

a) *Sir Ernest M. Harney*

Chief Clerk
[1919] - 1925

Comptroller
1925 - 1928

(ANY REPLY OR COMMUNICATION
SHOULD BE ADDRESSED
"THE CHIEF CASHIER")

Trip 1919
RECEIVED
MAIL
BANK OF ENGLAND, LONDON, E.C. 2 ZELLER

18th November, 1919.

The Manager,
Foreign Department,
Federal Reserve Bank of New York,
New York.

Dear Sir,

*copy in
Buckley file*
I beg to acknowledge the receipt
of your letter of the 29th ultimo and to
inform you that the sum of £160:12: - was
received per Morgan Grenfell & Co. o/a
Oceanic Steam Navigation Co. and was credited
to your Bank's Account here on the 9th
ultimo.

Your request to be furnished with
a quaterly statement of Account shall have
attention.

I am, Dear Sir,

Yours faithfully,

Chas Harvey

Chief Cashier.

Received

Bank of England

10th May 1926.

Dear Mr. Governor,

The Governor has asked me to send you the enclosed copy of a letter received by him to-day from Mr. Ryti, Governor of the Bank of Finland.

Mr. Ryti will be informed that he will hear from you in due course either direct or through the Bank of England as to the date when it will be convenient to you to meet him. If you wish us to convey a message perhaps you will be good enough to let me know when you have arrived at any decision.

Yours sincerely,

Em Harvey

Benjamin Strong, Esq.

On Board s/s "Aquitania",
May 15, 1926.

Dear Sir Ernest:

✓
Replying to your note of the 10th of May, my plans are still too uncertain to enable me to send any message to Mr. Ryti, Governor of the Bank of Finland.

Possibly the best plan will be to advise him, if you will kindly do so, that I expect to be back in England by the last of July or early August, and that either you or I will see that he is advised well in advance, so that we can arrange a meeting.

Sincerely yours,

Sir E. M. Harvey,
c/o Bank of England,
LONDON.

BS:M

Bank of England

19th May 1926.

Dear Mr. Governor,

The Governor who now that the general strike is over finds his hands very full with French and other visitors who are beginning to arrive has asked me to reply to your note of the 15th instant regarding the offer of the President of the American Bank Note Company. He hopes that if you should happen to meet the President again you will thank him for his offer which shall be borne in mind should the need arise to obtain expert assistance.

As a matter of fact I may tell you for your own information that the Bank have already received a similar offer from the British firm of Bradbury Wilkinson & Company who as you probably know are closely allied with the American Bank Note Company.

Yours sincerely,

A. Harvey

Benjamin Strong, Esq.

*recd 10:20 pm
May 20/26*

Bank of England

19th May 1926.

Dear Mr. Governor,

In accordance with the suggestion contained in your letter of the 15th instant I am notifying Monsieur Ryti of the probable date when you expect to return to this country and have informed him that he shall receive definite advice well in advance of the date when it will be convenient for him to come to London.

I hope you had a comfortable journey to Paris and are feeling better than when you were here.

Yours sincerely,

Ch. Harvey

Benjamin Strong, Esq.

Grand Hotel,
Rome, May 27, 1926.

My dear Harvey:

Confirmation of cable from the Federal Reserve Bank, No. 6 of my series, has just been received, in which I find paragraph four ends with the words "of repurchase agreements returning Friday". Apparently the decode which we received omitted the last five words of paragraph four.

Could I trouble you to advise me whether this omission occurred in New York?

Sincerely yours,

Sir E. M. Harvey,
c/o Bank of England,
Threadneedle Street,
London.

BS:M

Bank of England

London, E.C. 2

31st May, 1926.

Dear Mr. Strong,

I have made enquiries regarding the cable referred to in your letter of the 27th instant. It appears that the only copies of the decode which were made were handed to you, but the words "of repurchase agreements returning Friday" were certainly in the message as it was received from New York and should have appeared in the decodes. If they were omitted I can only apologise and ask that you will be good enough to send us a copy for inspection.

Yours sincerely,

Ben Harvey

Benjamin Strong, Esq.

1 - 27
2 - 27

Hotel du Cap d'Antibes,
Antibes, June 5, 1926.

Sir:

Mr. Strong desires me to thank you for your letter to him of the 31st May, and to send you the copies of the decode of the message referred to, which you will find enclosed. I have made a copy for our files, so they need not be returned.

Respectfully yours,

Secretary to Benj. Strong.

Sir E. M. Harvey,
c/o Bank of England,
London.

Bank of England

3rd July 1926.

Dear Mr. Governor,

The enclosed letter arrived this morning and being wrongly sorted amongst the letters addressed to our own Governor was inadvertently cut open by myself. Please forgive me.

I hope you are having good weather and feeling really better for the change.

Yours sincerely,

Clu Harvey

Benjamin Strong, Esq.

Hotel du Cap d'Antibes,
Antibes, July 5, 1926.

Dear Sir Ernest:

This will acknowledge receipt of yours of the 3rd instant, just received, together with the mail it enclosed. I can quite understand that occasionally a letter will get mixed in with your own mail, so there is nothing to forgive, but only my thanks to be sent for your letter.

Sincerely yours,

Sir E. M. Harvey,
c/o Bank of England,
London, E.C.2.

