the 1st July to the beginning of September.

Textiles. There has been a considerable improvement in the wool trade. The application of the 8 Hours Act passed in compliance with the Washington Convention has,

however,

however, produced some difficulties recently at Verviers.

Unemployment. League of Nations figures are attached showing a steady reduction in the numbers during 1925.

The National Income is estimated at £36 per head, which is the same as in 1913. Comparative figures for 1924 are - England £88, France £41, Germany £25. The National Wealth is estimated by Sir Josiah Stamp at £156 for 1913 and £157 for 1919. In the latter figure he estimates that the inaccuracy is not likely to be greater than 30%.

BELGIAN UNEMPLOYMENT FIGURES TAKEN FROM THE LEAGUE OF
NATIONS MONTHLY BULLETIN OF STATISTICS
FOR DECEMBER 1925

Unemployment Insurance Societies

<u>End of Month</u>	<u>Wholly Unemployed</u>	<u>Partially Unemployed</u>
1922		
XII	11,743	14,312
1923		
III	4,788	12,010
VI	5,605	11,653
IX	3,008	6,922
XII	11,017	12,750
1924		
III	4,060	9,700
VI	6,659	15,269
IX	4,597	14,940
XII	9,344	23,410
1925		
III	9,414	33,509
VI	6,483	29,108
VII	6,701	24,490
VIII	5,634	17,434
IX	4,758	11,034
X	4,305	10,916

Percentage of workers unemployed among trade Unionists

1922		
XII	1.7	2.1
1923		
III	0.8	1.8
VI	0.8	1.8
IX	0.5	1.1
XII	1.7	1.9
1924		
III	0.6	1.4
VI	1.0	2.3
IX	0.7	2.3
XII	1.5	3.6
1925		
III	1.5	5.5
VI	1.1	4.8
VII	1.1	4.0
VIII	0.9	2.9
IX	0.8	1.9
X	0.7	1.8

Number of workers on which latest percentages are based

598,350

CONFIDENTIAL.

Bank of England,
London, E.C. 2.

ACKNOWLEDGED

MAR - 5 1926

19th February, 1926

B. S.

My dear Strong,

I have just returned from Belgium where I had interviews with Janssen, van de Vyvere and Hautain etc., and I want to let you know by this mail something of the Belgian position as I left it. I told Janssen and Hautain I had come quite unofficially and not as a representative of the Bankers, but that knowing their views it had seemed to me best that they and Janssen should not meet for the moment. I had come to Brussels in order to endeavour to find a compromise which might be satisfactory to both parties. I told them that the chief difficulties were as follows -

- (1) The suggested amount of the Loan, \$150 million, is too large.
- (2) A long term loan was not practicable.
- (3) The Bankers were not satisfied that the Budget for 1926 was in fact balanced. (The opportunity was taken to get further information on various points and I will send you a fresh memorandum shortly)
- (4) They were also not satisfied that the Floating Debt can be cared for, as it must be, internally, especially in view of the December Bond maturity.

(5)

- (5) That the rate chosen for stabilisation was not considered satisfactory, because it had not stood the test of time under normal conditions.

As regards a compromise, we had a great deal of conversation, and I found they had no very helpful ideas. I finally myself suggested the basis outlined in the enclosed short summary. You will see that the \$150 million long term loan is reduced to \$100 million short term loan and the balance of \$50 million is provided by a Central Bank credit, in which I have put you down for \$15 million and the Bank of England for the same figure."

The whole programme is of course still in a very fluid state and there will be a meeting of the Bankers here on Tuesday next to discuss the scheme in detail. I think, however, that the Belgians would accept any arrangement on these general lines.

Yours sincerely,

Livingston.

Benjamin Strong, Esq.

CONFIDENTIAL.

S/N White
Bank of England,
London, E.C. 2.

19th February, 1926

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Yours sincerely,

Rivoman.

Benjamin Strong, Esq.

BELGIAN LOAN: SUGGESTED BASES FOR PROVISIONAL COMPROMISE.

1. Reduce amount of loan to \$100 million:

U.S.	...	...	\$50
England	...	...	25
Holland	...	...	10
Switzerland...	...	...	10
Sweden	...	...	5
			<u>\$100 million</u>

The amount of \$100 million to be subject to agreement with the Bankers.

All existing credits to be liquidated out of the \$100 million.

If this amount is found insufficient the Central Banks will grant credits (in the form of re-discounts or advances on Bills, as in the case of the existing \$10 million credit) for a further \$50 million, as follows:

U.S.	...	...	\$15
England	...	...	15
Holland	...	...	10
Switzerland...	...	...	10
			<u>\$50 million</u>

2. Reduce period to 3, 4 or 5 years (preferably 3 years).

A long-term loan to be issued on the expiration of the short loan.

3. Either

A. Pledge the State Railways as collateral security, or preferably

B. Put the Railways on a paying basis and make them contribute Fr.600 million per annum (5% on Capital value of Fr.12 milliards) to be applied to reduction of the Floating Debt: i.e., the railways must earn a net surplus of Fr.600 million.

4. Consolidate at once the 5 year Bonds for Fr.1,800 million due in December, by getting a syndicate of private Belgian Bankers to underwrite a funding loan, possibly with security provided by the Railways.

5. Possibly postpone promulgation of the decree fixing the rate for stabilisation of the Franc until the rate eventually chosen has been proved to work satisfactorily under normal conditions.

conditions.

The ratio will not be less than $4\frac{1}{2}$ to 1 (the present ratio) and may be $4\frac{1}{2}$ to 1.

These terms may be said to have been accepted by the Belgians with the exception that -

- (a) The Belgian Cabinet will not pledge the Railways as security for a foreign loan.
- (b) The Belgians probably cannot undertake to produce more than a surplus of say Fr.1,000 million on the Railways within the next three years.
- (c) They will not accept foreign control of the Railways, but they will accept a Belgo-foreign technical advisory committee, whose recommendations they will consider.
- (d) They are anxious not to postpone the issue of the decree, at any rate for more than about three months.

19th February, 1926.

CONFIDENTIAL.

X Italy Sp
BS -
Bank of England,
London, E.C.2.

4th March, 1926.

My dear Strong,

*see KM
Blackbook
No 4053*

I had one or two talks with Volpi while the Italians were here about their Debt settlement. As a matter of fact, they made an advantageous settlement looking at their payments as a whole - probably a reduction of 30 per cent on what they were prepared to pay - but not so advantageous a settlement looking at their payments in the earlier years. Some people of course think that all these inter-Allied Debts will cease to be fully paid or will be cancelled within ten or fifteen years.

But my talks with Volpi were unsatisfactory and disappointing for two reasons. First, because of his attitude towards Germany!! He complained that we were all Germanophiles - you and I and all our friends in Berlin, including the Italian representative himself. He said the Germans must recognise, the sooner the better, that they are not going to be treated leniently and must somehow pay up: hence, as he foreshadowed, these fiery speeches which Mussolini is making against the Germans. Volpi declared that if full Reparations payments to Italy were not made regularly in cash or in kind he would require to be given Industrial or Railway Bonds to make up any difference; a requirement which upsets

the

CONFIDENTIAL.

Page 2.

Benjamin Strong, Esq.

4th March, 1926.

the whole idea of holding these Bonds together and eventually having a general settlement. Of course Gilbert says the idea of distributing these Bonds is ridiculous at present.

Secondly, because of Volpi's attitude towards the Banca d'Italia. I said that we wished to work with that Bank as you and we and the Reichsbank were already working. Volpi asked with what object? and I explained, for stabilisation and co-operation, improvement of trade, and the rest of it, which required a due measure of independence for the Central Bank. This, he declared, Stringher would never have and, indeed, was much better without. Volpi said that he himself was going to direct Central Bank policy which should not be separated at all from general policy.

You may like to have this in your mind and I am inclined to go slow with Stringher.

These remarks remind me very much of what Caillaux said in London three or four months ago. Indeed, he too spoke in almost the same strain, except that Caillaux brought in the dangers to Robineau from the Regents of the Bank of France as well as from loss of parental authority of the Ministry of Finance. I told you when Monnet was sitting with us in New York all about the Caillaux views as he had expressed them to me.

Believe me,

Yours sincerely,

W. Roman

Benjamin Strong, Esq.

*written 5 or 6 weeks ago &
held back pending your
return to N.Y.*

*Adelphi
70713
2/18/26*

CONFIDENTIAL.

Bank of England
London, E.C. 2

5th March, 1926.

My dear Strong,

To aid you in your endeavours to obtain for us certain American witnesses before the Indian Currency Commission whilst it is sitting in London, I send you herewith (in confidence) a copy of the Questionnaire which has been supplied to me, as well as, presumably, to other witnesses.

Believe me,

Yours sincerely,

Hisoman

Benjamin Strong, Esq.

CONFIDENTIAL.

Bank of England

London, E.C. 2

9th March, 1926.

My dear Strong,

As promised in my cable No.60,
paragraph 4, I send herewith the latest memorandum
on the Belgian Budget position.
Loose in file

Believe me,

Yours most sincerely,

E. Norman

Benjamin Strong, Esq.

CONFIDENTIAL

Bank of England,
London, E.C. 2.

9th March, 1926.

My dear Strong,

The cable which I sent you yesterday ought perhaps to have been sent to you earlier in the form of a letter. Apart from my usual reason for not writing, I felt that you knew all there was to be known about the Indian Currency situation from Blackett's letters and from our talks and from Kelly and Ryan

Quite briefly, to-day's difficulties, as I see them, have arisen thus. Blackett has recommended a gold currency; which is exactly what the whole of India demands in the hope that the Commission cannot turn down the Finance Minister. This demand is supported by statements made to the Commission in India and may become a strong weapon in the hands of the parliamentarians at Delhi. The Commission consists, I think, of four Indians pledged as it were to a gold currency: several members who have no very definite ideas (as I gather): and Hilton Young and Strakosch who are as wise as they are sound, and therefore see the dangers towards which the Commission may be drifting.

Neither the Indian members of the Commission nor public opinion in India would believe it if they were told by Englishmen in London that India cannot have the gold circulation which the Finance Minister has advocated, not alone because it
would

CONFIDENTIAL

Page 2.

Benjamin Strong, Esq.

9th March, 1926.

would not be in the interests of England but also - and quite as much - because it would not be in the interests of India and the rest of the world. This fact has to be impressed upon the Commission and on public opinion in India, and if we are to be saved from real trouble both the Commission and the Indian Public must be convinced. Who is to convince them? Hilton Young thinks - and I agree with him - that American evidence will do so and that nothing else can. Of course I don't know whether this is true, but I am passing on to you what sounds so to me.

If it is true, how are we to proceed? I must appeal to Morgans and to you: and in one way or another you surely can help us out of this quandary. The reasons for your doing so are given in my cable - I need not repeat them: and from the angle of silver &c. we discussed them several times in New York. The only alternative to your coming here would be that some of the Commission should go to New York. While theoretically possible, practically I believe it would be dangerous and possibly disastrous: what with the head-lines and the silver producers and the politicians and even the unfamiliarity of your public with native Indians I should fear the results. But your advice is badly needed.

With kindest regards,

Believe me,

Yours sincerely,

Divoroman

Benjamin Strong, Esq.

Memorandum for Mr.M.C.Norman

referred to in letter of
BELGIUM Mr. Norman 3/9/26

14.2

The four following questions were to be dealt with in #
Brussels:-

- (1) Condition of the 1926 Budget
- (2) Condition of the 1927 Budget
- (3) General status of the Floating Debt
- (4) The special status of the Floating Debt in respect to:-
 - (a) Special issue of Treasury Bills and rediscounts thereof
 - (b) The Treasury's forward commitments in exchange in respect to the sale of Treasury Bills abroad.

Information concerning the above, of which the following is a precis, was furnished by M.Janssen, Minister of Finance, M.Seulen, his Chef de Cabinet and M.Monceux, Director of the Division of the Public Debt in the Finance Ministry.

(1) 1926 Budget. It has been estimated that after receiving the proceeds of the Congo and Antwerp Loans the Minister would be faced with a cash deficit for the year 1926 in the neighbourhood of some Fcs.550,000,000. The Finance Minister denied the validity of this contention for the following reasons:-

First That tax collections in January and in the first twenty days of February had been in excess of even his revised estimates of what the increase in tax rates would produce. (Figures on this point for the first two months of the year will be furnished about March 8th.)

Second On assuming office he had found the Treasury without any

cash margin for contingencies and that he had sought to remedy and had remedied this condition in the 1926 Budget in the following way. He had had a law introduced and passed in September which had permitted him to make payments due by the State on account of Reparations in the form of "Titres des Dommages de Guerre 5%", these bonds, payable in 30 years, to serve also to take up "Titres nominatifs", then outstanding to the extent of approximately Fcs.470,000,000. These latter must be surrendered within a certain period (said to be April 15th) or they become invalid. The Titres des Dommages de Guerre, in which reparations are in future to be paid, are non-negotiable bearer bonds. They have no market, not being listed on the Bourse. They may however be discounted in the following circumstances.

Those who receive the Titres in compensation for industrial damage suffered may obtain cash against the security from the Association Nationale des Industriels et des Commerçants if they are able to prove to a Committee of the Association specially charged with the matter, that if they are not able to discount their Titres they will suffer actual money loss.

Communes and villages which are entitled to reparations may discount their Titres des Dommages at the Credit Communal.

Private individuals who are entitled to reparations may rediscount their Titres with the Savings Bank.

Exact figures of recent discounts of Titres in the first two instances are to be made available within two or three days. The figure of rediscounts by the Savings Banks to date is Fcs.30,000,000.

(Note. In connection with the Dinant Assize Court decision

M.Seulen offered the following explanation. This decision has been appealed and the Dinant Court will be reversed within the next four or five weeks. Should by some unfortunate and unexpected chance the reversal of this decision not be obtained the law will be altered by Royal Decree (consultation of Parliament is unnecessary) and the Treasury will thus be saved any embarrassment in respect to the collection of taxes. The Dinant decision was rendered by the lowest Court in the Belgian ranking, composed of local magistrates, all friends of the litigant and all themselves sinistres.)

