

The Papers of Eugene Meyer (mss52019)

120_09_001-

Subject File, Federal Reserve Board, Reports – France, Germany, Russia,
1930-31

EUGENE MEYER

SUBJECT FILE

FEDERAL RESERVE BOARD
REPORTS ~~ON~~ FRANCE, GERMANY
RUSSIA
1930-31'

*Fifteen Broad Street
New York*

SS OLYMPIC - at sea
September 30, 1930.

PERSONAL

Dear Gene:

I am arriving home tonight and hope to see you soon. I have had a most interesting trip abroad, having spent sufficient time in London, Paris, Berlin and Moscow to gain a pretty good idea of what is being thought in those places about some of the more fundamental problems. On the way across I dictated the enclosed memorandum which brings into relatively short focus certain gleanings from conversation and literature which, if they have any importance at all, have a very profound significance.

I am frank to say that I do not feel competent to pass judgment upon the relative significance of the distribution of gold in the present world crisis. Certain it is, however, that the fall in world prices which has taken place in the last year is the most catastrophic the world has ever known. The consequences have already been far-reaching both economically and politically. What will be the further results and what steps should be taken to meet the situation and prevent yet more serious consequences certainly calls for some very serious and constructive thinking.

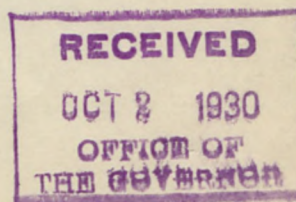
I hope to have the pleasure of discussing this and other matters with you very soon.

With kindest regards,

Sincerely yours,

Ly Lee

Mr. Eugene Meyer,
Chairman, Federal Reserve Board,
Washington, D. C.



CONFIDENTIAL

THE WORLD CRISIS - AS VIEWED ABROAD,
ESPECIALLY IN ENGLAND

In a speech at Liverpool on September 20th Sir Josiah Stamp, a Director of the Bank of England, and certainly one of the most brilliant economists of modern times, remarked that from a business and financial point of view the present is "the blackest time in human memory".

In a speech on the same day Mr. Lloyd George stated: "We are not merely going through a crisis but entering into one". This characterization would not be so important if Mr. Lloyd George had not based his statement, so I am credibly informed, upon a memorandum supplied to him by one of the leading economists of Great Britain.

Certain it is that unemployment is increasing throughout Europe and it would appear that this winter will be the most difficult one - other than war years - Europe has endured for many decades.

Various remedies are proposed. There is now a very active movement for tariff protection in Great Britain and yet many lay the major blame for the present difficulties upon the rapidly multiplying impediments to freedom of international trade. The urgent need of rationalization is pointed out as a possible road to British competition of level terms with the output of huge nationalized manufacturing units or lower paid labor in other countries. There is an immense agitation in Great Britain in favor of reduction of public

taxation. Some people assert that the destruction of wealth during the war is a fundamental condition.

The British electrical industries maintain a statistical department which has just published a general survey of world trade.

This survey points out that -

"The crisis is not one of over-production so much as of mal-distribution and under-consumption. There is, at present, a decided slackening down in shipments of goods from market to market, a slowing down which may result eventually in a paralysis of our shipping; and the result is that large sections of the world are in a state of starvation, while other sections are suffering from inability to dispose of products which would make starvation impossible."

The survey next asks two questions:

"(1) Is the present collapse in world trade a temporary phenomenon, part of an inevitable process which is associated with the trade cycle, or is it due to certain factors which are not really economic and have no precedent in past economic history?

"(2) Is the present credit capacity of the world sufficient to meet the existing requirements and allow for an expansion in trade?"

The survey submits that the present crisis is not a "natural economic phenomenon, but is due to 'certain developments which have arisen as a result of post-war debt settlements and the intrusion of purely political factors into finance and trade exchanges.' The normal degree of balance in international trade has been radically upset it is held, by the growth of nationalism and the intensification of tariffs, by the debt settlements with the United States, and by reparations. The last two factors have resulted in France and the United States enjoying a credit balance of trade, whose consequence has been a disastrous diversion of the gold holdings of the world to those countries; and this has deprived gold of its main function, namely, the financing of international trade.

"This development", says the survey, "has brought about a collapse in wholesale prices and has weakened the most important primary markets in the world-markets for the manufactured products of the main industrial countries. It has also, through the exhaustion of the gold reserves of these markets, rendered it virtually impossible for them to recover within an appreciable period of time. They can only recover if America and France embark on a very large policy of foreign loans accompanied by a redistribution of gold, but the absorption of such loans is not easy in any market, owing to the fact that depression has reduced the number of channels in which capital could profitably flow. It is only through an increase in State indebtedness on the part of these primary markets that any redistribution of gold could take place, and yet such State indebtedness must in itself increase the burden of taxation within these countries and in turn render recovery very difficult."

The survey emphasizes the gravity of the fact that gold reserves have been seriously depleted in the chief primary markets, e.g., South America and Australia. The full effects of this depletion and of the price collapse have not yet been felt, but will, it is stated, take the form of an intensification of the adverse balance of trade of countries producing mainly primary materials, and a parallel intensification of industrial depression in the chief countries manufacturing for export. This will "retard almost indefinitely the recovery in prices which is necessary to a world economic recovery." It is pointed out that though an attempt is being made by the central banks to stimulate activity by cheap money, this attempt will be frustrated by the tribute paid to France and the United States.

Against this gloomy background the international trade position appears to the authors of the survey as "depressed without immediate possibility of recovery." It is considered that the United States will require a longer time to recuperate than it required in 1921, owing to the fact that it has increased enormously its productive capacity and has been involved in over-capitalization of assets.

The situation of Germany is regarded as even more critical, since the reparations difficulty is being accentuated by the virtual abolition of deliveries in kind and exports must be "forced" to the detriment of the international price level and the intensification of the world economic depression.

In Great Britain industrial reorganization is stated to be proceeding and there are signs of promising co-ordination between finance and industry, but - (the survey says) -

"the exhaustion of the gold supplies of the primary markets has made it difficult for this country to increase its gold holdings with the present state of trade, and we are confronted with a slow, but sure, exhaustion of the gold reserves necessary to the financing of industry, of national production, and of foreign trade generally. Such an exhaustion can only be prevented by the realization of a much more favorable balance of trade itself, and this favorable balance is to be found in restriction of imports. It has taken exactly five years for the truth to be shown that exports cannot be stimulated under a regime of deflation, and so the alternative is proposed of restricting imports through a change in the national fiscal policy. The gold standard has not done what its greatest advocates have claimed in its support: it has not stimulated national activity, but has, on the other hand, paralysed national consumption and weakened industrial efficiency through the constant regime of falling prices which it has imposed. The alternative is now stimulation of home production and the contraction of imports."

Views of the Manchester Chamber of Commerce

On September 16th there was published in England a memorandum on the gold standard by the very influential Manchester Chamber of Commerce. This memorandum followed a very careful study of the subject by the Chamber Board of Directors, and it was forwarded to the Prime Minister, the covering letter stating that "there are few matters more deserving of your great influence" than the subject matter covered therein. The memorandum points out that in the opinion of the

Manchester Chamber the present depression in Great Britain "is attributable in a very large degree to handicaps and difficulties resulting from monetary policy, national and international".

"It is becoming increasingly evident", says the memorandum, "that there is not, nor is there likely to be, a yearly increase in the production of gold which would be sufficient and adequate to sustain the full volume of world productive capacity and maintain a profitable level of prices for commodities generally.

"The present depression is largely due to the persistent fall in prices, which monetary policy has entirely failed to correct. It seems to the Board that the world's supply of gold is not adequate for the present volume of world productive capacity."

Sir Henry Strakosch's Views

Sir Henry Strakosch, a recognized authority on central banking, currency and other economic questions, has recently published an important memorandum on the economic consequences of changes in the value of gold. Sir Henry was a stalwart champion of the policy of Great Britain's returning to the gold standard, and as a member of the Financial Committee of the League of Nations he rendered valuable services in helping European countries to re-link their currencies to gold.

Sir Henry Strakosch thinks that the fall in prices which has taken place might, to some extent if not to the whole, have been avoided if the central banks of the world had handled their monetary machines with more skill and cooperation.

Sir Henry considers that:

"the recent fall in the general level of prices has its origin in the supply of currency and credit. . . if the gold standard world had been supplied with an adequate amount of currency and credit

by the exercise of reasonable economy in the use of its monetary gold supply there would have been no fall of general prices. If there has been no fall there would have been no redistribution of wealth, no clogging of the flow of exchange, no super-abundance of currency and credit to supply the stimulus for a reversal of the movement, and therefore no trade cycle."

Sir Henry points out that gold has appreciated in value in the period from December 1925 to the end of May 1930, by 32.1 per cent, of which 9.5 per cent occurred in the last five months. He deals concisely but clearly with the contention that this is due to general "over-production". For a long time production has advanced annually in a much greater ratio than population. Of the commodities included in the price index as between December 1925 and May 1930, 71 per cent have fallen, 19 per cent have risen and 10 been unchanged.

There is thus a super-abundance in nearly three-quarters of the various kinds of raw materials the world needs currently, there is an anxiety of the producers of each of these materials to exchange them for others, and yet they are not exchanged.

