244.211 - Depression Statistics nov 1933
(June 1933 - ~~date~~)
Statistics

TRANSFER

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date November 10, 1933

To Governor Black

Subject: Articles in United States, British and German press

From Miss Evans

W.S.E.

244.311

Depression

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16—852

I attach summaries, selected from the forthcoming Weekly Review of Periodicals, of certain recent articles in the United States, British and German press.

They are from the Bankers' Monthly, the London Statist, Montagu Weekly Review, and Die Bank. Titles follow:

Laws can improve banking
Effects of the American gold policy on the franc
The composite character of the German banks
Report of the Netherlands Bank for the third quarter

Laws can improve banking, by E. S. Woolley.
Bankers Monthly, November 1933, page 583-5: 638.

It seems certain that banking legislation will again be given consideration at the coming session of Congress. They will be beneficial if they are properly planned. Twelve suggestions for legislation are given:

1. Legislation must guard the interests of both banks and bank depositors.

2. Laws should set up qualifications for bankers, and should be as rigorously enforced as in the case of other professions.

3. Free services should be prohibited.

4. Section 5169 of the National Bank Act should require the Comptroller to issue charters only when the community needs additional banking facilities.

5. It should be unlawful for banks to pay deposits on which a notice has been agreed upon, except on the giving of notice in every case.

6. A new type of thrift account might well be arranged, from which certain small withdrawals are allowed at regular intervals without notice.

7. Section 30 of the Banking Act of 1933 should be amended to include "unprofitable" as well as "unsafe and unsound practices."

8. Politics should have nothing to do with the appointment of bank examiners.

9. There should be a provision for the discharge of bank examiners "for the good of the service."

10. Salaries of bank examiners should be made attractive to the best qualified men.

11. The Federal reserve banks should be required to employ field representatives qualified to make suggestions for the improvement of accounting and operating systems of member banks.

12. The trust business should be divorced from commercial banks.

Effects of the American gold policy on the franc.
London Statist, October 28, page 568.

The market certainly realizes that at present there is no chance of France's "walking off" the gold standard, nor is there any prospect of her being forced off as yet. The reserve position of the Bank of France is immensely strong and the withdrawal of all foreign funds that have temporarily sought refuge in France, even if it had to be met by exports of gold, would still leave that reserve at a figure more than adequate to secure the stability of the French currency. The one danger is that of a domestic flight from the franc, leading to withdrawals of gold from the central bank, leading in their turn to special protective measures which at first would be intended to have only domestic application, but which ultimately could not fail to result in an embargo on gold exports. Fortunately no distrust has appeared, and if it did, the authorities know enough of the psychological aspects of monetary technique to avoid blunders.

Yet it would be foolish to pretend that the franc has withstood recent pressure on its own merits and by its own inherent powers of resistance. Much, if not most of its strength has been imparted to it by the weakness of the dollar. The foreign exchange market is a sphere in which the laws of relativity really do reign undisputed. Although absolutely, the position of the franc has deteriorated, ~~xxxx~~ relatively to that of the dollar it has improved. From the point of view of franc stability, therefore, the new developments in the United States have come at a very fortunate time.

The composite character of the German banks.
Die Bank, October 18, 1933, page 1493-4.

In the general meeting of the Allgemeine Deutsche Kredit-Anstalt, which took place at Leipzig on October 14 and decided on the further writing down of the capital (from 20,000,000 to 15,000,000 reichsmarks), there was a discussion of the organization and the purposes of the German great banks, which is important in view of the forthcoming banking inquiry. The question was raised by the critics who, a short time before, at a meeting of the savings banks, had found fault with the private joint-stock banks. The chairman of the meeting pointed out to the critics as they commented on the losses and risks which were involved in the business conduct of the banks, the fundamental fact that during the last ten years before the crisis the German credit banks had taken the decision to cooperate with the establishment and development of German business; that they had fulfilled this task to the fullest extent; and that such active cooperation in industrial development without risk is unthinkable.