The sum which the Minister must pay on account of reparations in 1926 totals to about Fcs.525,000,000. This is on account of claims which the War Damage Tribunals allowed in the last six months of 1925 and which will be presented for payment in 1926. He will liquidate this indebtedness through the issue of Titres des Dommages as outlined above. As he anticipates receipts on account of reparations of some Fcs.813,000,000 in 1926 of which between Fcs.450,000,000 and Fcs.500,000,000 will be in cash he will have a contingency fund at the Treasury equal to this latter amount.

Third. In budgeting for the cost of his stabilisation loan the Finance Minister provided a sum sufficient to meet two interest and sinking fund payments in 1926. Actually he will have only one due date in the course of the current year. He therefore has a Treasury margin here of approximately Fcs.100,000,000 available to meet such increases in the rate on the Floating Debt as may be deemed necessary.

Fourth. The mortgages which the Minister receives on account of arrears of taxation are for terms varying between 60 and 90 days.

He attributes the fact that he has received so large a percentage of

his tax arrears in the form of such mortgages to the dear money policy maintained by the National Bank. He has left the mortgagees however no illusions as to his determination to proceed to the forced sale of the properties mortgaged should the mortgage not be liquidated at the end of its term. He said that he had told one Industrial who complained of the harshness of these terms, that he was not in the banking business and that the mortgagee must either borrow from his own bankers or liquidate his indebtedness.

Fifth. The proceeds of the first tranche of the Congo Loan are not available to the Minister but must be applied to the payment of public works completed or already in course, in the Congo. The subscription lists to the first tranche of the loan (Fcs.200,000,000) are not actually open but nevertheless subscriptions to the extent of Fcs.325,000,000 are already in hand and are continuing to come in at an exceedingly satisfactory rate. In view of this fact the Minister, who has the right to the first Fcs.150,000,000 subscribed to the second tranche, expects to be actually in receipt of this sum by the 15th June at the latest. Both M.Janssen and M.Seulen were very insistent on this point. The Congo, M.Janssen said, actually owes him about Fcs.400,000,000 and he intended, should the second tranche of the loan (Fcs.500,000,000) be oversubscribed, to arrogate to himself for his Contingency Fund the amount of the oversubscription.

Sixth. The Antwerp Loan of Fcs.150,000,000 is actually being offered to the public. Subscriptions to this loan are coming in at a fairly satisfactory rate and to date total about Fcs.107,000,000.

The Minister is not so confident of the complete success of this operation. As the full amount of the loan however is underwritten

he is certain of obtaining before the end of the year Fcs.75,000,000 which the City of Antwerp owes him.

● The Minister's Treasury position appears to be fairly satisfactory at the moment. He has cash in hand for all normal needs and his position he claims will become increasingly easy in the coming months. He has instituted a system whereby he receives a daily report of his Treasury operations and is thus able to follow fairly closely the flow of funds to and from the Treasury. M.Seulen is at present organising a service at the Finance Ministry which will be charged with the detailed compilation of such reports for fortnightly publication.

(2) 1927 Budget The Minister admitted that he had as yet had time to give but comparatively little thought to the details of this Budget. In general his views at present are as follows: He proposes to leave the existing scheme of taxation unchanged. He has created an Economy Commission of which he himself is Chairman, and of which he told me he proposed to be "boss", composed of important men of affairs, Bankers, Industrailists and commercial men. This Commission, which will hold its first meeting next week, has as its objective a reduction of the ordinary expenditures of the State by one milliard francs. He thought that the actual reduction of expenditures would be between Fcs.500,000,000 and Fcs.600,000,000. M.Seulen, who has spent twenty six years in various Departments of the Finance Ministry and who appeared to me to be a thoroughly competent Official, stated that the Minister under estimated the actual economies which could be made. He said that there were at least 30,000 more State employees than were necessary and that there was no reason why 15,000 of these could not be discharged in 1927 and 15,000 in 1928. M. Seulen in a sense will act as Counsel for the Economy Commission and explained to

me in detail the nature of the economies which he proposed to have the Commission enforce. The Commission will hold all its hearings in public and M. Seulen has made every arrangement to have the hearings given very full publicity in the press. He has further planned to invite delegations of citizens from various parts of the country to attend the hearings and has, with the aid of a few of the abler Deputies, made arrangements to have these make a series of speeches throughout the country in the course of the present year in respect to the work of the Commission.

Both the Minister and M. Seulen admitted that they would have probably between Fcs.500,000,000 and Fcs.600,000,000 of extraordinary expenditures to meet in 1927. The Minister stated that he hoped to apply some of the excess receipts which he was to receive from the economies in the ordinary Budget to the part payment of this sum and to obtain the balance through further sales of State property (the State for instance owns 1,100 houses in the centre of the City of Brussels) and from the cash that he is to receive on account of reparations. He did not propose to borrow to meet any deficit in 1927. M. Seulen stated that a preliminary text of the Budget project would probably be drawn up late in June. This first draft of the Budget is usually prepared for the Minister only but he stated that a copy would be made available to us for examination as soon as it had been prepared.

The Minister pointed out that he would be in receipt of cash on account of reparations in 1927 to the extent of perhaps Fcs.450,000,000 and that as he would meet his reparation expenditures through the issuance of Titres des Dommages this sum would be available in case of need, although he preferred to conserve the cash reparations receipts which he would receive

in the course of the next two or three years for the creation of a fund to meet short term maturities between 1928 and 1930. M. Seulen stated that it was the Minister's notion that if one of the smaller short term debt maturities could be liquidated entirely in cash the general position of the Treasury in respect to later refunding operations would be greatly strengthened.

M. Seulen offered to inform us from time to time between now and the 1st June of the Treasury's plans in respect to the 1927 Budget.

(3) General status of the Floating Debt. MM. Janssen, Seulen and Monceaux were all agreed that the situation in respect to the Floating Debt had greatly improved in the last six weeks. The renewal of those Bills in the hands of the general public was most satisfactory. Indeed as there had been an excess of demands for Bills it had been possible to pay off Fcs.200,000,000 of the debt held by the Bankers through sales of the same extent to private individuals.

The Minister admitted that he had had some concern in respect to the December maturity but that in view of events in the past week or so this had now been removed. He pointed out that the dear money policy of the past few months had had no effect upon the renewal of Bills held by the general public and that he did not anticipate, in spite of a probable rise of 10% in prices, in the course of the next few months, any change in this condition. He was confirmed in this statement by M. Monceaux. He pointed out that in the past a rise in prices had affected the holdings of Treasury Bills by Banks but had not caused any fluctuation in the sums held by the public.

M. Monceaux stated that he had lately had enquiries for Treasury Bills from abroad without exchange guarantee. He showed me an order to

purchase from one American Bank amounting to Fcs.45,000,000 which he received on Friday, 26th February. He had received an enquiry from Holland in respect to the purchase of Fcs.100,000,000 of the Belgian perpetual Rente which was now selling on an 8% basis.

M. Monceux stated that in view of the improvement in the market for Treasury Bills in the past two months, he felt quite confident of the future.

M. Janssen said that the only time that he had noticed any uneasiness among the public holders of Treasury Bills was last October when holders along the French frontier had been scared by talk in France of forced consolidation, believing that the same might happen in Belgium. He had gone to Ypres and had there made a speech in which he had said that in no circumstances, no matter how critical, would the Belgian Government refuse to pay Treasury Bills as they fell due, that this statement had had the desired effect and that some of the recent heavy purchases of Bills had been due to increased demand from this neighbourhood.

M. Monceux is to furnish us, within the next few days, with complete details of the movement of the Floating Debt in the past fourteen months.

(4) Special status of the Floating Debt: (a) Special issue of Treasury Bills and Rediscounts thereof. The special issue of Treasury Bills, i.e., those Bills issued at 6% interest plus 1% commission, now totals about Fcs.700,000,000. M. Monceux said that the peak issue of such Bills had been in the neighbourhood of Fcs.1,060,000,000. He was no longer renewing these Bills on the same terms as they fell due but was issuing in their place the ordinary 6% Treasury Bill. Exact information concerning the rediscount of such Bills was not available but is to be forwarded within the next few days together with other details regarding

these Bills.

(b) Treasury's forward commitments in exchange in respect to the sale of Treasury Bills abroad. Such commitments cover Bills to the extent of Fcs. 650,000,000 or Fcs.700,000,000. Exact details in respect to this transaction will be furnished by the Treasury at the same time that it forwards information in respect to (a) above.

(SD.) J.A.M. DE SANCHEZ.

28.2.26.

Bank of England
London, E.C. 2

11th March, 1926.

Ack

My dear Strong,

I assume you would not be happy without a copy of our "Coal Report" which is published to-day: so I send one herewith. Volumes 2 and 3, which will cover the Minutes of Evidence and the Appendices, are not yet ready but will be sent later.

Believe me,

Yours sincerely,

Thornman.

Benjamin Strong, Esq.

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ONE BEEN MISERABLE WITH GRIPPE LAST TEN DAYS BUT PROBABLY WORKING
AS USUAL NEXT WEEK

PLODGERITE

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LCO BENJAMIN STRONG

270 PARK AVE NEWYORK

TWO HOPE GOOD NEWS FROM ROME

PLODGERITE

930A

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LONDON MAR 18 26

LCO BENJAMIN STRONG

270 PARK AVE NEWYORK

THREE THANKS AND LOVE

PLODGERITE

930A

CONFIDENTIAL

Bank of England
London, E.C. 2

23rd March, 1926.

My dear Strong,

In order that when you leave for Europe on the 3rd April you may be posted, as far as possible, with the situation in Belgium, I am sending you herewith a further *Loose in file* memorandum by Mr. Osborne which corrects, amplifies and brings up to date the one sent 11th February.

You ought also to see General Mance's Report (prepared at the request of the Finance Minister) on the commercialisation of the Belgian Railways in connection with the liquidation of the National Floating Debt and also the letter which accompanied it: copies of both are therefore enclosed.

Believe me,

Yours sincerely,

W. Norman

Benjamin Strong, Esq.

COPY

c/o Ottoman Bank,
26, Throgmorton Street,
LONDON, E.C. 2.
16th March 1926.

Sir,

I beg to enclose herewith my report on the net revenue which the Belgian State Railways, worked commercially, might reasonably be expected to produce towards financing the paying off of the Belgian Government's floating debt. The report has been worked out in close collaboration with Monsieur Jules Jadot, who has submitted an identical report to the Minister of Finances. At the same time we have agreed that each of us should expand in a covering letter certain aspects of the problem which lie beyond the immediate subject of the report.

Monsieur Jadot's covering letter deals more particularly with the effect on the industry and travel of Belgium of the proposed average increase of 25% in the rates and fares. Such an increase in an industrial country in the present conditions is undoubtedly a serious matter. For example the Belgian coal industry, like our own, is in a difficult situation. Nevertheless, the above increases must and can be faced as a comparatively minor part of the sacrifices necessary to attain stabilisation - though doubtless the part which will have to bear most of the blame for future difficulties. Monsieur Jadot has emphasised the fact that Belgian industries are in urgent need of reorganisation, more particularly as regards the consolidation of the present small businesses into more efficient economic units, and considers that this factor alone provides the necessary margin for adapting industry to the new conditions. In his covering letter Monsieur Jadot also mentioned some of the steps which will be necessary to bring about economies on the railways, such as reduction of personnel, scrapping of the

present

present surplus of obsolete plant and the rigid cutting down of orders for further plant for some time to come.

The degree of priority to be offered to the investor will evidently be an important factor in any financial scheme for capitalising the surplus railway revenue. While recognising the great importance of relieving the State budget of any risk of being called on to meet some portion of the service of the railway debt, there is evidently a point beyond which such immunity can only be purchased at too great a price. For example there would be little hope of success for any railway financial scheme which leaves the new capital dependent for its service on the surplus revenue after meeting all previous charges; under a régime involving considerable political difficulty in its full application, and in the complete success of which the Government is not directly interested financially.

Among other points which would have to be safeguarded in any scheme for the proposed railway company is that of the effective representation of the new shareholders on the board of the company. It is assumed that the nationality of all the directors would be Belgian, but it is important that the board should not be constituted solely from sources interested in the lowering of tariffs, in the raising of wages and in the placing of orders.

The proposals in the enclosed report are based on the Belgian paper franc at 107. Any alteration in that rate of exchange will therefore involve consequential amendments to the report.

Yours faithfully,

(Sd.) H.O.MANCE.

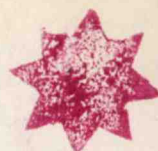
The Governor,

Bank of England,

LONDON, E.C.

Nov. Roman 3/28/26

BELGIUM



14.2

#

Memorandum in continuation of that sent 11th February 1926.

Budget

The following analysis of the probable cash position of the Belgian Treasury on account of the 1926 combined Budgets is based on a memorandum prepared by Mr. J.A.M. de Sanchez, of Messrs. J.P. Morgan & Co., after his interviews with the Minister and Officials of the Belgian Treasury at the end of February last. Although the Budget will probably have become unbalanced owing to the break in the Exchange, it may be of interest to learn the grounds for believing that the Treasury's cash position was not unsatisfactory prior to that event.

Millions of
francs.

After the final Budget amendments the net deficit of the combined Budgets was given by the Government as

481

This figure included Fcs.75 millions, the anticipated proceeds of the Antwerp Loan. This is regarded as inadmissible as a Budgetary though not as a Treasury receipt. The total deficit should therefore be

+ 75
556

Add to this deficit the following items-

- (1) Upon removal of Fcs.200 millions from Ordinary Budget, the estimated yield of old taxes was increased by Fcs.60 millions. In view of satisfactory tax returns in January and the first three weeks of February, add to deficit only 30
- (2) Probable arrears of taxes arising in 1926, say 150
- (3) Provision for probable increase in rate on Treasury Bills, say, $1\frac{1}{2}\%$ (from 6 - $7\frac{1}{2}\%$) for interest

Monsieur Janssen estimated that every 5 franc rise in the rate above 106 to £ (the figure of his Budget calculations) would cause a deficit of about Fcs.100 million. Hence stabilisation at 125 (5 to 1) would unbalance the Budget by 400 millions.

