

The Papers of Eugene Meyer (mss52019)

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Subject File, Federal Reserve Board, Reports, Reichbank (Germany) to
George L. Harrison, 1931-32

EUGENE MEYER

SUBJECT FILE

FEDERAL RESERVE BOARD
REPORTS ~~RE~~ REICHSBANK (GERMANY)
TO GEORGE L. HARRISON 1931-32

July 9, 1931.

The President,
The White House.

My dear Mr. President:

I am sending you herewith, for your information, a copy of the cable about which I talked with you on the telephone this morning.

Respectfully yours,

Governor.

New York, July 8, 1931.

Confidential for Norman:

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

clearly that much of the loss of foreign exchange by the Reichsbank during recent weeks must be due to a flight of German capital which it seems to me might well have been limited or restricted, through a firmer credit policy of the Reichsbank.

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

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

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

8. I realize the importance of the time element, but the fact that the statement day comes on next Tuesday does not really seem controlling because after all in this great emergency is there any reason why they should not show a deficiency in their proportion with a consequent increase in the bank rate as provided by the bank law.

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

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

HARRISON

Berlin, November 6, 1931

Federal Reserve Bank of New York

New York

No. 599 FOR GOVERNOR HARRISON

German banks complain in increasing measure that while the credit lines are extended in the same limits as provided for by the Standstill Agreement, the formal requirements as to the eligibility of the replacement drafts are in many cases exaggerated. For instance to prove commercial character date of shipment, name of steamer, marks and number of cases, documents, etc. are required. The effect of this procedure is that, contrary to meaning and purpose of Standstill Agreement, the renewal of these credits is largely made impossible so that final repayments which were originally not intended by the Agreement, take place in an ever increasing degree and disturb the foreign exchange position of the Reichsbank. Should appreciate your influencing the American Bankers' Committee to work for elimination of difficulties described above to ensure smooth operation of Standstill Agreement. Have sent similar cables to Presidents of all other Banks of Issue concerned Please cable

Reichsbank

President Luther

November 6, 1931

President Luther

Reichsbank

Berlin

No. 269 CONFIDENTIAL FOR LUTHER

At a meeting of New York banks held today a committee consisting of Albert H. Wiggin, Chairman; Charles E. Mitchell, William C. Potter, George W. Davison and F. Abbot Goodhue was appointed with a view to undertaking immediate negotiations with the corresponding committee representing German debtors to provide for the gradual liquidation along commercial lines of the credits affected by the so-called "Standstill Agreement" between German debtors and their foreign creditors. This action is believed to be essential at once in view of the comparatively short time remaining before the expiration date of the "Standstill Agreement." At this meeting it was emphasized that in the opinion of the New York banks any such negotiations must recognize the following fundamental principles:

- (1) That substantial payments must be made periodically beginning March 1, 1932
- (2) That satisfactory security shall be provided for all outstanding credits during the period of liquidation;
- (3) That satisfactory evidence shall be given that definite measures will be taken to insure that some adequate part of the foreign exchange proceeds derived from the liquidation of German exports will be made available to the gradual liquidation of short term debts;
- (4) That in accordance with the spirit of the "Standstill Agreement" preferences as between creditors here and in other countries will be avoided not merely in such repayments as may be made during the existing "Standstill

Agreement" but also in the further liquidation of outstanding credits in the future.

The New York bankers feel that it is fundamental to the restoration of German credit and to the rebuilding of the German economy that appropriate steps be taken at once. The New York bankers will therefore appreciate your giving this matter your earliest consideration and cabling me promptly so that I may communicate with the New York Committee who, in co-operation with such other foreign creditors' committees as may be appointed, wish to commence negotiations as soon as possible with a committee of German debtors

Harrison

November 6, 1931.

Reichsbank

Berlin

No. 271 CONFIDENTIAL FOR LUTHER

ONE Referring to my No. 269 in which at the request of the New York bankers I communicated to you their views relative to the future liquidation along commercial lines of their credits to German institutions it occurs to me that you may be interested to have in mind a little of the background of their message.

TWO According to the figures of the German statistical office German foreign trade for the quarter ending in October of this year has shown a favorable balance of about \$220,000,000. During this period Germany has been relieved of any obligations on reparations account and in spite of the fact that there has been apparently very little if any reduction in the total of the outstanding shortterm debt the reserves of the Reichsbank have continued throughout this period to diminish. The question immediately arises in the minds of the bankers, as well as in our own minds, as to whether there is not an unnecessary loss of foreign exchange due to insufficient measures by the Reichsbank (a) to recapture a greater part of the foreign exchange proceeds resulting from Germany's favorable export balance and (b) to make available to the Reichsbank other foreign exchange holdings of German nationals. In other words it seems to us that during this period of moratorium on reparations debts and increasing favorable export balance, you have your greatest opportunity through appropriate action by the Reichsbank to build up a foreign exchange position which will enable German banks not only to liquidate gradually their commercial debt to foreign creditors but which will also permit the Reichsbank to prepare for appropriate liquidation of its central bank credit. The views of the New York banks and ourselves in this matter are all the stronger because of the fact that in other periods, such as 1923, 1924 and

1929, the Reichsbank was able very effectively to increase its foreign exchange holdings through appropriate internal measures.

THREE Another question which has been in the minds of the New York bankers is whether as a result of the current depreciation in sterling there may not have been a disproportionate amount of payments of sterling credits in relation to other foreign credits. As to this I have no figures or information and would be glad if you can give me any advice. Best regards

Harrison

FEDERAL RESERVE BANK OF NEW YORK

November 9, 1931.

Luther

Reichsbank Berlin

ONE Governor Harrison has referred your cable of November 6th to Subcommittee.

TWO The question of the eligibility of bills outstanding in this market at the time the Stillhaltung Agreement negotiations began and which arose from your side and specifically from the last paragraph of your cable of July 29 to the Federal Reserve Bank of New York made the American banks feel that they must have conclusive evidence of eligibility as required by our laws and regulations. Accordingly Clause 1 (a) ii was incorporated in Stillhaltung Agreement. Also the character of merchandise, date of shipment, destination and in many instances the terms of sale are absolutely essential. An easy and satisfactory method would be to place in the hands of American banks copies of invoices together with copies of shipping documents. We are sure that such information must be in the hands of German banks and our own experience in dealing with other customers satisfied us that these requirements are not difficult to fulfill.

THREE Inasmuch as the Stillhaltung Agreement provides that where the foreign creditor bank is not satisfied as to eligible character of drafts presented for acceptance such drawings are to be carried as overdraft it is clear as you point out that there is no diminution of credit but on the other hand we do not understand how repayments are necessarily required in such cases. In this connection however we would point out that from the many complaints coming to this committee from American banks apparently the German banks are not living up to that provision of the Agreement BRACKET Clause 1 (d) END BRACKET which provides that where the obligation is carried in the form of an overdraft it should be carried

as the continuing liability of the original drawer or customer of the German debtor under the same terms and conditions as mentioned in Clause 1(a).