"We are, in these circumstances," Sir Henry says, "entitled to conclude that these exchanges failed to be made, not because goods generally were in excessive supply, but because the process of exchange was in some way impeded. And if, as is the case, there are no observable impediments of a physical or moral character, the theory of over-production fails and we are driven for an adequate explanation to the only remaining factor affecting the process of exchange, viz., the adequacy of the amount of money that is available to effect these exchanges."

One of the interesting features of Sir Henry's memorandum is a table showing the uneven distribution of gold reserves: Great Britain has £3 3s per head of the population, U.S.A. £6 7s, France £8, Argentine £9 4s. The average at the end of 1929 for the eight chief countries was £4 and for the remainder £1 7s. There is no such difference in the efficiency of the credit systems of these countries, in the view of Sir Henry Strakosch, as to require a difference of 100 per cent, in the U.S.A. and France, ^{140% in} _{in the reserves}

in relation to the assumed requirements of an additional 3 per cent per annum was not remarkable till the end of 1928, and the fall in prices was commensurate. But in 1929 there was a deficiency of 100 per cent, and the price fall was large, sharp and immediate. The whole of the 1929 supply was absorbed by U.S.A. and France, and, altogether, \$550,000,000 was abstracted, for real price significance, from the gold-using countries. What else could be expected, it is asked, than a complete land slide?

But it is stated that even a violent price movement would not be an economic disaster if there were complete mobility and fluidity in all the parts of the industrial and social machine, and therefore the further section of the memorandum, which gives a graphic review of the distribution of the National Income in the United Kingdom, is the most significant part of this study. About 17 per cent of the income goes in the profits of enterprise, and is immediately subject to the impact of price change, while the remainder suffers either not at all or much more slowly.

Sir Henry traces the effect of these varying degrees of vulnerability on the field for employment, and the curtailment of demand, and says:

"The phenomenon is due not to 'over-production' but to the retardation in the process of exchange, and therefore of consumption, caused by a drastic redistribution of wealth resulting from the fall in the general level of commodity prices which, in turn, owes its origin to an inadequate supply of currency and credit."

Gold Delegation of the League of Nations

The Gold Delegation of the League of Nations' financial committee on September 22nd issued its interim report dealing with the fluctuations in the purchasing power of gold. The committee states that the present world production of gold amounts to about \$400,000,000 annually and this amount is not likely to be increased during the next three or four years.

"The gold reserves of banks of issue and treasuries", it is stated, "at the end of 1928 amounted to about £2,007,000,000, to which must be added a further sum estimated at about £183,000,000 representing gold in circulation in a few countries, gold in commercial banks and hoarded coins, etc., outside Asia, a total, therefore, of £2,190,000,000. Of this £183,000,000, £179,000,000 lay in the United States and we consider it probable that a considerable part at any rate of this latter sum is permanently lost for effective monetary purposes."

The provisional figures at the end of 1929 showed an increase of \$45,000,000 in the total gold stocks. The report considers that the present economic depression may result in a temporary weakening in the Indian demand for gold, though possibly the decline in the price of silver will lead to increased purchases of gold. It is not safe to anticipate any material reduction in the demand for many years to come.

Dealing with the monetary demand for gold generally, it may reasonably be expected, it is asserted, that the future requirements of gold will tend to increase as production and trade expands, unless methods of payment undergo important changes.

The report gives an elaborate statistical table showing the estimated gold position annually for the next ten years, based upon varying assumptions. This table shows that the supply of new gold available for monetary purposes will be inadequate by 1934 unless measures are taken to alleviate the situation in time.

Although the demand for gold for monetary purposes has received a temporary check owing to the economic depression, the evidence points to the prospect of a serious situation arising when trade revives unless measures to alleviate it are taken in time.

The report estimates that the gold production for 1930 will amount to \$80,800,000 and that production will decline every year to \$74,000,000 in 1940. Unless new and unexpected sources of supply are discovered, the decline in output is likely to continue at an accelerated rate after 1940, as the South African mines, which amount for over half the present production, becomes gradually exhausted.

Impediments to Gold Exchange

In the ECONOMIC JOURNAL for September 1930 there is an important article entitled: "The Import of Gold Into France" by T. Balogh, of the University of Budapest, in which he refers to the fact that special conditions concerning France and the United States involved "a constant drain on the gold reserves of the world and threatened disturbances of the first order" which can "only be brought to an end by appropriate central banking measures."

There is in the same number of the ECONOMIC JOURNAL a most interesting article by Paul Einzig commenting upon the fact that the Bank of England decided on June 6th to pay out gold bars only of standard fineness, that is .916-2/3, and the decision of the Bank of France not to accept bars of a fineness inferior to .925. As a result gold withdrawn from the Bank of England has to be refined anew before it can be delivered into Paris. This means additional expense and delay.

Effect of Failure to Handle Properly World's Gold

Sir Josiah Stamp is one of those who has not ceased, in and out of season, to protest that until the world has learned the rules for an appropriate internationally managed gold standard, there would be rapid and erratic changes in gold price level which would constitute serious economic danger. This he considered as one of the important reasons for the establishment of the Bank of International Settlements as an institution for common consultation and action among the great central banks.

In an article in the London NATION for August 30th, Sir Josiah points out that the present failure properly to handle the gold supplies of the world constitutes "the worst danger that eight years ago any of us could have feared, more sinister in its possibilities for evil, and finding us,

internationally, relatively helpless, drifting, with aggravating factors, such as the continual demonetization of silver, still further into economic disaster."

Surely grave language for a Director of the Bank of England!

The Way Out for England

The Prime Minister of Great Britain some months ago appointed an Economic Advisory Committee consisting of some of the leading economic and financial experts of the Kingdom, the purpose of which was to recommend to the Government measures which might tend to promote prosperity. I am informed that this Committee meets very often and that without regard to politics, its members are quite well agreed as to the measures essential to the restoration of British prosperity. These measures they consider to be:

- (1) Removal of the difference in the wage standards of the sheltered and unsheltered industries.
- (2) Reduction of the level of real wages by about 15 per cent.
- (3) Readjustment of the reparations and inter-allied debt settlements.
- (4) Greater cooperation among the central banks in the management of the world's gold supply.

The Economic Advisory Council has so far submitted no public reports and it is quite obvious that the political difficulties in the way of carrying out its recommendations are so profound as to be almost insuperable.

The fact that improving conditions in England by fundamental processes is so difficult politically accounts for the apparent success of the movement to obtain improvement by the more plausible method of a protective tariff which has in it elements of obvious political popularity. Such a plan, however, is regarded by more thoughtful Englishmen as a policy of despair and not likely to yield permanently valuable results.

Growing out of the considerations enumerated above there is a very influential school of thought in England at the moment which considers that it may still be necessary for England to go off the gold basis at least until the pound can be de-valued at some such rate as \$4.50. This would accomplish a reduction of real wages by about 15 per cent and possibly lift the general level of prices in a manner that would alleviate many of the more acute existing evils. It will be recalled that at the time the pound was placed on the old basis, the movement was very strongly resisted by economists like Keynes and by bankers like McKenna.

Assuming that the points of view mentioned above with reference to gold distribution are sound, it is obvious that the subject is likely to become of steadily increasing importance not merely to foreign countries but to the United States as well.

The great drop in commodity prices bears down with extra heaviness upon a country like Germany which at the moment is compelled to meet its huge reparation payments by actual shipments of commodities commanding greatly reduced prices. It is obvious that such a situation calls for the shipment of a greater volume of commodities than before. Thus, upon the basis of Sir Henry Strakosch's figures the burden of German reparation payments increased by approximately 10 per cent from the 1st of January 1930 to May 31st, 1930. This notwithstanding the fact that the purpose of the Young plan was actually to scale down the German reparation payments.

The German situation is rendered the more difficult by the fact that foreign lending to Germany has so greatly diminished. In a

conversation with Dr. Schacht, formerly President of the Reichsbank in Berlin, I obtained an extremely illuminating statement as to just what the actual figures are as to German reparation payments to date. Dr. Schacht told me that from the beginning of the operation of the Dawes Plan to date Germany had paid in reparations approximately $8\frac{1}{2}$ billion dollars. During the same period ^{she} ~~she~~ has borrowed abroad approximately $4\frac{1}{2}$ billion dollars. Thus by borrowing abroad all German reparation payments to date have been met and Germany has obtained about 2 billion dollars working capital in addition.

The situation that confronts Germany when foreign lending has so greatly diminished and when payments must be made not only on account of reparations but on account of the service of the new debt incurred, is obviously most difficult.

September 30, 1930.

*Fifteen Broad Street
New York*

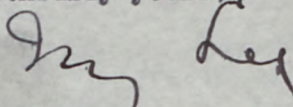
September 17th, 1931.

Dear Gene:

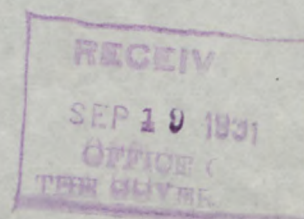
I had rather a wonderful opportunity in Europe to gain an insight into the situation. I had talks with a very large number of men of the greatest competence and importance, who, by reason of my knowledge of them in past years, talked rather freely.