This statement is just, and it was made at the right moment. Today, when persons in high places are wondering whether ~~whether~~ the credit system should not be cast in a new mold, it should not be forgotten that the German banks, and especially the great banks, during their long history as composite or universal banks have not only fulfilled ~~expectations~~ but far exceeded ~~them~~ the expectations placed in them at the time of their establishment -- mostly in the 50's and 60's of the past century. More than once as a result of their success and of the striking example which they furnished, consideration was given in England to the German organization, and a move was made to adopt the principle of composite banking in London, thereby giving something of the German élan to the rather conservative British industry. The London "Big Five," of course, always repudiated such a radical betrayal of their tradition, and they were right about it for the English specialization, like everything which grows organically, is fully justified, and some German banks shortly before the war even turned towards a certain approximation of the British system.

Since the war, nevertheless, several London banks have begun to look with favor on the Continental principle of composite banking, and have gone into the field of industrial financing without taking the roundabout way through promotors and underwriters. It is certainly true that they have had to learn by experience that the risk increases with the efficiency of the method. They have suffered heavy losses and are tending again to the old and safer way.

For England, which is well supplied with capital, this is probably wise just as it would be wise for Germany today to specialize if the increase of prosperity of the last ten years before the war had continued uninterruptedly until the present. But this is not the case. Germany, even more than fifteen years ago, is compelled to aim at great results with relatively small capital, so that any change to a new principle might well cause this country to rue the day when it departed from its tradition and changed in any important respects the well-tried instrument of industrial assistance; only for the sake of avoiding risks, which in spite of some growth never exceeded what could be borne, and even in 1931 -- in spite of the notoriously small cash reserves of our banks -- originated in causes which had not the least thing to do with the organization of the banking system.

Report of the Netherlands Bank for the third quarter.
Montagu Weekly Review, October 26, 1933, page 551.

The balance sheet of the Netherlands Bank for the third quarter shows a great change in conditions since the close of the second quarter. Then there was a great deal of tension coupled with a stiffening of the money market, withdrawals of gold and a rise in the discount rates. Since then there has been a relaxation of the tension, gold has flowed into the coffers of the bank and discount rates have fallen. A striking feature is the growth of the gold reserve since the middle of July, following the leakage which started in the middle of April as a consequence of the fear that Holland would also abandon the gold standard. It appears that both at home and abroad confidence has been awakened by the declarations of the Government that nothing will be neglected that will contribute to the maintenance of the gold standard. As a result, the demand for gold has entirely disappeared, and has indeed made way for the opposite tendency.

An examination of the details of the gold reserve reveals an increase in the amount of minted gold. This is the result of the handing over to the Netherlands Bank of coin in private hands. In consequence of the raising of the discount rate the holding of coined gold became too expensive a luxury, quite apart from the fact that the Netherlands Bank refused to grant discount facilities to private banking institutions that were still in possession of gold stocks. This once more proves that the gold holdings of private persons or private banks constitute~~s~~ an important reserve for difficult times. The country still has secret reserves of this kind, so that the gold position is really stronger that the figures of the Netherlands Bank suggest.

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date November 3, 1933

To Governor Black

From Miss Evans

Subject: Articles in British and German press

244
244.211
Depression Start

W. S. E.

I attach summaries, selected from the forthcoming Weekly Review of Periodicals, of certain recent articles in the British and German press.

They are from the London Financial News, and Die Bank. Titles follow:

Transfer as an instrument of commercial policy
The German debt scandal again

Transfer as an instrument of commercial policy.
Die Bank, October 11, page 1454-5.