FOUR We take this occasion also to mention the many complaints which this committee is receiving concerning the action of German banks toward the avoidance of those provisions of Clause 1(a) i and ii of the Agreement for collateral. Inasmuch as the extension of the credits under the Stillhaltung Agreement was conditional upon acceptance by German debtors of these provisions we believe that the German Bankers Committee should take immediate steps to rectify failures to comply.

FIVE American banks are convinced that German banks are not using reasonable effort to obtain and provide collateral security. Their resistance has forced the American Committee to appeal on this question to the Arbitration Committee, the necessity for which they regret, being convinced that the spirit of the Agreement should have made this unnecessary.

Goodhue Chairman
Subcommittee

Berlin, November 11, 1931.

FOR GOVERNOR HARRISON

Federal Reserve Bank of New York

New York

No. 622 CONFIDENTIAL FOR GOVERNOR.

In spite of stringent restrictions in regard to foreign exchange transactions the foreign exchange position of the Reichsbank has not improved and so far there are no signs of any betterment consequently further measures have become unavoidable. The German banks have come to the conclusion that the dealings in securities as carried out in the present manner result in a considerable demand being made on the foreign exchange holdings of the Reichsbank. This referring not only to transactions in securities which have an international market and which are quoted officially on the Berlin Exchange nor to securities of German issues which are quoted abroad, but above all to purely German securities which are principally dealt in German Exchanges. Just in regard to the latter it is evident that from actual or from pretended foreign holdings very large sales are effected in Germany. The tendency to effect such sales has continually increased in consequence of the general position which refuses to improve. In this connection the recent events occurring since the conclusion of the Standstill Agreement at Basle and which again have had a disquieting effect on the world trade and commerce plays an important role. According to the regulations so far in force the proceeds of such foreign selling must at request be converted into foreign currencies. This produces

a state which in the long run is irreconcilable with the spirit and the purpose of the Standstill Agreement. Apart from other difficulties very great and incalculable drawbacks in regard to the foreign exchange balances of Germany will result which not only might imperil the interests of the Creditors under the Standstill Agreement but also might in general be detrimental to the proper functioning of the interests and capital services. Reichsbank must not allow such dangers to develop and therefore has called the attention of the Reich Government to the necessity of intervening. Recognizing the justification of such representation and the urgency of the need of redress the Reich Government has decided to decree in addition to old regulations by way of a new order the following I here confine myself to communicating only the essential points: "Domestic securities which exclusively or alternately are expressed in a foreign currency and which are not eligible for dealings on any German exchange may not be acquired against payment except with the consent of the supervisory office ~~for~~ for foreign exchange transactions. Foreign securities which are eligible for dealings on a German exchange may not be acquired by an individual domiciled in Germany from an individual domiciled abroad against payment except with the consent of the supervisory office for foreign exchange transactions. Any claims expressed in Reichsmarks resulting from a sale of securities in favor of an individual domiciled abroad and effected after the coming into force of the present decree may not be paid except with the written consent of the supervisory office for foreign exchange transactions" I did not like omitting to inform you of the impending alteration and accentuation of the German decree concerning g transactions in foreign exchanges and to request you to kindly assist us by making our measures understood abroad.

Luther.

Berlin, November 12, 1931.

Federal Reserve Bank of New York,

New York

No. 625 CONFIDENTIAL FOR GOVERNOR

Your cables No. 269 271 and 272. The resolution of the American banks concerning the setting up of a committee with a view to undertaking immediate negotiations with the German bankers' committee to provide for the gradual amortization of short term debts along commercial lines meets the desire of the Reichsbank and the German banks which are about to elaborate proposals concerning such amortization plan. We feel that the German banks and moreover all German debtors of short term foreign credits as well as German economy as a whole have a vital interest in this respect and that the same holds true with regard to the Creditors in any country. In our opinion it is of the utmost economic interest to the whole world that a workable plan for the gradual amortization of these debts be found and generally adopted in time before the approach of the termination of the Standstill Agreement shall threaten both debtor and creditor countries with the gravest dangers. The German proposals are based on the point of view that the amortization of the short term foreign debts under a plan covering a number of years in addition to the payment of interest and sinking fund amounts for long term private debts including the Dawes and Young ~~at~~ loan do not appear possible unless all the resources of German economic life are made use of. The failure of German debtors to offer proposals in this respect is due to difficulties having arisen in connection with certain political questions. In the negotiation being held with regard to this topic the tendency appears from some quarters that the reparation question ought to be treated first or at least somehow on an equal footing. In order not to disturb the opening of reparation negotiations we are at present obliged to observe a reserved attitude in

putting forward Standstill suggestions of our own. This question will however be put forward by us simultaneously with the reparation question at the latest. I refrain from dealing with political questions but should like to stress the fact that when the Hoover year was adopted it was recognized that even as long as payment of political debts is interrupted the service for the Dawes and Young loan must be continued because of their character as debts due to private creditors. I fail to see how a system might be generally approved of that persues the opposite direction the final result of which would be a curtailment of the private rights and interests of all Creditors. Restitution of the credits of the German trades and industries and the safeguarding of the German currency are the most important and fundamental conditions of any arrangement. Referring now to your cable No. 271 concerning the development of our devisa position I am gratified to see that you follow with so vivid an interest the development of the German foreign exchange position and especially that of the Reichsbank and I shall be pleased to give you any information you may require. Should you however feel inclined to think that the cause for the utter unsatisfactory development is to be found in insufficient measures of the Reichsbank I beg to say that no official regulation and control of foreign exchange transactions can lead to a real and lasting effect by coercitive measures. I much regretted that you referred to insufficient measures taken by the Reichsbank without previously getting into touch with me concerning the facts. Already the Paris experts' committee of April 1924 has stated in the second part of their report known as the McKenna report "the failure of the methods employed both old and new demonstrates the final ineffectiveness of restrictive legislation when successful evasion is so richly rewarded" and furthermore "restrictive legislation which in the main has proved futile in preventing the export of capital becomes superfluous the moment there is no longer any inducement to evade the law. It is indeed to be feared that laws