BS:M

COPY.

27th July, 1926.

Dear Mr.Governor,

With reference to the Governor's letter of the 10th May last, he has asked me to let you know that he has heard from Governor Strong of the Federal Reserve Bank of New York that he has not forgotten his promise to make arrangements for a meeting with yourself. Governor Strong has not however yet been able to make definite arrangements regarding his movements during the next few weeks but as soon as possible he will communicate with you and suggest dates for the meeting in the hope that one or other of these may suit your convenience.

With kindest regards,

Believe me to be,

Dear Mr.Governor,

Yours very faithfully,

(Sd.) E.M.HARVEY.

Monsieur Risto Ryti.

p- C P Phelon

Asst. Chief Cashier

LOX BINDER 1919

ENGLISH BOND

FOX COTTON

BANK OF ENGLAND, LONDON, E.C. 2

16th August, 1919.

Benjamin Strong, Esq.,
Governor, Federal Reserve Bank of New York,
care of Banque Nationale,
Brussels.

Dear Sir,

I am desired by the Governor to confirm the following telegram which was despatched to you yesterday repeating sundry messages which had been transmitted to you care of the Nederlandsche Bank, Amsterdam.

"We cabled you Amsterdam as follows. August eleventh-
"Your telegram of eighth received. Will be happy to
"arrange shipments from both Amsterdam and Brussels.
"Have cabled New York respecting insurance -
"thirteenth - Learn from New York insurance can be
"arranged terms unknown to Bank but understood cabled
"you direct - fourteenth - We are ready to send to
"take delivery at both centres as soon as authorised
"we await terms upon which to insure with Chubb".

I am,

Dear Sir,

Yours faithfully,

C. F. Munroe
asst Chief Cashier.

c) J AC Osborne
Asst Chief Cook
1925-26

PERSONAL

BANK OF ENGLAND, LONDON, E.C. 2

3rd April, 1925.

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

ACKNOWLEDGED

APR 14 1925

R S

Dear Sir,

With reference to your letter of the 20th March, I am directed by the Governor to enclose a copy of the Address delivered by Mr. McKenna to the Commercial Committee of the House of Commons on the subject of the restoration of the gold standard. I cannot find that Mr. Keynes' address has been printed but I enclose a cutting from the "Times", which, I think, contains the salient features. Dr. Leaf of the Westminster Bank has not addressed the Committee.

I am,

Dear Sir,

Yours faithfully,

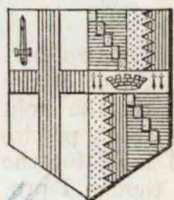
J. A. C. Brown

J. A. C. Brown Chief Cashier.

Midland Bank Limited

HEAD OFFICE—5, THREADNEEDLE STREET, LONDON, E.C. 2.

OVERSEAS BRANCH—122, OLD BROAD STREET, LONDON, E.C. 2.



LONDON, *February—March 1925.*

Monthly Review

THE RESTORATION OF THE GOLD STANDARD*

By the Right Hon. R. McKENNA

When you asked me to address you on the gold standard you set me a difficult task. It is a subject on which a speaker is apt either to tease his audience with an exposition of the obvious or to perplex them by his obscurity, and I do not know which is less likely to be to your taste. I will do my best to avoid both, but it is only common prudence to make my apologies in advance.

You wish me to speak of the gold standard more especially in relation to the precise significance which its restoration would have for the traders and ordinary currency users of this country. If all you wanted were a mere expression of opinion I could give it to you in a very few words. I should say that the recovery of the gold standard will stimulate or depress our commerce according to whether the world's output of gold at its current value is above or below the world's demand. But an opinion summarised in a few words, however completely it may express what I have to say, is not what you want. You will wish to know the grounds for the opinion and I shall state them as briefly and as clearly as I can.

In reverting to the gold standard we shall leave behind us the currency system under which we have worked for the last ten years. It has been the system of a managed currency. We understand what a managed currency means much better to-day than we did ten years ago, but we are still very far from a thorough comprehension of it. Our natural conception of a sound currency is something which has a definite exchange value by reason of its convertibility into gold, and yet during the last three years our currency, with nothing more than an insignificant gold backing, has been more stable than the United States gold dollar and has actually appreciated in relation to it. This is a fact which we cannot ignore, and in considering what we may gain or lose in reverting to the gold standard we must not leave it out of account.

CURRENCY LIMITATION

What is the essential factor, apart from the quality of legal tender, which regulates the value of a currency? The answer can be very briefly stated. The value of a

currency is regulated by the limitation of its quantity. It is obvious that the quantity of a currency may be limited in a great variety of ways, but for the purpose of our present discussion it is unnecessary to consider more than two methods. The first is by the control of credit, the method now used in England. The second is the one in operation under the gold standard, by which an obligation is imposed upon the issuing authority to hold some proportion of gold against the total note issue or against the amount in excess of a permitted fiduciary issue. Under the first system the Bank of England, as the final authority in regulating the volume of credit in this country, has unfettered control over the quantity of currency. Under the gold standard the control of the Bank of England is governed by the movement of gold.

