

## The Papers of Eugene Meyer (mss52019)

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Subject File, Federal Reserve Board, F.R. Bank of NY – Correspondence,  
1931

EUGENE MEYER

SUBJECT FILE

FEDERAL RESERVE BOARD  
F.R. BANK OF N.Y. - CORRESPONDENCE

1931

OFFICE CORRESPONDENCE

DATE April 21, 1931

TO Governor Harrison  
FROM Mr. Snyder

SUBJECT: The Relations of Trade, Credit,  
and Prices in the last year or more.

THEORY. It has been the custom to consider Reserve policy largely in terms of interest rates and, what amounts to nearly the same thing, the volume of Member Bank borrowings. No doubt the cost of money is an important consideration to the merchant borrower, but the total of merchant borrowings has within the last generation sunk to relative unimportance. Roughly, the total of bank credit is now constituted as follows:

Member Banks' own investments	30 per cent
Loans on securities	30 "
Loans on real estate, etc.	10 "
Merchant borrowings	30 "

It follows from all this that so far as the total volume of bank credit is concerned the disposition of the merchant, and the rate he pays for money, is of little consequence. Moreover, it is a very interesting fact that in the Member Banks of the System "all other," or so-called Commercial Loans, tend in normal times to increase very steadily at close to the normal rate of growth of trade itself, that is, at a little less than 4 per cent per annum. Further, as was clearly shown in the recovery from the depression of 1921, merchant loans follow and do not precede the revival of business. Therefore, they cannot be the cause of business revival but are clearly an effect.

THE EVIDENCE. What does seem of vital effect, ~~and influence~~, as is now clearly demonstrable, both as to the volume of trade and the price level, is the volume of total bank credit or, if one prefers, of total bank deposits. And here the clear evidence seems to be that the increase in this total bank credit precedes somewhat the recovery of trade and very distinctly precedes a trade depression.

How closely the price level follows the variations in the volume of this bank credit, without regard to any other factor, is set forth in the accompanying graph. This graph shows simply the variations of the actual increase of bank credit from a rate of  $4\frac{1}{2}$  per cent per annum, and the variations in our index of what we term the General Price Level, as contrasted with special indexes like that of wholesale prices alone.

It will be seen from this graph how closely <sup>the</sup> variations in prices followed the variations in credit. The only marked exception was in the latter part of 1929 when, as is well known, the extraordinary rise in the rate of turnover, or so-called "velocity" of bank deposits, due to the prodigious wave of speculation, affected these normal relationships. It will be seen how quickly these normal relationships were restored as soon as the speculative mania had passed and the average rate of deposit turnover had returned to the ordinary or usual proportions.

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DATE April 21, 1931

To Governor Harrison  
FROM Mr. Snyder

SUBJECT: The Relations of Trade, Credit,  
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COMMODITY PRICES.

This relationship between the volume of credit and the general price level cannot, of course, be demonstrated for wholesale commodity prices alone, and there never was any reason to suppose that it could be. Commodity prices at wholesale represent but a slender part of the broad structure of prices in general, and in no wise possess the importance which is generally attributed to them ~~even~~ by the older economists.

Wholesale commodity prices are the widest variables known--that is, the most mercurial types of prices; and in their movements often swing far above or far below the general level of prices. There seems no reason to suppose a very close relationship between these prices and the volume of credit, any more than, say, between cabbages or cottage cheese. The high variables in the familiar indexes of commodity prices are food and farm prices, and these are unquestionably deeply affected by crops and worldwide market conditions, and by other influences little related to the conditions of business or the volume of credit.

THE RECORD FROM 1875. On the other hand, we have now clear and ~~un-~~questionable evidence, covering a period of more than half a century, that there is a very close and practically invariable relationship between this general price level and the volume of credit; and that, in turn, the volume of trade and of employment, that is to say, the "condition of business," is also closely related thereto. An expansion of credit has accompanied, and usually preceded, every sustained recovery of business from depression of which we have clear record in the last half century, and every business depression has been heralded by a rise in interest rates which, in turn, always brings about a check to credit expansion sooner or later, and a decrease in the volume of trade. This relationship has likewise been thoroughly established.

demonstrated

*in periods of depression has,*

Next, it may be that this expansion of bank credit in the last quarter of a century, at least, ~~was~~ not been due to the increase in merchant borrowings, and distinctly has not been the result of initiative from the side of business, but from the banks themselves. This was as markedly true of the business recovery following the crisis and depression of 1907-'08 as it has been since the establishment of the Federal Reserve.

THE CASE OF 1908. The crisis of 1907 involved as sharp a banking and currency panic as anything experienced since the Civil War, and a sharp business depression. The prostration of railroad traffic was, if anything, more general than at the present time. Yet the remarkable fact is that within five or six months of the panic, business was vigorously on the road to recovery, and this recovery continued for well over a year thereafter. This business recovery was distinctly preceded by a remarkable expansion of bank credit, as is revealed by

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the returns for National Banks, then a more important part of the banking system than at the present time. And this expansion was not due to merchant borrowing. It was due wholly to the initiative of the banks themselves and resulted from a heavy return flow of currency from circulation and the hoarding which had followed the panic of 1907.

Likewise the fall in commodity prices averaged only about 6 or 7 per cent. In other words, were about the same as the fall in commodity prices in the four or five months following the market crisis in October of '29.

THE CASE OF 1921.

The crisis of 1921 involved the sharpest contraction of bank credit and the most violent fall in commodity prices, ~~and in the general price level,~~ since the Civil War, up to that time. It resulted from or was preceded by the highest commercial interest rates which had been known since the panic of 1873. The fall in prices continued to the end of 1921, about a year and eight months from the peak point reached in May of 1920.

But from the fall of 1920 there was the beginning of a very heavy inflow of gold, and in the fall of 1921 the Reserve Banks began heavy purchases of securities. Likewise throughout 1921 there was a large return flow of currency from circulation, and these three forces led to a reduction of Member Bank borrowings from a peak of 2800 millions to a little over 1000 millions at the end of 1921. All this led to a drastic fall in interest rates and bank deposits began to increase by the end of the year.

By the spring of 1922, or within six months of this remarkable change in the banking and credit situation, business was, on our broad index of trade, back to normal. This latter was not true of the pig iron type of indexes which usually show a lag of from three to six months, at least in periods of business recovery.

AND IN 1924. Almost identically the same thing in 1924. The business recession continued through the first half of the year and up to July. But at the beginning of the year the Federal Reserve Banks had again been buying heavily of securities, and by the middle of the year there was a marked increase in the total of bank credit. This again was not due to merchant borrowings but, exactly as in 1908 and in 1921, to heavy purchases of securities by the Member Banks and other commercial banks. Again, within six months of the time this credit expansion was well under way, business was likewise well on the road to recovery.

AGAIN IN 1927. The experience of 1927 was a curious one. In the earlier part of that year business was in good volume and all of the business indexes stood at a high level, though there had been some small decline in commodity prices. But towards the end of the year, distinct signs of business recession, so much so that by December Senator Wagner, in Congress, asserted that there were three million men out of work in this country.

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As is well known, for quite other reasons than to arrest such a business decline the Federal Reserve Banks, early in the summer of that year, began a renewed purchase of securities, amounting to about a quarter of a billion dollars.

Again a corresponding increase in commercial bank credit, and again within six months therefrom a sharp revival in business.

FOUR CONSECUTIVE INSTANCES. Here then were four consecutive instances within a period of about twenty years, which revealed this striking parallelism between the expansion of bank credit and the recovery of trade. In not one of these instances did the expansion of bank credit proceed from the side of the merchant borrower, but from the initiative of banks themselves utilizing the funds they could not loan in an ordinary business way, for the purchase of securities. It is striking that the instance of 1908, before the establishment of the Federal Reserve System, was as vivid as any of the three cases which followed, and could not, therefore, be in any way related to Federal Reserve policy or the existence of the Federal Reserve System.

THE NEGATIVE INSTANCE. These four consecutive instances seem to show a positive relationship. It remained for the present depression to indicate the negative evidence. It is now a year and a half since the crisis of 1929, and commodity prices have been falling almost continuously through the last twenty months. There are no signs as yet to indicate that they have reached bottom. The decline has been as sharp and continued in the last three weeks or three months as in the preceding twelve months or more. Business also has shown, so far, only the faintest signs of recovery.

Parallel to this we have had since the fall of 1928 no net expansion of commercial bank credit, taking all Member Banks of the System as evidence. On the contrary, some contraction of credit within the last eighteen months.

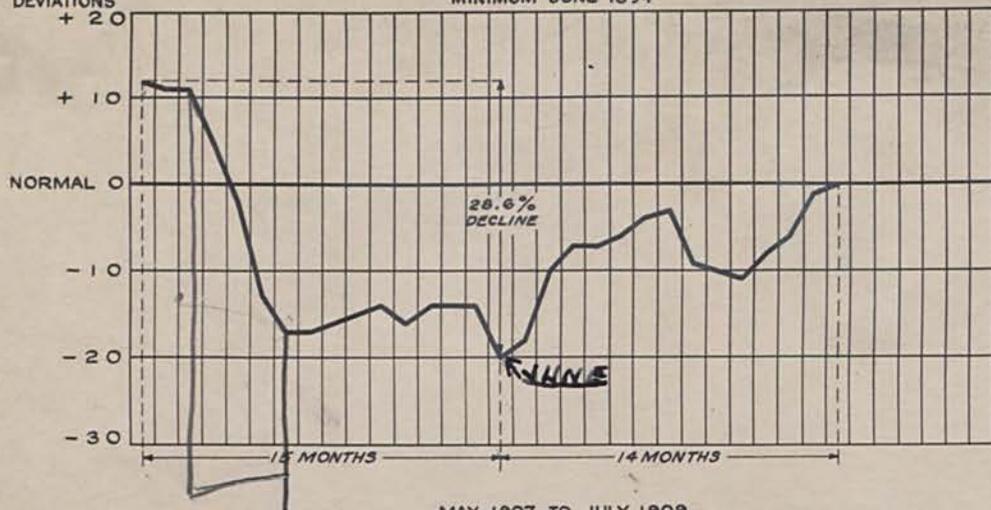
The difficulty in most economic investigations, and especially in this particular field, is the slender number of instances available for study. But here, at least, are five consecutive instances, four positive and one negative, which seem to establish pretty clearly that the condition of business recovery from a depression is an expansion of bank credit; and further, that this expansion of credit is ~~never~~ initiated by merchant borrowings from banks.