Germany is taking advantage of the wishes of her foreign creditors who are affected by the transfer moratorium for proportionally larger payments in foreign exchange to improve the position of German exporting. This is a perfectly logical thing to do, for Germany can discharge her foreign obligations only by exporting goods. This is a platitude which was accepted by the World Economic Conference, and is accepted in theory by every creditor country. These same creditor countries, however, in practice refuse to accept the practical application of the theory; they urge payment as soon as possible but refuse to enable Germany to make payment by increasing their purchases of German commodities. The first country to reconcile theoretical reasoning and practical action is Switzerland. After lengthy negotiations Switzerland has promised Germany to take additional imports (especially in coal and coke for the State railways), in return for which the Reichsbank has undertaken that Swiss creditors shall receive the full value of their maturing interest claims in foreign exchange and not -- as provided in the transfer moratorium -- half in deposit certificates (scrip). This arrangement has been opposed by other creditor countries, especially by Holland and England. The British financial press declares that any concession to Switzerland must also be made to England; that to show preference to Swiss creditors is not admissible. The British Government is being urged to establish a foreign exchange clearing system with Germany as a counter-measure. In all this stir, it is rather striking that no mention is made of the fact that it was England herself who, as leader and pace-maker of the protective tariff movement, brought about a change in the conditions under which German business was meeting its foreign obligations. Moreover, the most-favored-nation agreements, with which the German - Swiss arrangements are said to be incompatible, do not apply in the case of debt transfers. The president of the Reichsbank, Dr. Schacht, has slao declared publicly that Germany stands ready to make similar arrangements with any foreign Government which is willing to make possible, through similar additional purchases of commodities, the complete transfer in foreign exchange to its nationals who have claims in scrip. For, as Dr. Schacht continued, it is not Germany's wish to dishonor her obligations or to postpone payment, but to discharge her indebtedness.

The German debt scandal again. Editorial.
London Financial News, October 19, 1933, page 4.

On the unjust discrimination which the German concessions to Switzerland and Holland involve much has already been said. Germany has defaulted on her obligations and has pleaded inability to pay as excuse. Now, having forced the holders of her bonds to accept a moratorium, she has the hardihood to offer a resumption of full payments to such countries as will grant her trade concessions. When the moratorium was under discussion this summer, Dr. Schacht gave assurances that no group of bondholders would receive preferential treatment over any other group; and the bondholders' representatives accepted those assurances. Are the bondholders' representatives now prepared to accept an evasive sophistry in justification of the German debtors' palpable repudiation of that assurance? The bondholders' committee should make some statement, if only to demonstrate the indignation which the German fraudulent preference has aroused in this country.

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date October 27, 1933

To Governor Black ✓

Subject: Articles in British and German press

From Miss Evans

244.311

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Depression

W. R. E.

I attach summaries, selected from the forthcoming Weekly Review of Periodicals, of certain recent articles in the British and German press.

They are from The London Financial News, Lloyds Bank Monthly Review, The London Economist, and Der deutsche Volkswirt. Titles follow:

Beginnings of recovery
The European gold bloc
Banking and the depression
The crisis of the B. I. S.

Beginnings of recovery. Editorial.
London Financial News, October 7, page 4.

The World Economic Survey, to be issued annually by the Economic Intelligence Service of the League of Nations, has just published its second survey. Mr. J. B. Condliffe, who has prepared the survey, is clearly prepared to believe that revival has set in. Only nine out of the thirty countries surveyed are now judged to be in a condition of aggravated depression, while all the rest except one are judged to be either in the stage of "upward turn," "uniform improvement," or "accelerating improvement." This final group includes five countries, of which only one (Belgium) is outside the sterling group -- the other four are Great Britain, Finland, South Africa and India.

The events of the Economic Conference Mr. Condliffe records entirely without comment. On the American experiment he does not feel at ease, but constantly refuses to pass judgment. In the final section on "Symptoms of recovery," however, he permits himself to say that "at the end of July, 1933, there was more confidence and greater economic activity in the world as a whole than at any time since the financial panic began in the spring of 1931," and that "it is probable that apart from speculative advances, there was a more solid core to recovery (than in former abortive revivals during the depression) based on a definite upward swing of the trade cycle."

The European gold bloc, by Norman Crump.
Lloyds Bank Monthly Review, October, page 416-421.

The main motive behind the agreement subscribed to at Paris last summer by the countries of the gold bloc -- France, Italy, Belgium, Holland, Switzerland and Poland -- is undoubtedly fear of inflation. Most of the signatories have already passed through one period of severe inflation; a repetition of this would be regarded as a grave social injustice and would lead to the overthrow of any Government which, by abandoning the gold standard, opened the door to fresh inflation.