The results are set forth very briefly in the enclosed memorandum. I am preparing a rather detailed development of the points in this memorandum, giving the arguments in support of these points, a copy of which will be sent to you in a few days.

Faithfully yours,



Mr. Eugene Meyer,
Chairman, Federal Reserve Bank,
Washington, D. C.



THE EUROPEAN FINANCIAL SITUATION

The following observations are based upon a quick survey of the European financial and economic situation, undertaken between August 18th and September 9th, 1931. Opportunity was afforded to talk confidentially with statesmen, bankers, business men, economists and publicists in Paris, Geneva, Basle, Vienna, Budapest, Berlin and London. An unusual amount of confidential documentary material was supplied and an opportunity generally was afforded for gaining an insight into the situation which the reading of current newspapers would not provide. The situation is too delicate indeed for frank treatment by the newspapers of many extremely disquieting facts. Confidence has been too badly shaken; it is highly important not to "rock the boat".

The first point noted, as being particularly impressive, was the extraordinary unity of opinion on the part of practically every man with whom one talked in all of the countries indicated, in support of the following propositions:

1. It is extremely unlikely that Europe will be able to pay the United States any further sums on account of reparations or inter-allied debts;
2. The United States will be very fortunate if it is able to regain the principal and interest of Europe's present indebtedness to it on other than reparations and inter-allied debt account;

3. The present low world-prices of basic commodities and the maldistribution of gold (which is threatening the permanence of the gold standard itself) are due in no small measure to the tariff policy of the United States;

4. The present acute difficulties of Europe were brought on by extremely generous lending policy on the part of the United States from 1924 to 1928, followed by the sudden cessation of such policy in 1929 and afterwards. In 1930 and in the early part of 1931 the European situation was assisted by the granting of extensive short-term loans by England and the United States, but the withdrawal of a large portion of these short-term loans this spring brought the whole situation to a sudden impasse;

5. Europe will experience during the next six months its worst winter in modern history -- worse even than during the war and without the psychological props which sustained the morale of the people despite the hardships of the war. There will be an extraordinary measure of unemployment among industrial workers throughout Europe; trade will slow down to a hand-to-mouth minimum; and the foreign purchasing power of every country in Europe will be curtailed to a drastic degree;

6. Budget deficits on the part of practically every government in Europe will be followed during the next year by a wave of the most drastic economies; the standards of living of governments, businesses and individuals will be materially lowered. There will be widespread cutting of dividends and reduction of wages.

Outside of France there was substantial unanimity upon the following points:

1. The payment of German reparations is at an end. The sooner all of the nations adjust themselves to this fact the better. It is not so much that in future years Germany may not be able to resume payment of a portion of the reparations, but indications become more impressive each day of the social and political unlikelihood of reparations payments being resumed.

2. The present credit crisis was precipitated by France as a counter-move against the Austro-German Customs Agreement announced March 31st. France, immediately after that announcement, began withdrawing its short-term balances from Vienna and Berlin.

The failure of the Credit Anstalt of Vienna followed, and the undermining of German banking came to a head in the collapse of the Danatbank, which shook confidence in the whole of Central and Eastern Europe to its foundations. New York had meanwhile become frightened and was withdrawing its short-term money from Central Europe, and it was not long before London found itself unable to continue to carry its accustomed burden and itself had to call for help;

3. The present financial policy of France, admittedly now the strongest power in Europe, is dictated largely by political considerations. Holding one-fourth of the world's supply of gold and having the strongest army in Europe, France apparently feels that now is

the psychological moment to shape events in Europe for the next ten years at least, to suit the French book;

4. The strained relationship between France and Germany constitutes the chief stumbling block to the establishment of tranquillity in Europe, and some accommodation of the serious political issues between these two countries is absolutely essential before that measure of confidence can be established in Europe which will make possible sound reconstruction of European finance;

5. The United States is looked to as the only country in the world whose initiative and leadership can be effective in helping to solve the extremely obstinate political impasse which weighs so heavily against the normal balancing of European economic and financial forces.

Hovering over the whole situation are many vague and haunting fears, some of them representing the serious anxiety of competent observers, others representing the vague and less responsible murmurings heard here and there throughout Europe. These fears may be classified as follows:

1. That England may not be able to maintain the gold standard. Yet even French bankers are frank in recognizing that not the least important foundationstone of the whole capitalistic system is the maintenance of the integrity of the L.

2. That, in view of the concentration of three-fourths of the world's supply of gold in the hands of France and the United States, the other countries may be forced to go off the gold standard altogether.

3. That, if pressed too hard, there may be a political upheaval in Germany which will result in a repudiation by some fascist or communist government in Germany of the whole Treaty of Versailles and all its works.

4. That the capitalist system may come to be regarded by the peoples as having proved so ineffective in meeting the present emergency that desperate measures may be attempted to torpedo most important and valuable elements in the system -- to the injury of mankind for an indefinite time.

5. That the growing criticism of banks being muttered in all European countries may result in so fettering the freedom of world banking as to place another obstacle in the way of prompt world recovery.

In view of all the foregoing, the most competent European opinion looks forward to the coming winter with little short of terror. Time is running very fast. The London Seven-Power Conference of July 20th to 23rd, 1931, in which Secretaries Stimson and Mellon participated, brought about the appointment of a committee of bankers headed by

Mr. Albert H. Wiggin. On that Committee was Mr. Moreau, formerly Governor of the Bank of France. Mr. Moreau joined his associates in signing the Committee's report, the most important conclusion of which was the following:

"But time is short. The body of the world's commerce -- whose vitality is already low -- has suffered a severe shock in one of its members. This has resulted in a partial paralysis which can only be cured by restoring the free circulation of money and of goods. We believe that this can be accomplished; but only if the Governments of the world will realize the responsibility that rests upon them and will take prompt measures to re-establish confidence. Their action alone can restore it. We think it essential that, before the period of prolongation of credits recommended by the London Conference comes to an end, they should give to the world the assurance that international political relations are established on a basis of mutual confidence, which is the sine qua non of economic recovery, and that the international payments to be made by Germany will not be such as to imperil the maintenance of her financial stability.

"WE THEREFORE CONCLUDE BY URGING MOST EARNESTLY UPON ALL GOVERNMENTS CONCERNED THAT THEY LOSE NO TIME IN TAKING THE NECESSARY MEASURES FOR BRINGING ABOUT SUCH CONDITIONS AS WILL ALLOW FINANCIAL OPERATIONS TO BRING TO GERMANY -- AND THEREBY TO THE WORLD -- SORELY NEEDED ASSISTANCE."

The Wiggin Committee Report was signed August 18th.

Nearly a month has already passed and nothing visible has been done by the governments to act upon it.

The LONDON ECONOMIST, whose editor, Sir Walter Layton, was the English member of the Wiggin Committee, commenting upon the situation in its issue of August 22nd, very aptly remarks:

"The key to the situation, therefore, clearly lies with the politicians, who can hardly ignore the representations unanimously submitted to them by the accredited nominees of the chief central banks of the world. Nor is the matter one which concerns Germany alone. The Committee speak of the recent crisis as a shock which has caused partial paralysis in one of the chief members of the world's economic body. If not cured by restoring the free circulation of money and goods, the paralysis inevitably extends to other members of the body.

"The period of grace is short, but the task is clear. If the Governments fail to carry it out, Europe will be faced with a similar situation to that of last July, but under conditions which will make it far more difficult for the problem to be solved."

New York
September 16, 1931.

February 10, 1931.

Mr. N. Raffelovitch,
Ritz-Carlton Hotel,
New York City.

Dear Mr. Raffelovitch:

Please accept my thanks for your letter of February 5 and for the enclosed memorandum on the economic consequences to the world of the present situation in Soviet Russia, which I have read with interest.

I was glad to have an opportunity to see you while you were in Washington.

With kind regards, I am

Sincerely yours,

Governor.

Ritz-Carlton Hotel
Madison Avenue & 46th Street
New York City.

February 5, 1931.

Hon. Eugene Meyer
Federal Reserve Board
Treasury Bldg.
Washington, D. C.

Dear Mr. Meyer:

Permit me first of all to thank you for your kind reception in Washington.

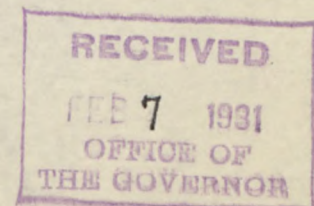
I thought it might interest you to peruse a memorandum of mine on the economic consequences to the world of the present situation in Soviet Russia, which I have forwarded to the State Department, to Mr. Lamont, and to Mr. Fletcher, and copy of which you will find enclosed.

I will not fail to keep you informed about our endeavor to regularize the market for foreign securities in New York, about which I told you, and which has made some progress since my return from Washington.