not

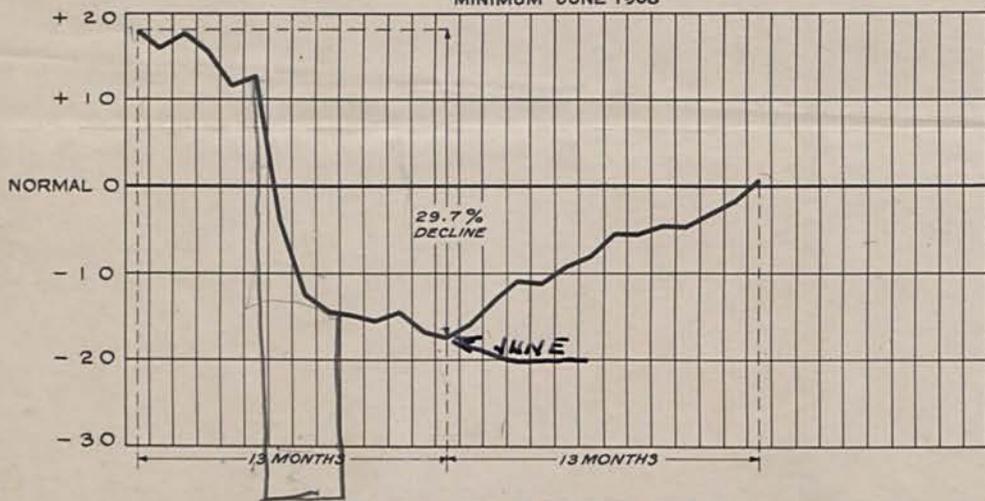
# COMPARISON OF FOUR MAJOR DEPRESSIONS

PERCENTAGE  
DEVIATIONS  
+ 20

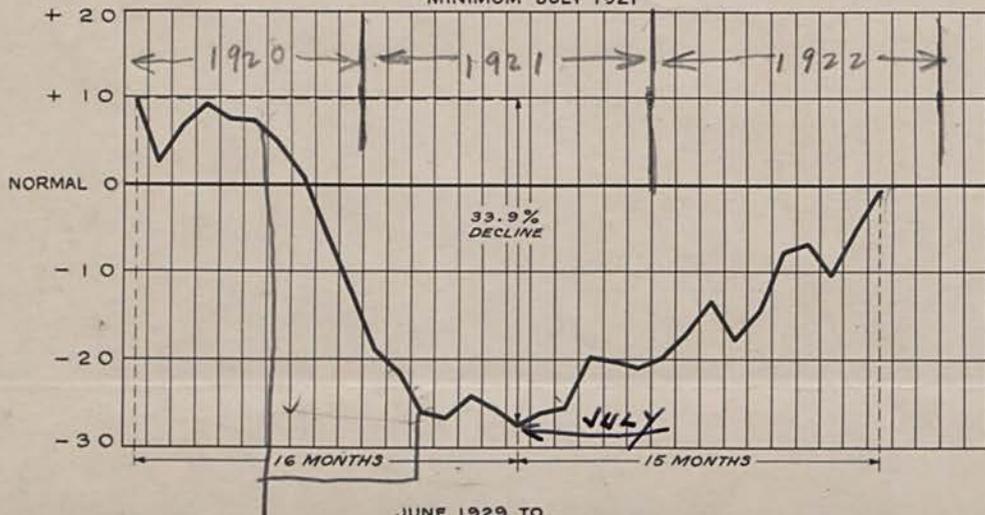
MARCH 1893 TO AUGUST 1895  
MINIMUM JUNE 1894



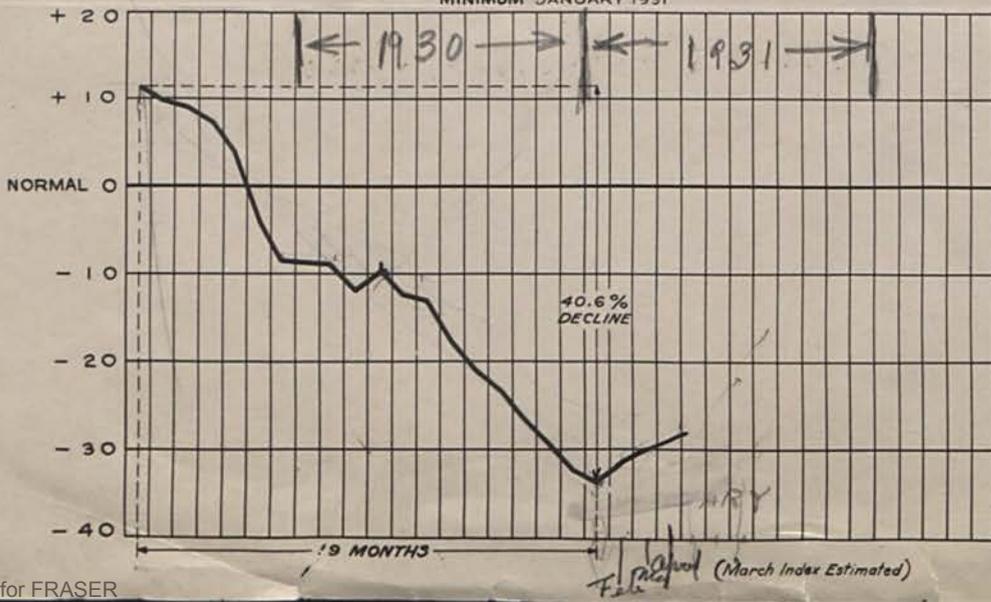
MAY 1907 TO JULY 1909  
MINIMUM JUNE 1908



MARCH 1920 TO OCTOBER 1922  
MINIMUM JULY 1921



JUNE 1929 TO  
MINIMUM JANUARY 1931



FEDERAL RESERVE BANK  
OF NEW YORK

Gov. Meyer

## OFFICE CORRESPONDENCE

DATE June 25, 1931.To Dr. Burgess

SUBJECT: \_\_\_\_\_

FROM E. F. LambCHILE'S FOREIGN DEBT PAYMENTS

Chile is one of the few countries of South America where a change of government by revolution during the depression of the past eighteen to twenty months, has not occurred. In comparison with other South American countries, Chile has a government which is basically more sound, a national administration which is more efficient and better managed, (under the control of a strong and able dictator, President Carlos Ibañez) and a population composed predominantly of more stable and superior racial elements. Therefore, Chile has not been subject to the irresistible pressure for revolution that has obtained in practically every other South American country. In addition, it has a more diversified national economy than neighboring countries so that the well-being of the population is not so utterly dependent upon the export trade as is often imagined by foreign observers. Finally, the financial organization and equipment of the national government is far superior to that of the other leading countries, notably Argentina and Brazil.

Nevertheless, there have taken place in Chile during the past year a marked contraction in business activity and sustained declines in prices of export and domestic commodities. The strong measures which the government has had to adopt to balance income and outgo, including cuts in the salaries of government employees, the levying of new taxes and raising of rates on old taxes, have been a strain on the people. Official statistics show that there has been little if any unemployment. Two incipient plots of political "outs" to overthrow the Government have been discovered and the organizers, exiled or imprisoned. It is understood, however, that the political situation is now more clouded than it has been thus far during the depression.

Although Chile has, for the reasons given in the first paragraph, withstood the strain politically and financially far better than other South American countries, her export trade has declined heavily as a result of the depression in world markets. The usual, large favorable balance of trade so vital a factor in the maintenance of equilibrium in the Chilean balance of international payments, has disappeared and as sufficient new loans have not been forthcoming, commercial banks and the Government have gradually leaned more and more on the resources of the Central Bank of Chile as the source of foreign exchange to make payments abroad. In its latest monthly bulletin of Business Conditions, the Central Bank describes the existing business situation, in part as follows:

"The development of our foreign trade continues unsatisfactory. Exports as well as imports increased in March, imports predominating with a surplus of 2 million pesos. There was a favorable trade balance of 8,8 million pesos for the first three months of the year, which however is too low a figure to appreciably assist in bringing about the equilibrium of our balance of payments.

The stringency in the monetary market has become more accentuated. The volume of bank credits has continued to drop in March, and in a larger proportion than in the previous three months. Advances in current accounts is the item most affected this time.

The circulating medium augmented in the first half of March owing to an issue of notes against gold purchased by the Banco Central. During the second half of the month, however, the circulating medium again dropped, due to the continued unfavorable balance of payments, the equilibrium of which, in the present prevailing circumstances, can only be obtained by means of sales of gold by the Banco Central."

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## OFFICE CORRESPONDENCE

DATE June 25, 1931.To Dr. Burgess

SUBJECT: \_\_\_\_\_

FROM E. F. Lamb

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CHILE'S FOREIGN DEBT PAYMENTS

The outlook for the continued payment of services by Chile during this coming half year can best be studied by examining her balance of international payments, the present status of her foreign trade and the credit and financial position of the Government and of the banks.

BALANCE OF INTERNATIONAL PAYMENTS

Last year in August the results of study on Chile's balance of payments prepared for the National Statistics Department of Chile by Alejandro Bunge, the Argentine economist, were published. This was the first time that such an investigation had been carried out in Chile. The report was given out with the proviso that the analysis included only principal items entering into the international balance, the period covered being the first six months of 1930. The items as shown in the monthly bulletin of the Banco Central, follow:

TABLE I."ESTIMATE OF THE IMPORTANT ACCOUNTS IN THE CHILEAN BALANCE OF PAYMENTS"

<u>Accounts</u>	<u>First Semester 1930</u> <u>(In millions of dollars)</u>	
	<u>Debits</u>	<u>Credits</u>
<u>Foreign Trade</u>		
Exports	78.8	
Imports		92.5
<u>Government Loans</u>		
Foreign Loans and Advances (net)	57.4	
Foreign Advances cancelled (i.e. paid)		13.0
Municipal and other loans	10.2	
<u>Interest and Dividends</u>		
Service on external, direct fiscal debt		14.8
Service on external debt municipalities, railroads and other entities		2.0
Service on Foreign Debt of the Mortgage Bank		3.3
Interest (and dividends) on foreign capital invested in Chile		33.6
<u>Misc.</u>		
Payments to employees and institutions abroad		1.3
Payments of Fiscal Agent of Govt. (mostly naval equipment)		5.4
Consular fees	2.0	1.0
Tourists and immigrants	1.8	2.4
Nitrate industry propaganda		1.5
New foreign capital investments	4.8	
Balance owed by Commercial Banks to correspondents abroad	1.9	
Loss in gold reserves of Banco Central	8.4	
<b>Totals</b>	<b>165.5</b>	<b>170.8</b>

\*Amounts given in Chilean pesos (par = 12.17 cents); converted at average rate of exchange for pesos.

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CHILE'S FOREIGN DEBT PAYMENTS

The compilers made one important observation, namely, that it had been found necessary to adjust the official figures of foreign trade due to the fact that the two principal items in the export trade, sodium nitrate and copper, (shipments of which comprise about 80% of total exports) were overvalued for the purpose of the study, while imports were somewhat undervalued. Without entering into an analysis of why the official values were not suitable, a comparison of the two sets of valuations is essential as it is more than likely that the same discrepancies exist in the current figures of foreign trade and similar allowances must be made:

First Semester 1930  
(In millions of dollars)

	<u>Exports</u>	<u>Imports</u>	<u>Unfavorable Balance</u>
Official valuations	85.7	88.0	- 2.5
Bunge's adjusted figures	<u>76.8</u>	<u>92.5</u>	- 15.7
Difference in amount	- 6.9	+ 4.5	
Percent Bunge's figures below (-) or above (+) official figures	- 8%	+ 5.1%	

Although the debits and credits in Table I do not "prove", the figures being incomplete, the outstanding feature of their balance of payments, and one which is common to all South American countries, is clear: positive equilibrium in Chile's balance of international payments is possible only if the dead weight (or fixed) unfavorable invisible items are covered by two favorable items, an excess of commodity exports and imports of new capital both of which are variables.

FOREIGN TRADE

In 1930, the official value of Chile's total merchandise exports was approximately 55% below the average for the three previous years while imports were 8% above the average for the same period. As a result of the extraordinary decline in exports (which was mainly due to a drop of 42% in the price of copper during the year and heavily curtailed nitrate shipments) without a corresponding contraction in imports which continued almost constant throughout the year, the usual and essential large favorable balance of trade was replaced by a sizable excess of imports. Actually, the unfavorable balance of trade was considerably larger than shown by the official figures. Whereas the official figures showed an unfavorable balance of 8.5 million dollars, it is believed that the deficiency as far as settling international balances are concerned, may be safely placed much higher. Using the same percentages as those shown above, the unfavorable balance would be 22 millions.

Exports in 1930 were valued at the lowest figure since 1922 while imports were larger than for any other year during the past decade with the exception of 1929:

FEDERAL RESERVE BANK  
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## OFFICE CORRESPONDENCE

DATE June 25, 1931.TO Dr. Burgess

SUBJECT: \_\_\_\_\_

FROM E. F. Lamb

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CHILE'S FOREIGN DEBT PAYMENTSTABLE II  
FOREIGN TRADE

(In millions of dollars, converted at average exchange rates)

	<u>Exports</u>	<u>Imports</u>	Balances: Fav. (+) Unfavorable (-)
1920	214.0	125.1	+ 88.9
1921	125.2	110.1	+ 15.1
1922	110.2	78.8	+ 31.4
1923	184.3	115.0	+ 71.3
1924	199.5	120.5	+ 79.0
1925	225.6	147.7	+ 77.9
1926	198.5	156.2	+ 42.1
1927	201.7	129.5	+ 72.2
1928	258.7	145.8	+ 92.9
1929	275.3	193.1	+ 82.2
1930	130.2	168.7	- 38.5

Source: Yearbook Department of Commerce, 1930; Monthly Bulletin, Banco Central de Chile for March, 1931.