purporting to compel the return of capital would have the reverse effect to that which might be wished "the nucleus of the situation is the fact that Germany's foreign exchange position had absolutely recovered when the Standstill Agreement and its too far reaching exceptions took effect. The German representatives at Basle pointed without success again and again to the dangers inherent to these far reaching exceptions and when they in order to render possible the completion of a merely commercial settlement finally agreed they felt compelled to make general reservations. The fact that seasonal credits and the foreign affiliations of German firms are not covered by the Standstill Agreement curtailed Germany's foreign exchange holdings to a very high extent. The worst however is the fact that the credit lines which are to be kept open in accordance with Standstill Agreement are not made use of to a hardly sufficient extent. In this connection the depreciation of the pounds sterling which occurred in the meantime plays an important part. Thus the percentage of sterling credits not taken advantage of because of the failure to make use of the credit lines or repaid for other reasons have been computed on the basis of statements sent in by twenty eight regularly reporting banking firms at approximately sixteen per cent which mean in this instance about £ 8,000,000. I cabled to you on Friday concerning the difficulties with respect to the renewal of maturing dollar credits and received in the meantime your reply by cable No. 272. In this case too the same banking houses were unable to use their credit lines or have repaid their credits to the aggregate extent of nearly sixteen per cent since July 1931 corresponding to an amount of almost \$80,000,000. All these facts resulted in a considerable reduction of Germany's foreign debts equal to more than one billion reichsmarks for a period from end of July till end of October 1931 details about these figures will follow. The counterpart of this reduction and of the continuous withdrawal of foreign currencies is the aggravation of the foreign exchange position of the Reichsbank. Since article No. 31 of the German bank law

which is pegged by international covenants the Reichsbank and the Reich Government which issue the emergency decrees concerning foreign exchange are compelled by this situation to adopt continuously new measures concerning which I also refer to my cable yesterday. Another very aggravating circumstance is the high interest rates asked for at present by other countries and concerning which I wrote you on September 29. The statistical data of the trade balance referred to by you does not allow unfortunately to draw a just conclusion for the present period with regard to Germany's foreign exchange position for a large part of German exports as reported by the statistics has had to be sold on longer termed credits because of the keen competition prevailing on the world markets. Numerous individual observations prove us furthermore that on account of the general credit crisis prevailing all over the world and especially of the German credit crisis German imports have to be paid for at shorter terms as formerly whereas with regard to German export credits have had to be granted for longer terms than previously. To what extent and at what date a lasting equilibrium may be attained in this connection cannot be forecast and so much the less as the volume of German exports prove distinctly its character of a crisis of exportation whereas on the other hand hindrance to German exports are already being prepared by higher tariffs abroad and other measures. To the devisa requirements above mentioned are furthermore to be added the very high amounts required continuously for payments of interest on and amortization of foreign debts. All these problems will be dealt with by me more in detail later on. Kind regards and best thanks for your information.

Luther

Berlin, November 12, 1931

Federal Reserve Bank of New York New York

No. 630 CONFIDENTIAL FOR GOVERNOR

Referring to my today's cable concerning the causes for the foreign exchange position of the Reichsbank I may submit hereafter further details in order to enable you to form a correct idea of the exact situation.

Firstly Statistical figures concerning monthly export surplusses are not identical with monthly foreign exchange surplusses as German exporters even under normal conditions are compelled to grant long credits so that foreign currencies will only come in later. Under present abnormal conditions German exporters are compelled to grant even longer credits. In case of industrial works and machines forming large part of German exports terms of payment of one year and more are required.

Secondly An abnormal transitory state exists at present moment for following reasons. On the one hand at the moment market is overstrained regarding payments for imported goods because payments for goods imported in former months and at that time credited on long terms are now due whereas in many cases goods imported currently now have to be paid for on receipt or on very short term. On the other hand the influx of foreign currencies from exportation is at a low level at the moment because the foreign currencies originating from goods exported in former months and to be paid for later were at that time already turned to account by way of acceptance credits whereas it is not possible to promptly utilize to the same extent bills in foreign currencies originating from goods currently exported now. Consequently actual foreign exchange will not become available until later or often for reasons given under number one until very much later.

Thirdly Statistical export surplus for July August September excluding preparations deliveries in kind amounts to 910 million marks. According to estimate during these three months one billion marks have been withdrawn by foreigners especially for the transfer of mark balances with German banks for the transfer of the proceeds resulting from sales of foreign securities so long as such sales could be effected for the repayment of direct commercial credits for the settlement of forward exchange transactions and of other foreign exchange transactions not covered by Standstill Agreement. The entire statistical export surplus of these three months would therefore already have been more than absorbed by such payments even if this surplus had immediately been available in its entirety in the shape of foreign currencies.

Fourthly It follows that even if it were possible to seize hundred percent of the foreign exchange originating from exports there could nothing be left of the export surplus of the last three months to enable the Reichsbank to replenish its stock of foreign exchange. However in spite of severest measures of control exercised by the Reichsbank in spite of threat of punishment and in spite of credit reprisals made by the Reichsbank in case of non-compliance it is never possible to secure the foreign exchange in its entirety. Large concerns which import and export at the same time use the foreign currencies received for exported goods to replenish their holdings for the payment of goods they imported. Apart from this depreciation of foreign currencies is an incentive to speedily repay credits in foreign currencies.

Fifthly In considering the situation over the period lying ahead the following must be kept in mind. At the present time for interest and amortisation alone on all foreign debts approximately from one and a quarter to one and a half billion RM marks have to be paid yearly to foreign countries the latter figure being more likely near the mark. Thereby it is assumed that the total yields which Germany

received from all kinds of investments and claims abroad are compensated by the yields which foreign countries receive from their moneys invested in Germany in shares other participations and real estate. Therefore first of all the trade balance together with other asset items of the balance of payment will have to yield this amount of from one and a quarter to one and a half billion reichsmarks as a surplus before anything will be available out of the balance of foreign exchanges for the extraordinary repayment of short term or long term credits resulting out of the accumulation of the recalling of short term credits and out of the accumulation of the resales of securities to Germany. Compared therewith in the first nine months of this current quiet anomalous year the surplus of the trade statistic excluding deliveries in kind amounts to 1627 million reichsmarks. Even if the economic forces active in Germany continue to strive towards an enforced export no certainty is given for such large export surplus to be of any duration in view of the already existing and still pending prohibitions of importation and raising of tariffs in our most important foreign markets.

Kindest regards

Luther

November 13, 1931.

Reichsbank

Berlin No. 282 CONFIDENTIAL FOR LUTHER

ONE Your No. 625 and 630 which were received late yesterday were considered by the New York bankers' committee at a meeting this afternoon

TWO They have asked me to advise you

(a) That they note with satisfaction from the first sentence of your No. 625 that the appointment of the New York committee with a view to undertaking immediate negotiations with the German bankers' committee to provide for the gradual amortization of short term debts under the Standstill Agreement along commercial lines meets the desires of the Reichsbank and of the German banks.

(b) That, however, in their opinion neither of your messages 625 or 630 responds to the specific proposals contained in their message which I sent you in my 269

(c) That, therefore, as already stated in their earlier message they desire to be put in immediate touch with the German bankers' committee, in order that the negotiations necessitated by the approaching maturity of the Standstill Agreement may take place without delay through regular private channels. Consequently they request that you advise them of the names of the members of the German committee with whom they can negotiate.

(d) That they will expect to receive as soon as possible proposals from the German bankers' committee in accordance with the general principles already stated in their original message as set forth in my No. 269.