Believe me, dear Mr. Meyer,

Yours very sincerely,

W. Maffel



PRIVATE

PRESENT DAY SOVIET ECONOMICS AND THEIR IMMEDIATE CONSEQUENCES
FOR THE WORLD

1. Application of Communist principles inevitably leads to institution of forced labor. It is inconceivable that the centralization of industry, agriculture, trade under State operation should be possible without national planning involving each individual. It is inconceivable that the latter should be able to choose his work. Furthermore, the pay he is to receive is also a matter for the sole decision of the State. Lack of subordination to such a state of things would lead to the impossibility of carrying on the Communist state and therefore has to be enforced by direct penalties or indirect penalization.
2. We see that this logical outcome of Communist principles is illustrated in every way by the practices of the Soviet government. In various spheres of activity or production, such penalties or penalization have been adopted and one can only say that the principles of forced labor as a consequence of the Communist regime are carried out with ruthless energy. The latest decrees of the Soviet Government in reference to the obligation of any person of some knowledge of railway operation to work on the railways is a striking example of penalties. The decree obliging the unemployed to work on the job assigned to them is another example of the consequences of this system.

Any survey of Soviet legislative and administrative measures during the last years can only lead to the same conclusions.

3. Therefore, any investigation as to whether a product is the result of convict or forced labor is superfluous and useless. All one can establish is the degree of severity applied in various cases to workers who do not accept their

jobs or who do not carry them out. But this degree has nothing to do with the general principles involved nor with the consequences of such a state of things.

Since the last few years the application of Communism to Russian economy has made considerable progress. One may say that today a vast majority of industry, agriculture and trade is directly or indirectly communized or collectivized. For instance, those farmers who still carry on their agricultural pursuits as individuals are obliged to sell to the Government as the sole buying agency. The Government fixes arbitrarily the price and pays in the currency of which it is sole master.

4. As another consequence of the Communist regime, the monopoly of foreign trade permits complete contradiction between official quotations of Soviet currency abroad and its real purchasing power. As all transactions with foreign countries, except contraband and bootleg transactions, are in the hands of the Government, and are necessarily on a gold basis, the Government can quote its currency at any level it desires. At the same time, we see that unofficial quotations of roubles in Berlin, Warsaw, and China are today at around 8% of par, while official quotations are at par. The unofficial quotations reflect the buying power of the currency on the internal market.
5. The State management of industry, agriculture and trade as well as the currency situation render very problematic and indeed impracticable sound calculations of costs of any given article. Outside of the currency situation with its inflation and its progressive decrease of purchasing power, it would perhaps be possible for the Soviet Government to establish in gold a general profit and loss account, but this is hardly possible for individual classes of production or individual articles, even if the Soviet Government had a desire to calculate real costs.

6. In addition, it is not in bearing with Soviet economics to calculate costs in the same way as a capitalistic enterprise. Such elements as interest on capital, depreciation, obsolescence, renewals, and depletion appear to the Communist mind as not being elements of cost to be taken into consideration. The cost of labor is arbitrarily fixed, as explained above. Therefore, any attempt at calculating costs of Soviet production would hit against unsurmountable obstacles.
7. Most reports and reasonings referring to the Five Year Plan are making a constant confusion between mere production and economic production. While the second is in direct dependence of real costs, of distribution and marketing possibilities, the mere fact of production as reflected by appropriate statistics is not a measure of economic results or of sound development. It is only an indication of quantities of goods which are or will be available for the interior or exterior markets, which are to be disposed of regardless of costs. The two main questions which arise are how long such practices can be continued and how much in the intervening space of time they can hurt the economy of the world and of the producing country itself.
8. When one takes into consideration the two factors of the natural resources of Russian territory and of the forced labor of a population which exceeds in number that of the United States, it is easily imaginable that should no untoward events happen inside or outside Russia, the Soviet Government will be able to carry on its present plans and policies over a period of time, they substantially increasing the present depression and therefore its dangers.

The artificiality of such a plan as the Five Year Plan and indeed of the Communist system itself will certainly lead to numerous delays and difficulties in its application, but will not prevent the possibility of a substantial in-

crease in volume of production in many branches.

9. There is no doubt that with sound and reasonable principles of economic development the Russian market could absorb, as it has in an increasing degree done in the past, substantial quantities of goods and food-stuffs of every sort. It is impossible, however, that this normal process should take place over the next years under Communist guidance. The application of the Five Year Plan has as its corollary and even as its basis the reduction of the standard of life by payment of minimum wages. If one calculated these wages according to their real purchasing power and even should one believe in the practicability of a Communist regime, it is obvious that an improvement in living conditions in purchasing power would be possible only when the present effort directed mainly toward building up of heavy industry will be accompanied by another tremendous and still more complicated effort regarding the industrial production of consumers goods. Furthermore, a complete reorganization of the transportation system and an entirely new organization of distribution will be necessary. As long as this is not done, and even the Communist admits that for these purposes the Five Year Plan will have to be followed by a Ten Year Plan, the standard of life and the purchasing power of the population will remain at a very low ebb and Soviet economy will have no choice but to try to export a great part of its increasing production.
10. Soviet economy is already faced by another necessity for exporting, regardless of price, and this necessity will become more and more imperative. The Five Year Plan as well as its subsequent developments and extensions, necessitates very large imports of machinery as well as of costly foreign specialized power and labor. In the past years, in the total absence of confidence permitting

obtention of long term credits, the Soviets had to solve the question of their balance of payments and especially of imports of machinery through short term credits. From now onward they have to face increasing maturities for their old pending bills and at the same time provide means of payment of ordinary imports and new extraordinary imports made necessary by the development of the plan. At the same time, they bear the burden of the foreign trade organizations and of Communist propaganda and Communist activities all over the world. It is only natural that the increased difficulties of solving these problems have lately led to an increase of the discount rate for Soviet trade delegations or Amtorg bills which have risen between the end of 1929 and the beginning of 1931 from 18% to around 28%. Lately the Soviet State Bank has been twice forced to export gold to Berlin. The Soviet Government and its trade organizations have been obliged to have recourse in order to obtain foreign currency to the most varied operations, including acquisition of foreign goods on credit and the sale of the same or similar goods abroad for cash. It is likely that the short sale of five million bushels on the Chicago grain exchange was due to the same desire of procuring foreign currencies.

The drop in world prices in itself results in increasing the volume of exports in order to face payments of the same size, but in reality the Soviet system will have to face increasing payments, which aggravates the situation. This will inevitably lead, apart from other causes and apart even from the desire to harm capitalist countries, to a very substantial and progressive increase of the quantities of various goods, raw materials, half manufactured, and manufactured articles sold abroad. This state of things is unfortunate for the world in many respects.

Leaving aside the question of what a normal and economic development of Russia on the basis of sound principles could represent for the world, it

must be recognized that her present system of production based on principles entirely opposed to those of the rest of the world is in itself an immediate menace which cannot be over-estimated. In addition to this, it must be remembered that one of the main hopes for a trade revival is founded on the fact that, by reduction of production the output of goods will gradually adjust itself to the demand, but all hopes of recovery both for industry and for agriculture can easily be thwarted by the action of the Soviets. In a period like this markets and prices can be easily upset even by comparatively small quantities. The world knows that the law of supply and demand corrects situations like the present one over a period of time. However, the Communist experience in Russia, being in its essence artificial and creating a source of supply free from any economic limitation, through the realization of the Five Year Plan, can easily prevent the movement of readjustment, while under normal conditions Russian production would be based upon, and limited by, the same principles of economics which regulate production and trade all over the world.

11. If these reasonings are applicable to all countries including America, it is not superfluous to examine the economic consequences of the Soviet regime in Russia and of the application of the Five Year Plan with particular regard to the United States.

From this point of view, it is necessary first of all to cope with the fallacy that figures of trade balances between two countries can be taken as entirely separate units, totally disregarding the general picture. What is important for the United States, and indeed for any country, is the total of its trade and not merely the particular trade situation with one country. In other words, it is easy to conceive a state of things where a favorable trade balance with one country is achieved at the price of endangering trade with other countries.

It is also easy to conceive that such a favorable balance might bring an immediate advantage for the present, but might result in a considerable danger for the future.

In this connection it is useful to remember that, as it has been put forward in official publications as well as in special literature, American industrial enterprises starting subsidiary manufacturing companies abroad give an immediate stimulant to exports, namely, of machinery, but that such an artificial stimulant brings with it logical contrary after-effects because, once the factory is built and operating a decrease of American exports in the line of goods produced by the factory will result, which is only in a feeble degree compensated by new exports in machinery and renewal parts. However, the development of manufacturing subsidiaries abroad by American concerns has at least the compensation of earning money for American enterprises and, taking place in countries with which normal freedom of trade relations exists, may lead to developing exports of other American products owing to the additional purchasing power created in the foreign countries.

In the case of exports of machinery to Soviet Russia, even this argument disappears. Under a normal economic regime in Russia, an industry in continual development existed and would certainly exist today, requiring the import of machinery from abroad. These imports would be limited by a normal and gradual rise in the capacity of production of the country in accordance with the improvement of domestic needs and would be accompanied by a normal flow of imports of other goods in accordance with the rise in the domestic standard of life of the country. But today we are witnessing a rapid growth forced by artificial means, and thereby leading also to a forced and rapid increase of production, not accompanied by improvement of domestic conditions and not justified by the general situation of world markets.