In speaking of the limitation of the quantity of currency by the control of credit I am referring of course to the system as it is actually at work in England. In more than one country we have seen a direct issue of paper money to defray Government expenditure, but that has never been the case with us. Here the demand for additional currency springs only from the public. There are weekly fluctuations as wages are paid, there are fluctuations at holiday times and at certain seasons of the year, but the extra demand is only temporary and the additional currency in circulation flows back to the issuing authority when the demand has been satisfied. A need for more currency in permanent circulation can only arise from higher prices, which cause more currency to be carried in the pockets of the people and more to be kept in the tills of the shopkeepers. It follows that whatever control can be exercised over movements in the price level will also be effective in limiting the demand for currency.

It will be understood that in speaking of the price level I am not referring to the price of individual articles but to a theoretic composite price level of all articles in general consumption and use, the kind of measure we are familiar with in the index figures published by

* Address delivered by the Right Hon. R. McKenna, Chairman of the Midland Bank Limited, before the Commercial Committee of the House of Commons, March 4, 1925.

the Board of Trade. Price level depends upon the quantity of goods available for purchase, the quantity of money, and the rate at which money is expended. Thus one of the factors affecting the price level, and the one most subject to variation, is the quantity of money. Money consists of currency and, far more important in amount, of bank deposits. Whatever increases or diminishes bank deposits increases or diminishes money or purchasing power, and therefore tends to raise or lower the price level. It is at this point in the argument that the Bank of England appears. Bank deposits rise and fall according to the action of the Bank of England in lending or calling in loans, in buying or selling securities or indeed anything. It follows therefore that the Bank of England by its control over the volume of purchasing power can influence the movement of the price level, and as the public demand for currency varies with the price level the control of credit by the Bank of England can be used to limit the quantity of currency. That is the system under which we have worked and we cannot fail to recognise that it is one which throws a very great responsibility upon the central banking institution. To be managed efficiently the volume of credit must be so regulated from day to day and from week to week as to maintain stability in the currency and supply the needs of trade.

CREDIT AND TRADE EXPANSION

Let us come now to what is required for the trade of the country. Our population is always increasing and our production should be continually enlarged. If the machinery of credit is to be adequate, we must have a slowly expanding total of credit and a slowly expanding amount of currency in order to carry the increasing volume of commodities. If credit is not expanded to meet the growing national requirements we cannot fail to have either an absolute drop in our price level or a fall relative to the movement of the price level in the rest of the world. It must not be overlooked that a reduction in the world's output of natural products arising from harvest failure or other causes may lead to a rise in the world price level and in that case our own price level notwithstanding some upward movement may still show a relative fall, a condition which would be indicated by a rise in the exchange value of our currency in relation to other currencies. A drop in the price level, whether absolute or relative, spells stagnant trade and unemployment, and it follows that the control of credit should be so exercised as to permit an expansion when internal conditions require it. If the volume of credit keeps pace exactly with trade requirements our trade will prosper and there will be neither relative appreciation nor depreciation of our currency, but the superhuman wisdom which so delicate a handling of the machine would need is, I am afraid, only to be found in theory. While I wish to express my sincere respect for the Bank of England and my admiration of the manner in which its authority has been exercised during perhaps the most difficult period in our financial history, I am constrained to think, looking back and with the clearer knowledge which always comes after the event, that after the deplorable inflation of the last years of

the war and of the post-war period, the contraction of credit has been too severe to permit of a real revival of trade prosperity. The contraction has had its reflex in the great appreciation of our currency relative to other currencies but it has also had its reflex in relative stagnation of British trade.

REVERSION TO THE GOLD STANDARD

But what has this discussion of credit control and the volume of credit to do with the subject of my address? You invited me to speak on the gold standard, and more especially on the precise significance which its recovery would have for the commerce of the country, and so far, though I promised to be brief, the gold standard has hardly been mentioned. Still, if you will have patience with me, I think it will appear that it was necessary to give some explanation of our present system if we are to form a just opinion of the effect of a change to the gold standard.

I believe I am justified in saying that the settled policy of the Bank of England has been to effect a steady appreciation of sterling with a view to attaining parity with the dollar and the restoration of the gold standard. It is the policy laid down by the Cunliffe Committee whose recommendations were adopted by the Bank of England and the Treasury. But it is common knowledge that an appreciating exchange is injurious to export trade. Our exchange has been appreciating and the rise has been brought about in some measure by a contraction or insufficient supply of credit. When we are on the gold standard, further appreciation in relation to other gold standard currencies will be possible only within the limits of the gold points, and our export trade will accordingly benefit from the relative stability of exchange. The currencies of quite a number of countries, whether they are admittedly on the gold standard or not, now rise and fall directly in sympathy with the dollar, and in relation to the whole of these we shall be in a condition of practical exchange stability.

There is however a question of much greater importance for our trade than this. Will the reversion to the gold standard give us the means for an expansion of credit necessary to meet the requirements of expanding trade? We have to remember that the volume of credit will in the new conditions be regulated by the supply of gold. If the world's demand is in excess of the supply there will be a drain upon us which we shall only be able to check by restricting credit. If the world's supply is in excess of the demand, so far from there being a drain upon us, there will be a natural flow of gold into this country, which automatically will expand the total of our credit. The questions then which we have to consider are the relation between the present supply of gold and the probable total of the world's demands, and the consequences to our trade of an excess or deficiency.