736

interest on about Fcs.5,800 millions for
nine months, say

65

- (4) Supplementary Credits, say, 2% on combined
Budgets of Fcs.9,000 millions

180

(This is felt to be a very moderate allowance)

- (5) It was originally estimated that the Government
would have to provide Fcs.75 millions towards the
issue of the new capital of the National Bank of
Belgium. Further enquiry into this has removed
the impression that a cash outlay was involved.
The figure cannot therefore be added to the cash
deficit.

- (6) The Government anticipate total receipts on
account of reparations to be Fcs.819 millions,
of which Fcs.206 millions are on account of
arrears due for deliveries in kind made prior to
the Dawes Plan. In view of the difficulties
experienced in the past in liquidating such assets
and of the complicated nature of the machinery
only recently set in motion for the resale of such
deliveries in kind, probable arrears have been put
at

200

1,181

To meet this cash deficit the Government claims to
have the following items available -

- (1) Arrears of taxation.

The Government expects to receive Fcs.555 millions
for the years prior to 1925 and Fcs.235 millions
for that year. The former figure includes
Fcs.168 millions of Excess Profits Tax, a tax
particularly difficult to collect when in arrears.
Half the arrears also prior to 1925 date from 1923

or even earlier. The Belgian Treasury claim they have made the following collections since the 1st November -

Of the 265 millions due for the years 1923	
and before in cash	28
in mortgages ...	<u>172</u>
	200
	===

Of the arrears for 1924, viz., 290, they have received -

Cash	105
Mortgages ...	<u>104</u>
	209
	===

Of the arrears for 1925, namely, 235, they have received 167. The mortgages referred to are upon land and buildings and the Treasury assert they have no hesitation in enforcing claims. The term of the mortgages is from 60 to 90 days. A part of the arrears is said to be due to a revaluation of property which has been in progress. To the extent that cash was collected prior to the 1st January 1926, it is not available for the current year. Moreover, some arrears will doubtless arise in the last quarter of 1926 in respect of mortgages dated November and December. The original estimate of probable receipts is therefore maintained at two-thirds of 555, or

370

- (2) The sale of Alien and State property is expected to yield

75

(The Belgian Treasury state that the value of this property is Fcs.164 millions.)

(3)

(3) Very confidential.

The Belgian Government will be in receipt of cash on account of reparations to the extent of some Fcs.600 millions, but proposes to meet its indebtedness in cash to the extent only of Fcs.200 millions and the balance in 5% non-negotiable Bearer Bonds. Hence the Government will have available

400

(4) Congo Loan.

A loan for Fcs.700 millions is to be raised. The first tranche of 200 millions has already been issued but was not quite fully subscribed. The Government have a first charge on the proceeds of the second tranche, which was to be issued later in the Spring, amounting to

150

(5) Antwerp Loan.

The subscription to this loan had been opened for quite two months at the beginning of March but only Fcs.106 millions out of Fcs.150 millions, the total required, had been subscribed. The Government expect to receive Fcs.75 millions, but it might be well to reduce the sum that the Government is likely to receive this year by one half, leaving as a receipt

37.5

(6) Stabilisation Loan.

The Finance Minister has provided for two interest payments and Sinking Fund maturities. As, however, he expected to have to meet only one such maturity in 1926, he would have a surplus on this item of

100

1,132.5

The difference between 1,181 and 1,132.5 is 48.5. This was understood to be more than covered at the end of February by the Treasury's cash balance.

GOVERNMENT'S RELATIONS WITH NATIONAL BANK

It is probable that it would have been politically difficult to remove Article 24 in the old Law which gives the Government the formal right to "oppose the execution of any measure contrary to law, to the statutes of the Bank or to the interests of the State". It is understood that the Socialist Party very unwillingly accepted the extension of the Bank's Charter to 1952.

The new Bank Law, Stabilisation Law, and Convention between the State and National Bank were published in the "Moniteur Belge" on the 27th February 1926.

With regard to the concentration of Government funds with the National Bank, the latter assert that the position is satisfactory except as regards Post Office monies.

Post Office Funds.

While the general public can buy money orders as in England, the German "Virement" system has been adopted in Belgium since the war. That is to say, most people keep a small account at the Post Office on which they draw cheques. The accounts are small because no interest is allowed. There is no reason therefore, it is said, to expect any withdrawals on balance. The total of these deposits at the end of February was about Fcs.876 millions, of which monies belonging to other Departments of the State, 'Comptables de l'Etat', were Fcs.243 millions. The balance of 633 millions represents an amount which should be regarded as a part of the Floating Debt (but repayable on demand). The funds in question are used by the Treasury. If they did not spend the money they would, it is asserted by the National Bank, employ it through the medium of the Bank, but at present the money must be regarded as all spent. The National Bank say that this is one of the questions which they will have to take up with the Government as soon as things become more normal.

Prices

PRICES.

The method used in the memorandum is that adopted by the League of Nations in their memorandum on Currency and Central Banks. Strictly speaking, it would appear that the calculation given already contains any allowance which should be made for the fact that Belgian prices before the war were lower than American prices, hence upon this computation a full rise of 18% might have been expected upon stabilisation at 107. Since November 1925 wholesale and retail prices have moved as follows -

	<u>Wholesale</u>	<u>Retail</u>	
		<u>Menage ouvrier.</u>	<u>Menage bourgeois.</u>
November	569	141	143
December	565	142	144
January 1926	560	139	140
February	556	141	140

CENTRAL BANK CREDIT.

The technical difficulties of the Credit appear to be chiefly two -

(1) At what rate of exchange are the Bills deposited as security to be valued? As Belgium will have returned to the Gold Standard, the exchange should remain within the new gold points. In order to allow a margin for fluctuations around parity it would be well to take the outgoing gold point (that is, outgoing from Belgium) for the valuation. Even if this figure be chosen there is no certainty that the rate may not for a time drop below the outgoing gold point, in which event it would be necessary to ask for a further amount of Bills to cover an advance. If the outgoing gold point exchange is taken and the pledged Bills are valued accordingly, then a margin will arise whenever the exchange is above the gold point. Since, however, this margin would be the same for each participating Central Bank, there would presumably be no objection to it.

(2) The next difficulty is the question of domicile for the Bills. It would seem hardly possible for the Bills to be lodged with each Bank, having to be sent back to Brussels from several centres daily. Moreover, as different amounts would be due each day to different Banks, it would become extremely difficult to repay each Bank its credit pro rata on any particular day while at the same time leaving no margin at any Bank. But it would in any case be tiresome for small repayments or replacements to have to be made almost daily, and it therefore seems that it might be necessary to interpret with some latitude the general idea that no margin of Bills should be held at any Bank.

BRUSSELS EXCHANGE MARKET

Official Rate

A daily official Rate of exchange is required by the Belgian commercial law, chiefly for the purpose of record. This rate is fixed at the Bourse at a meeting (from 1.30 to 2.30 p.m.) of the representatives of the Clearing Banks and Brokers. A "coteur" announces rates which in his opinion represent the tendency of the Market. The Brokers and Bankers, who sit at a table round the coteur, then announce what deals they are prepared to make, and the rate is not eventually fixed until the purchases and sales balance. The rate named by the coteur therefore alters in accordance with the requirements of the Market. When sales and purchases balance the rate at which deals are made is called the official rate of the day. This is published next day in the 'Cote de la Bourse'.

This system has been used for many years now, but it is only since the 25th March 1924, that by a decree of the Brussels Town Council, the responsibility of fixing the official rate was placed with the body of Bankers and Brokers meeting at the Bourse. Previous to the above named date, the coteur alone was responsible for fixing the official rate and, being a Broker himself, was probably inclined to force the rate up or down to suit his own needs. This gave rise to public dissatisfaction, but the present method is also criticised by the "Commission des Finances" reporting to the Senate on the Stabilisation Law, who think that the rates are still rather misleading.

It is interesting to note that Bills in foreign currencies payable in Brussels which are presented for payment after 2.30 p.m. and before 1.30 p.m. the next day are paid at the previous official rate.

Market and Bourse.

The market is divided in two parts:

(1) Marche officiel

(2) Marche libre

The Official Market is the one referred to in the previous paragraph and lasts only from 1.30 to 2.30. Orders are only executed at the official rate when a customer insists that this should be done; otherwise orders are dealt with on the free market which lasts from 10 a.m. to 6 p.m. at the best obtainable rate. Each currency is taken in turn for the purpose of fixing the official rate.

Bank of England

22.3.36

Q

15.3.26

NOTE ON THE NET REVENUE WHICH THE BELGIAN STATE RAILWAYS WORKED COMMERCIALY MIGHT BE EXPECTED TO PRODUCE TOWARDS FINANCING THE PAYING OFF OF THE BELGIAN GOVERNMENT FLOATING DEBT.

General particulars of Belgian State Railways

		1913	1924	1925	1926 (estimated)
Length: kilometres		4,368	4,706	4,725	-
(in millions)					
Gold capital expenditure	Frş.	2,920	3,258	3,358	3,400
Passenger km.		5,242	6,194	6,155	-
Goods ton km.		5,729	7,041	7,075	-
Revenue	(Gold frs.)	342	390	407	442
	(Paper frs.)	-	1,626	1,695	1,839
Expenditure	(Gold frs.)	246	348	379	389
(as shown in official accounts)	(Paper frs.)	-	1,450	1,578	1,619
Net Revenue	(Gold frs.)	96	42	28	53
	(Paper frs.)	-	176	117	220
Percentage on Gold capital		3.29%	1.29%	0.83	1.55
Operating ratio		72%	89%	93%	88%
Personnel		78.700	107.500	104.000	
Paper francs converted in Gold at the rate of 4.16 paper = 1.00 gold.					

Hitherto the policy of the Belgian Government has been to limit the net earnings of their railway to such an extent that they did not always earn the minimum necessary for paying the low rate of interest and sinking fund on the capital account, new construction being looked after by fresh capital raised by the Belgian Government. This policy has been due partly to the need for enabling the Port of Antwerp to compete for transit traffic with Dunkirk, Rotterdam and Hamburg, and partly to political and

economic

economic pressure, which has led to exceedingly low passenger fares being granted, one of the reasons being that the supply of labour to the industrial districts materially depends on the ability of the Belgian labourer to travel considerable distances to his daily work.

Before the war 1st class, 3rd class and workmen's fares were:-

(in Gold centimes per passenger kil.)	1st	3rd	workmen
Belgium 1913	9.4	3.8	(0.66 20 kil. 1.05 7 kil.
Great Britain 1913	10.8	6.2	2.1 6½ kil.

At present they are:-

Belgium 1926	7.6	3.0	(0.56 20 kil. 1.08 7 kil.
Great Britain 1926	16.2	9.3	4.7 6½ kil.

The average length of single journey at workman's fares is 20 kilometers in Belgium and 6½ kilometers in Great Britain.

The Belgian passenger fares are now therefore 80% to 85% of pre-war fares expressed in gold, as compared with 150% in Great Britain. The Railway Administration estimate that in 1924 the Belgian State Railways incurred a loss of 5.24 frs.paper (say 1.30 f.gold) for every passenger train km. and 2.2.cts.paper (0.5 cent.gold) for every passenger km.

As regards goods, certain important tariffs, such as coal, are considerably below the pre-war level in gold, and rates have only increased on an average by approximately 2% in gold, as compared with 50-55% in Great Britain, 45% including transport tax in Germany.

In 1913 the official accounts as drawn up by the State Railway Administration showed an operating ratio of 72.0% and a net revenue of Frs.96 million, or 3.29% on the outstanding construction capital. In 1924 the official accounts showed an operating ratio of 89.2% and a net revenue of 176 millions paper francs (42.4 million gold), being 1.29% on the outstanding capital expressed on a gold basis.

The

The number of passenger kilometers and ton kilometers has considerably increased since 1913, the increase in goods traffic being chiefly local traffic as the transit and international traffic has remained approximately the same.

Railway expenses in Belgium have gone up in gold: in 1924, 41%; in 1925, 53%; in 1926, 57%, as compared with 119% in Great Britain, above 1913.

Before investigating the net revenue which the Railways might reasonably be expected to produce on a strictly commercial basis, it is desirable to analyse the present situation as regards net revenue. The present accounts of the Railway show no separate provision for renewals, insurance, reserves, working capital, etc., such as is essential for an undertaking run on commercial lines. For example, taking the year 1924, the operating accounts should show the following result:

A sum of 80 million which appears to have been spent on renewals, plus 10.5 million paid for accidents and damages, has been deducted from the expenditure as shown in the official accounts, bringing it to 1,359.5 million.

Operating account 1924

Operating expenditure	1,359.5	
Renewal Fund should be	200	
Insurance - 1% of gross earnings	16	
Reserve 2% " " "	<u>32</u>	1,607.5
Gross Revenue		<u>1,626.5</u>
Net revenue		19
	Fixed charges	
Service on consolidated Debt and annuities		<u>168.5</u>
Deficit		149.5
		=====

On the same basis, after deducting from the expenditure shown in the estimates for 1926, a sum of 96 millions which is provided for renewals, plus 7.5 millions provided for accidents and damages, bringing the expenditure to 1515.5 the operating account based on the budget for 1926 would be as follows:-

Operating

Operating expenditure	1,515.5	
Renewal Fund	200	
Insurance Funds	18	
Reserve	<u>36</u>	
Total expenditure		1,769.5
Gross Revenue		<u>1,839</u>
Net Revenue		69.5
Service of the consolidated Debt and annuities		<u>219</u>
Deficit		<u>149.5</u> =====

The new German Railway Company under the Dawes scheme has to assure (apart from the dividend reserve of 2% of the gross revenue) annual net revenues as shown below. These amounts including the transport tax, do not represent the whole of the net revenues anticipated, and are less than the net revenue earned by the German Railways before the war.

(in millions)

	Rly. revenue Mks	Transport tax Mks	Total Mk or	Paper frs.
1st year	200	250	450	2,407
2nd "	595	250	845	4,520
3rd "	595	250	845	4,520
4th and subsequent years	660	290	950	5,082

The length of the German railways is 52.395 km of standard guage and 942 km. of narrow guage. The length of the

Belgian State Railways is 4.725 km. standard guage or 8.9% of the German Railways including narrow guage lines.