12. Furthermore, it is by no means indifferent to American economy that the other markets of the world should be invaded by goods resulting from such a production and thereby involving a competition which is unbearable for American goods.

This problem goes far beyond the question of mere competition in prices on certain articles. It is in direct bearing with the economic depression in the world and the aggravation of such depression through forced exports of commodities and other goods from Soviet Russia.

This extremely serious aspect of the general trade situation is being entirely overlooked by those who care to examine exclusively the present figures of trade between the United States and Soviet Russia.

The analysis of these figures does not warrant the assumption that the present trade with Russia is of great economic importance to the United States, otherwise than in the sense that even comparatively unimportant figures may play a certain role in the present difficult conditions.

A considerable portion of the trade has nothing to do with Soviet orders as such and represents the normal flow of goods going directly or indirectly from the United States to Soviet Russia totally independent of the Five Year Plan and of special agreements.

On the other hand, Soviet exports to this country as represented for instance by manganese, anthracite and lumber do considerable harm to American economy by disrupting prices and therefore endangering established industries to an extent which is probably far beyond the economic advantages of the special temporary exports from this country represented by Soviet orders of machinery and equipment. It is not difficult to forecast, on the basis of what has been briefly said, that within the next few years the inevitable increase in the volume of Soviet commodities and goods which will be exported and disposed of through forced sales, will show still more clearly all the dangers of the apparently favorable

balance of trade between the United States and Soviet Russia, outweighing by far in every sense the present advantages.

This, of course, is not the view of those who are primarily interested in exports of machinery, but a careful study of the situation will most probably show that there again private interests are only capable of making individualistic reasonings and that only a power beyond them can weigh on what side lie the most important interests of the nation.

13. In addition, it has been shown that the financial situation of the Soviets and especially of their balance of payments, taking into account their ever-increasing amount of maturities abroad, contributes to make transactions with them, based greatly on credit, unsafe and this unsafety is increasing as time goes on.

Therefore, it might well occur that even the outstanding amount of American short-term credits, represented mainly by exports of equipment, will run considerable risks and in final analysis it might well result that the so-called advantages for American industry will be transformed in the latter paying itself for the privilege of trading with Russia.

14. It is interesting to note that reasonings are put forth claiming that, on the basis of Soviet figures of their present and future requirements in equipment, the United States could play a prominent part in catering to such requirements and that this could contribute in relieving the present unemployment.

It has been shown before that the Soviets can only pay for such forced imports by forced exports and it is not difficult to foresee that such forced exports will harm American economy in its domestic field, either directly or indirectly through their action on the world prices, and will severely hit its foreign markets. Such a policy would mean that temporarily, and probably against their better interests, certain American industries would be helped to the great damage of all other industries and in the long run of American production and

trade in general.

15. The above mentioned fact of extension of short-term credits by American manufacturers, and partly also by American banks, needs careful weighing and not only from the point of view of the financial risk involved in such credits.

This risk is illustrated by the fact that the discount rate for Soviet trade delegations or Amtorg bills has risen from 18% at the end of 1929 to 28-29% at present. It is further illustrated by the fact that in most European countries private firms and individuals in general were so reluctant to extend such credits that it has been necessary for the government to step in and give such ample guarantees as to enable the manufacturers to risk practically only their profit.

An analysis of these guarantees shows that in some countries they have been fixed within extremely modest limits, for instance in Italy the maximum amount is only \$10,000,000 represented in fact by a barter of imports and exports. Countries which have gone further in that direction are prompted by political motives, like Germany who does not desire the downfall of the Soviet regime as long as she can play in her foreign policy the card of a potential military alliance with Soviet Russia, or like the present Labor government of England who is merely trying to placate the left and pro-Bolshevistic wing on the Labor party without whose assistance the present government would immediately lose its parliamentary majority.

For the United States, and especially for the United States government, there is another side, and a very important one, to the question of private credits to Soviet Russia.

If events in the coming years follow the trend forecast by the present memorandum, it might very well happen that at a certain moment the government of this country will be compelled to take steps of individual or concerted

defense against Soviet imports.

In such an eventuality, it is not difficult to foresee that all those American citizens and corporations who have short-term credits outstanding with the Soviets will greatly hamper the freedom of action of the government by pointing out the losses which they will sustain as a result of such measures of defense, it being obvious that the Soviets will not be willing nor able to pay if obstacles are put to their exports in such a way as to curtail the same.

16. This problem of the freedom of action of the United States Government is rendered still more complicated by another side of the question. Today already over 2500 engineers, specialists and specialized workmen, citizens of the United States, are employed by the Soviet Government who is highly desirous at the present moment of increasing this number by further employment of another ten thousand men.

It is easy to imagine what would happen if the United States had this number of men working in Russia at the time when the United States Government would be compelled to take serious measures of economic defense as explained above. All the families of the men would immediately repair to the State Department and point out that the safety of these men might easily be jeopardized by such measures. It is easy for the United States government to ascertain, for instance from the German and the Belgian governments, to what treatment certain German and Belgium engineers have been exposed when the Soviet government or even the local authorities of the Soviet government found it expedient. If at the present time there exist no such grievances on the part of the Americans employed in Russia, this only shows that expediency dictates to the Soviet government the greatest caution in that direction because it feels that without American technical help the Five Year Plan would be immediately compromised. Should such economic measures of defense be taken, the Five Year Plan would be compromised anyway and therefore the employment of American and any other specialists becomes

to a great extent useless and the expediency of according them good treatment automatically disappears.

We must not forget that the masses of Russian workmen cannot help feeling that the foreign specialists are treated in every way as privileged human beings. They are now under special protection of the Soviet authorities. Should this protection slacken one minute, very dangerous results could follow.

It is therefore obvious that for self-protection against the future and as a means of giving advice to those Americans who want to extend credits or who desire to go to work in Russia but mainly as a means of keeping an entirely free hand for the future, it would seem expedient to recommend great caution to the American business world as well as to those who might seek employment in Soviet Russia. One can't foretell whether in the course of the next years the Government might not be compelled to a course of action not in bearing with the safety of the credits given and, what is still more important, with the safety of the men working in Soviet Russia.

By failing to do so, the Government would greatly diminish its freedom of action at a time when various countries such as Belgium, France, Spain, China, etc. are already applying or studying measures of defense rendered more and more imperative as the situation develops on the lines explained above. Moreover the Government, though not directly responsible for business transactions or for individual service contracts, would all the same incur a certain degree of moral responsibility unless it took the necessary precaution of giving a warning about how the situation might evolve in the near future.

17. Another point worthy of note and consideration is the question of the old Russian debts. The entire experience of the various studies conducted to that effect by European Governments as well as the American experience of the conversations held up to now indicates that while the Soviets will not recede from the principle

of repudiation, they are willing to arrive at a settlement provided they obtain large credits. In other words they merely consider such a settlement in the light of an increased interest charge on new credits and as a sacrifice necessary to obtain these. As under present conditions, long term financial transactions in favor of Soviet Russia are out of the question because of the risk involved, this would merely mean a further and vastly increased burden on the annual Soviet foreign balance of payments. It has already been demonstrated that even in order to cope with the present burden, the Soviets can do so only through forced exports. New credits as well as interest payments on the old debts would therefore only increase considerably the danger to the world economy in general and to the United States in particular of such forced exports. Nor does the budgetary condition of the Soviet Government warrant such a burden, which could be borne only by normally developing Russia, not by a country already impoverished and whose condition is being rendered still worse by what an American observer (Samuel G. Cross) so aptly calls the "current ruthless policy of industrialization".

A debt settlement would be only a snare and a delusion and would mean merely extending a helping hand to the Stalin Government enabling it to gain time to continue the carrying out of its program without even any "appreciable alleviation of the unenviable lot of the Russian masses" and without any reasonable assumption that the interest payments will or could be continued over a period of time nor that the new credits could be considered as safe.

The first principles in lending money are the past record, the character, and the policy of the borrower. From this point of view also a debt settlement accomplished by new credits seems to be entirely out of bearing with sound financial policy.

There are various facts and symptoms which should lead one to believe that financially speaking the Soviet Government is traversing a period of

increasing difficulties. This is obviously the reason why it is making a desperate attempt to obtain credits and using for this purpose all possible means. The financial straits in which it finds itself today also explain a certain decrease in expenditure for progaganda and other Communist activities abroad. It is highly undesirable to procure to the Soviet Government the means by which its policy could again be intensified at a moment when the world needs not only external but internal peace for its economic rehabilitation.

18. Another point is worthy of attention. It has been and is sometimes still being contended that trade relations are apt to change the prevailing system in Soviet Russia through the influence of intercourse with business men of other nations. If such a view may have been at least theoretically justified in the first years of Bolshevik rule in Russia, experience of varied business transactions and relations during the last thirteen years has not in any way confirmed such optimistic hopes. The reason for this lies in the fact that such intercourse is liable to influence people only if at least a certain degree of freedom exists, permitting exchange of views with the population with which the foreign business man comes in contact. Under prevailing conditions in Soviet Russia the foreigner is obliged to watch his step even in private conversation, which might turn out dangerously for him, and still more so for the Russians he is in contact with. Another reason is that instead of a weakening of application of the Communist doctrine we see an ever increasing attempt at a 100% collectivization; intensified Communism is not conducive to the fulfilment of the above optimistic hope. The Communist Government remains at war with the outside world, and it is not only useless, but dangerous, to disregard this crucial fact.