During the first quarter of this year, the latest period for which figures are available, no commensurable improvement occurred in the foreign trade situation. Prices of the principal export commodities were very weak and exports of nitrate are believed to have diminished further (no official figures have been given out since October of last year) while foreign demand for copper continued stagnant with shipments correspondingly light. Imports during the first quarter were valued at 21% less than during the corresponding period of last year but were still at a much higher level than would appear to be desirable. Late in March, import duties on a list of about fifty important items were advanced substantially, the increases amounting to as much as 250% of the previous rates in many instances. This measure presumably will discourage imports to a considerable extent, without upsetting the Government's calculations of revenue.

TABLE III

FOREIGN TRADE IN THE FIRST THREE MONTHS OF 1931  
(In millions of dollars)

	<u>Exports</u>	<u>Imports</u>	<u>Favorable Balance (+)</u>
First Quarter 1930	48.1	47.4	+ .7
First Quarter 1931	58.5	57.5	+ 1.0

POSITION OF BUDGET

Since the adoption in 1926 of a modern budget system under a budget law which was drawn up by an American (Kemmerer) Commission of Financial Advisers, the national finances of Chile have been administered much more efficiently than was

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CHILE'S FOREIGN DEBT PAYMENTS

previously the case. Financial results in the year 1927, the first under the new law, showed a small surplus whereas the period 1919 to 1926 showed a cumulative deficit of total actual expenditures over revenues of 161 million pesos (\$19,500,000). In 1928 and 1929 substantial surpluses were shown, offsetting with a small margin to spare the accumulated deficits. Notwithstanding the business depression and its inevitable effects upon revenues, the year is said to have closed with the budget approximately in balance. Revised estimates of Ordinary Expenditures and Expenditures for last year, and the corresponding estimates for 1931 as passed by Congress, follow:

TABLE IV

NATIONAL BUDGET OF ORDINARY REVENUES AND  
ORDINARY EXPENDITURES IN 1930 and 1931.

<u>1930</u> (Revised Estimates)	<u>Pesos</u> (Amounts in Millions)	<u>Dollars</u>
Ordinary Revenues	1,151.7	140.5
Ordinary Expenditures	<u>1,152.5</u>	<u>140.6</u>
Anticipated Deficit	.8	.1
 <u>1931*</u>		
Ordinary Revenues	1,040.0	126.6
Ordinary Expenditures	<u>1,039.6</u>	<u>126.6</u>
Surplus	.4	-

\* Department of Commerce cable, December 1930.

During 1930, the revenues from nitrate did not fall below the budgetted figure which was placed at 170 million pesos (\$20,700,000). Tradition has it that the nitrate industry has always paid the major part of the costs of Government in Chile and indeed, during the 50 year period 1880 to 1930, 45% of the average costs were paid by the industry. However, as a more modern system of taxation has been gradually developed, less and less dependence has been placed on revenue from this source. The direct contribution of the nitrate industry to the Government in 1930 at the rate of approximately \$12.00 per ton of nitrate shipped, was only 18% of the total estimated ordinary revenues.

In the budget for 1931, passed late last year, with estimated ordinary expenditures and revenues approximately in balance at \$126,500,000, the nitrate tax does not appear at all. Under the rationalization plan for the nitrate industry of Chile, passed by Congress creating the Compañia Salitre de Chile (Cosach) with an authorized capital of \$375,000,000, and embracing more than 94% of the productive capacity of the industry, the government receives in exchange for its loss of revenue from the nitrate tax mentioned above and as compensation for handing over valuable concessions to the combine, half of the capital stock in the form of 15,000,000 fully paid common shares of 100 pesos each, equal to about \$185,000,000.

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FROM E. F. Lamb

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CHILE'S FOREIGN DEBT PAYMENTS

For the first three years under the new plan, "Cosach" guarantees minimum returns to the Government of \$22,500,000 in 1951, \$20,000,000 in 1952 and \$17,500,000 in 1953. The payment for this year which is in the form of cash, dollars and pounds sterling, has been provided for by recent financing.

The principal groups of items in the revenue estimate for 1951 compare with the original budget of revenue for 1950 as under:

TABLE IV.

ESTIMATED ORDINARY REVENUES IN 1951 COMPARED WITH 1950 BUDGET ESTIMATE  
(In thousands of Pesos)

<u>Item</u>	<u>1950</u>		<u>1951</u>
A. National properties	32,950	(a)	225,410
B. National services	80,550		85,990
C. Direct and indirect taxes:			
Import duties	325,000		500,000
Income taxes	210,000		123,500
Export tax on nitrate	170,000		-
Other revenues	<u>292,500</u>		<u>274,900</u>
Total direct and indirect taxes	997,500	(b)	698,430
D. Various revenues	<u>58,650</u>		<u>51,740</u>
Total A, B, C, and D	1,169,650	(b)	1,059,610
Surplus from previous year	<u>45,000</u>		-
General Total	1,214,650		1,059,610

(a) The quota of 180,000,000 pesos (\$22,500,000) which the National Treasury received from the Compania de Salitre de Chile in 1951. is included in this item.

(b) A discrepancy will be noted in the summation of the items.

Source: From Annual Report of Minister of Finance of Chile, as reprinted by Department of Commerce, Special Circular #548 (January, 1951)

It is observed that import duties account for less than one third of total revenues, a considerable lower ratio than in most South American countries, the remainder being distributed among various sources, including income taxes, national properties, "national services" and miscellaneous taxes.

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## OFFICE CORRESPONDENCE

DATE June 25, 1931.To Dr. Burgess

SUBJECT: \_\_\_\_\_

FROM E. F. Lamb

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CHILE'S FOREIGN DEBT PAYMENTSPUBLIC DEBT

"The debt is divided into direct and indirect obligations. The former is that contracted directly by the National government and the service of which is a charge against the ordinary revenues and is included in the budget. The indirect debt is composed of debts of cities, railroads, mortgage banks, etc., which are guaranteed by the National government, but the service of which is attended to by the entity directly interested and from their own income."\*

The following official figures showing the public debt of Chile up to the latest date for which figures are available do not include the floating debt. One short term obligation, however, has been treated by the Government as though it were a funded loan: an issue of five year notes sold to Kuhn, Loeb, which are a part of the external direct debt. The principal is \$10,000,000 and the maturity date is July, 1931.

TABLE VIFUNDED NATIONAL DEBT

(In millions of Chilean Pesos)

	<u>1930</u>	<u>1929</u>	<u>1928</u>	<u>1927</u>	<u>1913</u>
	( as of December 31)				
<u>Direct</u>					
External	2,482.8	2,289.5	2,138.5	1,758.2	1,356.5
Internal	457.8	322.9	256.9	104.6	51.7
<u>Indirect (Guaranteed)</u>					
External	1,183.6	1,068.5	962.3	( 899.3	-
Internal	49.9	64.3	61.9	(	
Grand Total	<u>4,174.1</u>	<u>3,745.0</u>	<u>3,419.6</u>	<u>2,762.1</u>	<u>1,408.2</u>
In millions of Dollars	500	450	410	336	169

From the above, it is seen that the Chilean funded debt, internal and external, increased between the end of 1927 and the beginning of 1931, \$164,000,000 (about \$55,000,000 per annum), the percentage increase for the period being no less than 51%.

The total sum set aside for service charges in the 1931 Budget was \$55,500,000 against \$31,800,000 in 1930. Although the national debt has grown rapidly, total estimated service charges in 1931 were equal to only 28% of total estimated revenues or expenditures, which is not a high ratio for a South American Country.

\*Banco Central de Chile, "Monthly Bulletin" (January, 1930, Page 8)

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## OFFICE CORRESPONDENCE

DATE June 25, 1931To Dr. Burgess

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FROM E. F. Lamb

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CHILE'S FOREIGN DEBT PAYMENTS

The external funded, direct debt as of December 31, 1930 was divided up by currencies as follows:

Pounds sterling	£ 29,682,182
Dollars	\$140,894,615
Swiss Francs	Fr. 84,003,000

The total floating external debt, estimated as carefully as possible with the aid of information obtained from various private sources, is believed to be about \$50,000,000 at the present time, including the Kuhn Loeb notes mentioned above.

The table which follows lists all short term indebtedness incurred abroad by the Chilean Government in 1930. Apparently the notes and advances maturing in the first quarter have all been renewed.

TABLE VII

SHORT TERM INDEBTEDNESS INCURRED IN 1930

	<u>Interest</u>	<u>Discount</u>	<u>Maturities</u>	<u>For. Curr.</u> (thousands)	<u>Pesos</u> (thousands)
National City Bank	6%	-	Jan. 28, 1931	\$ 5,000	41,250
National City Bank	-	2 5/4	Jan. 28, 1931	10,000	82,500
National City Bank	6%	-	Jan. 15, 1931	2,000	16,500
Rothschilds & Sons	-	6% - 1% $\phi$	Jan. 27, 1931	£ 2,000	80,000 *
Rothschilds & Sons	-	5 1/2 - 1/2% $\phi$	Nov. 27, 1931	1,000	40,000
Anglo Fr. Bkg. Corp. & Others	-	5 5/4 - 1/4 $\phi$	{ Dem. £200,000 5/31 £200,000 }	400	16,000
Caja Nac. de Ahorros	7%	-	1st Qtr. '31		25,000
					301,250
$\phi$ Commission				In dollars	36,000
* \$1,000,000 deposited with Rothschild & Sons					

To the above should be added, the Kuhn Loeb notes due next month (\$10,000,000) and a further advance of \$8,000,000 which Chile is believed to have obtained from the same firm, giving as previously mentioned a grand total of approximately \$50,000,000. Chile has done no long term financing this year.

CURRENT FINANCIAL POSITION OF GOVERNMENT

Lacking detailed first-hand information, it is difficult to say definitely how closely this year's actual revenues and expenditures are coinciding with the budgetted estimates.

During the first quarter, receipts from imports duties, according to the official returns amounted to 70.1 million pesos or slightly less than one fourth of

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the figure in the budget for the entire year. A comparison of certain other official figures, indicating the current fiscal movement during the first quarter of 1929, 1930 and 1931, is given below:

TABLE VIII

CURRENT RECEIPTS BY GOVERNMENT

	<u>First Quarter</u>		
	<u>1929</u>	<u>1930</u>	<u>1931</u>
	<u>(In millions of pesos)</u>		
Receipts, total	292.6*	290.0**	204.7
Expenses, total	209.0	272.4	198.4
<u>Customs Revenues</u>			
From Exports		62.2	51.1
From Imports		89.2	70.1
Other Receipts		<u>7.2</u>	<u>15.2</u>
Total		158.6	136.4
<u>Direct Taxes</u>			
Income taxes		11.9	19.8
Other taxes		<u>31.5</u>	<u>46.7</u>
Total		43.4	66.5

\*Including surplus of 77.6 millions carried over from 1928.

\*\*Including 54.0 millions carried over from 1929.

Source: Monthly Bulletins of Banco Central de Chile.

Anticipating a drop in income, the Government has planned a reduction of 115 million pesos in this year's expenditures, representing marked economies in administrative costs, which include decreases in the pay of government employees and officials, ranging from 5% to 25%, and also reductions in personnel. Regarding revenues, it appears that certain classes are running somewhat behind the budgetted amounts although slow collections may be partly to blame. While the internal situation of the government has been affected by the general depression, it has been handled firmly and does not suggest instability. It seems fairly certain, on the whole that the financial position of the Government is sound even though current revenues may be running somewhat behind current expenditures at the present time. The extraordinary budget, which embraces the authorized credits and the destination of the proceeds in connection with an ambitious long-term program of public works construction, has been so adjusted that the country will not be obliged to seek new loans abroad for this purpose in the current year.

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Nevertheless, the Government faces two serious problems, first, the disposition of the floating debt: \$10,000,000 in notes due next month; approaching maturities of obligations already renewed at least once; second, securing foreign exchange to meet service charges on external debt.