GOLD VALUES, 1890-1913

To illustrate my meaning I cannot do better than recall the history of our trade during two comparatively recent periods, in the first of which there was an insufficient supply of gold and in the second an excess.

Most of us can remember that for a succession of years in the last decade of the nineteenth century prices were very low as compared with the preceding years, and trade was stagnant. I remember very well Sir William Harcourt arguing at that time the advantage of low prices for the consumer and the answer being made that the working man found no benefit in cheapness when he had no wages with which to buy anything. I do not attribute the whole of the trade depression which then existed to a shortage of gold, as there were other causes in operation, but undoubtedly the insufficient supply of gold to meet the world's growing requirements was one of the main causes of the contraction of credit, the fall in prices, and the stagnation in trade. The turn came with the development of the South African mining field and, after the interruption during the Boer War, the output of gold increased steadily year by year from 1901 onwards. If we look at the movements of the price level during the ten years after 1903 when the effects of the Boer War had passed away, we shall find that there was a rise of no less than 23 per cent, and if we examine the statistics of trade and unemployment during the same period we shall see that, with the exception of a temporary set-back due to the American crisis in 1907, trade was prosperous and unemployment was far below the average of the earlier period to which I have referred. Here then we had first a time, from 1892 on, of slowly appreciating currency, and later, for ten years after 1903, a time of slowly depreciating currency. The earlier period was one of stagnant trade and a high percentage of unemployment; the later, with the exception I have already mentioned, one of prosperous trade and full employment.

In calling your attention to these facts I should be sorry if I fell under the suspicion of being in favour of a depreciating currency. I am opposed alike to inflation and deflation. Both are evils to be avoided, the one is unjust to the creditor, the other no less so to the debtor. I am in favour of a stable currency which alone can secure justice to all classes. But what we are discussing now is the probable effect upon trade of a return to the gold standard and I have reached the stage in my argument that when currency appreciates, credit contracts and trade is stagnant; and when currency depreciates, credit expands and trade is buoyant.

FUTURE VALUE OF GOLD

The point for us now to examine is whether, if we return to the gold standard in 1925, the conditions of the supply of gold and the demand for it are such as will lead to a resumption of the course that trade was pursuing down to 1914. Is there likely to be an excess of supply over demand, or of demand over supply?

So far as I am able to judge, I should say that the supply of gold at its present value is more than sufficient to meet the world's demands and that consequently we shall pass into a time of slowly rising prices, more active trade and increased employment. The world's output to-day is about £80,000,000 a year at par value. There is accumulated in the Federal Reserve Banks of the United States an excess of

upwards of £300,000,000 over legal requirements. A considerable demand has of late been made from India, Germany and Australia, but these three countries cannot absorb anything like the total output. The demands in other countries will probably be quite small. It is possible that we may add some millions to our reserve here, but the United States will be a willing seller rather than a willing buyer. I cannot pretend to take anything more than a cursory view of the total of requirements, but with such materials as I have at my disposal I cannot come to any other conclusion than that the output is more than adequate to meet the world's demands. If this be the case, on balance gold will come to this country without our being obliged to attract it by high money rates. It will be bought by the Bank of England and, as I have already reminded you, every purchase by the Bank of England leads to an expansion of credit.

While I hold this opinion as to the final or permanent influence of a reversion to the gold standard I am by no means blind to the possibility and even probability that we may have many difficulties to encounter in the early days. The effect of our past policy in attempting to force the appreciation of our currency, whether by restricting credit, by charging higher rates for money than are current in the United States, or by discountenancing the issue of foreign loans in our market, has been to create a situation which may have a serious reaction when we first get back to gold. Large balances held here on American account may be sold with an immediate impact upon the exchange. The foreign issues which have been held back may be brought out with a rush. Our gold reserves may be jeopardised and high rates for money may be imposed in order to secure our position. Every step taken to enhance the value of sterling now must have its reaction at some later day. In these circumstances sterling exchange is at the moment in the same condition as the Stock Exchange when a heavy bull account is hanging over the market. But all these are matters only of temporary importance and we have to look behind market conditions to the long period trend of values. If we do so, I believe that reversion to the gold standard will eventually be attended by an influx of gold and an improvement in trade.

THE CIRCULATING MEDIUM

As you see, I have based my argument upon the relation between the supply of gold and the demand for it, and I have assumed that no new and exceptional demand will arise. It is often supposed that reversion to the gold standard will mean that the gold sovereign will once more pass into circulation. If this were allowed to happen I am afraid that it would be disastrous to our prospects. It is estimated that before the war gold coin was in circulation to the value of over £120,000,000. To-day at the higher level of prices the total required, if the Treasury note disappeared, would certainly be over £200,000,000. This would create such a demand for gold as would raise its value. It would be a serious shock to the Chancellor of the Exchequer, who would have to pay for it, and it would be injurious to our trade, as it would immediately cause a fall in prices. The gold would be

bought by the Exchequer and not by the Bank of England, and would not entail therefore any expansion of credit. The Treasury note is nominally convertible into gold, but this provision of our law has in practice been only a pretence, and the sooner the law is brought into conformity with the facts, the better for our safety. The indispensable condition of a true gold standard is that we should have freedom of export, so that when a demand is made upon us to pay our foreign debts in gold we can do so without leave or licence. Convertibility into bullion for export is one thing; convertibility of individual notes into minted sovereigns is quite another. Until we can afford it better than we can now, I would not risk any demand being made for gold merely for internal currency purposes. I venture to give my opinion on this point, but I recognise that it is a matter exclusively for the judgment of the House of Commons.