Other motives almost equally compelling are the desire of France and Italy to recover the prestige of the franc and the lira; by this recovered prestige to eradicate the tendency to hoard gold; to obviate the necessity for fresh economic adjustments. Politically and economically it would be both dangerous and unnecessary for these countries to abandon the gold standard. The only real danger is an impairment of internal confidence leading to a flight of capital from these countries. A great improvement in confidence, however, followed the gold bloc declaration of common policy.

How long will the gold bloc last? Will external forces prove too much for it? One danger to the gold bloc possibly comes from Germany. German finances are now largely in the hands of Dr. Schacht -- a guarantee that they will be wisely administered; and since no one realizes better than he the dangers of inflation, the world may rest assured that so far as humanly possible, the nominal gold value of the reichsmark will be maintained. Yet Germany is under the pressing need of improving her balance of payments, and in actual practice is beginning to develop methods of conducting her export trade upon roughly the sterling standard. Continental opinion goes so far as to say that Germany is "creeping" off the gold standard, and is by no means confident that the gold bloc could hold out indefinitely against a Germany who, for the purposes of her export trade, had transferred herself from gold to sterling.

It is in many ways in England's interest that the gold bloc should remain in being. Its break-up, and the depreciation of the gold currencies, would destroy the advantage which sterling enjoys from being undervalued, and would probably result in sterling's being overvalued; would be followed by renewed gold hoarding and acute monetary and banking difficulties. The need of supporting the gold bloc will probably gain in importance, if and when the German threat develops.

The net result is that no definite assurance can be given that the gold bloc will remain in being until the affairs of the world have been straightened out, and until the road is clear for general exchange stabilization and a liberation and revival of world trade and finance, but that every effort will be made to maintain the gold bloc, and that today its members have many important factors in their favor.

Banking and the depression.
London Economist, October 14, page 706-7.

A question often asked is why the banking organization in different countries has fared so differently in the present crisis. The answer is to be sought in the structure and methods of functioning of various systems.

British banking places the interests of the depositor first; makes it a rule to embark on no risky venture, and to make no loan for more than a limited period. It is unwilling to risk customers' money in the stock market, but has for years been willing to engage in short-term financing of international trade.

American banking is not unified; it is in the hands of innumerable small independent units of all sorts; it is thus largely dependent upon local business conditions; it is influenced by the American love of speculation; it has no wide and active bill market, and so has been drawn into close contact with the stock market; it has to comply with the complex provisions of numerous State and Federal laws.

Continental banking uses the check less than England or the United States, so that bank deposits represent more a reserve of wealth than money in active circulation. Thus liquidity is less important, and Continental banking puts funds in investments to a greater degree and for a longer time than would be thought wise by British bankers. Continental money markets are less developed than the London market.

The crisis found the British banking system liquid and sound, but with an open position in relation to other countries. The British bankers were unable to realize their foreign balances, while their foreign customers promptly called in the money held by them in London. Thus the British crisis was an external crisis.

In the United States the crisis was internal, brought about by the collapse of trade, commodity prices, and stock market values.

On the Continent the crisis was both external and internal. The practice of using bank deposits for the long-term financing of industry depends upon two conditions -- first, that industry itself remains solvent, and second, that the banks keep the confidence of their customers. In the Continental banking system, a breakdown in any one place quickly spreads all along the line.

The Crisis of the B. I. S.
Der deutsche Volkswirt, October 13, page 51.