EXCHANGE SITUATION

Insofar as the settlement of international accounts is concerned, exports during the first quarter of 1931 must have failed to cover imports by a considerable margin because, although the official returns show a small excess of merchandise exports over imports, it has been pointed out in an earlier paragraph that habitually exports are overvalued and imports, undervalued. However, assuming that the international payments on account of foreign trade, are in balance and that no demand exists for foreign exchange for the transfers of interest and dividends on foreign private capital, funds of tourists immigrants, diplomats etc., Chile must nevertheless secure foreign exchange in 1931 at least to the extent of \$40,000,000 in payment of service charges on external borrowings of the national government and political subdivisions. However, the amount required may well reach a much greater sum, depending upon whether or not certain short term obligations must be paid off at maturity. It is not known definitely what arrangements the Government has made so far this year with regard to fresh credits. However, the Government did receive a payment from the Gosach, of \$22,500,000 in dollars and pounds sterling in April.

During last year, the "deficiency" of exchange was met largely by the Central Bank whose bills sold during the year exceeded bought bills by 117.4 million pesos and also by the commercial banks which at the end of the year owed foreign correspondents 21.3 million pesos. In freely supplying all demand for foreign exchange in 1930 as it did, the Central Bank reduced its reserves about \$14,500,000 from some \$53,500,000 to \$39,200,000. Notes in circulation were not retired in the same proportion, the shrinkage amounting to the equivalent of but \$5,500,000. The reserve ratio of gold and sight deposits abroad, to note and deposit liabilities dropped from 59.1% at the beginning of the year to 52.8% at the end of December. The minimum legal ratio is 50%, although, of course, it can be permitted to fall much lower, a payment to the Government on the deficiency as a penalty, being provided for in the law. (If time deposits abroad, \$13,300,000, at the latter date were included in the reserves, the ratio would be 86.5%). With the balance of international accounts still unfavorable, the foreign exchange situation this year has remained as in 1930: a restricted supply of foreign funds, derived from payments to Chile's credit, in relation to a more or less normal demand for such funds. Speculation by banks and flight of capital do not seem to be important factors. The burden of supplying buyers with foreign exchange has continued to fall on the Central Bank whose position on the latest date for which figures are available, follows:

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TABLE IX

RESERVES OF BANCO CENTRAL

<u>Last Weekly Statement in</u>	<u>Legal Reserve</u>	<u>Time Deposits</u>	<u>Total Reserve</u>	
	(In Millions)			
	<u>Pesos</u>	<u>Pesos</u>	<u>Pesos</u>	<u>Dollars</u>
June 1929	278.6	222.4	501.0	62.1
June 1930	252.2	138.2	390.4	47.5
Jan. 1931	223.5	78.5	301.8	36.7
Apr. 1931	211.6	84.7	296.3	36.1
May 1931 (15th)	181.9	57.7	239.6	29.2

Meanwhile, the amount of notes in circulation has not changed appreciably during the year. Between the last of April and mid-May, the Bank lost almost \$7,000,000 in foreign exchange and the reserve ratio fell about 10% to 53.6%. The Bank has hitherto maintained the ratio by converting its secondary reserves into dollars and pounds sterling, as required. As these reserves had been reduced to \$6,900,000 by the middle of last month, it is quite possible that the Central Bank has already exhausted its ordinary resources for supporting foreign exchange.

While the commercial banks of Chile have apparently not suffered from a withdrawal of their credit lines abroad, they have nevertheless not freely used their foreign balances which have risen considerably during the past twelve months.

TABLE X

FOREIGN EXCHANGE POSITION OF COMMERCIAL BANKS

	<u>Own Foreign Balances</u> (millions of pesos)	<u>Due to foreign Correspondents</u> (millions of pesos)	<u>Balance</u> (In Millions)	
			<u>Pesos</u>	<u>Dollars</u>
<u>1927</u>				
2/28	182.1	110.0	+ 72.1	+ 8.6
4/14	238.8	81.2	+157.6	+ 18.9
8/27	142.5	55.2	+ 89.3	+ 10.7
11/5	162.9	59.0	+ 103.9	+ 12.5
<u>1928</u>				
3/2	258.5	90.7	+ 167.8	+ 20.1
5/5	237.6	70.4	+ 167.2	+ 20.1
9/1	137.8	64.9	+ 72.9	+ 8.6
10/31	127.5	55.7	+ 71.8	- 8.6
12/31	120.7	67.5	+ 53.1	+ 6.4

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TABLE XFOREIGN EXCHANGE POSITION OF COMMERCIAL BANKS

	Own Foreign Balances (millions of pesos)	Due to foreign Correspondents (millions of pesos)	Balance (In Millions)	
			Pesos	Dollars
<u>1929</u>				
3/12	159.4	85.9	+ 73.4	+ 8.8
5/2	141.8	85.4	+ 56.4	+ 6.8
6/30	119.1	82.5	+ 36.7	+ 4.4
9/5	168.6	170.7	- 2.1	- .3
11/14	137.5	151.1	- 13.6	- 1.6
10/31	66.9	116.5	- 49.6	- 5.9
<u>1930</u>				
Jan.	74.5	111.2	- 36.7	- 4.4
Apr.	70.3	101.3	- 31.0	- 3.7
July	67.4	95.7	- 28.3	- 3.4
Oct.	93.2	122.1	- 28.9	- 3.5
<u>1931</u>				
Jan.	112.5	138.8	- 20.1*	- 2.4
Feb.	105.2	136.5	- 31.3	- 3.8
Mar.	110.8	134.6	- 23.8	- 2.9
Apr.	116.1	117.7	- 1.6	- .2

\* Corrected

CONCLUSION

Due to the heavy drain on the gold reserves of the Central Bank as a result of the abnormal situation prevailing in the country's balance of international payments, the reserve ratio has declined close to the legal minimum of 50%. The note circulation had already reached by the end of last year the lowest level in the Bank's five and one half years of existence. The volume of currency could undoubtedly be reduced still further, since business activity as measured by check clearings, is running about one third below last year for the corresponding period.

Nevertheless, the Central Bank is fast approaching the end of its ordinary resources for supplying the demand for foreign funds. Unless fresh short term credits

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can be secured by the government or unless relief can be obtained abroad through some other method, such as a central bank credit, it appears that the Bank will be unable to prevent the ultimate depreciation of the peso. It is believed, however, that the Bank can continue for some time to lend its support to the Government by supplying it with the means for making debt service payments. Gold reserves can still be reduced to the extent of say \$10,000,000 (sufficient to cover at least half the demands of the Government for the second half of this year) by decreasing the note circulation some 25,000,000 pesos (now around 300 million) the reserve ratio falling to 45%. Chile takes pride in its debt record of 100 years without a default, and although the Central Bank has often maintained that its *raison d'etre* is to maintain the international value of the peso, there seems little question but what the Bank will decide to concentrate its efforts on the transfer of service payments, as the only thing to do under the circumstances.

Thus, for the next few months, it is likely that Chile will not find it impossible to continue paying interest and sinking fund charges on the foreign debt. However, if world business conditions do not improve materially within a few months with corresponding benefits to Chile's export trade, or if credits cannot be secured abroad, it is fairly clear that the difficulties of continuing to remit will be so great as to force the Government to suspend payments temporarily.

E. F. L.  
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Chile has, in its northern desert or "pampa" country, the world's only known deposits of nitrate of soda.\* They extend for a distance of several hundred miles in an irregular belt five to forty miles wide. The nitrate-bearing layers vary in thickness from a few inches to many feet, carry in their richest form as much as 40% of nitrate, and may be either on the surface or below it down to a depth of 25 feet or more. The deposits being worked are for the most part rich in nitrate, the "caliche," as the superior type of ore is called, being found about 3 feet below the overburden. There are no definite statistics on the quantity of nitrate remaining in the ground. A large part of the unproved ground remains in the hands of the government which, under the rationalization plan drawn up in 1930, agrees to hand over large tracts to the industry. After a hundred years of exploitation of the nitrate fields, the evidence is that the quantity of nitrate still untouched is sufficient for generations to come.

RISE OF INDUSTRY

A comparatively small part of the nitrate fields was originally in Chilean territory but in the early years of exploitation, Chile received most of the benefits, as the nitrate was shipped from Chilean ports. After the "Bancos Asociados" of Peru gained control of the industry, they began to consign all shipments in vessels which brought in fuel as ballast, causing a loss in trade to Valparaiso. This development was the principal cause of the war of the Pacific with Peru and Bolivia. After its

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\*Nitrate and sodium combined; occurs in natural state mixed with various other compounds, principally chloride of sodium or common salt. The principal use in peace time is as fertilizer since nitrogen, most important single element taken from soil by crops, when in form of sodium nitrate, occurs in a state in which readily available for restoring this element in soil and nourishing plants.

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victory in 1883, Chile took as indemnity from Bolivia, its strip of seacoast and from Peru, a portion of its Southern coast. This territory added to what Chile previously owned to the south, gave it the entire nitrate district.

About 1,000 tons of nitrate is reported to have been taken out of the region in 1809. By 1830, the production was 9,000 tons and from that date up to 1900 the rate of increase was such that output approximately doubled every ten years. Between 1900 and 1913, production increased approximately 100%, reaching 2,772,000 tons during the latter year. During the War, annual output was irregular and lower, but between 1921 and 1928 the trend was upward and in 1929 production reached a new all time high of 3,238,000 tons.\*\*

SPECULATIVE ASPECTS

A significant feature of the development has been the irregularity in production due to the nature of the industry. It has been highly profitable to certain companies and disastrous to others. At one time 125 "oficinas" or plants were going concerns but between 60 and 70 of them now account for practically the entire production which annually varies between 2 and 3 million tons, valued at 100 to 125 million dollars. It has been an erratic industry attended with many risks as well as possibilities of high profits. Although the manufacturing processes are simple in principle, the nitrate business in its modern aspects demands for successful operation over a period of years, great technical skill in all phases of production, management and marketing as well as unusual foresight in the development of new processes and methods in all stages from the handling of the raw material

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\*\*The pure nitrogen content is about 15% of the sodium nitrate as prepared by the Chilean industry.

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down to the final sale abroad. Naturally, there have been widely varying degrees of success among the companies depending upon the many variable factors involved, particularly management. In recent years a great many of the less ably-managed companies have abandoned operations and only the stronger companies now remain, five of which produce 85% to 90% of the nitrate.

The world-wide depression in agriculture in 1930 accentuated a condition which had been the cause of growing concern among the producers of Chilean or natural nitrate for several years: the increasing production of nitrogen by synthetic methods and as by-products in the manufacture of coke and city gas. "By-product nitrogen" production had been expanding rapidly long before the World War while the synthetic product was developed by Germany and produced on a large scale during the War as an essential material in explosive manufacture. Due to the abnormally large demand for nitrate during War-time and in the two years immediately following it, the Chilean industry was not adversely effected by manufactured nitrates until the period of readjustment began in subsequent years. By-product nitrate and especially synthetic nitrate manufacture continued to expand. Large plants devoted to the manufacture of ammonium nitrate by the extraction of nitrogen from the atmosphere, the so-called synthetic nitrogen, were erected in other European countries. The leading companies which came into the field, in addition to the I. G. Farbenindustrie of Germany, are the Imperial Chemical Industries, Ltd. of England, the Comptoir de l'Azote of France and the Montecatini of Italy. The remarkable increase in synthetic and by-product nitrogen, both of which are adapted to the same uses as the Chilean product, is shown in the following table of estimated annual world consumption of

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pure nitrogen for the five years ended June 30, 1930:TABLE IESTIMATED CONSUMPTION OF FORMS OF NITRATE

(reduced to equivalent of pure nitrogen)

(Thousand tons)

	<u>1930</u>	<u>1929</u>	<u>1928</u>	<u>1927</u>	<u>1926</u>
By-Product	425	405	390	310	300
Synthetic	1,175	1,075	825	735	585
Chilean Nitrate	<u>363</u>	<u>415</u>	<u>390</u>	<u>271</u>	<u>323</u>
	1,963	1,895	1,605	1,316	1,208

While Chilean nitrate appears to command a special market to some extent (since even in Germany, Chilean nitrate of soda consumed there between 1926/27 and 1929/30 increased from 16,500 tons to approximately 120,000 tons), the Chilean industry was at a great disadvantage in the market as a whole, since it could not satisfactorily meet the prices of European producers.