I began with an apology and I will conclude with another. In my desire not to take too much of your time or to weary you, I have made many statements far too didactic in form and without the qualifications and explanations which would be necessary if I were writing a book. However questions of currency value and the machinery of credit may affect trade, there are many other factors in operation which may counterbalance or accentuate their influence. The condition of Europe, taxation, efficiency of business control, labour questions are all matters which have a serious effect upon trade. I have dealt only with what may be called the monetary side of the problem, but when we consider the problem as a whole, the monetary influence cannot be properly described as producing more than a tendency. But I believe this influence to be very important, far more important indeed than is generally recognised, and well worth the careful study of all who are concerned about the trade of the country. Interest in trade questions is a long and honourable tradition of the House of Commons and I feel greatly honoured that so important a section of its members should have invited me to address them on this subject.

* * *

South Africa and the Gold Standard.—Monetary problems are always of peculiar interest in the case of countries in a specially favourable position for acquiring the necessary basis for their currency and credit, whether that basis be gold or silver or exchange. In the case of South Africa, which produces half the world's supply of gold, the situation is rendered still more interesting by reason of its close economic and political ties with Great Britain, which is at present off the gold standard and probably not far from the point of being restored to the pre-war monetary basis. Various questions, such as borrowing facilities and exchange on London, are of vital consequence in connection with South Africa's monetary policy, and these matters have recently been discussed in an expert report rendered to the Union Government.

It was in October last that the South African Government invited Professor E. W. Kemmerer of Princeton University, U.S.A. and Dr. G. Vissering, President of the Netherlands Bank, to study the monetary situation in South Africa and to report on

the resumption of gold payments. The text of the report has now been published and forms an exhaustive survey of the economic conditions upon which are based definite recommendations.

The Commissioners point out that although the monetary unit of South Africa bears the same name as that of Great Britain, the two currencies have as a fact been quite separate for several years past, and the view is expressed that South Africa is too small a country, economically speaking, to continue to conduct its affairs on an independent monetary basis. Consequently the alternatives are to link up with some other independent but more widely used currency, such as sterling, or to a universally accepted basis, such as gold.

One suggestion is rejected at the outset, namely that South Africa should tie up to sterling with the reservation that in the event of the latter depreciating to 10 per cent below gold parity the connection should be abandoned. The Commissioners "hope and expect to see sterling at parity with gold by July 1st next," but are sufficiently impressed by the scope of the fluctuations in sterling during the past six years and by the difficulty of halting inflation once embarked upon, immediately to reject any such scheme.

It was therefore necessary to decide whether sterling or gold should be the basis of South Africa's currency and to reach the decision with promptitude, seeing that the gold standard would be automatically restored by the expiry of the existing law on June 30, failing the introduction of new legislation. Furthermore, the Commissioners regarded it as imperative that the public should be informed at the earliest possible date as to the course to be pursued, so that ample time should be given for preparation. The Government should then stand by its decision, regardless of the course which sterling might pursue, and should itself assume any risks involved. It is worth while to note the pertinence of this recommendation to the case of Great Britain, where the gold standard will be automatically restored, failing further legislation, on January 1, 1926.

According to the reporting experts, South Africa is in a favourable position for the resumption of gold payments. For some months the South African pound has been very near gold parity and early in January was actually at a small premium in terms of gold. Further, prices are only one-third above the level immediately before the war, while in the United States they are fifty per cent higher and in Great Britain higher still. Consequently there can be no question of further deflation being necessary before reaching parity with gold. A third element is the strong gold position in the country. The Reserve Bank carries a 64 per cent gold reserve, the commercial banks hold heavy sterling balances, and the Pretoria mint is now in operation. There is therefore no dependence on London for the local supply of coin, and no likelihood of any serious depletion of the country's metallic reserves.

On the other hand, while sterling is considered likely to reach parity with gold at an early date, there remains the risk that another relapse might take place. Should this occur South Africa if tied to sterling would be compelled to follow Great Britain

through inflation, deflation and uncertainty until the end of British monetary policy were finally attained. Consequently, arguing that as a general rule a currency based on gold is likely to be more stable than an independent paper unit, the Commissioners recommended a return to the gold standard in South Africa as from July 1st next.

It is claimed in the report that, together with greater stability in the value of money, interest rates would also be more stable and probably lower by reason of the reduction of the risk of a change in commodity values during the period of a loan. Greater stability would also be attained in exchange rates with the increasing number of gold standard countries. Foreign capital would flow into South Africa more freely on account of greater confidence in monetary conditions, and labour would be more contented with the removal of its suspicions of a paper currency. The mining industry would probably benefit from the encouragement which South Africa's return to gold would give to other countries to follow its example. A further advantage, which, though questionable in a highly developed country, may be of greater importance in one with a large uneducated population, is the superior convenience of gold coin over notes.