The recent session of the Board of Directors of the Bank for International Settlements which considered the German proposals for amending the Reichsbank law (enabling the bank to pursue an open-market policy and doing away with the General Council) disclosed the grave crisis in which the international bank finds itself. The entire staff received notice that their contracts would expire on March 31 of next year. The reason given for this precautionary notice was the desire to cut down personnel and to reduce salaries. A much more important question had also to be considered -- whether, and on what scale the B. I. S. could be kept going. When the Bank for International Settlements was established, it was primarily a bank for reparations; it was to serve as the central depository for German reparation payments, which were then used by the bank to finance deliveries in kind and to make payment on inter-Ally debts to the United States. With the beginning of the Hoover year in June 1931, this function of the bank was suspended. But, in the meantime, the B. I. S. had become the central agency for foreign exchange deposits of central banks, which held on deposit with the B. I. S. a large part of such reserves against notes in circulation as they had not converted into gold. Since the suspension of the gold standard by England, however, and especially since its suspension by the United States, the use of foreign exchange as reserves has become discredited. As a result of these events, the function of the B. I. S. as a center of influence and a place for the exchange of opinions between the banks of issue has lost much of its significance. In May 1931 the bank showed a total balance sheet of 2,126,000,000 Swiss francs (approximately $425,120,000 gold). By the end of 1932 the balance sheet had declined to 1,000,000,000 Swiss francs (approximately $200,000,000 gold), and at the end of September 1933 the lowest balance sheet thus far showed a total of only 669,000,000 Swiss francs (approximately $134,000,000 in gold). At the end of August it had amounted to 720,000,000 Swiss francs (approximately $155,000,000 gold). The capital, reserves, and the deposit quotas of Germany and of the reparation creditors -- as provided in the Hague Agreement -- now make up by far the greatest part of the total balance. The central banks, especially the Bank of France, hold deposits with the B. I. S. amounting to only about 180,000,000 Swiss francs (approximately $36,000,000 gold). Under these circumstances, even the most recent operations of the B. I. S. have had to be curtailed. Since the summer of 1931, the bank has been granting numerous emergency credits to central European banks. Fortunately, the Reichsbank had voluntarily repaid its large emergency credit at the beginning of this year; and similarly, the 19,000,000 schilling credit (approximately $12,700,000 gold) granted by the B. I. S. to Austria was consolidated through the new Austrian loan. There now remain only the credits to Hungary ($20,000,000) and to Yugoslavia ($3,000,000), but the lack of resources is compelling the B. I. S. to take steps for the consolidation of these credits as well. There is no doubt that the deposit quotas anticipated in the Young Plan cannot be held permanently. Thus the B. I. S. will shortly be stripped of its resources and also will be without any operating duties (the only remaining function of the bank as trustee for certain international loans is relatively unimportant). The great hopes which were associated with the establishment of an international bank in 1930 were doomed to disillusionment because in place of cooperation among the various currency systems, there ensued a war of all against all, but just because this war must finally come to an end the organization of the B. I. S. ought to be maintained. The time will undoubtedly come when a central office for cooperative endeavor by all of the central banks will be necessary.

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date October 6, 1933

To Governor Black

Subject: Articles in British press

From Miss Evans

W.S.E.

244
244.211
Depression
Stat

16—852

I attach summaries, selected from the forthcoming Weekly Review of Periodicals, of certain recent articles in the British press.

They are from the London Financial News. Titles follow:

Loans against gold
Reichsbank open market policy: request to the Bank for International Settlements for further powers
German bank law change not to affect stability of the reichsmark

Loans against gold.
London Financial News, September 22, page 4.

Notwithstanding frequent denials from banking quarters, it is a fact that gold is being used as a security for loans to some extent. The attitude of the clearing banks in this respect leaves nothing to be desired. Not only are they unwilling to lend on gold deposited with them, but they go so far in discouraging hoarding as to refuse to buy gold on account of foreign customers who hold balances with them. Banking houses and foreign branches are less strict in this respect, and in many cases they accept gold from customers as security for loans, usually with a margin of about 10 percent. The attraction is the relatively favorable rate of interest paid on the loans and the negligible extent of the risk. Most banks, however, would refuse to enter into such transactions with strangers, nor would they care to lock up an unduly large proportion of their resources in such loans.

Thanks to this latter consideration, the extent to which the practice has actually contributed to the increase of hoarding cannot be very great. So long as clearing banks abstain from lending on gold, the resources of other banks available for such purposes are limited.

Reichsbank open market policy: request to B. I. S. for further powers.
London Financial News, September 22, page 5.