RATIONALIZATION AT HOME AND ABROAD

It appeared inevitable that as the high cost producers by a considerable margin, the Chilean companies would eventually be forced from the field. However, the entire competitive aspect of the nitrate business changed last year when it was demonstrated that a more economical process for recovering nitrate than the one in use had been developed, and could be employed on a commercial scale. With the new process as the basic factor in their favor, the leaders in the industry undertook a fundamental reorganization, affecting all aspects of the business. Within the Chilean

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industry itself, the plans\* called for a merger of all companies, into a single corporation "Compania de Salitre de Chile" (Cosach), with the Government sharing as a holder of half of the total capital stock; the centralization of operations at five huge plants, involving the scrapping of all old plants numbering from 60 to 70 and the introduction of new handling and routing methods in the fields and "oficinas." Externally, the Chilean producers entered into a cartel, the membership of which included all producing countries except the United States and Japan, output, shipments and prices being fixed by agreement, in accordance with world market conditions and the capacity of the producers.

THE GUGGENHEIM PROCESS

The competitive situation described could not have been met by the "old" Chilean industry, since even at the established price of approximately \$40.00 per ton, most companies lost money under the Shanks process which was the one in use. It was apparent years ago to the Guggenheim Brothers who have had spectacular success in mining low grade copper ores on an immense scale in Chile, that the salvation of the Chilean industry lay in evolving a more economical process for the recovery of nitrate. Under the leadership of E. A. Cappelen Smith, an exhaustive investigation of the problem was undertaken and after almost a decade of painstaking work in the laboratory and experimental plants, a "cool" process for treating "caliche" was developed. Briefly, the theory of the Guggenheim process is that sodium nitrate is more readily soluble in hot water than cold whereas sodium chloride with

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\*The new company has been formed and the rationalization plan is in process of being carried out, as two of the new plants, "Maria Elena" and "Pedro Valdivia" are understood to have been brought into production.

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which it is found in greatest abundance is only equally soluble in hot water or cold and is much less soluble if that water already contains sodium nitrate. Thus when a saturated solution of nitrate and salt is drawn off at atmospheric temperature and then cooled to freezing, it drops the nitrate of soda which is then treated physically by several simple processes to put it in a form suitable for packing. The Shanks process is a "hot" process and consists of treatment of the crushed rock by counter current leaching. Due to the fact that sodium nitrate's solubility increases with rising temperature at a much higher rate than does that of sodium chloride, a solution in the presence of "caliche" at the higher temperature, will precipitate sodium chloride and take up additional nitrate. The rich nitrate solution is then drawn off, clarified and allowed to cool. As the temperature falls, nitrate crystallizes out, the other salts remaining in solution. The excess solution is then drawn off and the liquor sent back for re-use.

The principal features of the Guggenheim process are:

- (1) The ability to extract nitrate efficiently from rock of a lower grade than considered economical for use in the Shanks process.
- (2) The conservation of all heat wastes.
- (3) The employment of about 1/4 of the men necessary for similar production under the old process.

More specifically the advantages claimed for the Guggenheim over the Shanks process (which is used today altered only in details from the form in which it was introduced by Humberstone 45 years ago) are:

- (1) It is possible to introduce (a) mechanical methods for handling material and manufacturing (b) on a larger scale than heretofore;

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- (2) the available reserves of nitrate are greatly enlarged;
- (3) the output per unit of fuel consumed is materially increased and
- (4) a better quality product is produced.

The Guggenheim interests began commercial operations in Chile on an important scale with the acquisition of nitrate deposits at Coya Norte in the north near Tocopillo and later, with the purchase of the Anglo-Chilean Company's nitrate grounds at Coya Sur. On these properties the factory "Maria Elena," the largest plant in Chile, was put into operation in 1926 at a capital outlay to the Anglo-Chilean Consolidated Nitrate Corp., of \$55,000,000 which was said to have been 20 millions more than the Guggenheims had originally planned for this plant, the first of the five central units to be built under the rationalization plan.

COSTS UNDER GUGGENHEIM PROCESS

The Guggenheim interests have published no figures of costs for the "Maria Elena" plant but it is said in some quarters that the unit production cost is about 40% less than under the Shanks process. However, an analysis which was approved by the Chilean nitrate authorities and published in the magazine "Fortune" last Autumn, is less definite on the matter of costs, saying that "savings are still a little difficult to determine after three years but it is fair to say that they are not less than \$6.00 and may be as much as \$9.00 per ton. Comparative costs were drawn up in the "Fortune" analysis mentioned as follows:

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<u>Shanks Process</u> (Per short ton)		<u>Guggenheim Process</u> (Per short ton)	
At Plant	\$12	\$	4
Bags, freight, lighterage, etc.	6		5
Ocean Freight	5		5
	<u>\$23</u>		<u>\$14</u>

To the actual producers costs under the Shanks process was added a lump sum of \$12.00 per ton, representing a flat charge before rebate in the form of an export tax paid by the companies to the National Government. Since the early days of the industry, the Government had found in the proceeds of this levy, its major source of revenue, paying during the fifty year period from 1880 to 1930, according to "Fortune," 43%, on the average, of the costs of Government. In 1929 when conditions were depressed, the industry paid over 23% of its costs. The tax of \$12.00 per ton added to the total primary costs, gave a total cost to producers of approximately \$35.00 per ton. Under the rationalization program, the Government agreed to abolish this tax.\*

ORGANIZATION UNDER RATIONALIZATION PLAN

In May of last year, a law was passed by the Chilean Congress, sanctioning the concentration of the various nitrate companies into one huge corporation, a revolutionary move which was strenuously opposed by certain elements of the Chilean public. The negotiations with the Government by the nitrate interests (with which the Guggenheim interests have become prominently associated) might not have had a successful culmination but for the deplorable situation of the

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\*It is understood, however, that a maximum charge of \$7.30 per ton of nitrate exports has been established to cover the service on Cosach's bonds (\$34,000,000).

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industry under the old conditions and the personal popularity of President Ibanez. Later it was announced that plans were under way for the formation of the Chile Nitrate Company ("Compania Salitre de Chile") or "Cosach" with a capital of \$375,000,000 (U.S.) to take in more than 94% of the productive capacity of the Chilean industry. Formed primarily to knit the industry into a single unit which can benefit to the fullest extent from centralized management and operation and which can meet foreign competition, the company naturally acquires ownership of the Guggenheim process, the use of which will gradually be extended to all its subsidiaries and plants. In compensation for the loss of revenue which would occur through the elimination of the export tax, the Government receives 15,000,000 Series A shares of 100 pesos par value each or \$185,000,000 (U.S.), representing half the total capitalization. According to most recent information available, the company guarantees minimum returns to the Government for those years beginning with \$22,500,000 this year and then \$20,000,000 in 1932 and \$17,500,000 in 1933. Thereafter, the Government is limited to dividends on its stock and the proceeds from a 6% income tax. Another feature of the plan as mentioned previously, is the provision that all of the Government owned nitrate lands are made available to the company. Four of the twelve members on the Board of Directors are appointed by the President of the Republic, the position of the Government being that of a partner in the enterprise.

FINANCING THE MERGER

Several months ago a Chilean Government Commission came to the United States to arrange jointly with the Guggenheim interests a plan for financing "Cosach" which it was reported would try to secure \$100,000,000 in "new" capital. As a result of

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the negotiations, however, it has been announced within the past few days by Pablo Ramirez, the head of the Commission, that a proposal has been received for an issue of \$45,000,000 in bonds of which \$34,000,000 will be offered in New York and London.\* These bonds, according to Sr. Ramirez, will not bear the guarantee of the Chilean Government, as previously rumored.

OBSTACLES TO CHILEAN INDUSTRY

The rationalization plan (which has been characterized as the most thorough yet devised for any industry) undoubtedly offers a solution to many of the most pressing problems facing the industry. However, it is still in an experimental stage with many difficulties yet to be solved. The most dangerous of these is competition from the United States. In 1927 this country's production\*\* of synthetic nitrate was confined to laboratory quantities. Since that time the Hopewell plant of the Allied Chemical and Dye Corporation, one of the largest chemical companies in the world, has been constructed and is now in partial production. If full production is reached by 1932, the output of this company would be sufficient to fill approximately half the demand of this market.

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\*"The Cosach financing was floated in Europe in the amount of \$34,000,000 of bonds, but great success did not attend the sale of these securities, most of which were reported to have been left in the hands of London banks."  
"Herald Tribune," May 12, 1931.

\*\*"Last year (1930) American production registered a further gain to 140,000 tons and the estimate for 1931 calls for 300,000," "J. of C." February 21, 1931.

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TABLE IIIMPORTS OF NITRATE INTO U. S. FROM CHILE

	(Tons)	(Value)
1925	1,112,000	\$52,531,000
1926	914,000	42,781,000
1927	749,000	30,132,000
1928	1,033,000	36,991,000
1929	930,000	34,913,000
1929 (11 months)	864,889	32,618,431
1930 ( " " )	532,382	26,119,203

If the Allied Chemical and Dye Corporation, should be successful in entirely displacing the Chilean product, Chile would lose its largest single customer or about 1/3 of its market. Aside from the fact that United States laws do not permit price agreements, the American Company is opposed to entering into combinations of this kind. It would appear that a struggle for control of the United States market between this potentially huge domestic producer and the "Cosach" accompanied by severe price cutting, might well ensue as a result of this situation. Another country that did not enter into the price-fixing conferences last summer was Japan where production of fixed nitrate is small but growing.

As a result of the conference mentioned in which "Cosach" announced that it could deliver nitrate of soda at a profit to meet any synthetic competition, the production of each country in the group, was drastically reduced, the decreases ranging from 10% for France to 50% in the case of England while prices were fixed for each country. This severe imposition was effected as an emergency measure and doubt may well be expressed as to how long European countries will submit to their

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE June 29, 1931.TO FilesSUBJECT: The Chilean Nitrate Industry.FROM E. F. Lamb

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respective quotas, as plants must be operated at far below capacity.

Another unfavorable factor in the outlook is that "Cosach" will begin operations under the handicap of a huge stock of surplus natural nitrate which has accumulated since 1928, largely in Chile despite the efforts of the Nitrate Producers Association to control the situation. The statistical position of the market remained unsatisfactory in 1930. During 1928 and 1929 average monthly production was about 265,000 tons, shipments from Chile averaged 237,000 and consumption, 216,000, causing a steady rise in unsold stocks both at home and abroad. On January 31, 1930 they stood at 2,732,000 tons which is considerably larger than consumption during the year 1929 when a record quantity of nitrate was, nevertheless, consumed. Seasonal increases in sales during the early part of 1930, reduced stocks slightly but between July and October with demand poor due to the depression, production was maintained, varying from 180,000 to 203,000 tons whereas 130,000 tons was the maximum average output necessary to prevent further accumulation of nitrate. It appears, therefore, that at the beginning of this year, the industry is burdened with an inventory practically as large as that of the preceding January.

FUTURE OF CHILEAN NITRATE

The ultimate recovery of the industry will occur when the long time trend in demand has caught up with that of production. Ninety per cent of the pure nitrogen consumed in the last 6 years has been for agricultural purposes and the trend in consumption in the future probably depends largely upon the demands of this industry. An indication of the possibilities in the ultimate expansion of

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the market is indicated by estimated figures prepared by a New York investment house,\* showing the impoverishment of the soil by crops:

"World consumption of pure nitrogen for agricultural purposes has been increasing yearly, but, nevertheless, the agricultural industry is consuming only a small fraction of the amount it should. It has been estimated by competent authorities that the annual removal of (pure) nitrogen from the soil of the United States alone is more than 3,800,000 metric tons, and that only about 375,000 metric tons of this nitrogen is being replaced in all forms of nitrogen-bearing fertilizers, resulting in a net loss of approximately 3,400,000 metric tons, equivalent to about 22,000,000 tons of Chilean Nitrate of Soda, or nine times the present world consumption of this product. The European countries use much more nitrogen in fertilizer per acre than does the United States. As the soil of this country becomes more impoverished, consumption of nitrogen for agricultural purposes will continue to increase at a much greater rate than in the past."