Having enumerated the benefits to be derived from the course recommended, the report goes on to deal with the disadvantages which may follow. Most important, there is the possibility that South Africa may experience a more favourable rate of exchange with Great Britain than has been customary in the past. Various factors must be considered however in off-setting this result, which is undesirable in view of the mutual importance of South Africa and Great Britain as markets for each other's products. First, the inconvenience can be only temporary, inasmuch as exchange troubles, in the shape of losses to importers or exporters as the case may be, can only arise while exchange rates and price levels are in maladjustment. No permanent advantage can accrue from a persistently high or low rate of exchange. Further, any gain to the exporter by reason of a decline in the exchange value of the local currency must be balanced by a loss to the importer, and in the case of South Africa these parties are frequently one and the same, inasmuch as the leading export industries are under the necessity of importing supplies and equipment on a large scale. Then again, the difficulties of fluctuating exchange rates can largely be surmounted by contracts for forward purchases and sales of exchange. The Commissioners note the almost complete absence of such transactions in South Africa and suggest the desirability of traders introducing the practice of protecting themselves by this method. The Reserve Bank might assist in the development by itself entering into forward exchange contracts with the public and by supplying the commercial banks with cover when the transactions are too one-sided for them to hedge their position.

Another disadvantage which might accrue from the restoration of the gold standard arises from the fact that South Africa's loan supply comes almost entirely from Great Britain. It is commonly argued that South Africa might suffer by reason of changes in the relative commodity values of the local and British

currencies between the time of contracting and repaying the loan, and between the date of obtaining the loan and the various dates when interest falls due. The Commissioners however point to the possibility that the probable relative movements of sterling and South African pounds would to some extent be discounted in the nominal interest rates charged for loans, and that South Africa's credit standing would be improved by a return to the gold standard. Nevertheless, the policy of borrowing in a country having a monetary standard different from the borrower's is recognised as involving considerable risk, and it is recommended that public loans should be cut as low as possible and should be conducted on a gold basis.

With regard to the objection that South Africa would be unable to maintain the gold standard independently of Great Britain, the Commissioners felt no anxiety on that point. They took the view that the newly-established local mint and the Reserve Bank, with its powers of note issue, rediscount and open market operations, together with the heavy domestic output of gold, should be adequate to cope with any expansion of credit which might conceivably occur.

Following the advocacy of its recommendations, the report goes on to make certain suggestions with a view to rendering the Reserve Bank more efficient in playing its part in the maintenance of the gold standard, once established. It is held, in the first place, that South Africa "does not offer an adequate field of operation for a Reserve Bank that is exclusively, or almost exclusively, a bankers' bank." In order to perform its duty in stabilising credit conditions it should have the power to deal directly with the public, that is in the open market, a power which gives it in addition the opportunity of earning its expenses, with a profit for dividends or reserve, at a time when the commercial banks are making no demands upon it for accommodation. To this end the Commission recommend the amendment of the law governing the operations of the Reserve Bank in such a way as to broaden the scope of its contact with the public and to encourage the creation of an active market for South African Government Treasury Bills in the Union. These should again be issued by the Government, which, it is suggested, should gradually increase the proportion of its deposits with the Reserve Bank.

The Commissioners further recommend that the wider use of trade acceptances in lieu of open accounts should be encouraged, by preferential terms granted by merchants and by the commercial banks and the Reserve Bank. And finally, it is held that with the return to the gold standard gold certificates will no longer be necessary, and the suggestion is made that inasmuch as these tend to replace Reserve Bank notes in the circulation they should be permanently retired.

Following the receipt of the experts' report the South African Government announced that no steps would be taken to prolong the present monetary situation. In other words, as recommended by the Commissioners, the gold standard will be fully restored as from July 1 this year. It is not yet clear whether the Government intend to adopt the recommendations relating to the Reserve Bank, but should this be the case legislation will be necessary amending the Act of August 16, 1920, under authority of which the

Bank was founded and according to which, with modifications since effected, the central institution now operates. Whether this step be taken or no, however, July 1 will see one more country—and that the world's leading gold producer—returning to the credit and currency basis which is the goal of monetary policy in almost every country forced at some time during the past ten years to abandon the universal pre-war standard.

* * *

New Capital Issues in the United States.—The total of new securities issued in the United States by governments, municipalities and corporate undertakings during 1924, surpassed all previous records, reaching the huge figure, according to the *New York Commercial and Financial Chronicle*, of \$5,570 millions, as compared with \$4,304 millions in the preceding year. Converted approximately into sterling, the total is five times as large as the corresponding figure for Great Britain. It must be remembered however that although the American, like the British figures, exclude home government loans for national purposes and conversion and bonus issues, American statistics are calculated on the basis of the nominal amounts of the issues, while the British are based upon issue prices in all cases. Probably therefore, while the figures are not strictly comparable, the disparity between the American and British totals is exaggerated on this account.