Dr. Schacht, president of the Reichsbank, announced on September 21 that an application had been made to the Bank for International Settlements to alter the bank law so as to give the Reichsbank greater liberty of action on the bond market, and to abolish control by the Reichsbank's General Council. Dr. Schacht thought that the Bank for International Settlements would make no difficulty, inasmuch as these applications for the abolition of control, and for the change in the law to empower the Reichsbank to adopt an open-market policy are in accordance with the Young plan.

What the Reichsbank lacks, Dr. Schacht said, is an open-market policy such as is being freely practised by the Bank of England, the U.S. Federal Reserve Bank, and similar institutions. Without any danger of inflation the Reichsbank could then buy gilt-edged securities and use them as additional cover for Reich currency. He added that at present there were about RM 6,000,000,000 (at par, approximately $1,500,000,000) of such securities in circulation, which could thus be mobilized for trade and industry.

German bank law change not to affect stability of the reichsmark.
London Financial News, September 23, page 1.

The impending change in the German bank law, announced by Dr. Schacht on September 21, will not affect the stability of the reichsmark in the least, it was declared by the Reichsbank. The Reichsbank and the Government are determined that the greater liberty of action advocated by Dr. Schacht shall be used with strictest regard to Germany's currency stability, which remains the Reichsbank's fundamental policy. There is no question of renouncing the gold standard.

Only a small amount of cash is needed for the Reichsbank transactions on the open market, and all securities bought there, as well as such securities on which the Reichsbank has advanced loans, will be added to the gold reserve; this will allow the Reichsbank to expand its note circulation. This, in turn, will enable the Government to find the necessary funds to carry out its economic program.

It is taken for granted that the Bank for International Settlements will raise no objections to Dr. Schacht's proposals.

~~Form No.~~ 131

Office Correspondence

FEDERAL RESERVE BOARD

Date Sept. 29, 1933

To Governor Black

Subject: Articles in British press

From Miss Evans

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Depression Stat

D.S.E.

I attach summaries, selected from the forthcoming Weekly Review of Periodicals, of certain recent articles in the British press.

They are from the London Financial News, and the London Financial Times. Titles follow:

League view of world trade
German bank reform: Dr. Schacht's view

League view of world trade.
London Financial News, September 15, page 5.

The Economic Intelligence Service of the League has just issued an analysis of the position of world production and prices. The report shows that the lowest point of the depression in the world's productive activity appears to have been passed about the middle of 1932. During the latter part of 1932 industrial production in general showed an upward tendency, but there was a setback in the first quarter of this year. The demand for commodities has declined more than their supply, as shown by the heavy accumulation of stocks.

The world's trade in both primary and manufactured goods has diminished more than world production.

The course of prices shows that a rapid fall set in towards the end of 1931 with the abandonment of the gold standard, and this fall in gold prices continued without interruption until the middle of 1932. A sharp upward movement followed the Lausanne Conference, but a few months later there was a further drop. In March, 1933, prices in most countries stood at their lowest point. The abandonment of the gold standard by the United States, however, caused another upward tendency.

The price discrepancies between the various groups of products was most aggravated during the course of 1932. Agriculturists have been affected with special severity by the fall of prices, as the goods they sell have fallen more in price than the goods they buy.

The report adds that the balance of trade has turned sharply against the States exporting crude foodstuffs and raw materials, and importing finished products.

German bank reform: Dr. Schacht's view, by the Berlin correspondent.
London Financial Times, September 18, page 5.

Der deutsche Volkswirt has begun publication of a series of articles by prominent bankers and financiers in connection with the proposed banking reform. The first article was contributed by Dr. Schacht.

He expresses the fear that the internal structure of Germany's economic organization is not equal to the great tasks undertaken by the present régime, among which are the creation of employment, the reestablishment of profit earning on invested capital, the creation of confidence, and the stimulation of the spirit of enterprise. Much that might be done is limited by the restricted capacity of the credit institutions and the necessity for safeguarding the credit system.