(e) That they are not concerned with the political questions referred to in your messages and are only looking forward to a prompt settlement of the private debts covered by the Standstill Agreement along commercial lines.

THREE I cannot overemphasize the importance of an immediate response as the committee at their meeting this afternoon expressed the opinion that no more time should be lost before definite consideration through private and nonpolitical channels of the short term private debts now coming within the Standstill Agreement

HARRISON

November 13, 1931

Reichsbank Berlin

No. 284 CONFIDENTIAL FOR DR. LUTHER

ONE As I advised you in my 282 your No. 625 and 630 which were received later yesterday were considered by the bankers' committee at their meeting this afternoon and I have nothing to add to the message they have already asked me to send you except that I would like to refer to certain comments in your No. 625 relative to the principles applicable to the control of foreign exchange transactions.

TWO I was of course already familiar with the principles discussed in the McKenna report of 1924 and was interested to see that you see to agree as to the general ineffectiveness of official restrictions or restrictive legislation in preventing the export of capital. Paragraph two of my 271 to which you evidently referred merely intended to raise the question whether or not the Reichsbank itself has taken sufficient or appropriate measures through its own credit policy, quite apart from other official restrictions, to protect or to increase its reserves of foreign exchanges. It was this aspect of the situation in which I was particularly interested and concerning which I have little information even from your more recent cables. Perhaps these are matters however which we can discuss more thoroughly with your representative as soon as he arrives in New York and they only emphasize the opportunity which his visit will give to exchange views with him concerning many problems in which we are both so much interested. I am therefore all the more gratified at your decision to send him to New York

Harrison

FEDERAL RESERVE BANK OF NEW YORK

COPY OF INCOMING CABLEGRAM

Berlin, November 14, 1931

Federal Reserve Bank of New York

New York

No. 637 FOR GOVERNOR HARRISON

Referring to my second cable yesterday. Supplementing the data concerning foreign indebtedness I am communicating the following figures

Firstly 28 banks have repaid and not renewed \$80,000,000; £8,000,000; 22,000,000 florins; 80,000,000 French francs of reimbursement credits and overdrafts. To be added thereto are about 30% for the other banks and the remaining commercial enterprises.

Secondly The efflux of foreign exchange caused by recalling foreign reichsmark balances and by the settlement of forward exchange transactions is being estimated by us as amounting to about 350,000,000 reichsmarks.

Thirdly, Not taken account of is thereby the not unimportant efflux of foreign exchange resulting from sale of securities and for current amortization of long term loans and advances.

Best regards

President Luther

Cable from Reichsbank, Berlin

Berlin, Nov. 14, 1931.

FEDERAL RESERVE BANK FOR GOVERNOR HARRISON, NEW YORK

No. 639

I received through Bank of England the following communication from the English Bankers' Committee: "In answer to inquiries from London bankers and accepting houses here, bankers' committees are replying that under Standstill Agreement credit givers should, unless they exercise the option to go under cash advance of 60 days or less before the expiry of date of the agreement, continue accepting drafts up to February 29, 1932 STOP Please confirm that if this procedure be followed, Germany will in any settlement or in new Standstill Agreement, if any, refuse allowing any discrimination between obligations assumed under the present Standstill Agreement which matures February 29th, 1932 and those which mature after that date STOP This is in accordance with intention expressed in memorandum attached to the agreement"

I replied as follows: "Acknowledge with thanks receipt your cable 105 concerning continued acceptance of drafts drawn under Standstill Agreement STOP German Government and Reichsbank in accord with German bankers' committee consider it understood that in later settlement no discrimination is exercised between drafts drawn under the Standstill Agreement irrespective of whether such bills mature before or after February 29, 1932 . We shall maintain this viewpoint at the coming negotiations. I shall suggest to all other bankers' committees participating in the agreement to follow procedure of English bankers' committee" STOP

I should appreciate it if the American bankers' committee would act according to the course taken by the English bankers' committee. I should thank you for relaying this cable to the American bankers'

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committee and should be particularly grateful for an early reply

LUTHER

FEDERAL RESERVE BANK
OF NEW YORK

Incoming Cablegram

Berlin, November 16, 1931.

For Governor Harrison

Federal Reserve Bank of New York

New York

No. 644 CONFIDENTIAL FOR GOVERNOR

Your cables Nos. 282 284. Referring to your question No. 282 paragraph Two (C) I beg inform you that the representatives of the German bankers committee are Mr. Schlieper and Mr. Jeidels. These gentlemen as well as the Reichsbank are prepared to discuss any question connected with the Standstill Agreement at any time with representatives of foreign creditors. It is however doubtful which procedure should now be adopted in this respect since the suggestions elaborated by Germany with regard to the amortization of short term liabilities have met with political difficulties in spite of our intention to aim at negotiations on merely commercial principles. We felt that we should observe a reserved attitude in this respect because the Berlin Ambassador of the United States Mr. Sackett has on the 30th October and later on repeatedly declared to official and private quarters in Berlin that according to his opinion private debts are not enjoying priority but that the settlement of political debts ought to take place prior to that of private debts. Simultaneously the French Government informed us that the dealing with the reparation problems by the Advisory Committee provided by Young Plan ought to be the first step according to the Hoover Laval conversation. The French Government also informed us that any German attempt to have Standstill negotiations opened prior to that step

would be incompatible with the way of procedure agreed upon between President Hoover and Mr. Laval and would thus meet with France's vigorous opposition. It is true that Mr. Sackett on November 14 towards the Ministry of Foreign Affairs has supported the opinion of the American Bankers Committee regarding the treatment of private debts independent of that of the political one, but the negotiations with the French Government of which now the development of the whole situation depends to the largest extent as a consequence of the Hoover Laval conversation is still at a point where any German initiative concerning the private debts would bring Germany into the dangerous position that France regards Germany's attitude as ambiguous. As long as this political impediment for Germany making suggestions concerning the settlement of private debts in which direction Germany continues very energetically her endeavors towards France is not removed I cannot see which procedure to be adopted with regard to the negotiations desired by the American banks. Furthermore it seems to me that the other groups of countries should also take part. May I ask you to kindly give me your advice and make suggestions in this respect. I beg to convey to you my special thanks because in this difficult situation you devote yourself so indefatigably to the task of mediation.

Luther

INCOMING RADIOGRAM

London November 16/31

Governor Harrison

Fedreserve NY

We have been informed by Governor Norman of the contents of Governor Harrison's cable* to Dr. Luther. We are in complete sympathy with the four points mentioned. For discussion of these and other points and to try to ascertain any plans the Germans may have in mind we are as the London Committee cabling Luther our agreement with your points and through him taking occasion to invite Schlieper and Jeidels to come to London as soon as possible. We are reminding our Government that they have in conjunction with the other Governments concerned at the July conference in London undertook to cooperate in maintaining the financial stability of Germany and in reliance on this undertaking and at the further request of the Governments the short term creditors relinquished certain rights to repayments and so forth which they then possessed and that we still rely upon them not to acquiesce in any arrangement whereby the short term creditors would be prejudiced.