The following table shows the distribution of the new issues as between the various objects to which they were applied:—

New Capital Issues in the United States by Groups
(000 omitted)

	1920	1921	1922	1923	1924
	\$	\$	\$	\$	\$
Foreign					
Government.	191,000	329,270	416,305	186,845	570,946
Municipal:					
Untd. Sts.	671,765	1,199,396	1,070,901	1,043,118	1,353,677
U.S. Posns.	16,277	27,145	47,023	8,186	8,830
Canada ...	45,780	75,982	98,985	26,308	134,834
Farm Loan					
Issues ...	—	121,940	344,415	337,473	179,106
Railroads ...	322,379	352,666	523,808	464,516	779,617
Public					
Utilities...	382,339	491,935	726,241	887,991	1,325,601
Iron, Steel,					
Coal, Cop-					
per, etc....	148,446	84,849	184,870	291,900	197,871
Equipment					
Mnfctrs.	34,408	8,300	10,156	13,805	19,016
Motors and					
accessories	117,865	25,732	48,360	66,797	29,507
Other Indus-					
trial and					
Mnfcturng.	694,389	281,414	239,658	324,259	261,424
Oil ...	456,767	291,547	151,105	194,779	167,128
Land, Build-					
ings, etc. ...	90,995	53,181	161,889	250,911	333,401
Rubber ...	105,674	86,500	19,763	1,685	2,000
Shipping ...	34,789	2,610	20,525	3,568	13,800
Misc. ...	321,961	144,271	249,359	202,285	192,931
Total	3,634,834	3,576,738	4,313,363	4,304,426	5,569,689

It will be seen that there was a substantial increase last year in issues on behalf of foreign governments, as

well as for American and Canadian municipalities and for railways and public utilities. The leading industries however appear to have absorbed less capital in 1924 than in the preceding year. Taken together government, municipal and railway issues comprised 51 per cent of the total in 1924 as compared with 40 per cent in 1923.

The amount of new money raised in the United States last year for foreign countries was far in excess of the figures for any pre-war or post-war year. The amount was \$1,000 millions, which, as shown below, compares with only a quarter of that sum in 1923. It should be pointed out that the figures for 1920 to 1923 differ from those published a year ago by reason of the inclusion in the later figures of Canadian municipal issues among foreign securities. Absolutely therefore, the United States lent much more abroad than did Great Britain, although the proportion of the total issues raised for overseas purposes is still much higher in this country. The size of the American foreign issues is an indication of the change in the American attitude towards investment in foreign countries, particularly to Europe. In 1923, with a much smaller aggregate of new foreign issues in the United States, the immediate resale of such securities was a characteristic feature. In 1924 on the other hand, while the total was much greater, resales to abroad, in particular London, were on a smaller scale. So that the figures as set out in the table probably tend to under-emphasise the scope of actual American investment in Europe in 1924.

New Capital Issues in Great Britain and the United States for Overseas Purposes, 1920-1924

Year	Great Britain		United States	
	Amount (£ millions)	Per cent of Total	Amount (\$ millions)	Per cent of Total
1920 ...	60	15.5	385	10.6
1921 ...	116	53.6	526	14.7
1922 ...	135	57.4	636	14.8
1923 ...	136	66.8	267	6.2
1924 ...	134	60.0	1,000	18.0

The distribution of the flotations according to classes of issue, which may be seen in the concluding table, shows interesting changes in the past two years. So far as domestic issues for industrial purposes of all kinds are concerned, long term bonds and notes comprised a smaller percentage of the total in 1924, the decline being balanced for the most part by a rise in the proportion of short term obligations. Preferred stocks were somewhat lower and common stocks substantially higher, all these movements reflecting general prosperity in business and a period of rather higher interest rates in 1924.

New Capital Issues in the United States for Home Industrial Purposes

TYPES OF SECURITIES, 1920-24

Year	Long-term Bonds and Notes		Short-term		Preferred Stocks		Common Stocks	
	Million \$	% of Total	Million \$	% of Total	Million \$	% of Total	Million \$	% of Total
1920 ...	1,038	40.5	522	20.4	462	18.0	540	21.1
1921 ...	1,276	74.9	161	9.5	71	4.2	194	11.4
1922 ...	1,540	69.6	105	4.7	293	13.2	277	12.5
1923 ...	1,847	69.7	143	5.4	335	12.7	324	12.2
1924 ...	1,924	63.5	276	9.1	318	10.5	510	16.9

* * *

BANK OF ENGLAND, LONDON, E.C. 2

5th February, 1926.

RECEIVED

FEB 17 1926

J. H. C.

J.H.Case, Esq.,

Deputy Governor,

Federal Reserve Bank of New York,

New York.

Dear Sir,

I am directed by the Governor to forward herewith, for your information, copies of letters exchanged between the Bank of England and the National Bank of Belgium on the 8th and 15th of December last, and a copy of a letter of the 3rd instant received from the Minister of Finance. Copies of these letters have been forwarded to Mr. Strong but, in view of his absence, the Governor thinks that they should be in your possession also.

I am,

Dear Sir,

Yours faithfully,

Jac Hume

Jac Chief Cashier.

Princess Hotel,
Paris, August 28, 1926.

Dear Mr. Osborn:

The enclosed is a telegram which Governor Strong received this morning, but which, so far as he is able to ascertain, is not for him. A telegram with the same or a similar text was received by him yesterday through Morgan, Harjes & Company, Paris, and was returned to them. At Governor Strong's request, I am sending this telegram to you, so that you may have inquiry made as to whether it is not for another party named "Strong", and also possibly to insure against any confusion of names in the future.