A. Maffalini
Feb. 6, 1931

APPENDIX

EXTRACTS FROM ADDRESSES MADE AT THE MEETINGS
OF THE INTERNATIONAL CHAMBER OF COMMERCE,
JANUARY 1931 SESSION

Mr. Rene Duchemin, President of the Confederation Generale de la
Production Francaise and Vice President of
the International Chamber of Commerce.

"The Five-Year Plan that the U.S.S.R. has just begun to apply is bearing its first fruits. The Russian monopoly is unloading upon the world markets vast quantities of goods that have more than sufficed to throw into disorder markets already over-saturated, and these massive sales are accompanied by prices lowered to a point where often the consumer only has to pay the value of the raw material used".

Sir Arthur Balfour, Bart., K.P.E., Chairman of the British National Committee; Vice President of the International Chamber of Commerce.

"We have the Russian menace, which is political, moral and economic. The Russians have adopted a low standard of living with an underfed and badly clad population and added to it, forced labour. The Five-Year plan has probably made more progress than the outside world has appreciated.

"Russia's wheat supplies to Great Britain in 1910/14 were 13% of our total imports. In 1926/27 these fell to 4%. This season the figure has risen to 24% and during the last four weeks to 40%. The prices have been low, ranging around 22/- per quarter. This year's importation has amounted to 396 million cwts. and there was available in the wheat producing countries of the world 613 million cwts. To this excess Russia contributed 60 million cwts".

"They have been skilfully playing off one nation against the other to greatly extend their terms of credit. It does seem important that this whole situation should be very carefully studied by the Chamber as with the standard of living and forced labour conditions which they have adopted this may become a world menace which may have to be met by prohibitions; certainly the first step is to not assist such a situation by granting long credits".

Mr. Silas H. Strawn, Chairman of the American National Committee, and
Vice President of the International Chamber of
Commerce.

"Russia - One great menace - perhaps the greatest menace - to the recovery of normal economic conditions throughout the world was the practice of the Soviet Government of selling commodities at any price. This practice obtained in the United States, as well as in other countries, but in less degree. Obviously such a practice dislocated markets, impaired stability

and materially affected business conditions. Lately there had been a growing tendency to restrict the credit of the Soviets in the United States because of rumors of the precarious condition of the Soviet financial structure and the possibility of its inability to meet obligations."

Mr. Gustave L. Gerard, Director General of the Comité Central Industriel de Belgique, Secretary of the Belgian National Committee of the International Chamber of Commerce.

"In connection with Soviet competition we have felt the reactions of dumping in every sphere, but the Belgian Government has taken the necessary measures and a recent Royal Decree submits Russian grain and certain other industrial products such as glue, stearins and oleine to a system of import licenses. This is an indication that although a free trade country, Belgium is properly obliged to close its door when made the object of measures such as Russia has employed."

Mr. Josef Sachs, Consul General, Delegate of the Swedish National Committee, of the International Chamber of Commerce.

"First it must be remembered that Russia of today is in an especially good position to indulge in well-organized dumping. I am thinking of the low standard of living of the Russian people that is continually falling and of the large number of prisoners that their Government can use to obtain cheaper labour than in any other country of Europe or the United States.

"Another thing that must not be lost sight of is that Russian dumping is not an economic but a political act, the primary aim of which is to undermine the various markets of Europe and of the United States. In order to do this more effectively the attack has been launched upon just those markets that would feel it most."

Sir Felix Schuster, Bart., Director of the National Provincial and Union Bank of England.

"Firstly the Russian question. It seemed certain, he had been informed by good authorities, that the policy of the Soviet aimed at destroying the economic structure and through this also the political structure not only of the neighbouring countries but of the whole world. This question would have to be faced. Their evident object was to create political unrest that would undermine all social systems and the very basis of our civilization. They sought to destroy the capitalist system, that system which we sincerely believed to be the best not only for those who were called capitalists but for labour and the masses of the people in all countries. Sir Felix thought it was absolutely necessary to act, and to act before the Washington Congress.

"Confirming what Sir Arthur Balfour had already said, he thought it was essential to refuse all credit to the Soviet Government and to sell to them on a cash basis only. Personally he believed it would be best to break off all commercial relations with that country. Certainly it was necessary to refuse, as Belgium had done, to accept Russian goods, which were the product of prison or of practically slave labour. Not only in European countries but in the Far East - China and India - the fatal influence of Russia has made

itself felt, and it was in a great measure due to that fact that economic and political dislocations had taken place in those countries".

Mr. Rene Hentsch, Deputy Chairman of the Swiss National Committee.

"Mr. Hentsch then addressed himself to the Russian problem, Mr. Duchemin had said that the world suffered from overproduction. But today they saw a great country seeking to organize formidable means of production within its borders. The Five Years' Plan was nothing else. As the principles at the very foundation of economic, political, social and religious life of that great country were absolutely repugnant to the principles for which they stood, were they to stand by and permit the forging of this mighty weapon that would be used to oppress these efforts they were making in their respective countries? It was necessary that everyone should make an examination of his own conscience and inquire of himself if it was not his duty to do everything in his power to oppose the realization of this plan. The Swiss National Committee endorsed absolutely the splendid statement made by Sir Felix Schuster. No one could have stated the problem better than he had done. Mr. Hentsch ended by emphasizing the necessity of cooperation greater now than ever in the face of so difficult a problem. When they saw friendly countries, like Finland and Sweden and many others, suffering from Soviet competition, the need for cooperation was not open to doubt, it was their duty as buyers to favour these countries and all their efforts ought to tend to the practical realization of mutual assistance."

Mr. Carlos Prast, Chairman of the Spanish National Committee, Vice President of the International Chamber of Commerce.

"As to Soviet dumping, Spain has so far not been affected, except that wood had been offered at very low prices, but these offers had met with no success as the business men of Barcelona had met and agreed to reject them."

Resolution on Economic Situation Passed by the Council of the International Chamber of Commerce.

Amongst the general causes and symptoms of the present depression, the following may be mentioned:

The forcing on the world markets of large quantities of grain, raw materials and semi-finished products by Soviet Russia at prices less than the normal cost of production.

AMBASSADE
DE LA RÉPUBLIQUE FRANÇAISE
AUX ETATS-UNIS
L'ATTACHÉ FINANCIER

NEW YORK
35 NASSAU STREET

No. 7.920

March 11, 1931.

Mr. Eugene Meyer,
Governor of the Federal Reserve Board,
Washington, D.C.

Dear Mr. Governor:

An influential Member of Congress requested, sometime ago, information on the organization of rural credits in France.

I, therefore, asked the Ministry in Paris to send me documentation on this matter, and knowing your interest in all questions relating to agricultural credits, I believe that you will be pleased to receive the enclosed copy of the information given by Paris on this subject.

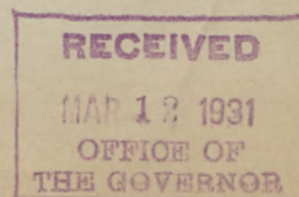
With best regards, I remain,

Very truly yours,

The Financial Attaché to the French Embassy:

S. W. Youick

Monick



GENERAL STATEMENT
ON THE MUTUAL RURAL CREDITS

The rural credit institutions include at the basis the local bank, a private institution formed only between agriculturists and agricultural associations, the restriction of which does not go beyond the limits of a "canton".

Above these local banks and grouping these institutions, stands the country bank of mutual rural credit, the restriction of which generally spreads through a "departement". Finally above the country bank the law of August 5, 1920 created the national bank for rural credits, which is a public institution having financial and administrative self-government, and which, functioning according to ~~the~~ banking methods, can easily put at the disposal of the interested institutions the advancing of funds which are necessary to them.

The national bank of rural credits is administered by a board under the control of the plenary commission which elects it.

The plenary commission, presided over by the Secretary of Agriculture, is composed of representatives elected by the two chambers, of delegates elected by the country banks, and finally of members chosen from among the most eminent representing the administrations concerned, which are appointed.

There are now 100 country banks for mutual rural credits.

The country banks include 5,897 local banks with 433,417 heads of families.

These banks do business with their members and only in their limited territory.

The "social" capital paid by the country banks reached on November 30, 1930, 138,957,370 francs.

Their reserves reached on the same date 121,461,356 francs.

On September 30, 1930, there were 2500 rural cooperative societies or similar groups, who received 3139 advances on rural credits.

The law of August 5, 1920, on mutual rural credits and rural cooperation permits the rural credit banks to grant loans at short terms, loans at middle terms, and loans at long terms individually or collectively.

The aim of the short term loans is to permit the agriculturist to pay the current expenses of his farm, as, for instance, purchases of manure, seeds, implements, animals, etc.

The amount is not limited by law; it is fixed by the loaning bank according to the importance of the work to be done, the professional capacity of the borrower, and the guarantees he can offer.

The duration of the loans cannot be extended beyond the date which has already been agreed upon, and it shall not exceed one year.