The annual rate of increase, in world consumption has been estimated by the Chilean Government, in its report accompanying the project of law mentioned above for rationalizing the industry, at 7% which is considerably less than the rate calculated by the Imperial Chemical Industries, Ltd. in its annual report of last year. During the first year under the international agreement, Chile can ship out the equivalent of approximately 2,500,000 tons of nitrate of soda which is approximately 100,000 tons more than the average exports from 1926 to 1929. If world consumption increases at the percentage given, exports of nitrate

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\*The Kissel Kinnicutt Review, Kissel Kinnicutt and Co., September 2, 1930.

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OF NEW YORK

OFFICE CORRESPONDENCE

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To Files

SUBJECT: The Chilean Nitrate Industry

FROM E. F. Lamb

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from Chile could be doubled within 10 years, reaching 5,000,000 tons by the end of this period.

*Copy of*

(Memorandum for Files dated February 20, 1931 with notations to bring up to date)

*S.F.L.*

*29/30/31*

COPY.

*Handwritten:*  
Federal Reserve  
has a government  
bond

July 9, 1931.

CONFIDENTIAL

Dear Governor McDougal:

In view of the complicated and serious European situation in which we have been invited to participate from time to time through the extension of credits to various European central banks, it has occurred to me that you may be interested in a resume' of the situation as we see it, especially in so far as it relates to those credits.

The most important of these is, of course, the credit which was granted to the Reichsbank on June 26, to mature July 16. The total amount of that credit was for \$100,000,000 and the participation of the Federal reserve banks was \$25,000,000. The Bank of England, the Bank of France and the Bank for International Settlements each participated in an equal amount. For your information, the table below shows the dates upon which the Reichsbank drew upon its credit and the share provided by the Federal Reserve banks:

	<u>Total</u>	<u>Federal Share</u>
June 27	\$ 4,000,000	\$ 1,000,000
29	8,000,000	2,000,000
30	16,000,000	4,000,000
July 1	20,000,000	5,000,000
2	28,000,000	7,000,000
3	16,000,000	4,000,000
6	8,000,000	2,000,000
	<u>\$100,000,000</u>	<u>\$25,000,000</u>

Shortly after the President announced his debt proposal, withdrawals from the Reichsbank, which up until then had been

July 9, 1931.

proceeding with increasing momentum, were temporarily checked but owing to delays in negotiations in Paris and the misapprehension arising from those delays, withdrawals in the Reichsbank recommenced and were proceeding at a rapid rate up to the latter part of last week and the early part of this week. Having used the last of the central bank credit on July 6 and facing a statement date on July 7 with a depleted reserve, the Reichsbank through the Golddiskontbank, which it in effect owns and controls, called upon the private bankers to provide \$50,000,000 under a credit granted to the Golddiskontbank a number of years ago. The whole of this amount has now been utilized and withdrawals from the Reichsbank yesterday and the day before continued in fairly substantial volume.

Governor Norman indicated to me on the telephone yesterday, after his talk with Dr. Luther, President of the Reichsbank, that in the face of these conditions the Reichsbank would likely not only ask for a renewal of the present credit, but might ask for an additional central bank credit in a very large amount. Dr. Luther leaves London today and goes to Paris this afternoon on his way to the meeting of the Bank for International Settlements at Basle on Monday. No formal request for such a credit has been received, but for your information I am enclosing a copy of a confidential cable which I sent to Governor Norman last night after my talk with him on the telephone. This cable fairly well reflects my present views in the matter, and I understand from another talk I have had with Governor Norman this morning since he received this cable that he is in complete agreement with me with respect to it.

In spite of all the steps which have been taken externally to aid the Reichsbank, and in spite of whatever efforts they themselves

July 9, 1931.

might have made, its position remains fairly serious today, but I feel most earnestly that we should not be asked to participate in another credit at this time or, indeed, until we have definite evidence that the Reichsbank has taken more stringent steps than it has yet taken to limit or control the export of capital by German nationals. I cannot but believe that at the present time this is more a cause of their difficulties than the withdrawal of foreign funds.

As to the position in Austria where we have, as you know, participated in two credits to the Austrian National Bank, I understand that the situation has improved since President Hoover's debt plan was announced. The first credit has been used in full to the extent of about \$14,000,000, of which our share was \$1,083,000. The second credit, which was likewise for about \$14,000,000 and in which we participated for \$1,150,000, has not been used although a private bank credit for \$7,000,000 was procured and<sup>is</sup> now in use and is subject to liquidation out of the proceeds of the second central bank credit.

Following the difficulties in Vienna which started as you will remember with the Credit Anstalt reorganization, the trouble spread to Hungary, and the National Bank of Hungary required accommodation from abroad. In the first instance the Bank for International Settlements went to the assistance of the National Bank of Hungary. This was followed by a central bank credit of \$10,000,000 in which we participated to the extent of \$2,000,000. Subsequently a second central bank credit was arranged including the Bank for International Settlements, ourselves and other banks of issue, the total amount of this credit being about \$10,000,000,

July 9, 1931.

of which the Bank for International Settlements, the Bank of England and we took \$3,000,000 each. Both of these credits have now been used to the full extent, our share of \$3,000,000 under the second credit having been paid into the account of the Bank for International Settlements yesterday for the purchase of bills from the National Bank of Hungary.

The Bank for International Settlements has recently sent a man to Budapest to keep in touch with the situation there and their representative has been accompanied by a Frenchman, Mr. R. Charron, who is a well known economist with special knowledge<sup>of</sup> and experience in central Europe. Our understanding is that he is an excellent man for the job, and the funds drawn by the National Bank of Hungary under this second credit are being used only with his approval.

The position in all three of these countries is more or less a common problem and, while we had hoped that a year's postponement of intergovernmental debts would do much to help these and other countries out of their present difficulties, it is no doubt true that the delays, and doubts caused by the delays, in the final negotiations of the debt agreement, together with some uncertainty as to what may be decided by the experts at their meeting in London next week, has minimized to some extent the good effects of the original announcement. We are hopeful, however, that conditions may suddenly right themselves as soon as all the doubts and confusion incident to all the discussions and negotiations that have been going on shall have vanished.

In my own mind, it is now most important for each of these countries to exercise the most rigorous self-control, for

5. Governor McDougal. July 9, 1931.

it is becoming increasingly clear that their present difficulties are more largely a flight from their own currencies by their own nationals, than a withdrawal by foreign creditors. In any event, we are being kept fairly closely informed and I shall be glad to keep you posted from time to time of developments as we see them. In the meantime, please do not hesitate to ask any questions which you may have in mind.

Faithfully yours,

George L. Harrison,  
Governor

Mr. J. B. McDougal,  
Governor, Federal Reserve Bank,  
Chicago, Ill.

Enc.

CONFIDENTIAL

Copy of cable sent to Bank of England, July 8, 1931.

Confidential for Norman

- ONE At various times during the past week you and I have discussed on the telephone the possibility that the Reichsbank might ask (a) for a renewal of the present central bank credit and/or (b) for an enlargement of that credit
- TWO But I was surprised and concerned to learn this afternoon over the telephone of the huge amount which after talking with Luther you now feel may be necessary to hold the situation
- THREE While you know, I am sympathetic with taking any reasonable steps that may really be necessary to avoid a collapse in Germany and perhaps throughout central Europe as well and while furthermore I agree with the general principle that if another credit is to be raised for this purpose it should be adequate rather than inadequate, nevertheless I should reiterate what I told you on the telephone: that it would be difficult if not impossible for us to consider taking any steps looking toward further credit accommodation here unless we have some most definite evidence that the Reichsbank has itself first done everything within its power effectively to protect its own position
- FOUR I am confident that the principal New York banks who are creditors of Germany have maintained their lines at about the amounts outstanding at the time of the President's announcement. In some cases indeed I know

that those lines have been actually increased in that interval. On the whole the evidence available here indicates pretty clearly that much of the loss of foreign exchange by the Reichsbank during recent weeks must be due to a flight of German capital which it seems to me might well have been limited or restricted through a firmer credit policy of the Reichsbank

FIVE Rationing of credit is of course a drastic and disagreeable procedure but it has been applied effectively in Germany in the past without proving to be fatal. On the contrary in each other instance it has been most helpful in repatriating German capital and in checking further outflows of funds and I cannot see why it might not be equally effective at this time if applied with equal force

SIX So on the whole I personally do not feel free at this time to advocate any further credits here until I am convinced that the Reichsbank has done all that it has in its power to do to protect its own situation and this I think should be done immediately

SEVEN In other words: Is it not a mistake for any of us seriously to be talking about extending further credits which at best would be difficult to raise until we know that they have first taken firm corrective steps on their own part and until we have had an opportunity to see their effect

EIGHT I realize the importance of the time element but the fact that the statement day comes on next Tuesday does not really seem controlling because after all in this

great emergency is there any reason why they should not show a deficiency in their proportion with a consequent increase in the bank rate as provided by the bank law

NINE Indeed this together with strict rationing may well turn the tide not only by checking a further flight from the reichsmark but by drawing back exported capital. At least it seems reasonable that they should make the effort hard as it may be before rightfully expecting the cooperation of the central banks or private banks in maintaining present credits or extending further credits which would only facilitate a continued flight of German capital

TEN I shall however continue to think along the lines we discussed on the telephone today and call you tomorrow before you leave London. You are perfectly free to show this to Luther who I am sure will realize full well the friendly and helpful spirit in which it is sent

HARRISON

CENTRAL HANOVER BANK AND TRUST COMPANY

COPY

July 23, 1931.

George L. Harrison, Esq., Governor,  
Federal Reserve Bank of New York,  
New York, N. Y.

My dear Governor:

At my suggestion Mr. Whittlesey spent some time this afternoon discussing with Mr. Kenzel a plan which we think might go a long way toward restoring the confidence of Germany's creditors by amplifying and giving permanence to the assistance afforded by the so-called gentlemen's agreement to maintain credits in Germany by American banks.

The essence of this plan is that it gives Germany an opportunity to help itself out of its difficulties.

Without going into all the details of the plan, which frankly we have not attempted to work out at this stage, it consists in providing what we believe would be an acceptable substitute not only for such particular outstanding credits as individual American banks might not wish to renew, but a credit which by reason of its greater security and self-liquidating features might prove more attractive than many of the acceptance credits which banks are now granting and although I do not wish to seem optimistic, it might be the means of providing additional credit for Germany if this in the future should prove to be necessary or advisable. The plan should be equally adaptable to London and other financial centers as well as to New York.

We would propose that through existing or if necessary by a supplementary decree of the German Reich that part of German export business which will be required to carry out the plan be mobilized through the Deutsche Golddiskontbank in order to serve as a basis for a revolving eligible acceptance credit to the Golddiskontbank. Under the proposed decree German exporters would be obligated to hand over to the Golddiskontbank, or to some other agency to be appointed as trustee which we will discuss further on, drafts arising from their export shipments,

George L. Harrison, Esq., Governor

July 23, 1931.

or should this not be in every case practical, legal assignment of the proceeds arising from their sales abroad. The German exporter would also furnish to the Golddiskontbank or to the trustee a direct obligation to be held for the pro rata benefit of the participants in the credit.

We would suggest that to provide greater security and more adequate control some agency of an independent nature be provided to handle the export documents and the receipts therefrom and the obligations of the users of the credit in Germany. It occurs to us that the Bank for International Settlements might be prepared to act in this capacity, appointing sub-agents in Germany and other countries to handle documents and funds received in liquidation of export shipments.

To achieve its purpose to the fullest extent this credit should preferably not be limited to a three months' period and we believe that owing to its self-liquidating character there might not be the same objection to confirming this credit for a fixed period of time as there would be to the ordinary acceptance credit to individual banks. However, we foresee the necessity of tying up some way the maturity of this credit with the expiration of the so-called gentlemen's agreement.

We feel that banks should be under no compulsion to participate in this credit. If the banks that are parties to the gentlemen's agreement would agree to accept a participation in this credit to the extent that they wished to recall any of the credits that they have at present on their books, or to the extent that borrowers in Germany could not supply them with new eligible bills for acceptance, the credit would be effectively underwritten and its purpose achieved.