The ton km. on the German Railways from January to December 1925 were 55.860 million. The ton km. on the Belgian Railways for the same period were 7.075 million, or 12.7%.

It is not unreasonable therefore to suppose that the Belgian Railways could commercially earn 1/10 of the net revenue of the German Railways, or say:

1st year	240 million francs paper			
2nd "	450	"	"	"
3rd "	450	"	"	"
4th "	500	"	"	"
and subsequent years				

The comparatively small net revenue to be earned in the first year takes account of the technical difficulties of bringing revised tariffs into operation at short notice. The provision of the net Revenue envisaged for the fourth and succeeding years would involve an average increase on the present passenger and goods tariffs of about 25 %, assuming that by that time, the traffic would have recovered to its present figure. It is to be expected that this traffic recovery will be facilitated by a similar increase in French tariffs resulting from the stabilisation of the French franc.

It is of interest to note that under the Dawes scheme the German Railways have to earn a net revenue of 3.9 % on their construction capital of $24\frac{1}{2}$ milliard marks. In Great Britain, the net revenue earned, before providing for reserves, on the construction capital was 4.41 % in 1923 and 4.01 % in 1924. A net revenue of 500 million paper francs (120 M Gold francs) would correspond to 3.50 % on the capital of the Belgian State Railway on a gold basis (3.400 million estimated end of 1926)

Important economies would undoubtedly result from the operation of the Railway on a commercial basis. A certain economy should also result from the completion of the works now in hand, most of the cost of which has already been provided for in the capital account. An estimate of such economies could only be made after a lengthy examination of the question. On the other hand, there is no doubt that some additional expenditure will have to be faced on account of the rise in wages and in the price of materials which will unavoidably result from stabilisation. As the above factors operate in both directions, they are not taken into consideration.

As indicated above, the present Belgian tariffs for passengers and goods as a whole average, say, 90 to 95% of the pre-war rates in gold. In Great Britain tariffs have increased to from 155 to 160%, and in Germany to about 145% including transport tax. An average increase in Belgian tariffs of 25% above the present rates would bring them to about 17 or 18% only above the pre-war level in Gold.

The index numbers of wholesale and retail prices in Great Britain, Germany and Belgium are as follows:-

	<u>Wholesale</u>	<u>Retail</u>
Great Britain	157	171
Germany	132	142
Belgium	137	128
(in gold)		

It is evident therefore that even after the proposed increase the tariffs would remain well below the level corresponding with the prices of other commodities.

A certain reduction of traffic is to be expected as a consequence of the increase in the tariffs, as also as a result of other economic difficulties usually connected with stabilisation. It may be expected however that the reorganisation which would, in

any case, be necessary to adapt the industries of the country to the new economic conditions will enable them to bear the increased rates, which constitute a minor part of the problem, so that the decrease in traffic would be only temporary.

As regards the possibility of increased motor competition as a result of higher Railway tariffs, experience has shown, in Germany, that the greater flexibility of a Commercial Railway organisation for adapting itself to the detailed requirements of industry and travel constitutes an advantage which should at least maintain the present situation.

If the Railways are to be worked on a commercial basis, it will be essential that they should provide, from their own resources, finance for new capital expenditure, which has hitherto been provided out of General Loan funds raised by the State.

In view of the extreme need for economy, it will be necessary to limit new capital expenditure to the barest minimum and in any case to works which will immediately earn an ample additional interest and sinking fund. Less urgent works and works of convenience must be deferred, unless the other interests concerned provide the necessary funds and guarantee the service for the same. In Great Britain in 1924 new capital expenditure amounted to about 0.6% of the capital of the Railways; in Germany, in 1925, it amounted to 1.2% of the present capital (296 million marks having been provided out of the net earnings), but this amount included a proportion of expenditure properly chargeable to renewals and which it is difficult to separate. A similar percentage is provided for in the German Railway estimates for 1926, subject to possible reductions if funds are not available. In Belgium 274 millions paper francs (66.5 millions

gold francs) or nearly 2% on the gold capital of the Railway has been provided for in the budget of 1926. It would seem essential to limit the capital expenditure on the Belgian State Railways to a maximum of 150 million paper francs a year until times are better. After a few years, the new capital expenditure should earn enough additional revenue to finance future capital requirements.

At present the Railways are able to draw on the Treasury for the necessary working funds. It will be essential therefore to provide working capital for the new railway company until it has accumulated sufficient funds on its own account. Presumably, however, part at least of the necessary funds for this purpose could be obtained by means of short term credits through the banks.

A further question would be the provision for a newly constituted Railway Company of sufficient cash to form a nucleus for the reserve, Renewal and Insurance Funds.

If the Railways are worked as a Commercial Concern they should look after the service of the part of the State Debt attributable to the railways; this service amounts in 1926 to 219 million paper francs. This amount must be deducted from the assumed net revenues to determine the annual sums available for financing new works and paying off part of the floating debt of the State.

Assuming that the net revenues indicated above are adopted as the basis of the policy of the proposed Railway Company, and that the Railways, as in the case of Germany, would remain free from taxes, Table A shows the annual amounts which should be available from the net revenue for providing the minimum of reserves and new capital requirements of the Railway and for financing the paying off of the State Floating Debt.

TABLE A.

Year	Net Revenue	Due to the State Service old debt	Available for reserves, new works & consolidating floating debt	Minimum capital required to create reserves & for new works	
				Annual issue	Total outstanding
1st	240	219	21	200	200
2nd	450	219	231	300	500
3rd	450	219	231	100	600
4th	500	219	281	x	600

x It might be assumed that at this stage some of the new capital already spent would be earning additional net revenue sufficient to meet the service of future capital requirements.

(SD.) H.O.MANCE.

CONFIDENTIAL.

Bank of England,
London, E.C. 2.

24th March, 1926.

My dear Strong,

I learnt the other day that a special questionnaire had been prepared for distribution to American witnesses: I have now obtained a copy and send it herewith in time, I hope, for you to receive it before your departure for Europe.

As you will see the questions are substantially the same, the wording having been altered to make them apply more specifically to the United States. The memorandum on the "Proposed scheme for a Gold Standard for India" which is mentioned in the first paragraph of the questionnaire is the same both for witnesses in America and Great Britain: I am not, therefore, sending you a further copy.

Believe me,

Yours sincerely,

Hiseman.

Benjamin Strong, Esq.

ROYAL COMMISSION ON INDIAN CURRENCY & FINANCE.

Proposed Questions to be asked the American witnesses by
the Chairman:—

Attention is directed to the plan for the establishment in India of the gold standard, with gold coins as an internal medium of exchange, for the reduction of the status of the silver rupee to that of a token of limited legal tender, and for the sale of silver, set out in the accompanying confidential Memorandum entitled "Proposed scheme for a gold standard for India".

A.

As to the proposals relating to Gold:—

1. Assuming that these proposals involve the absorption by India of about £103,000,000 (\$500,000,000) of gold (in addition to normal requirements for the arts, hoards, etc.), of which it is assumed £15 millions would be required at the outset, an additional £35 millions within a year, and the remainder within ten years:

What would be the effect of these proposals:—

- (a) On the supplies of credit and rates of interest in America?
- (b) On the position and policy of the Federal Reserve Board?
- (c) On the position and policy of the Central Banks:—
 - (1) of those of the European countries which have put the gold or gold exchange standard into operation?
 - (2) of those which are aiming at doing so?
- (d) Generally, on the maintenance and restoration of the gold standard in European countries?
- (e) On World gold prices?
- (f) On the cost of living and on wages in America, Europe, and India?

2. If European countries, and countries overseas whose financial systems are closely tied to European countries, should, as a measure of protection of their gold reserves, curtail the

supply/

supply of credit, what effect would this have upon America financially and economically?

3. What would be the reaction on India of the consequences which you describe in reply to questions 1 and 2?

4. Assuming that the absorption by India of the £103,000,000 sterling of additional gold is not spread over a period of ten years, but takes place more rapidly:

What difference would this circumstance make to the consequences which you have described in reply to questions above?

5. Can you express any opinion whether, under the scheme in question, the absorption of the additional £103,000,000 sterling of gold could in fact be spread over the period of ten years as proposed, or whether it might not have to be supplied more rapidly?

6. Assuming that the amount of £103,000,000 sterling of additional gold required for India might be substantially increased by the withdrawal of more gold into active circulation than is allowed for in the estimates of the scheme:

What difference would this circumstance make to the consequences which you have described in reply to questions 1 and 2 above?

7. Can you express any opinion as to the desirability of the proposals of the scheme relating to gold, in relation to the interests of India, and particularly in view of the cost to India of providing a gold currency by the means proposed?

8. Can you assist the Commission with any evidence as to the probable future relation between the World's demand for gold and its supply, assuming that Indian conditions remain unchanged?

9. In particular, can you give an estimate of the annual increment to the stock of gold for monetary purposes which is needed to keep pace with the economic progress of (a) the U.S.A.

and/

and (b) the rest of the World?

10. In how many years will the stock of gold for monetary purposes now held by the U.S.A., and at present regarded as redundant, be absorbed in this manner?

B. As to the proposals of the scheme relating to Silver:-

1. Can you assist the Commission with any evidence as to the probable future relation between the World's demand for silver and its supply, assuming Indian conditions to remain unchanged?

2. Assuming the proposals referred to involve the sale over a period of ten years of an amount of silver equal to about three times the present annual World's production:-

(a) What would be their effect on the silver market?

(b) What effect would the proposals have on the markets in copper and other base metals?

(c) What effect would a fall in the price of silver have on the volume of its production?

(d) If a fall has the effect of curtailing production, would it be reasonable to suppose that a fall in the price of silver to 24d. would so contract production as to stabilise the price of silver at about that level, and permit of the absorption of say 20 crores of rupees annually?

3. In what respects would American interests be affected by the silver sales in question?

4. Having regard to the desirability of the co-operation of the United States in the carrying through of the plan, how, in your opinion, would it be viewed by the Government and the Financial Authorities of the U.S.A.?

5. What difference would the imposition of a duty on the importation of silver into India make to the consequences which you describe in reply to questions 1, 2 and 3 above?

6. The average annual importation of silver into India for use in the arts, as ornaments, and all purposes other than coinage, for the last five years was 81 million fine ozs.

Assuming/

Assuming that the effect of the proposals under consideration, with or without the imposition of an import duty, would be substantially to reduce the importation of silver into India for these purposes:

What difference would that circumstance make to the consequences which you have described in reply to questions 1, 2 and 3 above?

7. Can you express any opinion as to the desirability of the proposals of the scheme relating to silver, in relation to the interests of India, and in particular the circumstance that silver is a favourite store of values amongst the poorer classes there?

8. Assuming the Government of India requires to raise credits in order to bridge the period between the introduction of a gold currency and the realisation of the silver which it would replace, which credits might amount to \$150 million in New York and £23 million in London:-

What considerations, arising either from the nature of the scheme, or from external circumstances, would militate for and against a proposal by the Government of India to obtain such credits in New York?

9. Would a proposal by the Government of India to obtain such credits in New York for the purpose of carrying out the scheme referred to (for putting gold into circulation in India, concurrently with the sale of silver) be likely to encounter any such difficulties as would make it undesirable to contemplate that step?

10. Assuming that the credit of \$150 million would not be required for a longer period than 5 years, what would be the cost to India of embarking on such a credit scheme:

(1) if the credit is not required to be actually drawn on;

(2) if the credit is only partially drawn on?

11. It has been suggested that the conversion of silver hoards into gold and the introduction of a gold currency will ultimately/

ultimately lead to a reduction of India's demand for gold for non-currency purposes. If this were assumed to be the case, would any modification be necessary in your replies to previous questions?

12. It is relevant to the inquiry of the Commission to consider whether the times are ripe for a stabilisation of the rupee, at a fixed rate in relation to gold or sterling.

Do you consider that there is any factor in the financial situation in the U.S.A. which would make it prudent to postpone any such measure for stabilisation?

13. In regard to the rate at which the rupee should be stabilised, it has been suggested that a rate lower than the existing rate will reduce the total demand for gold in connection with the introduction of a gold standard in India. What weight, if any, should in your opinion be attached to this suggestion?

14. In regard to the remittance operations of the Government of India, a question has arisen whether they should be conducted as hitherto by the time-honoured system of sales of Council Bills in London or by means of purchase of sterling bills from Exchange Banks and firms in India as has been done since 1923. It has been suggested in favour of the older system that it gives greater facilities to the people of U.S.A. for payment of their jute and other contracts made with India; what importance do you attach to this?

MEMORANDUM

Mr. Norman and Sir Charles Addis appeared as witnesses, jointly and severally, before the Royal Commission on Indian Currency and Finance on Monday, March 29, 1926.

Their attention was directed to a plan for the establishment in India of the Gold Standard with a Gold Currency, the limitation of legal tender for the rupee, and the consequential sale of the Silver coins displaced from circulation.

It was stated that the plan would involve a demand for £103,000,000 of gold, in addition to normal requirements for Arts, Hoards, &c., say, £50,000,000, within a year and the remainder within ten years.

The plan would also involve, it was estimated, the sale of 600 million ounces of Silver.

GOLD.

The Witnesses did not question the political right of the people of India to determine the kind of currency which they were in a position effectively to demand. It was, however, their duty to point out the economic consequences to which a demand for Gold, as currency, might be expected to give rise.

In their opinion the demand for an extensive issue of Gold as a circulating medium would be of no real benefit to the people of India and had no economic justification. It would appear to be based on the ill-founded belief that a Gold Currency is the hall mark of an advanced civilisation.

The Gold Currency would not support foreign exchanges. Experience shows that in any crisis/^{or}want of confidence, the people of India, instead of bringing out gold to support the exchanges, stick to what they have and try to obtain more.

The Gold in circulation would be at the expense of the Gold Standard and Paper Currency Reserves. There would be less rather than more gold available for exchange in the event of a crisis or general lack of confidence.

There

There would be a loss of the profit in the coinage of Silver Rupees which would have accrued if Gold coins had not taken their place.

Where the circulation of Gold has been actively tried, as on various occasions between 1900 and 1914, it was found to be at the expense of the Notes.