Holland Martin

For London Committee

* See cable no. 269 to Luther

FEDERAL RESERVE BANK
OF NEW YORK

Outgoing Cablegram

November 17, 1931

Dr. Luther
Reichsbank Berlin

No. 288 PRIVATE AND CONFIDENTIAL FOR LUTHER

ONE I have received your No. 644 in reply to my Nos. 282 and 284.

TWO I appreciate the procedural difficulties referred to in your cable but in spite of much confusion and some misunderstandings it seems to me personally that the procedure which Germany should now follow is clear and definite. As long as you have been good enough to ask me for my private views I shall set them forth frankly and personally without in any way speaking for my government or the private bankers:

(a) The position of the New York private bankers and the American Government has I think been definite from the outset that private debts must be dealt with and settled separately from the political debts and their settlement therefore is not and should not be made a matter for negotiation by any committee which may be appointed under the Young Plan.

(b) So far as I am aware the American government has never taken the position that the negotiation of private debts should be delayed either until the settlement of the political debts or even until the appointment of the Young Plan committee. As I see it, therefore, there is no reason from the point of view of the American government why Germany should not comply immediately with the request of the New York bankers to begin private negotiations of private debts with the American bankers' committee and with such other private committees as may be appointed by other creditor countries.

(c) I now understand from your cables, however, that the position

of the French government is that the Young Plan committee should be appointed first. But even if this is the present position of the French government, which I had not previously known, it is not wholly within the power of Germany to call for an immediate appointment of the advisory committee strictly within the terms of the Young Plan? If that is done the German bankers would then be quite free, as I understand it, even in the face of the position which you advise me the French government has taken, to commence immediate negotiations with private bank credits.

(d) Reports which I get from the press intimate however that the difficulty is that the discussions in Paris have been delayed by Germany's request for an enlargement of the existing powers of the advisory committee. Of course I have no comment to make as to the wisdom or propriety of any efforts Germany may make to enlarge the general powers of the advisory committee, but it does seem clear to me that nothing would be worse in its effect upon Germany's credit in this country than to attempt to subject the settlement of private debts to a committee appointed under the terms of the Young Plan to consider political debts. The settlement of these two questions must in my opinion be negotiated separately and distinctly.

(e) Private commercial credits are at the moment a fundamental basis of Germany's trade. Her whole business structure as well as her credit standing in the world markets depends upon her conscientious and fair treatment of those debts with her private creditors. Those private credits were granted in good faith to German nationals on the basis of individual

credit judgment. They were not granted to the government nor are they in any sense political debts. Any attempt to confuse them with political debts or to settle them through a committee set up to consider political debts would in my opinion be ruinous to Germany's credit standing and make impossible any satisfactory settlement of its short term banking credits along commercial lines.

(f) So, in conclusion may I suggest in answer to your inquiry, that if as you indicate German bankers earnestly desire promptly and satisfactorily to negotiate a settlement of their private debts to individual bankers in this and other countries there must not be the slightest basis for any assumption, even though erroneous, that there is any desire or attempt to compromise those private debts through any confusion with reparations or other political questions. I believe nothing could be more detrimental to the restoration of the German economy than any such impression. It is for that reason that the New York bankers have so seriously urged the need for immediate consideration of the private debts quite apart and separate from political debts.

THREE I am sending a copy of this cable privately to Governor Moret. Many thanks for your frank explanation of the difficulties as you see them.

HARRISON

INCOMING CABLEGRAM

Basle November 18, 1931
New York, November 18, 1931

Federal Reserve Bank of New York

New York

No. 650 PERSONAL FOR HARRISON

- ONE Confidentially advised we may tomorrow received
official German request for Advisory Committee
- TWO This will raise question of action you wish to
take under paragraph 128 of Young Plan
- THREE Germans and French have agreed that besides
minimum of 7 --- there shall be co-opted a
Swede, a Dutchman, a Swiss and a Yugoslav
- FOUR Germans desire to open up whole question of
permanent revision of plan whereas French desire
to limit discussion to crisis measures such as
a further one or two year moratorium for con-
dition annuities and the payment of the
unconditional annuities through deliveries in mind
- FIVE British desire to force issue of priority for
private debts and to help Germans in securing
entire suppression of all reparation payments
for next few years and if possible for all time.

SIX All desire earliest possible meeting of the committee with a view to preparation of report which would be basis for governments action at governments conference contemplated for early in January. Understand that agreement has been reached that question of manner of repayment of private debts will not be handled by the Advisory Committee which nevertheless in its deliberations on German economic conditions may take account of the existing short term credit situation

SEVEN Upon formal receipt of German notification shall immediately cable Governors mentioned in paragraph 128 Young Plan and shall cable you officially asking whether you will nominate a member of the committee, unless such an official cable would embarrass. If so please wire alternative you desire as prompt action must be taken by us

Fraser

7668

November 18, 1931

Paris, November 18, 1931

Federal Reserve Bank of New York

New York

No. 298 CONFIDENTIAL FOR GOVERNOR HARRISON

ONE I thank you very much for sending me for my personal information text of cable(*) you have sent to Luther. I read it with the greatest interest and am glad to note our perfect conformity of views on this highly important problem. French government in their conversation with German Ambassador in Paris insisted several times along same lines with great emphasis. Contrary to what ~~was~~ is said in your communication they have never contended that Young Plan committee should be designated previous to private negotiations, they wish on the contrary that these negotiations take place as soon as possible. Their thesis is that work of Young Committee could refer to result of negotiations above private debts only by indicating that these negotiations are commenced directly between creditors and debtors. Bank for International Settlements will ask you to nominate American member to Advisory Committee. It would be highly advantageous that on account of great importance of interests implicated the American designated should be perfectly acquainted with European matters and specially with German matters. I understand in course of conversation between French Finance Minister and Mr. Jay of J. P. Morgan & Company name of Parker Gilbert has been put forward. Best regards

Moret

(*) Cable No. 288, Nov. 17/31 to Luther

INCOMING CABLEGRAM

New York, Nov. 19, 1931
Berlin Nov. 19, 1931

Federal Reserve Bank of N. Y.

New York

No. 655 FOR GOVERNOR HARRISON

The German Debtor Committee has just sent the following cable to the American Bankers Committee:

"In view of the expiration of the Standstill Agreement on February 29 the German banks represented in the German Bankers' Committee as well as the representatives of Germany's industry consider it advisable ~~to~~ in the interest of German debtors interested in the settlement of German short term foreign debts to suggest the beginning of negotiations with the representatives of the foreign creditors. We propose Berlin as the place for such meeting and should appreciate your participation by sending delegates. We assume that all committees would be agreeable to have this meeting held in November and shall let you know the date. Please reply to Schlieper Deutzentra Berlin German Debtor Committee Schliepper Jeidels Kastl."