The rate of interest of the loans cannot be lower than that given to the "social parts" of the loaning bank, nor more than 1% higher than the rate of the advances on the shares of the Bank of France. It now varies between 5 and 5½%.

The middle term loans are for the purpose of facilitating the settlement or the reconstruction of rural cultivations. That form of credit perfects advantageously the credit at a short term.

Its aim is now specially to permit the agriculturists to make

outlays of funds which by their nature or their importance permit a certain delay in amortization, purchases of important live-stock, purchase of large implements, expenses for land ameliorations, for extension or repairs to the buildings for agricultural use.

The maximum amount of middle term loans is not fixed by law; it is the bank of rural credit to which the demand is made which decides the importance of the loan to be granted based on the information furnished to them.

These loans are reimbursable by annual amortization. Their maximum duration is ten years.

When they are granted to a cultivator who is not a land-owner, the maturity must be fixed at least three months before the expiration of the lease of which he is beneficiary, or, in case of no lease, three months before the termination of possession.

The reimbursement of the loan becomes immediately demandable if the agriculturist who is not a land-owner leaves the cultivation on which the loan has been granted.

The rates of interest on middle term loans cannot be lower than the interest given to the "social parts" of the loaning bank, nor more than 1% higher than the rate of the advances on shares of the Bank of France; it now varies between 5 and 5 $\frac{1}{2}$ %.

The guarantees to be furnished by the borrower can be as well as for the short term loans, a security, preferably one of the land-owner's if it is a question of a farmer, a warrant, a deposit of shares, etc.

They can be equally made by an assignment on mortgage to the

order of the loaning bank if the borrower is a land owner.

For the granting of middle term loans, the local banks made their borrowers sign special contracts which fix the conditions of the loan, the guarantees which have been given and the conditions of reimbursement.

The long term individual loans aim to facilitate the purchase, the settling, the remodelling or the reconstruction of small rural cultivations that the borrowers must pledge themselves by written contract to cultivate themselves or with the help of their families.

These loans can equally, by application of article 67 of the financial law of December 19, 1926, be granted for the purpose of purchasing or the construction of buildings for farmers.

They give to the farm-worker the possibility of becoming land-owner of a small tract, the cultivation of which may assure his livelihood and that of his family, and includes specially a dwelling.

The amount of those loans may be at the maximum 60,000 francs, not including the amount of expenses; they are reimbursable by annual payments for a maximum term of 25 years; they can be reimbursed by anticipation.

The rate now is 3% and it is reduced to 1% when the loan is granted to a pensioned soldier or a civil victim of the war.

On the other hand, article 67 of the financial law of December 19, 1926 has foreseen that the rate of the individual long term loans may be reduced in favor of the old graduates of an agricultural school of the State, the wards of the nation, or the fathers of large families.

The borrower must arrange with the bank of the rural credit which is responsible for the inquiry into the guarantees to be furnished,

the principal of which consists of a mortgage-assignment on the property on which the loan is granted; complementary guarantees may also be asked for.

The long term loans which are granted by the National Bank of rural credit by the intermediary of the country banks of rural credit are made for the purpose of permitting ~~to~~ the cooperative societies formed between agriculturists, as well as the other institutions governed by article 22 and the following articles of the law of August 5, 1920, to proceed with the construction and various installations which are necessary to them and which permit the starting of work and the "immobilization" for a long term of certain important sums.

The rate of interest of these loans is now 3%. They are reimbursable by annual payments extending for 25 years, and may be extended to 50 years when the borrowing society intends to do the work of reforestation.

The amount of the loans is fixed by taking as a principal basis the interest that the proposed cultivation may bring to the agriculturist, the financial help personally granted by the members of the society to accomplish the work, and finally the value of proposed guarantees to assure the reimbursement of the borrowed sums.

In practice the amount of the loans does not exceed a sum twice the capital paid by the associate members.

The guarantees that the institutions have to furnish are formed first by a joint contract of reimbursement endorsed either by all the members of the society or by all or a part of the members of the Board.

Moreover, if the society owns or intends to acquire real estate, it must grant on the said real estate, and on those of which it may

later become owner, a mortgage in the name of the State represented by the National Bank of rural credit. They can ask in addition to this a pledge on his implements and all other securities which may appear useful.

Deposit of funds - The banks of rural credit are allowed to receive funds

The movement of these deposits from January 1, 1930 to September 30, 1930 reached the sum of 2,267,000,000 francs, leaving on the date of September 30, 1930, a credit balance of 984,000,000 francs.

On the other hand, by compliance with the terms of article 35 of the law of April 5, 1920, the national bank of rural credit can receive itself the surplus deposits of the country banks. The sums deposited by the country banks to the national bank were on September 30, 1930 168 millions.

Resources of the national bank of rural credit. The National bank disposes, for the attribution of advances to country banks of rural credit or to the cooperative societies, of the "redevances" of the Bank of France, which reached on November 30, 1930, the sum of 1,127,952,977 francs.

The law of July 15, 1928 has equally put at the disposition of the national bank of rural credit a credit of 500 millions for the attribution of middle term loans and the law of August 4, 1929 a credit of 250 millions for the attribution of long term loans.

We must bring to notice that the credit of 500 millions mentioned above is now drained and that by a bill presented on November 21, 1930, under No. 4,108, the Government asked the attribution of a new credit of 500 millions in order not to stop the attribution of advances for middle term loans.

Operations of credit by the banks of rural credit. The short term loans granted by the banks of rural credit since their institution until September 30, 1930, has reached the sum of 4,463,221,031 francs. The reimbursement on these loans having been 3,701,966,008 francs, the balance of these short term loans current on September 30, 1930, was 761,256,023 francs.

Middle Term - the middle terms current on September 30, 1930, reached 565,712,224 francs.

Individual long term - to facilitate the "accession" for small rural properties - The ordinary individual long term loans to facilitate the accession to small rural properties granted since the institution of that form of credit until September 30, 1930, reached the sum of 614,979,115 francs, corresponding to 44,787 loans. The reimbursements on these longs being 175,332,367 francs, the current account of these loans on September 30, 1930, was 439,646,847 francs.

On the other hand, the special individual long term loans to facilitate the accession to ~~the~~ small properties of pensioned soldiers and civil victims of the war since the installation of that form of credit until September 30, 1930, reached the sum of 266,032,060 francs corresponding to 18,439 loans. The reimbursements on these loans having been 68,098,516 francs, the current account of these loans on September 30, 1930, was 197,943,544 francs.

In short, 63,226 agricultural families had already had the advantage on September 30, 1930 of the individual long term loans, ordinary or special, the amount of which was 881,011,175 francs.

Collective long term loans - These loans granted by the national bank of rural credit and through the intermediary of the country banks of rural credit to the rural cooperative societies, such as cooperative wine cellars, dairies, butter-dairies, fruiterers, societies of common purchases and provisions (community markets) cooperatives of threshing machines, etc., reached since the institution of that form of credit until September 30, 1930, the sum of 370,460,008 francs. The reimbursements on these loans having been 126,817,899 francs, the current account of these loans on September 30, 1930, was 243,642,109 francs.

September 29, 1931

Dear Ivy:

I have been out of the city for a few days, and this is the first opportunity I have had to thank you for your letter of September 17.

It was good of you to send me a copy of the memorandum giving your impressions of the European situation, and I have read it with much interest.

I shall be glad to receive the additional memorandum when it is completed.

With best wishes, I am

Very truly yours,

(Signed) Eugene Meyer

Mr. Ivy Lee,
15 Broad Street,
New York, N. Y.

47 ✓
AMERICAN I.G. CHEMICAL CORPORATION

521 FIFTH AVENUE

NEW YORK

TELEPHONE
VANDERBILT 6715

CABLE ADDRESS
"AMIGCHEM"

IN REPLY PLEASE REFER TO

December 3, 1931

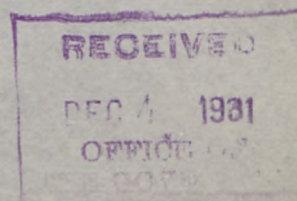
Dear Sir:

We take pleasure in sending you herewith a copy of the speech which Dr. Hermann Schmitz delivered yesterday afternoon over the radio from Berlin on the subject, "Settlement of Germany's Foreign Debt".

Very truly yours,

AMERICAN I.G.CHEMICAL CORPORATION

R. W. Ilgner
R. W. Ilgner,
Assistant Secretary



This document is protected by copyright and has been removed.

Author(s):

Article Title: Schmitz Broadcast from Berlin

Journal Title: National Broadcasting Company, Inc.

Volume Number:

Issue Number:

Date: December 2, 1931

Page Numbers:

Note: Document was transcription of radio broadcast released by
National Broadcasting Company, Inc.'s Press Relations
Department

September 21, 1931.

Mr. Eugene Blumenthal,
Liebman, Blumenthal & Levy,
36 West 44th Street,
New York City.

My dear Mr. Blumenthal:

Upon my return to the office after a few days' absence, your letter of September 16, with the very interesting observations on the German situation, was brought to my attention, for which please accept my thanks.