The remedy for Gold hoarding is not a Gold circulation, but an extension of education and of banking facilities. Until these are supplied the extended Gold circulation would offer no advantage in security or utility corresponding to the waste involved in the substitution of a more costly for a cheaper form of currency.

The most suitable form of currency for all internal purposes in India is Rupees and Notes.

For the settlement of external obligations what is required is Gold in Reserve, by means of which the internal currency can be freely convertible on demand into exportable Sterling.

Gold is the basis of credit. Other things remaining the same the withdrawal of Gold from the base would involve a proportionate reduction in the super-structure of credit in Europe. The diminution in the supply of credit would involve a rise in its prices, i.e., in the rate of interest.

The initial demand for Gold would fall upon the London Market where the Indian Reserves are held.

The Bank of England Reserve would be reduced by the export of Gold. The currency would be contracted by the withdrawal of Notes from circulation. The amalgamation of the Bank of England and Treasury Note issues would be indefinitely delayed by the reduction of the Gold backing to the combined Notes issues.

The

The policy of the Bank of England would be deflected by the necessity of attracting Gold from abroad to make good the deficiency in its Reserves.

The position of the Central Banks in Europe would be weakened by the enhanced difficulty of maintaining the Gold Exchange Standard, where that has been attained, and in achieving it where it had not, owing to the enhanced value of Gold arising from the diminished supply.

In both cases the policy of the Central Banks would have to be directed to strengthening the position by raising the rate of interest, contracting credit at home and borrowing abroad.

The only alternative to making the demand for the diminished supply of Gold effective, namely, by a reduction in commodity prices, would be by credit or currency inflation.

The general tendency would be to lower the relative cost of living and money wages in Europe as compared with America, where there is a surplus of Gold. In India an increase in Gold Imports would tend to raise the cost of living, and, in the long run, money wages.

The financial effect in Europe of a curtailment of credit would be a rise in the rate of interest.

The economic effect would be an increased cost of production, a restriction of internal trade and an increase in the burden of foreign indebtedness.

The reaction on India of a curtailment of the supply of credit in Europe would probably be slight. Her Imports would cost her more but against that she can set a large surplus of Exports, the demand for a large portion of which (Jute, Tea,) is inelastic. It enjoys, in fact, a quasi-monopoly of certain raw materials which do not generally respond to a fall in general prices.

As

As regards the supply of Gold the outlook, apart from new discoveries, or new methods of mining, is for a gradual decline in world production.

As regards demand, there will certainly be increased competition for Gold, as backing for the Note issues of reconstructed Europe. On the other hand, it is probable that certain economies, such as changes in monetary habits, or the co-operation of Central Banks in the International use of Gold, may still be effected. These may be taken as a set-off against the increased demand, with this qualification, however, that the demand would appear to be certain while the economies are problematical and quantitatively indefinite, since there is no means of estimating the extent to which they will operate.

SILVER.

Failing the discovery of new mines of Silver, or of Copper, Lead, Zinc, &c., of which Silver is an important by-product, the supply of Silver in the future is likely to diminish rather than to increase.

On the other hand, the growing Note issues, not only of Europe but of the Far East, and the increasing resort to Nickel and other base metals as alloy for subsidiary coinage, point to a diminishing demand for Silver.

The mere announcement that the sale of an amount of Silver, aggregating a three years' world supply was in contemplation, would be followed by an immediate and probably catastrophic fall in price.

Only one-third of the world's production of Silver is obtained direct from Silver mines; the remaining two-thirds are a by-product of Copper, Lead, &c., ores.

The cost of production of Silver was formerly estimated at 50 gold cents per ounce. It is now probably in the vicinity
of

of 70 cents. Silver Mines on the margin would have to close down.

Where Silver is a joint product the production would not be decreased in the same proportion. The increased demand for Copper for instance, or what is the same thing, the same demand at an increased price might maintain the volume of Silver production at a point above its marginal cost as a direct product.

After due weight is given to both these considerations, it seems probable that the total volume of Silver produced would be considerably decreased. In time there might be a tendency to recovery but the immediate effect of the announcement that such a sale of Silver by the Government of India was in contemplation would be to reduce in terms of Gold the value of all the native hoards of Silver, by perhaps as much as one-half.

The effect upon China, the only great country left with a Silver Standard, would be disastrous. It is the greatest, perhaps the only great undeveloped country left for the development of the industries of the West. The exchanges with Gold-using countries would be thrown out of gear and the supply of the raw materials, upon which the rest of the world is dependent for its manufactures, would be seriously interfered with. Silver has always been a store of value as well as a medium of exchange in China and the sudden decrease in its purchasing power would be a great shock to public confidence. An attempt in panic to establish a Gold Exchange Standard, as a way out of their difficulties, might complete the disastrous fall in Silver and, indirectly, by the interaction of Silver and Gold prices, set up a new reaction in world prices.

In so far as the plan involves the use of Credits in London or New York, it is certain that the object of the

Credits

Credits would not be approved and that this might militate against their issue.

On this point there was a slight divergence of opinion between the witnesses. Mr. Norman was of opinion that, unless the purpose of the loans were approved, they would not be granted, while Sir Charles Addis was disposed to think that the credit of India was sufficiently good to over-ride any objections that might be raised as to the purpose for which the Credit was required.

The general conclusion of the witnesses was that unless there was some insistent urgency for the immediate introduction of a Gold currency in India of which no satisfactory evidence had been brought to their notice, it would be advisable to continue the present system until further progress had been made with the stabilisation of the currencies of Europe and the relation of Indian internal to external prices had been determined by the comparative steadiness of the Sterling exchange for a period of, say, one year.

Here again, there was a slight divergence of opinion between the witnesses. Mr. Norman was of opinion that the risk might now be taken that the point of price equilibrium had been reached, while Sir Charles Addis was disposed to advocate delay until further experience of the maintenance of an unfettered Sterling exchange indicated that equilibrium had been established.

This did not, however, invalidate their general conclusion as to the expediency of postponing the introduction of a Gold currency in India. The Gold in the Indian Reserves was already being added to year by year through the favourable balance of trade and this process, if allowed to go on, might end in the accumulation of an adequate stock of Gold, which would enable the Government to undertake with comparative safety a currency reform which could only be attempted now by incurring a degree of risk

for

for which there appeared to be no adequate justification.

If the Gold were gradually withdrawn it might be possible for the Gold Standard countries to prevent the purchasing power of Gold being seriously disturbed. The sudden withdrawal of anything like £100 millions of Gold, as proposed, would render this impossible.

The effect upon Silver would be no less grave. Apart from the indirect effect upon producers of Silver, Copper, Lead, &c., it must be remembered that Silver is still the currency of China with a population nearly as large as that of Europe. Any sudden change in the value of Silver would be a calamity to a country where there is no credit machinery to prevent or mitigate a fall in values.

The demand for Silver in India is based upon its immemorial use as the principal medium of exchange and store of value. The risk of undermining this secular confidence in Silver is very serious. Its use is based upon the poverty of the people and the smallness of their pecuniary transactions. Even if the legal tender of the Silver Rupee were reduced to Rs.50, this does not exclude the possibility of the two currencies, Silver and Gold, circulating side by side at different values.

... ..

At a subsequent Meeting of the Commission the examination of the witnesses is to be continued. They will also be examined upon the question as to what modifications, if any, are required in the constitution of the Imperial Bank of India.

C.S.A.

London.1st April 1926.

COPY

FINLANDS BANK,
HELSINGFORS.

May 4th 1926.

The Right Hon. Montagu Norman, D.S.O.,
Governor of the Bank of England,
London, E.C.

Sir,

Very much obliged for your kindness to let me know that Mr. Strong the Governor of the Federal Reserve Bank of New York is expected to arrive in England. I beg to inform you that it would be more convenient for me to come to London later on, i.e. after his first stay of two or three weeks there.

I suppose that Mr. Strong will come to London several times before returning to the States and I should greatly appreciate if you kindly, after knowing his subsequent plans, would let me know convenient dates which would be suitable for Mr. Strong to meet me in London, and I shall have great pleasure in coming at any time later on, suiting my travel to his wishes.

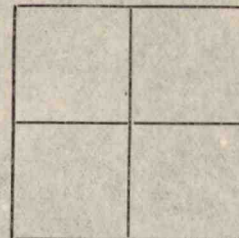
With my best thanks for your kind attention to the matter and kindest regards I beg to remain,

Dear Mr. Governor,

Yours most respectfully,

(Sgd.) RISTO RYTI.

CONFIDENTIAL.



Cablegram sent in code to :—

MONSIEUR HAUTAIN, NATIONAL BANK OF BELGIUM,
BRUSSELS.

Despatched :

(time) Saturday, 8th May, 1926. *(date)*

(7496) 9/25—1500

N^o.

Your letter 6th.

1. Strong has been ill and is much engaged in London next week but hopes to go to Paris on 15th.
2. You could then see Strong in Paris but he goes to Italy few days later for reasons of health and could only visit Brussels in July if you desire his visit.
3. Shall be glad to learn your wishes.

NORMAN.

10th May, 1926.

Dear Mr.Governor,

I received on Saturday your letter of the 6th instant and immediately telegraphed to you as per enclosed copy.

Had circumstances been such as to permit of your coming to London I should of course have been pleased to see you and to hear your views as regards the present situation in Belgium. Unfortunately as you will doubtless have gleaned from your own Press, conditions here though comparatively quiet are so disorganised that it would certainly be unwise for you to attempt to make the journey for the present.

If I hear from you that you would like to meet Mr.Strong in Paris where he hopes to proceed towards the end of this week, you will be informed of his movements as soon as they are more definitely arranged.

Believe me to be,

Dear Mr.Governor,

Yours most faithfully,

(Sd.)

M.NORMAN

Monsieur F.Hautain.

CONFIDENTIAL.

Cablegram sent in code to:—

MONSIEUR HAUTAIN, BANQUE NATIONALE DE BELGIQUE,
BRUXELLE.

Despatched: 12.15 p.m.

(time) Wed. 12th May, 1926.

(date)

(7496) 9/26—1800

N^o—

Referring to your cable 10th instant desired by Governor Strong
to say that he has yet no definite plans for Paris visit
but he will communicate with you as soon as possible regarding
meeting.

NORMAN.

CONFIDENTIAL.

Decode of cablegram from :—

M. HAUTAIN, NATIONAL BANK OF BELGIUM, BRUSSELS

Despatched :

(time) Mon. 10th May, 1926. *(date)*

Received in C.C.O.: 12.15 p.m.

(time) Mon. 10th May, 1926. *(date)*

(7489) 1/26—1500

N^o. URGENT RATE.

I would be glad to see Strong in Paris about 15th May.

Please ask him to let me know exactly where and
when we could meet.

HAUTAIN.

COPY.

FEDERAL RESERVE BOARD,
Washington.

June 3, 1926.

My dear Mr. Governor,

I am dropping you this line to tell you that I am coming over to Europe for a couple of months this summer and will spend about two weeks in London, principally for the purpose of "going to school," so to speak, in the London money market. I also want to inform myself upon the way in which the restoration of the gold standard in Europe is affecting the credit and price situation and in general inform myself on conditions and matters that are of concern, or at any rate that ought to be of concern to us over here, and particularly to the Federal Reserve System.

I hope that I shall find you in London and that you will let me look to you as "guide, philosopher, and friend" in finding my way about the City and learning something of its ways.

The altogether too few occasions upon which I had opportunity for some real talk with you on your Washington visits on real things stand out strongly in my memory whenever your name is mentioned, as it very frequently is.

I am sailing from New York on the Leviathan June 12th and will be joined by Mrs. Miller on the eighteenth at the Berkely Hotel. I shall endeavour to get in touch with you Monday, June 21st.

Believe me, my dear Governor, with highest esteem,

Very sincerely yours,

(Sd.) A.C. MILLER.

Mr. Montagu C. Norman,
Governor, Bank of England,
London, E.C.2, England.

REGISTERED.

6.
19th May, 1926.
X

My dear Strong,

My Colleagues and your friends on the Court have directed me to write to the Professors and say how public-spirited they have been to come all this way to give evidence. This I have done in all sincerity and the letters are being sent to Cambridge and Baltimore respectively. I was also directed to write similarly to you, but this direction I propose to ignore simply because I do not know how to do it. Old acquaintance and great esteem and affection give you the right to ask help from us and us to ask it from you. It may be that you may never require to come to us for help but the fact remains. For the present we look forward to the time when you will come back and live among us again.

As you know, M. Peret was here yesterday: he made a very poor showing and is, I think, a poor 'crittur'. But he has told me that he expects to see you this evening, so you can form your own opinion. I cannot imagine why he came. If it was to seek credits on the same lines as Parmentier, it was the journey of a madman: if it was to make changes in the principles of Caillaux's settlement with this country, he must be more of an optimist than a realist: if it was to settle details, he had
better

7

better have left the work to experts, for as it is he has failed to agree on three or four points of so-called detail and has gone away - nominally to come back and complete the task.

With Peret came one or two people from the Bank of France in order (so the newspapers said) to negotiate about a variation in our credit arrangements. But M. Aupetit - who was one of the party - told me he did not know why he had been chosen to come to London as he had nothing to discuss or to request. I gathered that he rather expected over the next few weeks of uncertainty to see the franc gradually disappearing into the heavens like a comet with an ever lengthening tail!

With warmest regards,

Yours most sincerely,

(SIGNED) M. NORMAN.

Benjamin Strong, Esq.

Bank of England,
London, E.C. 2.

20th May, 1926.

My dear Strong,

On receiving your letter of the 15th instant I got into touch with Mr. Campbell, Chairman of our Stock Exchange (about whom you will remember I wrote to you last September) and found he had already seen Mr. Ryan. I do not quite understand the connection between Mr. Ryan and Mr. Simmons but anyway Mr. Campbell will make no arrangements for a dinner or anything else until Mr. Simmons has arrived. He will then try to arrange whatever Mr. Simmons prefers and on whatever lines as regards a speech he may choose.

I think this will be precisely as you wish.

Yours sincerely,

H. C. Brown

Benjamin Strong, Esq.

PERSONAL.

8
20th May, 1926.