Pardon me if I have been somewhat sketchy in setting out our ideas, but it seemed essential that I outline the principal points so that you could, if you thought it worth while, put the idea before the Bank for International Settlements.

Cordially yours,

(Signed) GEORGE W. DAVISON

FEDERAL RESERVE BANK  
OF NEW YORK

July 30, 1931.

Dear Governor Meyer:

You will be interested in a cable which we have received from Dr. Luther, President of the Reichsbank, today, copy of which is enclosed. We have sent copies of this cable to the New York banks and bankers and to the Governors of the other Federal reserve banks with the suggestion that they would probably wish to communicate its contents to those banks in their districts which transact business with Germany or are interested in the subject of German credits.

Faithfully yours,

J. E. CRANE

Deputy Governor

Honorable Eugene Meyer,  
Governor, Federal Reserve Board,  
Washington, D. C.

C O P Y

JULY 30, 1931

Berlin, Germany

Federal Reserve for Governor Harrison New York

The committee composed of German bankers and Reichsbank has tonight completed its suggested proposals to foreign bankers for carrying out the recommendations of the London conference stop Here follows the text of these proposals of German bankers committee to Germanys foreign banking creditors stop With a view to giving effect to the proposal of the London conference of July 1931 that foreign banking credits to Germany be continued without further reduction the committee of the German banks proposes to the foreign bank creditors and is prepared to recommend to all their German debtors if accepted by the foreign bank creditors the following conditions for the continuance of such credits pending a more permanent solution of the German short-term indebtedness problem the period now contemplated being at least six months stop The committee of the German banks proposes that: each foreign bank creditor shall agree to maintain visavis his German credit and deposit takers (including foreign branches subsidiaries and affiliations of German banking institutions and commercial and industrial firms and companies) called the "German Credit Takers" all credit lines deposits and credit balances (whether in foreign currencies or in Reichsmark) as availed of or held on July 13th 1931 stop As far as credit commitments have been arranged for a certain period of time for which a commitment charge has been and is being paid the credit commitment will remain in force stop In consideration of the foregoing agreement the foreign bank creditors shall have the right to demand from the German credit takers compliance with the following conditions it being understood that in no event shall the position of the

foreign bank creditor in connection with any security he may have under arrangements existing prior to the present agreement with the German credit taker be changed by his expressing such demand except by the terms of this agreement stop

1. As far as acceptance credits are running for account of German banks and bankers:
  - A) The German banks shall obtain from their clients legally valid acceptances or promissory notes (Eigene Wechsel) in negotiable form with corresponding amounts currencies and maturities and shall transfer such acceptances and/or promissory notes (Eigene Wechsel) for the security of the respective foreign bank creditor by holding them on deposit endorsed without recourse for the account of and as collateral for the respective foreign bank creditor stop It is agreed that nothing in this clause impairs the primary liability of the German bank or banker stop
  - B) The German banks shall place all encashments in Reichsmark which cannot immediately be applied to the reduction of existing claims of the foreign bank creditor concerned to a separate account in the name of such foreign bank creditor<sup>c</sup> to be released against the remittance to the foreign bank creditors of corresponding amounts in foreign exchange as and when foreign exchange becomes available stop
  - C) The German credit takers will without having to undergo a reduction of the total credit held at their disposal cover in due time at maturity the acceptance either by cash payment or out of the proceeds of new drafts (Replacement drafts) stop
  - D) Each foreign bank creditor shall be entitled to demand that the Deutsche Golddiskontbank shall take over individual acceptance credits or parts thereof in an amount equalling 10 per cent of the total amount of his acceptance credits which have been granted for account of German banks and bankers stop
2. In respect of cash advances time deposits and credit balances due to foreign bank creditors by German banks and bankers each foreign bank creditor may demand that the Deutsche Golddiskontbank shall take over individual credits or parts thereof in an amount equaling 5 per cent of the total amount of his credits stop
3. In the case of acceptance credits and cash advances

given directly without the guarantee of a German bank by a foreign bank creditor to German commercial and industrial firms and companies each foreign bank creditor may demand the guarantee of the Deutsche Golddiskontbank for individual credits or parts thereof in an amount equaling 10 per cent of the total amount of his acceptance credits and cash advances together with a further 10 per cent in respect of all credits given directly to such commercial and industrial firms and companies which are not obliged to publish balance sheets and to all these commercial and industrial firms and companies which publish balance sheets but owing to their size do not belong to the guarantee syndicate for the Deutsche Golddiskontbank stop But in no case shall the total amount for which the foreign bank creditor may demand the guarantee of the Deutsche Golddiskontbank be less than an amount equaling 15 per cent of the total amount of his credits under clause 3 stop

In so far as acceptance credits for the account of German commercial and industrial firms and companies are involved the provisions of Clause 1 (E) above shall apply stop

4. In the event that the Deutsche Golddiskontbank within the limits set out above (in paragraphs 1, 2 and 3) declines to take over or guarantee a particular claim the foreign bank creditor concerned shall no longer be bound to the agreement to maintain such credit but shall be free to ask for actual cash repayment thereof when due stop
5. If and when the Deutsche Golddiskontbank takes over or guarantees credits time deposits or credit balances the Deutsche Golddiskontbank wishes it to be understood that it will probably require an arrangement under which it can only be called upon to repay such credits time deposits and credit balances in three equal yearly instalments unless a more favorable arrangement is arrived at for Germany repayments stop
6. The expenses incidental to the preparation and execution of this agreement and of the carrying into effect of these proposals will be for the account of the German debtors and will be dealt with by the committee of the German banks stop

The Committee of the German banks is fully aware that it is of the greatest importance and of primary interest to the foreign bank creditors accepting this

proposal that the Danatbank and the J. F. Schroeder Bank be reopened that the bills endorsed by the said institutions be again made marketable and that the stability of the German banking position must be maintained intact stop In this connection it may be mentioned that the "Akzept und Garantiebank A. G." (Acceptance and Guaranty Bank) has been founded with a capital of 200,000,000 reichsmarks subscribed for by the Government and leading banks and bankers stop It is understood that this arrangement will only come into force if the principal foreign bank creditors of Germany will join in this agreement stop Berlin July 29th 1931\* (See footnote)

\*Footnote It is proposed that upon agreement letters embodying and giving effect on their part to these proposals shall be sent by each German banking institution and credit taker to its foreign banking correspondents Berlin July 29th 1931 stop

Memorandum Agreed by the committee of the German banks to be presented as an annex to their proposals to foreign bank creditors to the central bank governors of the countries respectively concerned and for the benefit of the bankers committees in those countries stop Pending the completion and carrying into effect of agreements in connection with the proposals offered by the committee of the German banks the latter undertakes to see that by the necessary means: i. e., decree or otherwise:

- (a) There shall be no discrimination on the part of German banks bankers commercial and industrial firms and companies (i. e. German debtors) in payments of or on obligations as between foreign bank creditors anywhere stop
- b) That there shall be no discrimination on the part of German banks bankers commercial and industrial firms and companies (i. e. German debtors) in the offering or the giving of collateral or other security in respect of foreign bank creditors  
Berlin July 29th 1931

I would request you kindly acquaint your bankers with our proposals and request their acquiescence <sup>and</sup> stop I undertake in cooperation/in agreement with the committee of the German banks and in conjunction with the commercial and industrial firms and companies of Germany that measures will be taken where necessary to bring acceptance credits as soon and as far as possible into conformity with the rules of eligibility in your country.

Reichsbank President Luther

CONFIDENTIAL

New York, September 15, 1931.

A meeting of the Executive Committee of the FEDERAL RESERVE BANK OF NEW YORK was held at its office at 3 o'clock p. m. this day.

PRESENT:

Mr. Young, Deputy Chairman,  
Messrs. Mitchell, Reyburn, Stephens, Warner,  
Woolley and Burgess,  
Messrs. Gilbert, Kenzel, Logan, Rounds and  
Sailer, Deputy Governors,  
Mr. Roelse, Manager, Reports Department.

One hundred and fifty-two applications for advances and rediscounts, numbered 8013 to 8164 aggregating \$20,113,000, which had been approved by the officers of the bank since the opening of business September 10, 1931, were presented and schedules listing the aforesaid applications and those enumerated below were distributed among those present at the meeting. Mr. Rounds reviewed the applications. The following reports were submitted: the money market report, a summary of earning assets showing large borrowers, etc., and statements showing the banks continuously in debt one year or more, the banks borrowing in excess of capital and surplus and the borrowings of banks on our special list. Whereupon it was duly

VOTED to ratify and approve the action of the officers in making the above described advances and rediscounts.

Eight applications for advances and rediscounts, numbered 13317 to 13324 aggregating \$1,341,000, which had been approved by the Buffalo Branch Committee and by the officers of the bank, were presented. Whereupon it was duly

VOTED to ratify and approve the action of the Buffalo Branch Committee in making the above described advances and rediscounts.

2 - E/C - September 15, 1931.

Mr. Rounds reported upon banking situations which have been receiving the special attention of the officers of this bank.

Mr. Burgess informed the committee that the special Treasury Certificate of Indebtedness to be issued to this bank in connection with the Treasury's September 15 financing would be for approximately \$100,000,000 and would bear a rate of 1/2 of 1%. He said that arrangements had been made to participate approximately \$90,000,000 of this certificate among New York City member banks.

Mr. Burgess reported that the officers had agreed to purchase and hold temporarily approximately ~~\$20,000,000~~ <sup>\$13,500,000</sup> of Federal Intermediate Credit Bank debentures, being issued today, consisting chiefly of six months maturities, bearing interest at 2 3/4%. There was a discussion of the effect of these purchases on the money market and as to whether or not this bank should offset such purchases by sales of an equivalent amount of Government securities. It was understood that this matter would again be discussed at the meeting of the board of directors on Thursday, at which the Governor would be present.

Mr. Kenzel summarized conditions in the bill market.

Mr. Sproul reported the receipt of a cable No. 543, from the Bank for International Settlements, setting forth a change in the proposed terms of renewal of the central bank credits to the Hungarian National Bank which mature on September 18, 1931.

Mr. Mitchell informed the directors of the receipt of a request on behalf of the Swedish Government for arrangement by the National City Bank of a \$50,000,000 credit in this market. He said that despite the high credit standing of Sweden, he ~~did not think~~ <sup>thought</sup> that the credit could be arranged with-  
<sup>only with difficulty</sup>  
out central bank participation, and he asked the directors for an expression of their views concerning the matter. There was a discussion of this question

3 - E/C - September 15, 1931.

and of the general situation in the money market. It was

VOTED that regular meetings of the executive committee again be held at 2 o'clock p. m. on Monday of each week instead of at 2 o'clock p. m. on Tuesday of each week on which day meetings have been held during the past summer.

The meeting duly adjourned at 3:10 o'clock p. m.

Secretary.

*Handwritten signature*

C O P Y

TRANSLATION

FINAL COPY

Cable to Governor Harrison of Federal Reserve Bank, New York

Personal

Basle, Nov. 20, 1931

654 The Present cable is sent in several sections. This is section one\*)

Have just officially received following memorandum in German which constitutes the official text of the German Government's request for convocation of the Special Advisory Committee provided for by experts plan:

"The German Government requests that the Bank for International Settlements in Basle convoke the Special Advisory Committee as provided for in the new plan of The Hague agreement of January 20, 1930 STOP To show cause and purpose of this request, the German Government wishes to cite the following facts:

In June of the current year the German Government had already come to the conclusion that in spite of the severest reduction in Governmental expenditures and repeated increases in taxes it would be unable to continue the annuities payable under the new plan. The economic and financial situation of Germany appeared already at that time most seriously endangered. Therefore the German Government has decided to draw the necessary conclusions from this situation.

This decision was followed on June 21 by a declaration of the President of the United States of America suggesting a

\*) Disregarded in final copy.

postponement of one year in the payment of all inter-governmental debts, reparations, and reconstruction debts. The purpose of this farsighted initiative, as pointed out in the proposal, was to contribute towards reestablishment of confidence thereby promoting political peace as well as economic stabilization throughout the world; the debtor states were to receive time to regain national prosperity. The hope that this proposal would bring about a decisive turn in the world crisis has proved vain. Further events showed that the Hoover debt holiday alone was unable to avert the danger of a collapse. Therefore, the British Government took the initiative in July in calling the London Conference, which resulted in the recommendation that the central bank credit to the Reichsbank be extended, and also in the conclusion of the Basle standstill agreement and in the report of a committee of experts appointed by the Bank for International Settlements. No matter how important these measures were to bring relief more quickly, they were in their whole nature of a preparatory character only. The London Conference stated in the final sentence of its resolution that the measures recommended were only the first step and should merely form the foundation for more comprehensive action.