I transmit this to you with my best regards

Reichsbank President
Dr. Luther.

November 20, 1931

Bank for International Settlements

Basle

No. 469 CONFIDENTIAL FOR FRASER

Replying to the request contained in your No. 653 I
nominate Mr. Walter W. Stewart, Chairman of the Board of
Directors of Case Pomeroy & Co. Inc. as an ordinary member of
the Special Advisory Committee. Mr. Stewart will be prepared
to sail for Europe on the Olympic on November 28 the first
available steamer

Harrison.

Basle, November 20, 1931

Federal Reserve Bank of New York

New York

No. 652 PERSONAL FOR HARRISON

ONE Am informally advised by Reichsbank that German Committee of private bankers consisting of Schlieper Jeidels and Dr. Kastl will tonight cable various foreign creditor banking committees inviting each to send a representative or representatives to Berlin before the end of this month for the purpose of discussing the future of the Standstill Arrangement.

TWO German Consul in Basle has received official German notification and will deliver it formally today. Consequently shall cable you officially within a few hours reference to American member Special Advisory Committee.

Fraser

INCOMING CABLEGRAM

New York, November 20, 1931
Basle November 20, 1931

Fed. Res. Bk. of N. Y.

New York

No. 653 FOR GOVERNOR HARRISON

- ONE Bank for International Settlements today received memorandum from German Government requesting the Bank for International Settlements to convene the Special Advisory Committee provided for by the new plan. Am mailing you complete memorandum.
- TWO Kindly refer to paragraphs 127, 128 and 129 of the Experts' Plan and telegraph me name of the person you nominate thereunder
- THREE Similar telegrams being addressed to other six Governors mentioned paragraph 128.

Fraser.

Berlin, November 20, 1931.

For Governor Harrison

Federal Reserve Bank of NY

New York

No. 658 CONFIDENTIAL FOR GOVERNOR

In reply to your cable No. 288 I beg to refer to my yesterday cable through which I informed you of the initiative now taken by the German private debtors with a view to begin immediate discussion with their foreign creditors about settlement of short debts problem on commercial lines. Your cable No. 288 which was particularly valuable to me arrived simultaneously with a news purporting that France had taken a new attitude. Thereby we were enabled to have the initiative of German private debtors taken without delay. I thank you sincerely for explaining your point of view so clearly and openly in your last cable and beg to add that I am very glad to share in your opinion wholeheartedly.

Luther

November 20, 1931

Basle, November 20, 1931

U R G E N T

Personal Harrison

Federal Reserve Bank of New York

New York

No. 654

The present cable is sent in several sections.

This is Section ONE

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

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

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

Section TWO

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

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

Section THREE

Accordingly, the Experts who cooperated in carrying out the recommendations of the London Conference kept ever in mind the provisional character of all these measures. For instance, it says in the Standstill Agreement that the contracting parties consider the adjustment provided for therein effective only "until a permanent solution of Germany's short term debt shall have been found." The report of the Basle committee of Experts closes with the urgent recommendation "not to lose any time in taking the necessary measures to create a situation

which will make possible financial transactions designed to bring to Germany and thus to the world the relief so urgently needed." In the months since passed the economic and financial situation in Germany has grown extremely acute. The facts which characterize the present situation are generally known. The pressure of the crisis has also had the most serious effect in other countries. The world is realizing more and more clearly the close connection between the various individual financial problems created by the present situation and the necessity of handling them as soon as possible in their entirety. In considering how this task might best be handled, the idea to call the Special Advisory Committee has recently come to the foreground.

Section FOUR

Since according to the provisions of the New Plan the convocation of a special advisory committee depends upon the request of the German Government, the German Government has decided to make this request so that everything has been done on its part to clear the way for comprehensive joint measures of the Governments. According to the New Plan a statement by the German Government is required to the effect that "in good faith it has arrived at the conclusion that Germany's currency and economic structure are seriously endangered by further transfer in part or in full of the postponable annuities." In making this statement the German Government feels obliged to say that this statement does not do justice to present conditions. Since the New Plan was drawn up, the economic and financial situation throughout the world and particularly in Germany has been fundamentally changed through an unprecedented crisis. As the New Plan assigns to the Special Advisory Committee the task of investigating the situation from all angles, the Committee must examine the problem in its entirety and with due consideration for all

factors involved. It must particularly take into account that the question of Germany's private indebtedness must be newly regulated before the end of February 1932 by means of an agreement to be reached between foreign creditors and German debtors.

Section FIVE

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

Berlin, November 19, 1931

UNQUOTE

Fraser

My

Received in German.

FEDERAL RESERVE BANK
OF NEW YORK

December 7, 1931.

Dear Governor Meyer:

Referring to our telephone conversation of this afternoon, it occurs to me that you might be interested in reading over the enclosed file of cables which concerns the various aspects of the German situation. Many of them relate themselves primarily to a reconsideration of the so-called Standstill Agreement between the private bank creditors and their German debtors. Fundamentally, however, the discussions of the exchange position of the Reichsbank were, so far as I was concerned, designed principally to pave the way for appropriate consideration of the central bank credit to the Reichsbank when the matter of a renewal is raised. As you will observe, the first of these cables was dated November 6. Since that time the Reichsbank and the German government have both taken steps designed more effectively to control their foreign exchange position.

Two members of the Reichsbank staff are now at the Federal Reserve Bank of New York and are working on a summary of decrees of the government and regulations of the Reichsbank which will portray the various steps that have been taken to stop any unnecessary leakages of exchange. I asked for such a report on their arrival last week, but it is not yet available. I shall,

however, keep you informed of any further information I get with respect to the whole situation. If there are any specific questions which the Board has in mind, I hope you will please be good enough to let me know.

Faithfully yours,

GEORGE L. HARRISON

Governor

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

Enc.

December 18, 1931.

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

Dear Governor Harrison:

This is the first opportunity I have had to
thank you for your letter of December 7, with which you
enclosed a file of cables relating to various aspects
of the German situation.

I have brought your letter and its enclosures
to the attention of the members of the Board.

With cordial regards,

Sincerely yours,

EUGENE MEYER

Governor

Carroll

f

January 3

For CIRCULATION:

Mr. Hamlin ✓

Mr. James ✓

Mr. Magee ✓

Mr. Miller ✓

Mr. Pele *absent*

Mr. Harrison ✓

Mr. Morrill ✓

Mr. McClelland ✓

Mr. Wyatt ✓

Mr.

Mr.

FEDERAL RESERVE BANK
OF NEW YORK

January 16, 1932.

Please note initial
and return to GOVERNOR.

Dear Governor Meyer:

Let me acknowledge your letter of January 14 with the enclosed report from Berlin transmitted through the State Department.