My dear Strong,

T.W.L. came to see me last evening and told me of his conversation with Harjes and yourself at 3 o'clock in the afternoon. You know that I have been in pretty close touch with him and before he went to see M. Peret on Tuesday I told him generally how matters stood between the Bank of France and ourselves. The information therefore which he gave you yesterday over the telephone was quite correct, as indeed you will already have gathered from the letter I wrote to you yesterday.

I have also been continuing to talk with T.W.L. about Italy; and the longer we do so, the more convinced do I become on these three points. Firstly, that the idea of waiting to deal with Belgium, France and Italy on the same basis at the same moment is a mistake; secondly, that Italy must either stabilise or be prepared to support the lira (and this sort of support can only end in ruin); and thirdly, that therefore, assuming her position to be economically and financially sound, Italy should stabilise and devalue as soon as possible.

Italy would be entitled to get money for this purpose in New York and London, but not much, I should think, would be needed.

9
PERSONAL.

Page 2.

Benjamin Strong, Esq.

20th May, 1926.

I believe T.W.L. has communicated with Rome on these lines and I trust some result will follow lest there should be further trouble with the Exchange; all of which I mention merely that you may know how matters stand. But so long as the constitution of the Bank of Italy is on its present lines and so long as the Finance Minister persists and glories in dominating the Governor, I do not want to have much to do with the Bank. I guess this is your feeling too.

Yours most sincerely,

(SIGNED) M. NORMAN

Benjamin Strong, Esq.

PERSONAL.

Page 2.

Benjamin Strong, Esq.

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Yours most sincerely,

(SIGNED) M. NORMAN

Benjamin Strong, Esq.

Bank of England
London, E.C. 2

31st May, 1926.

My dear Strong,

I have received your telegram giving your movements as far as Cap d'Antibes.

I am therefore able to let you know that when Schacht was here last week he asked me, when next I wrote, to tell you that his address from the 4th to the 25th July will be the Hotel Rembrandt, Nordwyck, Holland: before and after those dates he will be in Berlin. He expressed his complete willingness to meet you anywhere you might care to name.

Believe me,

Yours sincerely,

W. Somers.

Benjamin Strong, Esq.

1st June, 1926.

My dear Strong,

I think you will be interested to see the enclosed cutting from yesterday's "Times" in which a somewhat non-committal allusion is made to negotiations with you whilst you were in London.

Yours most sincerely,

(SIGNED) AL. BULLOCK

Benjamin Strong, Esq.

13664

1st June, 1926.

X

My dear Strong,

I think you will be interested to see the enclosed cutting from yesterday's "Times" in which a somewhat non-committal allusion is made to negotiations with you whilst you were in London.

Yours most sincerely,

(SIGNED) M. NORMAN.

Benjamin Strong, Esq.

Total

(Copy of handwritten letter)

8 June 1926

Thorpe Lodge, Campden hill, W.

My dear Ben

The mail was slow in bringing your letter from M. Carlo, but I received it with all the pleasure in the world yesterday: also your wire as to plans.

Of course you are tired & you need weeks & weeks of rest. Do not hurry to write to me about Italy or other things.

The Belgians are likely to be early next week & that with good luck may be my last engagement. If so I could start about the 17th & join you at Antibes the following day or so: would you like me to do so? or would you sooner be let alone? I shall probably wire you about this tomorrow or next day. My doubt is only about the heat: I like to be warm but not grilled! On the other hand I much want to sit down with you & ooze out whatever questions are in my head. So as I assume you are all alone I am disposed to join you for 3 or 4 weeks, You can think about this.

Lady Sybil (Vivian Smith) is also wishing to go somewhere for a couple of weeks & perhaps she might come too. She wd. not do more than live in the same hotel. How? I should not be brave enough to go round Europe in July, so I should break from you about the 15th. I fear you will find such places as BudaPerth then deserted by the you would want to see: they all seem to go to the country or to Baths for at least a couple of months.

Budapest?

I mean to be in London in August

God bless you - as ever

MN

8 June 1926.

Thorpe Lodge, Campden hill, W.

My dear Ben

The mail was slow in bringing
your letter from M. Carlo, but I
received it with all the pleasure
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following day or so: would
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questions are in my head. So
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same hotel. How?

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to go round Europe in July, so
I should break from you
about the 15th. I fear you
will find such places as
Budapest then deserted by
the folk you would want to
see: they all seem to go to
the country or to bathe for at
least a couple of months.

I mean to be in London in August

God bless you - as ever

Thrs.

Norman
Bank of England,
London, E.C. 2.

12th June, 1926.

My dear Strong,

In order that you may know his plans, I enclose a copy of a letter just received from Dr. Miller. It looks as if I should fail to see him for some time after his arrival in Europe, but I took the precaution to speak to Schacht about Miller's probable aims and intentions and I am writing to Vissering a discreet letter of warning.

As you know from our exchange of telegrams, I am planning to leave here on Friday morning next, hoping to reach Antibes on Saturday, the 19th, at 14.33. I shall be very glad to sit with you in the sunshine, and I am also glad to learn from your telegram that even if we are warm we shall not be grilled.

If there are any folk we want to see, it might be worth while to try and induce one or two of them to spend a week at Antibes. Please think this over.

With kindest regards,

Believe me,

Yours very sincerely,

Norman

Benjamin Strong, Esq.

1116 6
2)

C O P Y

Hotel du Cap d'Antibes,
Antibes, July 15, 1926.

My dear Doctor Schacht,

I have not written to you for the last few weeks because Strong and I have been holiday making here and therefore writing as little as possible. But I notice from your letter of the 13th that you are shortly returning to Berlin, and thence again going to Holland at the beginning of next month. This seems to me to present an excellent opportunity of bringing about the meeting between us three which was planned for this year when we were in Berlin a year ago. Since Strong has to be in Switzerland for the first few days of August, I suggest that from Switzerland he should go to such place in Holland as you may designate - perhaps Noordwijk - that you should arrange to stay there for a few days, and that I should come from London and join you both there, about August 5th.

You will be writing about this plan to Mr. Strong in Paris, and will you please write to me in London. I am returning to England on the 19th and shall be at the Bank in London on Monday, the 26th, when I should hope to hear from you on this subject.

You will remember that, had it not been for the strike in England, we should have had just such a meeting in London during the month of May, and I think you will agree that no better opportunity for this meeting will now occur during the present Summer than if Strong and I come to Holland and meet you there. I hope very much indeed, therefore, that you will see your way to agree to this plan, which happens to suit Strong very well. If you should think it wise to communicate with Vissering on these lines, pray do so, and if you should think it wise, too, to invite him to come and meet us at Noordwijk or elsewhere, both Strong and I will be glad if you will do so.

As you will be in Holland just before the arrival of Strong and myself, perhaps we may ask you to reserve accommodation for us at whatever place and hotel you may select. And owing to the activity of the newspaper reporters, perhaps you would be wise not to use our names, at least not the name of Strong, who enjoys particularly the affection of all the newspaper men in Europe!

Hoping to hear from you in London, and hoping, too, that you are greatly the better for your holiday, believe me

Faithfully yours,

(signed) M. C. Norman

Dr. Hjalmar Schacht,
President of the Reichsbank,
BERLIN, SW.111, Germany.

MCN:M

I am leaving a copy of this letter with Strong so he will
be fully informed.

13
PERSONAL.

19th July, 1926.

*

My dear Ben,

It was piping hot all the way to Paris and beyond, and as each hour passed I grieved more and more for the loss of Antibes and you.

At Paris Warren was so very kind as to come and see me, also Gilbert, and I had a talk with them for an hour or more, for the latter came along a short distance round the Ceinture.

On the way to Paris I was much perplexed about Caillaux, never thinking that he would already have been thrown out. I had thought it just possible that he might have got pleins pouvoirs, in which case his position would have been pretty well assured and I should have stopped off in Paris. I had thought it almost certain that his proposals would still be hanging in the balance, in which case I should have come on to London. As things were, there was clearly nothing left for me to do, and to-day I am just writing him a polite letter of acknowledgment.

I am going away to-night until Tuesday, the 27th, and after that I can, if necessary, run over and pay a call

PERSONAL.

Page 2.

Benjamin Strong, Esq.

19th July, 1926.

call on Moreau in accordance with the conversation I had with Warren.

We had a really delightful month together which means a great deal, though for the moment I only send my love and wish you the best.

Believe me,

Yours most sincerely,

(SIGNED) M. NORMAN.

Benjamin Strong, Esq.

Vissering

Extract from a letter dated the 16th July 1926 addressed
by Dr.Vissering to the Governor of the Bank of England.

I have seen here Dr.Schacht, who is passing his holidays at Noordwijk. I asked him if he could spare a day for a visit to the Zuiderzee-works and Dr.Schacht declared me that he takes a very keen interest in these works and should like to see them. He also told me that it would be possible that Mr.Strong and you would pass by Holland on the return from a possible visit in Berlin. That would be a very good opportunity that you should join us in making such a visit to the Zuiderzee-works. Dr.Schacht can be here between the 4th and 8th August. Would it be possible for Mr.Strong and for you to be at the same days here in Holland? I would be very pleased if you could stay the night before in my country house at Bloemendaal, for we have to leave already rather early in the morning, about 8 o'clock. We can then start in the morning from Bloemendaal and are already much nearer to the works than if you had to come from Amsterdam. The trip will take the whole day. Leaving at 8 o'clock in the morning, we will reach the works at about 11 o'clock; then we can take lunch on Wieringen at about 1 o'clock, and can return from Wieringen at about 3 $\frac{1}{2}$ p.m. and then we will be in time back for a simple dinner at my house. You and Mr.Strong can reach then the same evening still your hotels in other places, if you want to go there.

As I don't know the address of Mr.Strong and as I suppose that you will be au courant of it, will you be so kind to write my proposal also to Mr.Strong? I should be very grateful if he could join us. Will you kindly send me your answer some days before as I have to arrange several things for this excursion, f.i. that I will be able to get a boat to lead us through the new canals?

(Copy of handwritten letter)

19 July 1926

Thorpe Lodge,
Campden Hill, W.8.

My dear Ben

Since I wrote to you from the Bank today I have had a letter from Vissering who asks me to send on to you his proposal for an Excursion. I do so, by enclosing a copy of it, as explained by him.

I have not answered Vissering, because we are waiting to hear from Schacht about the visit to Holland.

But the dates seem to fit in quite well with the plan we discussed + if we are in Holland I don't see how we can avoid the Excursion!

Anyhow, whatever suits you will suit me, as soon as you hear from Schacht.

Ever yours

M. Norman.

19 July 1926



THORPE LODGE,
CAMPDEN HILL. W.8.

My dear Ben

Since I wrote to you from
the Bank today I have
had a letter from Vissering
who asks me to send on
to you his proposal for an
Excursion. I do so, by
enclosing a copy of it, as
Explained by him.

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Presernig, because we are
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Schack about the visit
to Holland.

But the dates seem to
fit in quite well with
the plan we discussed

If we are in Holland
I don't see how we can
avoid the Excursion !

anyhow, whatever suits
You will suit me; & you
can count on me, as soon
as you hear from Schacht.

Ever yours
Oliverman.

COPY

London, England
August 19, 1926

Federal Reserve Bank of New York,

New York, N. Y.

No. 63 STRICTLY CONFIDENTIAL FOR DEPUTY GOVERNOR

Your #47

ONE London Times today publishes dispatch to similar effect from
New York correspondents stating \$30,000,000 as total to date
exclusive of latest shipment of \$4,900,000

TWO Origin of publicity would appear to be note in London Financial
News of August 17 which was probably a ballon d'essai

THREE We are of course greatly embarrassed by this publicity
but shall make no announcement

FOUR Have you any suggestions

NORMAN

PERSONAL.

Bank of England,
London, E.C. 2.

30th August, 1926.

My dear Ben,

As I have already told you, I am sitting at Plodge with open arms from now onwards. I have no engagements except next week-end with Peacock, which was arranged for your benefit, and on Tuesday, the 7th. The only possible visitor is Mrs. Markoe who you know comes and goes without saying "boo" to me.

I will be happy for you to go home with the Morrows and am glad that you find yourself able to wait for the "Mauretania" on the 18th. I was afraid they might pull you home earlier.

Please note the enclosed copy of my letter of the 23rd August to Mr. Harrison.

Please also do not forget certain promises which were made to M. Ryti of Helsingfors (see copy of enclosed letter of the 27th July).

With kindest regards,

Yours most sincerely,

W. Roman

Benjamin Strong, Esq.

s.s. "Homer"ic"

Copy

Most Confidential

23rd August, 1926.

Dear Mr. Deputy Governor,

Allow me to write you a few lines of thanks for your private cables No.47 and others, and for the trouble you have taken about the publicity regarding the current gold shipments from Australia to San Francisco.

In the first place, as to the origin of these reports, I feel pretty sure that a gossipy little note in the "Financial News" of the 17th of this month started the whole thing. I doubt if the man who wrote that note knew anything, and he did not really pretend to be writing facts, but it is a paper that has been taking a good deal of interest in gold shipments, in the Bank of England, and in your country, since Hilton Young became connected with it on the editorial side.

I agree with your (your No.51, paragraph 5) that informal discussions with reporters are usually the way to deal with this sort of occurrence. The trouble on this occasion is that I do not wish to admit the truth, even confidentially, to any reporter. In other words, I wish the reporters and everybody everywhere (except yourselves and ourselves) to believe that the Bank of England was merely a middleman in connection with these shipments, either receiving the gold for account of someone else or else passing on the Dollars within a short time of having

acquired

Page 2.

George L. Harrison, Esq.

23rd August, 1926.

acquired them. I do not want them to know or to suspect that the Bank of England is thus acquiring and retaining the proceeds of this gold (among other sums) in the form of Dollar assets with your Reserve Bank. In that case we should risk to be accused of having larger reserves or gold holdings than we publish and we might also be accused of acquiring Dollars which were, or would be, useful to our Treasury.

This whole question is therefore dangerous and far-reaching, and I think the less said about it the better. I am cabling you to this effect and doubtless, if you do not agree, you will be so good as to point out my mistake in order that further consideration may be given to your suggestion for informal discussions with reporters.

BS Please read 2. While I am writing, there is another point which I have long intended to mention and which I have discussed several times with Governor Strong.