Accordingly, the experts who cooperated in carrying out the recommendations of the London Conference kept ever in mind the provisional character of all these measures. For instance, it says in the standstill agreement that the contracting parties consider the adjustment provided for therein effective only "until a permanent solution of Germany's short term debt shall have been found."

The report of the Basle Committee of experts closes with the urgent recommendation "not to lose any time in taking the necessary measures to create a situation which will make possible financial transactions designed to bring to Germany and thus to the world the relief so urgently needed". In the months since passed the economic and financial situation in Germany has grown extremely acute. The facts which characterize the present situation are generally known. The pressure of the crisis has also had the most serious effect in other countries. The world is realizing more and more clearly the close connection between the various individual financial problems created by the present situation and the necessity of handling them as soon as possible in their entirety. In considering how this task might best be handled, the idea to call the Special Advisory Committee has recently come to the foreground.

Since according to the provisions of the new plan the convocation of a Special Advisory Committee depends upon the request of the German Government, the German Government has decided to make this request so that everything has been done on its part to clear the way for comprehensive joint measures of the Governments. According to the new plan a statement by the German Government is required to the effect that "in good faith it has arrived at the conclusion that Germany's currency and economic structure are seriously endangered by further transfer in part or in full of the postponable annuities". In making this statement the German Government feels obliged to say that

this statement does not do justice to present conditions. Since the new plan was drawn up, the economic and financial situation throughout the world and particularly in Germany has been fundamentally changed through an unprecedented crisis. As the new plan assigns to the Special Advisory Committee the task of investigating the situation from all angles, the committee must examine the problem in its entirety and with due consideration for all factors involved. It must particularly take into account that the question of Germany's private indebtedness must be newly regulated before the end of February 1932 by means of an agreement to be reached between foreign creditors and German debtors.

As the present situation requires immediate decision on measures to be taken the German Government suggests that the Special Advisory Committee convene immediately and complete its work as soon as possible so that a conference of the Governments concerned may be called in the near future which will then take a responsible decision in the matter.

Berlin, November 19, 1931

UNQUOTE

Fraser

*Confidential  
File*

*Dec. 12/32*

COPY

CONFIDENTIAL FOR HARRISON

1. We have been instructed by the British Government to hold in New York at the disposal of the American Government on Thursday, the fifteenth of December, gold to the value of \$95,550,000.

2. It will take about five to six weeks to ship the required amount and we are, therefore, compelled to ask you whether you will cooperate with us in the following manner:

3. That you will place at our disposal as <sup>of</sup> December fifteenth gold in New York to the value of \$95,550,000 against an equivalent amount of gold to be earmarked for your account by us in London.

4. That we undertake to start shipment of such earmarked gold to New York at once commencing December fourteenth and to complete delivery in New York not later than the end of January. Shipments to be at our cost and risk.

5. That we obtain <sup>forthwith</sup> from the British Government an undertaking not to put any obstacles in the way of exporting such earmarked gold

HARVEY

*Dr. Burgess*

FOREIGN BONDHOLDERS' COUNCIL

It is proposed to organize a Foreign Bondholders' Council somewhat similar to the British Council which has been in existence for over fifty years.

1. Purpose

The Council would have the following purpose - to assist American holders or owners of foreign securities which are based upon the taxing power, in protecting and safeguarding their rights and interests in such securities, or in otherwise obtaining an equitable settlement of such obligations. It would cooperate with councils in other countries performing similar functions.

2. Membership

The number of the members of the Council would be fifteen. They should be disinterested men of high standing, not representatives of issue houses, who will, on the one hand, give the Council prestige at home and abroad and, on the other, will be active in carrying out the purpose of the Council. ||

3. Organization

There would be a Chairman and Secretary and such other officers as the Council might create. The Chairman would be expected to give part of his time and the Secretary all of his time, and the two together to carry on the main work of the Council.

4. Finances

In due course, based on British experience, the Council should obtain its support from allotments set aside in connection with completed negotiations. At the outset, it should have a guaranteed income of at least ||

\$50,000 a year for a period of five years. It is hoped that this guarantee may be obtained, wholly or in large part, through disinterested sources. //

5. Negotiating Committees

Whenever the Council felt it necessary, through consultation with the house issuing a defaulted security or otherwise, it would either form a committee or cooperate in the formation of a committee in respect to a particular security, group of securities or issuing entity. Such committee would undertake whatever negotiation became necessary or desirable with the debtors.

6. Relations with Issue Houses

It is to be presumed that the Council, while wholly independent, would maintain close and, wherever practicable, cooperative relations with issue houses. It is believed that its existence would often prevent conflicting committees with respect to a single issue or country; and that, in time, committees appointed by or affiliated with the Council would be recognized as the appropriate committees with which a foreign taxing power might negotiate. The Council, in some or all cases, might decide to place a representative, without a vote, on negotiating committees as a means of keeping in touch with negotiations, and might express final approval of settlements so negotiated.

7. Deposits of Securities

The Council would not seek any deposit of securities, although negotiating committees might determine to ask for deposits.

December 13, 1932.

SUGGESTED LIST OF MEMBERS OF  
FOREIGN BONHOLDERS COUNCIL

New York

J. E. Reynolds	-	Banking		
F. H. Becker	-	Insurance	-	Invited
J. W. Davis	-	Law	-	Invited
Walter S. Gifford	-	Public Utility	-	Invited -- Declined
Norman H. Davis	-	Public Service	-	Invited
Henry Bruere	-	Savings	-	Invited
Hendon Chubb	-	Insurance		

Boston

T. H. Perkins	-	Law	-	Invited -- Accepted
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Philadelphia

T. S. Gates	-	Education	-	Invited -- Declined
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Chicago

Sewell Avery	-	Industrial		
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Washington

William Green	-	Labor	-	Invited
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Cleveland

Newton D. Baker	-	Law		
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Iowa

Henry Wallace	-	Agriculture		
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Houston

W. L. Clayton	-	Cotton		
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Pacific Coast

No decision

CERTIFICATE OF INCORPORATION

- of -

COUNCIL FOR THE PROTECTION OF HOLDERS OF FOREIGN SECURITIES, INC.

Pursuant to the Membership Corporations Law

- of -

The State of New York, United States of America

We, the undersigned, desiring to form a corporation and business league, not for pecuniary benefit, under and by virtue of the provisions of the Membership Corporations Law of the State of New York, United States of America, hereby state:

1. The name of the proposed corporation is "Council for the Protection of Holders of Foreign Securities, Inc." (hereinafter sometimes termed the Council).

2. The purposes for which the Council is to be formed are:

(a) To assist holders or owners of foreign securities (as hereinafter defined), irrespective of any default thereunder, in ascertaining, protecting, safeguarding and enforcing their rights and interests under, and in respect of, such foreign securities and in settling, compromising and composing controversies relating to such foreign securities, and especially foreign securities publicly issued, contracted, negotiated, dealt in or sold in the United States of America.

"Foreign securities" shall be deemed to be bonds, notes, debentures, annuities, rents, shares, stocks, evidences of indebtedness and obligations and other securities of every kind, of, or issued, assumed or guaranteed by, or secured by pledge, lien or charge on property, revenues or taxes of, any government, nation, state, colony, province, county, district, city, municipality, or public, governmental or political subdivision, body, commission, board or authority, outside of the United States of America, its territories, dependencies and possessions.

(b) To promote and assist in maintaining public credit and to prevent and lessen loss to holders or owners of foreign securities, and to promote just, sound, clear and simple principles, conditions and terms of the purchase, sale, issuance and negotiation of foreign securities and dealings therein.

(c) Without limiting the generality of the foregoing:

(1) to obtain, collect, compile, preserve and distribute information in any way relating to such foreign securities or any government, nation, state, colony, province, county, district, city, municipality or public, governmental or political subdivision, body, commission, board or authority, or the property, taxes or revenue thereof, either directly or by cooperating

with or employing any other corporation, association, firm, institution or individual;

(2) To negotiate, or assist in negotiating, payment, conversion, exchange, refunding, settlement or compromise of rights and obligations under, or in respect of, foreign securities;

(3) To organize, equip and appoint missions, delegates and representatives of the Council, or of others, with a view to carrying out any of the purposes of the Council;

(4) To convene meetings of holders or owners of foreign securities for the purpose of concerted action or of organizing committees to represent such holders or owners, or to act for their benefit;

(5) To appoint or cooperate in the appointment of committees or members thereof (who may, but need not be, officers, directors, agents or members of the Council) to represent, or act for the benefit of, holders or owners of foreign securities;

(6) To cooperate with other corporations, associations, firms, educational and other institutions, committees, individuals, governments, governmental agencies and departments in the United States of America and foreign countries, stock exchanges and

others with a view to carrying out any of the purposes of the Council;

(7) To support measures, laws, statutes, regulations and codes of principles deemed to be in furtherance of the purposes of the Council;

(8) To render assistance, financial or otherwise, to any missions, delegates, representatives and agents of the Council or of others, or to any other corporation, association, firm, committee, educational or other institution, or individual in furtherance of the purposes of the Council, and to employ, compensate and remunerate its officers, directors and agents and others for services rendered in furtherance of the purposes of the Council, and no member of the association shall be disqualified as such from being so employed or from receiving such remuneration or compensation;

(9) To receive remuneration and compensation for services rendered and financial and other aid given, provided that nothing contained in this clause shall prevent the Council from rendering services and giving financial or other aid without compensation or remuneration;

(10) To accept contributions and to borrow or raise money without limit for any of the purposes of

the Council, and to mortgage, charge, pledge or hypothecate any of the property of the Council, personal or (subject to the laws of the State of New York) real, as security for repayment of any moneys borrowed, and to issue bonds, notes, debentures and other evidences of indebtedness for moneys borrowed, with or without interest;

(11) To invest and reinvest funds of the Council in any manner and in any securities, irrespective of any restriction otherwise imposed by any statute or rule of law, and to purchase, acquire, lease, hold, sell and deal in personal and (subject to the laws of the State of New York) real property;

(12) To apply and devote the property of the Council, upon any dissolution of the Council, first to the payment of claims and demands against the Council and then to purposes and objects as nearly similar and analogous to those of the Council by conveyance thereof in trust or to another corporation, association, firm or institution, as the Board of Directors of the Council shall at the time deem practical.

(d) It is not the purpose of the Council, and no officer, director, agent or member of the Council shall have

any power or authority to pay or transfer any property of the Council to members of the Council by way of dividend or distribution or otherwise, except as compensation or remuneration for services rendered or by way of interest for funds advanced, or to obligate, make liable, or bind in any way, the members of the Council, or any of them; and the private property of the members and directors of the Council shall in no event be liable for any debts or obligations of the Council.

3. The Board of Directors of the Council may, but need not, appoint individual or corporate trustees of any or all of the property of the Council, and confer on such trustees such of the powers, duties or obligations of the Board of Directors of the Council in relation to the care, custody and management of such property as the Board of Directors may deem advisable, and the Board of Directors shall have power to appoint the successors of such trustees.

4. The territory in which the operations of the Council are principally to be conducted is the United States of America.

5. The principal office of the Council is to be located in the City, County and State of New York, United States of America.

6. The number of its directors is to be fifteen.

7. The names and residences of the directors until the first annual meeting are as follows:

Names

Residences

(fifteen names)

8. All of the subscribers to this certificate are of full age. At least two-thirds of such subscribers are citizens of the United States of America. At least one of such subscribers is a resident of the State of New York. Of the persons named as directors, at least one is a citizen of the United States of America and a resident of the State of New York.

IN WITNESS WHEREOF, the undersigned have made, subscribed and acknowledged this certificate in duplicate this        day of        , 1932.

(At least five of the persons named as directors)