Sincerely yours,

(Signed) Eugene Meyer

LIEBMAN, BLUMENTHAL & LEVY

36 WEST 44TH STREET

NEW YORK

EUGENE BLUMENTHAL
DAVID LEVY
WALTER H. LIEBMAN, JR.
IRA S. ROBBINS

VANDERBILT 3-0533
CABLE "LEBLUM"

September 16th 1931.

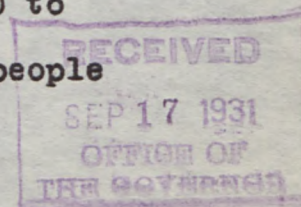
Hon. Eugene Meyer,
Federal Reserve Board,
Washington, D. C.

My dear Governor Meyer:

When I was about to leave for Germany some six weeks ago, you were kind enough to say you would be interested in such impressions as I might gather of conditions prevailing in that country. I do not in the least flatter myself that these impressions are of value, but I am going to pass them on for whatever they may be worth.

My visit to Germany was of short duration, namely about three weeks, but during that time I made it my business to seek contacts and interviews with Germans of many different classes. I believe I received the frank expression of a great many because my motives were plainly to secure information for a better understanding.

German conditions, as everyone who has followed recent events knows, present an almost insoluble puzzle. In spite of surface appearances to the contrary, it is my opinion that Germany is absolutely bankrupt and is facing a catastrophe this winter. The municipalities have been unable to balance their budgets. Charitable organizations have been obliged to abandon former necessary relief work. The approximately 6,000,000 to 7,000,000 unemployed include a large proportion of young people



who have not been able to secure work since their graduation from the Gymnasia or universities.

The vast credits which were extended to Germany have been used up by that country almost as a drunken sailor throws his money around when he gets into port. Every honest and intelligent German will admit Germany made a great mistake in spending those credits right and left in Swimbäde?, Stadia, park developments, museums, model houses, etc.

The Communists are attacking Germany from within and from without. Russia is working hard through her agents to take advantage of fertile ground. I believe that the Bruening administration realizes that all factions may combine against it before the winter is over. It is interesting to note that recently, under certain emergency provisions of the Constitution, the Reich has asserted the right to compel municipalities to cut their appropriations and balance their budgets. I think that further efforts at centralization in the Reich will be made.

There exists in Germany great disparity in the ownership of wealth. Much luxury still persists and this has a tendency to deceive the average visitor. Unless short term credits are definitely extended for a substantial period of time, and reparations almost entirely eliminated, an overthrow of the present administration seems inevitable. Such an overthrow, it is believed by many, will be the stage setting for a substantial change in the form of government in Germany -- that is a change toward Communism, or at any rate a change toward throwing the

government into further forms of industrial activity than it is now engaged in. When the psychological moment arrives, based on the distress of the winter, it is believed that the opposition parties will combine against Bruening for a concerted attack. It is, therefore, only through the aid of the creditor governments, namely, France, England and the United States, in giving Germany whatever long term extensions may be necessary, that the present administration will be sufficiently strengthened to possibly weather that storm. If Bruening brings home no more bacon than a short moratorium, they will, without question, kick him out at the first opportunity.

Throughout Germany one found the psychology that they were busted as they were, and any change might be a welcome relief. The Germans take the position that they cannot yield their political birthright by agreeing not to ask for any modifications of the Versailles Treaty as a condition of economic assistance from France. On the other hand, France takes the position that she will not tender such economic assistance in the absence of such a pledge.

From what information I obtained, business in France, except such as is artificially stimulated, is at a standstill and she is beginning to eat up the large capital accumulated by her.

In the final analysis I don't see how anyone can approach a solution of the difficulties prevailing in Germany without the thought that all of the capitalistic governments today

Hon. Eugene Meyer,

Page 4,

9/16/31.

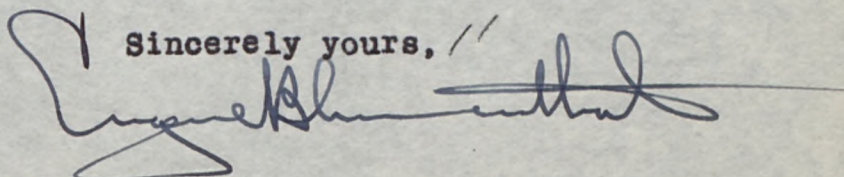
must justify their existence. I do not see how it will be possible to extend huge credits to a country on the one hand, and then expect repayment in the face of tariff walls and policies of nationalistic isolation. It does seem to me that gradually but surely the tariff walls will have to be taken down so that each country will be in a position to produce and market those commodities which it is best qualified to produce, and in which production every other country will acquire a substantial self interest. Probably that condition is still a very hazy dream.

Finally, I believe that the capitalist must, if he wants to avoid Communism, be willing to go into active partnership with the State and with the Nation, so that the State and the Nation will have a larger interest in his earnings and in his surplus. The share then so acquired by the State and the Nation would have to be used for the purpose of achieving ideals similar to those which are inherent in the Russian effort, although the Russian methods are in my humble judgment, very much askew.

I hope that I have not wearied you unduly and that this expression is not too prolix for what I have endeavored to convey.

With kind regards, I remain,

Sincerely yours,

A handwritten signature in blue ink, appearing to read 'Eugene Meyer', with a long horizontal flourish extending to the right.

EB:AG

This document is protected by copyright and has been removed.

Author(s):

Article Title: Dollar, Zahlungsbilanz und Kreditstörung (The dollar, balance of payment, and credit disturbance)

Journal Title: Frankfurter Zeitung

Volume Number:

Issue Number:

Date: October 20, 1931

Page Numbers: 4

*Handled
to me by
Monsieur
French attached*

PERSONAL AND CONFIDENTIAL

*in confidence
See 9/31*

At the moment when the German Government has just addressed to the Bank of International Settlements a request for a meeting of the Consultative Committee provided for in the Young plan, the French Government thinks it advisable to explain its point of view on the reparations question to the other creditors of Germany, in order to establish a community of view as complete as possible. Instructions to that effect have been sent to the French Ambassadors in London, Brussels and Rome

The French viewpoint is as follows:-

1° - In order to avoid any misunderstanding, it should be recalled that the memorandum forwarded by the German Government to the Bank of International Settlements, although submitted in advance to the French Government, was not drafted in agreement with the latter, and the French Government is not bound thereby.

The only purpose of the modifications which took place upon the request of the French Government was to avoid the obligation, in which France might have found herself, to make reservations concerning certain points

contained

contained in the memorandum. Therefore, she keeps her full liberty of action and of agreement with the other creditor nations.

2° - Germany remains bound by the obligations which she willingly and solemnly contracted at the Hague.

The exceptional procedure suggested last June by President Hoover has not altered the validity of previous agreements. When the German Government made use of the procedure of the Young plan in order to obtain, at the expiration of the Hoover moratorium, the reduction which circumstances may render necessary, it took an initiative which, in the very interest of a bona fide debtor, should prevent any misunderstanding as to the validity of the plan.

3° - In its request, the German Government insists upon the fact that the facilities of payment provided by the Young plan do not meet any longer the present situation.

Although observing that Germany is largely responsible for her present financial difficulties, the French Government is ready to admit that the world economic crisis, the amplitude and acuteness of which are beyond any prevision, may necessitate a temporary revision of the Young Plan together with an agreement concerning intergovernmental debts. Such a revision should be limited to the period of the economic depression.

The inquiry of the special Consultative Committee could, as the German Government requests, deal with the whole economic and financial situation of Germany, taking into account all the elements which affect such situation, the question of the private debts of Germany being one of those factors.

The problem raised by this last question should however remain distinct from the problem of reparations and its solution belongs to another committee. Although they must be dealt with along parallel lines, these two questions should not be confused.

By commercializing the unconditional part of the reparations annuities, the Young Plan and the Hague agreements have assimilated that part of the annuity to those external debts of the Reich which have the character of a private liability. This is why the French Government could not accept that priority be given to private debts over reparations.

5°- In the opinion of the French Government, the problem to be settled is of a more general character. The point is to know whether in case the German Government agrees to respect its obligations within the measure compatible with its possibilities, solutions can be found which will restore the situation of the Reich and allow normal economic and financial recovery not only in Germany, but also in all interested countries.

The Committee should recommend by way of general conclusions the measures to be taken by the Reich

in

in order to re-establish its credit, the interested Governments being responsible as to the choice of the decisions to be arrived at, for the application of these measures.

For that purpose, the French Government favours the meeting of an intergovernmental conference.

6° - When this conference convenes, the French Government firmly intends to keep the balance due it under the provisions of the Young Plan for the reparation of war destructions in France. However, the French Government is in no way opposed to finding at the convenient time and for a temporary period modalities of payment which would be necessary to reconcile the various interests to be considered. These modalities could be found by way of deliveries in kind or by way of commercial loans that would be granted the German economy through a part of the unconditional annuity due during the period of depression.

7° - According to the text of the memorandum of the creditor powers which is annexed to the Young Plan, the revision of the German annuities is possible only in case of inter-allied debts, said reduction being to the benefit of the Reich for a part, and of the creditor nations for another part.

The French Government is ready to grant Germany the totality of the bonification to which it would be entitled according to the Young Plan if the other powers are ready to make the same sacrifice.