If foreign Central Banks are to keep accounts and hold certificates and other assets exclusively with your Reserve Bank, is it not right and proper that you should offer to those foreign Central Banks a reasonable convenience which they could obtain from any other bank in New York City?

In other words, will you not consider so adjusting your Reserve Bank's holding of short Government

Securities

MOST CONFIDENTIAL

Page 3.

George L.Harrison, Esq.

23rd August, 1926.

Securities and the cash balances of us foreign Central Banks that you will in effect allow us interest for a day or so, a week or so, or a month or so, on such surplus balances as we may have to our credit?

I trust this is clear to you and I know Governor Strong intends later to raise the question, if indeed he has not already written from Europe for that purpose. I am not in a hurry for a definite answer, but without some such arrangement as I have attempted to outline above (and as we here make with our Central Banking friends) the convenient regulation of the Bank of England's account with the Federal Reserve Bank is becoming a matter of greater difficulty.

Believe me, dear Mr.Deputy Governor,

Yours sincerely,

(Sd.) M.NORMAN.

George L.Harrison, Esq.

PERSONAL.

17

	Not
but	

21st September, 1926.

*

My dear Ben,

I just wish to remind you that J.W.Beaumont Pease is on the boat which carries this letter: he will be in New York for a week or two and will certainly call upon you. Please make him a nice bow and give him a smile.

Having told you so much about these banking folk, I need only remind you that Beaumont Pease is the Chairman of Lloyds Bank. Perhaps he is not a great Banker, but he is certainly a real white man, maintaining a tradition in his Bank which excels the tradition of any of our other Banks. And he is a good friend of ours.

With kindest regards,

Yours most sincerely,

(SIGNED) M. NORMAN.

Benjamin Strong, Esq.

B or C	 <p>TELEGRAMS for INLAND addresses may be handed to the messenger who delivers this form.</p> <p>The Post Office accepts telegrams by telephone.</p>	No. 688
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BENJAMIN STRONG S S MAURETANIA SOTON =

NEWSPAPER TODAY PUBLISHES BRUSSELS TELEGRAM

FORECASTING THEUNIS OR FRANCK AS GOVERNOR LOVE TO

YOU ALL = MONTAGU +

C O P Y

10 Oct 1926

Thorpe Lodge,
Campden Hill, W.8.

Dear Old Ben.

While I am glad you had a good voyage + reached home in "fine" shape, I am distressed that you have since been so ill. This is most disappointing - as it comes so soon after a long vacation which had seemed to set you up - + I need to know more than I do from Harrison's hopeful messages to Jay + myself.

P.J. has behaved like an old Roman these days in giving up his vacation + coming back to London + sitting in at meetings morning, noon + night. We owe him a debt of gratitude, as you may tell him.

I wished you could have met M. Franck - so very different from Hautain. A gentleman, who speaks English beautifully + opens his heart as well as his head + states his case firmly without being dogmatic... and Flemish instead of Latin!

As to internal questions I have been guided by your advice + wishes - referring at times to Peacock for help. But the more my friends have discussed the future the more have these difficulties come to dawn upon them, so that they are now as much concerned with ultimate policy as with immediate solutions. I have said over + over again that I am in their hands + there I remain. But if I am to continue as at present I ask their goodwill - + not merely their grudging support because they have got into a mess. Thats rather how it looks.

We had a wonderful summer, Ben + I am happier when you are within 100 miles than 3000. Things are beginning to clear too - the sky is brighter than it was + though there are black clouds they will break in one way or another sooner than seemed likely a few months ago.

Give my love to Ben + Phil + all the boys. but keep for yourself the Lions share.

As ever
[signed] MN.

10 Oct 1926

HORPE LODGE,
CAMPDEN HILL, W.8.

Dear old Ben. While I am glad you had a good voyage & reached home in fine shape I am distressed that you have since been so ill. This is most disappointing - as it comes so soon after a long vacation which had seemed to set you up - & I need to know more than I do from Harrison's hopeful messages to say 2 myself.

P.J. has behaved like an old Roman these days in giving up his vacation & coming back to London & sitting in at meetings morning, noon & night. We owe him a debt of gratitude, as you may tell him.

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Your advice & wishes - referring at times to Cook
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dawn upon them, so that they are now ^{as much} more
concerned with ultimate policy ^{as with} ~~than~~ immediate
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am in their hands & there I remain. But if I am
to continue as at present I ask their goodwill - as
not merely their grudging support because they
have got into a mess. That's rather how it looks.

We had a wonderful summer. Ben & I am happier
to when you are within 100 miles than 3000.
Things are beginning to clear too - the sky is
brighter than it was & though there are black clouds
they will break in one way or another sooner than
seemed likely a few months ago.

Give my love to Ben & Phil & all the boys. but
keep for yourself the lions share. as ever
M.H.

10 Oct 1926

✓ HORPE LODGE,
CAMPDEN HILL. W.8.

Dear old Ben. While I am glad you had a good voyage & reached home in fine shape I am distressed that you have since been so ill. This is most disappointing - as it comes so soon after a long vacation which had seemed to set you up - & I need to know more than I do from Harrison's hopeful messages to say 2 myself.


P.J. has behaved like an old Roman these days in giving up his vacation & coming back to London & sitting in at meetings morning, noon & night. We owe him a debt of gratitude, as you may tell him.

I wished you could have met M. Franck - so very different from Hautain. A gentleman, who speaks English beautifully & opens his heart as well as his head & states his case firmly without being dogmatic... and Flemish instead of Latin!

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brighter than it was & though there are black clouds
they will break in one way or another sooner than
seemed likely a few months ago.

Give my love to Ben & Phil & all the boys. but
keep for yourself the lions share. as ever
Kin.



Bank of England

18th October, 1926

The Governor would be obliged
if Mr. Harrison would be so good as to
have the enclosed personal note
conveyed to Governor Strong.

C O P Y

17 Oct 1926

Thorpe Lodge, Campden Hill, W.

My dear Ben

You are still on the sick list + I know little or nothing about the state of your health or your prospects or plans.

I can only be patient + hope for the best.

We have had very many difficulties about Belgium but they are questions of details + regulations rather than of principle. In one way or another I think they will be surmounted - + the program seems likely to be carried through. P.J. will be able to tell you about them + Harrison too.

On Thursday last my Colleagues had a meeting (at which I was not present) and decided unanimously to ask me to continue as Governor for another year - that is till March 1928. I have agreed. Lubbock is to be Deputy Govr. in the place of Trotter + the usual notice will be made public next month.

I wrote you about this last week + have observed your wishes right along - with the help of Peacock now + again.

So now there will be time to consider the future at leisure: it will be a difficult matter for my colleagues.

God bless you.

MN

C O P Y

21.Oct 1926
Bank of England

B.S.

I enclose a cutting from a newspaper. The words are those of the "Standard" but the sentiments are those of McKenna!

I do hope you are well again.

[signed] MN

17 Oct 1926

Thorpe Lodge, Campden hill, W.

My dear Ben

You are still on the sick-list
x I know little or nothing about
the state of your health or your
prospects or plans.

I can only be patient & hope
for the best.

We have had very many
difficulties about Belgium
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will be surmounted - & the
program seems likely to be
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able to tell you about Dean
& Harrison too.

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which I was not present)
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of Hooper, & the usual notice
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wishes right along - with the
help of Peacock now & again.

So now there will be time to
consider the future at leisure:
it will be a difficult matter
for my colleagues.

God bless you.

Rev.

21. Oct 1926.

Bank of England

B.S.

I enclose a cutting from a
newspaper. The words are
those of the "Standard" but
the sentiments are those of
McKenna!

I do hope you are well again
d.v.

Governor of the Bank—Mr. Norman's Long Term—Liberal War Goes On.

A

A New Governor?

The election of the Governor of the Bank of England will take place next March, and there is some speculation afoot as to whether there will or will not be a change in the holder of the office. At that date Mr. Montagu Norman will complete his seventh year as Governor, having been chosen originally in 1920.

Mr. Norman is a bachelor of 55 and an interesting personality. He was at Eton and King's College, Cambridge. But he was a comparatively unknown man in the City when he became Governor of the Bank. His firm was Brown, Shipley and Co.—a British branch of the far more important American business.

Since then he has become famous—if only for the persistency with which he has forced through his policy of deflation and the return to the Gold Standard. The strongest opponent of this policy must recognise the consistency of its author.

A Term Without Precedent.

None the less, a seven years' Governorship of the Bank of England raises some questions of national importance. The Bank as a public institution is under private ownership and control. Its Governor has immense power and cannot be called to account by the nation.

The system has survived its anomalies because it has worked in practice. But one of the checks placed upon it by custom was that no man should be Governor of the Bank for more than two years in succession. This prevented private idiosyncrasies in finance becoming a public danger. The late Lord Cunliffe, it is true, survived the allotted span of two years during the war, but in the end he retired. A seven-years' term has no precedent.

Creation of Parliament.

The public only tolerate the special and privileged position of the Bank so long as it conforms to their views. If the Bank got on the wrong side of the nation it could be called to account easily enough. It is the creation of Parliament and a breath can unmake it as easily as a breath has made it.

The Deputy Governor is usually considered as a probable successor. When Sir Alan Anderson was Deputy Governor it was understood that he was prepared to accept the succession. At least he retired from his own business, and when promotion failed to eventuate, he returned to it. Mr. Lubbock, another Deputy Governor, did not apparently want the higher post.

The present Deputy Governor is Mr. H. A. Trotter. He is the obvious candidate for the office of Governor should Mr. Montagu Norman retire. Mr. Trotter, who is a director of the Alliance Assurance Company and of many other concerns, was Deputy Governor from 1920 to 1923. He would appear to have given up the post in despair of promotion and his return to it indicates that there is at least some prospect of a change.

Per S.S. "Mauretania".

CONFIDENTIAL.

	18 HAT
Good	

29th October, 1926.

X

My dear Strong,

Has the time come when I should write to you! So far I have sent you nothing but handwritten letters on Sundays since we parted at Waterloo on the 18th of last month. It has been most distressing to hear they had fixed you up in bed with doctors and nurses and other miseries.

Of course we have had a great hunt after Belgium and are somewhat weary, but at least M. Franck and the rest of them are riding in different waters and with better eventual prospects than most of them had any right to expect. P.J. and Harrison can tell you about this and if they choose they may tell you about one or two snags during the period of the hunt.

2. This is the third foreign loan since the holidays - Hamburg, Tokio, Belgium, to say nothing of Australia. I do not want more of them yet awhile. Schacht had already sucked £6½ millions in gold out of London and if we have any more foreign loans we may be having to supply others as well as him. Your rates have softened during the last week or two to such an extent as to make me hope that we can get through on a 5% rate. At present I do not see the way clearly.

3. You know you ought to have signed that

anti-tariff

Page 2.

Benjamin Strong, Esq.

29th October, 1926.

anti-tariff Manifesto, as I told you at Antibes!! It would have been much more amusing to have watched you in hot water along with J.P.M. and Schacht. Those are the only two who have had any abuse, though there was, of course, a general apology from the Latins to say that whatever they had done they did not mean it! But it would all have been better if you had signed and suffered.

4. To go back to Belgium for a moment. The Central Bank Credit was a miracle. Some people think the age of miracles has passed, but it is quite clear that neither reconstruction nor stabilisation can be accomplished without miracles. The outstanding point of the miracle was the Bank of France. It was remarkable, was it not, that Belgian stabilisation should be supported on the one side by France and on the other side by Germany to an equal extent and under equal conditions. All the participants were "stabilised" except France - an afterthought. I mention this for the sake of an incident which occurred last Saturday. Look back at the letters I wrote to you on the 4th March and 20th May. On Saturday Franck and I asked the Representative in London of the Bank of Italy to telegraph to Stringer as an act of courtesy about the arrangements for this Central Bank Credit and with an offer, late though it was, of a participation. This was simply courtesy.

Later

Page 3.

Benjamin Strong, Esq.

29th October, 1926.

Later in the day the Representative came back to me, having concocted his communications to Stringher, to say that he would give the information but that on second thoughts he could not offer the participation. France was in: Germany was in: Italy was out. How could such a slight be cast on Italy! The offer of a participation after the event, even though it were accepted, might make trouble, both for Stringher and himself, with Volpi: Volpi dominated the Bank of Italy and would regard this not only as a slight but as a means of bringing pressure on the Bank of Italy to conform to the ideas of the other Central Banks. I feel like giving Stringher a wide berth when it comes to the question of engagements, for as we all know a measure of independence in fact is essential for the conduct of any Central Bank on financial (rather than political) lines. Austria, Germany, Hungary, and now Belgium have acquired it in one way; Moreau is acquiring it in another.

5. Don't forget, please, that you were to consider the position of your Credit to the Bank of England - as to its termination and vis-a-vis the Morgan Credit - and to write to me.

With warmest regards,

Yours most sincerely,

(SIGNED) H. NORMAN

Benjamin Strong, Esq.

[C O P Y]

Thorpe Lodge
Campden Hill, W.8.

17. Nov. 1926

Dear old Ben

I think that you have been gone a couple of months from here - + what do I know about you? Not for years have I seemed to know so little, although the kindly Harrison from time to time has been sending snippets of news - or rather of the absence of news. Anyhow you have had a rough + disappointing fall + coming after a long + hopeful summer it is to me the more distressing. That's all I can say: earlier I have written you several letters on more precise questions - which perhaps you have not been able to read - or will not be able to answer. I long to grasp your old hand. I think much + often of you - you believe it.

Last week I was "selected" for another year from next April + with all the show of unanimity. Indeed I guess this, + goodwill too, were genuine enough as the only way out of a tangle. But our friends now have to consider the future + as they are quite alarmed, I think, they will start in + do so.

I went away from London for a long week end (after last Thursday) which is just over. Lady Sybil + I were together + tried to pretend it was Antibes - but it was very different here in Nov^r!!! She sends all sorts of greetings. I judge the coal strike ended last week + for months to come we shall have to pay for it one way + another, slowly but surely. Your gradual easing of rates has of course helped us enormously these last 6 weeks: otherwise it must have been 6% + it almost seemed so up to a couple of weeks ago! Now I rather hope we have turned the corner. Tell some one to write me of your health + plans. Of course you need a time in Califa to build up.