Mr. Burgess tells me that the paragraph purporting to quote "The Burgess Plan" is probably a relic of newspaper stories that appeared in Germany while he was on the ship in passage from the United States to France last October. They were made out of whole cloth, and the explanation appears to be that a German crank who had a scheme and wanted to get attention paid to it, put it out as "The Burgess Plan," and it was so copied in many parts of Germany. The whole thing is, of course, perfectly ridiculous, and Mr. Burgess had nothing whatever to do with it.

I am returning the report herewith.

Very truly yours,

George L. Harrison
George L. Harrison
Governor

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

Encl.

RECEIVED
JAN 16 1932
OFFICE OF
THE GOVERNOR

36019

Coverlets

No. 291

TRIPPLICATE

VOLUNTARY REPORT

FED. RES. BD.

This copy is for -----
For, & Dom. Commerce
Copy also sent to -----
and to -----
TREASURY

NOT FOR PUBLICATION

PROPOSED METHODS OF CONSOLIDATING GERMAN SHORT TERM
INDEBTEDNESS

From Consul
John H. Morgan

Berlin, Germany.

Date of Completion: December 9, 1931
Date of Mailing: December 17, 1931

Approved:
.....
George S. Messersmith,
American Consul General.

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In view of the impending discussions between the representatives of American, Dutch, Swiss, English and French banks and the committee appointed by the German banks on the further regulation of German short term debts following the termination of the standstill agreement in February, 1932, it seems of importance briefly to review the various proposals for the consolidation of German indebtedness.

ESTIMATE OF INDEBTEDNESS

The total amount of German short term debts at the end of July, 1931, was estimated by the Wiggin-Layton report at about 8 billion reichsmarks, or approximately \$1,900,000,000, and that of long term debts at about 9 billion reichsmarks, or approximately \$2,144,000,000. On the basis of the information obtained from the questionnaires which all individuals and companies having foreign obligations above the amount of 50,000 reichsmarks were required to fill out by the emergency decree of July 27, 1931, the Reichsbank now estimates that short term debts amount to about 12 billion reichsmarks, or approximately \$2,880,000,000, and long term debts to about 11.5 billion reichsmarks, or approximately \$2,740,000,000.

FOREIGN PLANS FOR THE CONSOLIDATION OF INTERNATIONAL INDEBTEDNESS

1. Montagu Norman's Plan

Mr. Montagu Norman, the President of the Bank

of

England, long ago suggested that an international institute be entrusted with the task of issuing obligations, the proceeds of which should be devoted to enabling the debtor nations to fulfill their international obligations.

2. The Franqui Plan

The Plan of the former Belgian Minister of Finance also provided for an international bank which was to transform international short term debts into obligations due in 3 to 5 years. The immediate demands of the neediest creditors would, according to this Plan, be satisfied by the rediscounting of these new obligations by the strongest banks of issue.

3. The Rist Plan

The French professor and financial expert, Charles Rist, proposes that the banks of issue of the principal debtor nations, especially Germany, guarantee the obligations of the individual debtors by endorsing their acceptances and thus making them eligible at the banks of issue of the creditor nations.

4. The Burgess Plan

Mr. Burgess, of the Federal Reserve Board, proposes that the gold of the two largest banks of issue, the French and the American, be deposited with the Bank for International Settlements and that that Bank should issue gold certificates against this gold stock. The Bank for International Settlements would then act as central creditor and in this capacity liquidate a great part of the frozen credits.

5. The Quesnay Plan

Finally, the Plan of M. Quesnay, a director of the Bank for International Settlements, must be mentioned. M. Quesnay proposes a general reduction of the gold cover at the banks of issue and a methodical and general increase of the circulation of currency which would enable the banks to grant their debtors additional credits and thus enable them to settle their obligations to their foreign creditors.

GERMAN PLANS

1. The Schmitz Plan

In view of the fact that Dr. Schmitz, Financial Manager of the ^{I. G.} Farben Company, has recently acted on several occasions as adviser to the German Government and as a member of the standstill committee of the Federal Economic Advisory Council (Wirtschaftsbeirat), the Schmitz Plan must be regarded as of some importance. Like Mr. Burgess, Dr. Schmitz proposes that the Bank for International Settlements issue gold certificates which are to serve the purpose of an immediate mobilization of the claims of the creditors. The central banks of the debtor nations would, on behalf of their individual debtors, issue certificates of indebtedness bearing 5 per cent (4 per cent interest and 1 per cent for a sinking fund). These certificates would be delivered to the Bank for International Settlements against the gold bonds. These certificates of indebtedness would be redeemed through the Bank for International Settlements over a period of 41 years by means of the sinking

fund installments. Dr. Schmitz estimates that in order for the Bank for International Settlements as central creditor to take over a sufficient amount of the present international short term indebtedness, it would be necessary to issue gold bonds in the amount of about 5 billion reichsmarks. Dr. Schmitz claims that the gold substitute thus created would relieve the world from the burdensome weight of the absolute or relative scarcity of gold and would create an additional buying power which would favorably affect the world economic situation.

Critics of the Schmitz Plan maintain that its basic assumption of an existing scarcity of gold is not consistent with the facts. Moreover, these critics claim that the Plan provides for consolidation of short term debts exclusively by means of the creation of money without taking into account the necessity of the creation of additional credit. Other critics consider it imperative that, if the world's surplus gold should be mobilized in the manner proposed by Dr. Schmitz, the gold bonds should be covered 100 per cent in order to avoid an increase in the note circulation. In answer to claims that the creation of a gold substitute alongside existing monetary gold reserves would lead to insurmountable difficulties, Dr. Schmitz suggests that instead of the independent issue of gold substitute bonds by the Bank for International Settlements, the nations having an excess of gold should place at the disposal of the Bank for International Settlements

(without actually shipping the gold) that portion of their gold supplies which is not needed for the internal cover of the note circulation. The effect of this action, according to Dr. Schmitz, would be to strengthen the international position of the gold standard and thus offer an incentive to the countries having an excess of gold to make sufficient amounts of gold available to the Bank for International Settlements, while the issuance of a larger amount of gold notes would promote world economic activity.

2. The Plan of the Federal Economic Advisory Council
(Wirtschaftsbeirat)

The importance of the problem of consolidation of indebtedness has been fully recognized by Germany itself. Immediately after the first plenary session of the Federal Economic Advisory Council established by government decree about the middle of October, a special committee of the Council was entrusted with the task of studying the problem of German short term indebtedness and the prolongation of the standstill agreement. The government was represented on this committee by the Chancellor, the Ministers of Finance and of Federal Economics, the President of the Reichsbank and the Ambassador to France. Four persons, Dr. Schmitz (author of the Schmitz Plan), Dr. Pferdmeiges, Dr. Silverberg, and Dr. Schmitt, all of great importance in the business world, formed the nucleus of the committee. A number of other leading bankers were called upon from time to time to participate in the discussions of the committee.