Looking forward to the pleasure of seeing you again in London soon, and with best wishes, believe me

Yours very sincerely,

Mr. J. A. C. Osborn,
c/o The Bank of England,
Threadneedle Street,
LONDON, E.C.2.

8-1M 4-29

FEDERAL RESERVE BANK
OF NEW YORKINCOMING CABLEGRAM—SERIAL NO. 697RECEIVED ON July 16, 1929

London July 16, 1929

Federal Reserve Bank of New York

New York

No. 179/29

Your 202/29 total is \$100,000,000
more than aggregate of domestic and foreign.
Please confirm.

J. A. C. Osborne

MT

N

TEST CORRECT M. M. M. M. M.

TEST INCORRECT _____

NOTE: UNDERLINED WORDS WERE RECEIVED MUTILATED.
REPETITION HAS BEEN REQUESTED AND WHEN RECEIVED
WILL BE PROMPTLY COMMUNICATED.

TELEGRAPH AND CODES DIV.

CDE 7-1M 4-29

FEDERAL RESERVE BANK
OF NEW YORK

774

OUTGOING CABLEGRAM-SERIAL NO. _____

July 16, 1929.

SENT ON _____

92 MAR 30 11 AM

Bank of England,

London

No. 203/29 URGENT J.A.C. Osborne

Our #202 domestic should read \$578 million.

Federal Reserve Bank of New York.

MY
N

WU 10

d) C T Parrie
Deputy Chief Cashier
1919

FOX BALE

PA

ENGLISH BOND

20 X COTTON

Adm
BANK OF ENGLAND, LONDON, E.C. 2

12th September, 1919.

Benjamin Strong, Esq.,
Ritz Hotel,
Piccadilly, W.

Sir,

With reference to the Governor's
letter of to-day I am desired to inform you
that after all the Bank expect another
consignment of Marks 27,000,000 from
Amsterdam before the close of business
to-morrow.

I am,

Sir,

Your obedient Servant,

E. Starkey

Chief Cashier.

BANK OF ENGLAND, LONDON, E. C.

12th August, 1919.

Benjamin Strong, Esq.,
Governor, Federal Reserve Bank of New York,
care of Nederlandsche Bank,
Amsterdam.

Dear Sir,

I am desired by the Governor to acknowledge the receipt of your telegrams despatched from Brussels and Amsterdam respectively, as follows -

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

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

and to confirm the following telegrams which were despatched in reply -

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

"Your telegram of the eighth received. Will be happy to arrange shipments from both Amsterdam and Brussels. Have cabled New York respecting insurance".

I am, Dear Sir,
Yours faithfully,

E. L. Lacey
Chief Cashier.

P.T.O.

P.S. I enclose by direction a letter addressed
to you which has been left at the Bank.

G-J

10/16
REPLY TO THIS COMMUNICATION
SHOULD BE ADDRESSED
"THE CHIEF CASHIER")

BANK OF ENGLAND, LONDON, E.C. 2

14th August, 1919.

Benjamin Strong, Esq.,
Governor, Federal Reserve Bank of New
care of Nederlandsche Bank, York,
Amsterdam.

Dear Sir,

I am desired by the Governor to
confirm his telegrams despatched to you as
follows -

13th August 1919

"Learn from New York insurance can be
"arranged: terms unknown to Bank but
"understood cabled you direct"

14th August 1919

"We are ready to send to take delivery at
"both centres as soon as authorised we
"await terms upon which to insure with
"Chubb"

The Bank now await a line from you
before making arrangements for transport to
London of the Gold in question.

I am, Dear Sir,

Yours faithfully,

W. T. Rice
W. T. Chief Cashier.

25th August, 1919.

Benjamin Strong, Esq.,
Governor, Federal Reserve Bank of New York,
Hotel Ritz,
Paris.

Dear Sir,

By direction of the Governor I telegraphed to you to-day as follows upon the receipt of your letter to him dated the 23rd instant -

"Your letter twenty-third August. Increase equally
"convenient. Have seen Kent to-day and still await
"completion of insurance".

Mr. Kent called this morning and informed us that there was nothing now to do but await the conclusion of the insurance arrangements which he is making, but we will in the meantime warn our representatives in Amsterdam of the increase of 120,000,000 marks in the amount of which they have to take delivery.

I note that the amount transferred from Brussels is also liable to alteration in the event of your deciding to move \$10,000,000 to Paris or Madrid as the case may be.

I am, Dear Sir,

Yours faithfully,

C. Paice
Chief Cashier.

BANK OF ENGLAND, LONDON, E.C. 2

2nd September, 1919.

Benjamin Strong, Esq.,
Hotel Ritz,
Paris.

Sir,

The Deputy Governor has handed me your letter of the 29th ultimo of which I note you have sent a copy to Mr. Kent. The additional shipments from Brussels and Amsterdam which the Federal Reserve Bank have found necessary will be arranged forthwith. They will not cause the Bank the least inconvenience.

You may rest assured that the reports which have reached Messrs. Chubb & Sons indicating partial insurance direct in London have no foundation in fact. They may be due to re-insurance in our Market.

I am,

Sir,

Your obedient Servant,

OT Paice

dy. Chief Cashier.