As ever

[signed] MN

17. Nov 1926.



HORPE LODGE,
CAMPDEN HILL, W. 8.

Dear old Ben. Think that you have been gone
a couple of months from here - what do I know
about you? Not for years have I seemed to know
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& I were together & tried to pretend it was
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otherwise it must have been 6% & it almost seemed
so up to a couple of weeks ago! Now Walter hopes
we have turned the corner. Tell someone to write
me of your health & plans: of course } as soon
You need a time in Calif.^a to build up. } this.

17. Nov 1926.

HORPE LODGE,
CAMPDEN HILL. W.B.

Dear old Ben, Think that you have been gone
a couple of months from here - what do I know
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You need a time in Calif.^a to build up. } this

He also says that P.J. has accepted the ^{post} at
in Berlin & will begin work early in the New
Year: I am glad of his going with you be, though
I have no idea who will take his place.

Last week the Govt of India accepted the Currency
Report as a whole & will proceed with the
necessary legislation in the spring. I guess

the worst of the Fall is now over & so with the
practical ending of the Coal Strike we ought
to get through with our 5% Rate: this is better
than I dared expect a month or two ago. m.

Jay of Buffalo came to see me a few days ago
which was very good of him: you recall that he
succeeded Nelson Perkins in Paris

the best to you, Ben, now & ever as
I am M.V.

[C O P Y]

28 Nov 1926.

Thorpe Lodge,
Camden Hill, W.8.

My dear Ben.

I had a good letter last week from the late Miss Bleecker which told both what I wanted to know + what I didn't want ever to hear. But such is Life! I cannot exactly answer the letter because it is in my drawer at the Bank + I am at Chequers spending Sunday with the Prime Minister. I have told him about your troubles + he sends his love + hopes better times are awaiting you. You must now be near to journeying to Colorado - which makes me quite unhappy, however wise it may be.

Gilbert writes me that he will be sailing about Dec. 15th + I wish indeed I were going too. He also says that P.J. has accepted the post in Berlin + will begin work early in the New Year: I am glad of this + so will you be, though I have no idea who will take his place. Last week the Gov^t. of India accepted the Currency Report as a whole + will proceed with the necessary legislation in the spring. I guess the worst of the Fall is now over + so with the practical ending of the coal strike we ought to get through with our 5% rate: this is better than I dared expect a month or two ago. Mr. Jay[?] of Buffalo came to see me a few days ago which was very good of him: you recall that he succeeded Nelson Perkins in Paris.

The best to you, Ben, now + ever +

I am [signed] MN

28 Nov 1926.

ORPE LODGE,
CAMDEN HILL, W.8.

My dear Ben. Had a good letter last week from the late Miss Blecker which told both what I wanted to know & what I didn't want ever to hear. But such is Life! I cannot exactly answer the letter because it is in my drawer at the Bank & I am at Chesham spending Sunday with the Prime Minister. I have told him about your troubles & he sends his love & hopes better times are awaiting you. You must now be near to journeying to Colorado - which makes me quite unhappy, however wise it may be.

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than I dared expect a month or two ago. m^r

Jay of Buffalo came to see me a few days ago
which was very good of him: you recall that he
succeeded Nelson Perkins in Paris

the best to you, Ben, now & ever &
I am M^r.

[C O P Y]

Sunday Dec. 12. 1926

Thorpe Lodge
Campden Hill. W.8.

Dear old Ben.

Four days ago came your letter of Nov 23^d. a day later came Harrison. a good + delightful fellow who just loves you + we had much talk. I am not going to write of all the matters we discussed - for I told him + showed him everything + he will repeat all to you. We talked for many hours on end for a couple of days + there was no more to be said unless he was going to stay for a real visit, so he sailed on Thursday + as he was in a hurry I guess he was wise.


I will try + arrange to pay you a visit next month: that's as much as I can say at present. When the extent of your illness became evident, I gave up the idea of visiting you + changed all plans here. For instance Harvey is just starting off for Australia: Nairne has taken on some new work; about Trotter you know: Siepmann is learning + in time will be a great help. But what to do for this winter? It is difficult to see just now.

A committee has been set up to study our internal affairs but I doubt if they will reach any result for 6 months. - Lady Blackett came home from India suddenly + secretly 3 weeks ago: she had all the signs of a serious disease but after an operation the prospects are hopeful: perhaps she will even be allowed to return to India during this winter. Blackett's appointment lasts till the spring of 1928. - The Gilberts are to sail on the 14th but will only stay on your side for a couple of weeks. P.J. I hear is to leave the Bank about Jan 1st + I wonder who will take his place. - The story of your illness is harrowing, but now that it's past, the less said or thought about it the better. At least the immediate result seems almost encouraging - as I judge from your letter - which is a deal more than I could have hoped.

Bless you - as ever -

[signed] MN

Sunday Dec. 12. 1926.

 HORPE LODGE
CAMPDEN HILL. W. S.

Dear old Ben. Four days ago came your letter of Nov 23^d: a day later came Harrison - a good & delightful fellow who just loves you - & we had much talk. I am not going to write of all the matters we discussed - for Ned has showed him everything & he will repeat all to you. We talked for many hours on end for a couple of days & there was no more to be said unless he was going to stay for a real visit - so he sailed on Thursday & as he was in a hurry I guess he was wise.

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Bless you - as ever.

dhiv.

TRANSLATION.

Brussels, 15th December, 1926.

The Governor,
Bank of England,
London.

Dear Mr. Governor,

I beg to acknowledge the receipt of your letters of the 4th and 8th December and the duplicate of the contract signed in London on the 2nd instant regarding the new provisional credits granted to the National Bank.

I note that the original of this document is being kept at the Bank of England in the interests of the various contracting parties, who have received a duly certified copy.

As regards the discount credits totalling \$10,000,000 opened at the National Bank of Belgium by yourselves, the Nederlandsche Bank, the Federal Reserve Bank and the National Bank of Switzerland, I have to inform you that I have communicated with these Institutions direct and that so far we are agreed as to the procedure to be adopted.

As I have just stated in a letter to Dr. Vissering, I do not anticipate any difficulty in bringing about these operations by means of advances covered by securities in our portfolio, in preference to a discount operation.

With reference to your letter of the 8th instant, I am quite agreed on the following points:-

- (1) Advances by your Institution are to be made in sterling and may reach a maximum equivalent to approximately \$2,000,000; they are to be repaid in sterling by 31st March, 1925, at the latest.
- (2) The rate of interest shall be 1% above that of the Bank of England, but must not be less than 5%.
- (3) Our Institution shall repay to the Bank of England the amount actually advanced in sterling; Articles 8 and 9

of our Statutes shall be amended so as to make this obligation binding.

(4) The Belgian Government will previously undertake not to interfere with the engagements entered into by the National Bank as far as the preceding clause is concerned even if the National Bank are obliged to export gold.

(5) The withdrawal of any amounts from this credit shall be effected simultaneously at the four issuing institutions in proportion to the share allotted to each; repayments shall be effected in the same proportion.

(6) The securities delivered as cover shall be deposited at the Bank of England: stamping expenses are to be borne by the National Bank of Belgium.

(6) I have pleasure in informing you that the Sveriges Riksbank are prepared to combine with the four issuing Institutions in bringing about the discounts described above.

I thank you for communicating with the other parties concerned regarding the arrangements to be made for effecting this operation and I am deeply grateful to you for your personal assistance in bringing these to a satisfactory conclusion.

I am delighted at the co-operation which is growing closer and closer between our two Institutions - co-operation of twofold value to my country in the present circumstances.

I enclose the text of the announcement published by us in the Belgian newspapers.

Yours most faithfully,

(Sd.) F. HAUTAIN.

I have this moment received your letter of the 14th instant, which has my attention. In a few days I intend to send my collaborator Mr. van Zeeland to the Deputy Governor, in

order

order to give the latter an account of our journey and any information on the subject of stabilisation operations which may be required.

ARTICLE PREMIER

a) Modifier comme il suit le premier alinéa :

Les dispositions formant l'objet des articles 2, 3, 4, 6, 7, 8, 9, 12, 16, 17, 18, 20, 23 et 26 des lois combinées des 5 mai 1850, 20 mai 1872 et 26 mars 1900, sont remplacées par les dispositions suivantes.

b) Sub.Art. 4.

Remplacer le second alinéa par le texte suivant :

Cinquante mille actions seront souscrites par l'Etat. Ces actions seront ensuite mises en souscription publique aux conditions à déterminer par un arrêté royal pris sur la proposition du Conseil des Ministres. Des institutions d'utilité publique, à désigner par arrêté royal, pourront participer à cette souscription, et autorisation est donnée à ces fins aux dites institutions.

Un crédit de soixante-quinze millions de francs (75,000,000 de francs) est ouvert à cette fin au Budget des Dépenses extraordinaires pour l'exercice 1926.

c) Sub Art. 6.

Ajouter à cet article la disposition suivante :

A l'expiration du droit d'émission de la Banque, les trois cinquièmes de la réserve seront acquis à l'Etat.

d) Sub Art. 7, 3 :

Remplacer les mots "trois quarts" et "un quart" par "trois cinquièmes" et "deux cinquièmes".

e) Art. 7 bis.

Supprimer cette disposition.

f) Sub Art. 8, 2.

Compléter le texte du projet ainsi qu'il suit :

2. A réescompter à l'étranger les effets de son portefeuille; à remettre ces effets en gage; à garantir la bonne fin de ces effets ou des opérations d'escompte et d'avances y relatives; à acquérir des avoir à l'étranger en des monnaies à base d'or ou sur des places payant en or.

g) Sub Art. 8.

Compléter le texte du projet comme il suit :

7. Enfin, à faire des avances en compte courant ou à court terme sur dépôt d'effets publics nationaux ou d'autres valeurs garanties par l'Etat, ainsi que sur les valeurs similaires du Grand Duché de Luxembourg, dans les limites et aux conditions à fixer périodiquement par l'Administration de la Banque, conjointement avec le Conseil des censeurs.

h) Ajouter :

Art. 9. - Il est formellement interdit à la Banque de se livrer à d'autres opérations que celles qui sont déterminées par l'article 8.

Elle ne peut emprunter, sous réserve de ce qui est prévu au § 2 de l'article précédent; elle ne peut faire des prêts, soit sur hypothèque, soit sur dépôt d'actions industrielles.

Elle ne peut prêter sur ses propres actions, ni les racheter.

Elle ne peut prendre aucune part, soit directe, soit indirecte, dans des entreprises industrielles, ou se livrer à aucun genre de commerce autre que celui dont il est fait mention au § 2 de l'article précédent.

Elle ne peut acquérir d'autres propriétés immobilières que celles qui sont strictement nécessaires au service de l'établissement.

i) Ajouter :

Art. 12. - La Banque émet des billets au porteur. Le montant des billets en circulation sera représenté par des valeurs facilement réalisables.

A défaut d'autorisation spéciale du Ministre des Finances, la Banque est tenue d'avoir une encaisse or ou en devises étrangères convertibles en or égale au tiers du montant de ses engagements à vue. Ce montant est fixé à un maximum de 9 milliards de francs, qui ne pourra être modifié qu'en vertu d'une loi. Toutefois, le maximum de 9 milliards s'augmentera automatiquement d'une somme correspondante au surcroît du métal ou de devises-or qui s'ajouterait éventuellement à l'encaisse telle qu'elle aura été arrêtée à la date qui sera fixée par l'arrêté royal prévu à l'article 2 de la loi relative à l'assainissement de la circulation fiduciaire et à la stabilisation monétaire.

Moyennant l'accord du Gouvernement, la limite déterminée à l'alinéa 2 du présent article pourra être dépassée pendant trois mois au plus d'une somme de 250 millions de francs.

j) Ajouter :

Art. 16. - La Banque peut être autorisée par le Gouvernement à acquérir des fonds publics.

Aucune acquisition ne pourra être faite qu'en vertu de l'autorisation donnée par le Ministre des Finances, sur la demande de l'Administration, approuvée par le Conseil des censeurs.

L'emploi de la réserve en fonds publics sera facultatif.

k) Sub Art. 17.

Modifier comme il suit le deuxième alinéa :

Trois administrateurs seront élus par l'Assemblée

générale

générale des actionnaires, sur une liste double de candidats présentés à chaque vacance :

1. Par les membres conseillers de groupe élus par les délégués de classe du Conseil supérieur de l'Industrie et du Commerce et par les membres du Conseil supérieur des Métiers et Négoces, chacun de ces Conseils présentant un candidat;
2. Par les membres ouvriers et employés du Conseil supérieur du Travail;
3. Par les membres élus et cooptés du Conseil supérieur de l'Agriculture.

Ces administrateurs sont dispensés de constituer le cautionnement statutaire.

DISPOSITIONS ADDITIONNELLES

ARTICLE 3.

Modifier comme il suit le premier alinéa :

La présente loi sortira ses effets à partir d'une date qui sera déterminée par un arrêté royal pris de commun accord avec le Conseil d'administration de la Banque.

Compléter l'article ainsi qu'il suit :

Le revenu du placement des valeurs sur l'étranger qui seront remises à la Banque par l'Etat est attribué au Trésor.

Au surplus, la Banque renonce, au profit de l'Etat, au revenu des valeurs sur l'étranger qui entreront en compte, conformément à l'article 34 des statuts, pour l'établissement de la proportion entre l'encaisse et les engagements à vue.

La Banque retiendra une commission de un pour mille par semestre sur le montant moyen des valeurs sur l'étranger tel qu'il s'établira d'après les situations hebdomadaires publiées au Moniteur belge.

Toute

Toute diminution des valeurs désignées au § 1^{er} ci-dessus qui ne sera par compensée par une réduction du montant des engagements à vue ou un accroissement de l'encaisse or entraînera le paiement d'une redevance de 2.25% au profit du Trésor.

Dans le cas prévu au second alinéa dudit article 34 des statuts, c'est-à-dire lorsque l'encaisse descendra au-dessous du tiers, la Banque versera au Trésor une redevance sur le montant dont l'encaisse devrait être augmentée pour rétablir la proportion du tiers. Le taux de cette redevance sera celui de l'escompte pour les traites acceptées, sans dépasser le maximum de 3½%.