The

The committee concluded its study by suggesting to the government the adoption of a plan whereby German private debts might be amortized over a period of 10 to 12 years. The discussions of the Economic Advisory Council will form the basis for the preparation by the government of a detailed program to be presented to the international committee of experts.

3. The Government's Program

The German Government, apparently in consequence of the pronounced views which the French Prime Minister has expressed with regard to the priority of the political reparations debts over private debts, appears unwilling to make public as yet any definite suggestions in relation to a prolongation of the standstill agreement and the problem of the consolidation of the German short term debts. Some features of the supposed government program have nevertheless been reported in the newspapers and as these reports have not been repudiated, they may reasonably be considered as indications of the policy of the government. The Consulate General has also gained some idea of the government's point of view through discussions of a more private and intimate character with certain high government officials.

From these reports and discussions it appears that the government sees no possibility of the repayment of the short term debts on a considerable scale at the end of the standstill agreement, in view of the fact that the estimate of the claims of foreign banks in July of this year amounted alone to more than 8 billion

reichsmarks, and will therefore probably suggest a system of slow liquidation of the debts.

It is believed by German officials that in carrying out this plan, credits should be divided into two classes, frozen and liquid. The frozen credits should be liquidated by an institution created for that purpose. The individual debtors would be required to give additional securities to this institution. These credits should not be liquidated as a single group, but by means of individual agreements. The liquid assets as, for example, reimburse credits, should be treated in accordance with a definite program of amortization spread over a certain period. This settlement of the consolidation of German debts should, of course, first of all be properly adjusted to the German trade balance and the market capacity of foreign countries for German goods. If a surplus trade balance amounting to 2 billion reichsmarks annually, which is rather optimistic, is taken as a basis and the regular redemptions of about 1 billion reichsmarks for interest and amortization of middle and long term debts and the interest on short term credits are taken into account, responsible German officials believe that the German capacity to pay would amount to about 700 million reichsmarks a year. This would mean a redemption of German short term indebtedness within a period of about 10 years.

The German officials interviewed emphasized that it is in the interest of the creditor nations as well as that of Germany that rapid repayment of any considerable

amounts should not be insisted upon since German capacity to pay depends not on her property but on her income. They point out that if this income is to be preserved, every regulation of the question must recognize the fact that the machinery of production must be kept going and that defensive measures against forced German exports will bring no relief to the world economic crisis as payment can be made by Germany only by means of exports. Out of the large surpluses of recent months, Germany repaid between July 31 and the middle of November, 1931, the astounding amount of between 1 and 1.5 billion reichsmarks but the devaluation of the currency in about 24 countries and the numerous defensive measures taken indicate that Germany will hardly be able to maintain the large surplus of her trade balance.

The German Government in its request for the calling of the special examining committee provided for under the Young Plan, clearly expressed its opinion that political and private debts are closely connected and must be considered together. A high official when asked about the government's opinion of Mr. Laval's recent speech in which he defended his view that reparations debts have priority over private debts, replied that legally Mr. Laval is right but that politically his position is dubious and that economically and financially the inseparable connection of the German public and private debts is beyond doubt. He stated that if the priority of private debts is not recognized, it will severely affect German industry and solvency

and will finally result in a further international financial crisis which will probably surpass the present in intensity and extension.

Note: Dr. K. Mattusch, an employee of this Consulate General, is entitled to special credit for collaborating in the preparation of this report.

Sources: Dr. Gestrich, of the Presidency of the Reichsbank;
Oberregierungsrat Dr. Lautenbach, of the Reichswirtschaftsministerium;
Dr. Wingen, of the Foreign Office;
Dr. Mosler, Director of the DD Bank;
Dr. Mohrus, Director of the Dresdner Bank;
Geheimrat Demut, of the Berlin Chamber of Commerce;
Dr. Simmonds, Director of the Reichs-Kredit-Gesellschaft;

Report of the Basle Expert Commission (Wiggin-Layton report);

Memorandum on the Gold Problem and the Problem of International Short Term Indebtedness, by Geheimrat Dr. H. Schmitz, October 8, 1931;

History and Meaning of the Standstill Negotiations, address delivered by Geheimrat Dr. H. Schmitz, December 2, 1931.

File No. 851

JHM/g

A true copy of
the signed original.
S.

Translation of
telegram dated
February 22, 1932.

Leuther

The general depression, which is particularly acute in Germany, has had a far reaching effect on our credit institutions. While the panicky excitement of wide classes of the population has subsided, as is indicated by the growth of savings deposits, nevertheless confidence has by no means been generally restored. The banks have suffered serious losses in the collapse of many firms and through the depreciation of many of their loans and investments. In this way they have lost many of their reserves and have more or less impaired their capital. Their earnings have declined through reduced activity. The Government of the Reich and the Reichsbank have decided, therefore, upon a far-reaching plan or reorganization for those phases of the banking situation that are particularly important for economic life. The Government will take up the losses of banks that have not been otherwise covered by turning over for the present non-interest bearing Treasury obligations of different kinds and maturities and will thereby also help in the building up of new reserves and capital. The Reich is to be repaid over a long period of years from earnings. The banks will improve their balance sheets by combining their capital, which then will be correspondingly increased. The Reichsbank will contribute considerably to that by using the Gold Discount Bank which will utilize for this purpose certain special trusts. The Gold Discount Bank will in this way acquire stock of reconstructed banks and will increase its own capital by an amount of 200,000,000 r.m. through the issue of special stock which the Reichsbank will take over and pay for.

The Reichsbank is able to do this because it has large reserve funds, which for 1931 after payment of dividends will increase further by 95,000,000 marks. The Reichsbank expects this to strengthen and consolidate the banks which are its principal debtors, and expects no serious weakening of its position because the funds employed will be in large measure repaid from the liquidation of large but essentially sound loans. The Gold Discount Bank will handle the blocks of bank stocks through these trusts and will maintain a clear distinction between its old stock and its new stock so that its other affairs will remain undisturbed. The independence of these trusts which will handle the stock of the private banks, will be assured by many means so that there will be no danger of mixing the business of the bank of issue with the management of the interests of private banks. The banks are working hand in hand with the Treasury and the Reichsbank and they have had some changes in management. They are trying to reestablish their earning capacity through mergers, combinations of branches, and in other ways. The most important merger, between the Danat and the Dresdner Bank, has been decided upon with a thorough going cleaning up of the balance sheets, in part by the contribution of government securities, but more largely from the profit of coining existing metal owned by the Government with the participation of the Reichsbank. The participation of the Government as well as of the Reichsbank in the affairs of the Gold Discount Bank is considered only temporary.

It is intended to have the stock of the Gold Discount Bank sold to the public as soon as possibility develops. We hope by these means to have taken a step which will materially contribute to the strengthening of our banking and credit situation and to the general confidence in the banks and their management.

LUTHER President of the Reichsbank