No one has a greater interest in the hastening of the proposed banking reform than has the Reichsbank. The Reichsbank desires recovery with all the powers at its command, but due regard must be had to the limitations of its powers. Credit, and above all Reichsbank credit, can be granted only where there is a guarantee that it will be used for productive purposes. During and after the war, Dr. Schacht says, the German banking world forgot the sound principles under which stable banking must be conducted in order to fulfil its purpose and meet the economic needs of the country.

To solve the credit problem as it presents itself today, the participation of the Government in the banking world is essential. To reduce the size, the number and the business activity of the separate units of the credit system to their correct proportions, and to fit them to meet existing needs, must be the chief objective of the banking reform. The Reichsbank has always been opposed to exaggerated borrowing of foreign capital, both for public and private purposes. The banking reform should confer upon the Reichsbank the power to make its influence felt at any time needed, so as to obtain agreement between the attitude of the banks and the credit policy of the Reichsbank, because the Reichsbank can be held responsible for the policy of the banks only if it can influence their policy at the right moment. In other words, he declares, the Reichsbank and the credit organizations must become one organic whole, in which just one aim will prevail.

Much of the trouble of recent years has been due to the lack of solidarity among the banks themselves. If the German banks had been prepared in 1931 to adopt a common policy, under the conviction that in such a situation no one could profit by the misfortunes of the banking crisis, then the banking crisis in the summer of 1931 would never have reached the extent that it did, concludes Dr. Schacht.

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date September 22, 1933

244

To Governor Black

Subject: Articles in British and Canadian press

From Miss Evans

244.211

D.S.E.

Depression

Stat

I attach summaries, selected from the forthcoming Weekly Review of Periodicals, of certain recent articles in the British and Canadian press.

They are from the London Times, the London Financial News, and the Canadian Monetary Times. Titles follow:

Gold standard principles
Establishment of central bank for Canada held probable
Proposed Reserve Bank for New Zealand
Freeing Austria's exchange

Gold standard principles.
London Times, September 8, page 19.

The causes of the breakdown of the gold standard and the conditions which are necessary to its successful restoration were discussed by Professor J. H. Jones of Leeds University on September 7. Professor Jones criticized the suggestion made by the Gold Delegation of the League of Nations that the gold reserves of a country should be divided into two parts, the first being the legal reserve against currency and the second the free reserve or surplus available for export. The object of this suggestion is to insure that in the event of an export or an import of gold the consequent change in the reserve should not react upon the currency of the country concerned. Professor Jones criticized this proposal on the ground that it would destroy the vital element in the working of the gold standard. Much of the criticism of the standard has arisen because of the discipline which it involves, and which Mr. Jones regards as essential to it. Incidentally he pointed out that if the proposal were adopted it would immobilize a large amount of the world's monetary gold, which would operate to depress and not to raise the world price level. But the most important argument against it was that a movement of gold would not then produce the effect which it ought to produce. He also declared that to maintain a wide margin between the buying and selling price of gold would also destroy what was most valuable in the gold standard.

Far from advocating an early return to the gold standard, Mr. Jones fears that the standard may be restored before the essential preliminaries have been properly considered. Obviously the restoration of the gold standard or any common international monetary standard would be premature and fatal if the conditions necessary to its working were not present.

Establishment of central bank for Canada held probable.
Canadian Monetary Times, September 15, page 5.

The Royal Commission on Banking, which has been meeting in Ottawa, held its closing session on September 14. The date when the report will be submitted to the Government is still uncertain, but it may be this month. Already it is being accepted that one of the recommendations will be the establishment of a central bank.

The setting up of a central bank in Canada would be in accord with recent political indications. It has long been advocated by the Independent group in the House and more recently by the Liberals.

If such an institution is created it is unlikely that the Federal Reserve system of the United States would be taken as a model. The financial situation in the United States and Canada is so different that the American system would probably not be suitable in Canada. Nor could the Bank of England be duplicated in Canada.

The central bank, if established, would probably take over from the Finance Department the function of making advances to the chartered banks, and would inaugurate open market activities but would not interfere in the commercial loan market. It would be primarily a bankers' bank. The control of the bank would be important; safeguards will undoubtedly be provided against political influence in its management, but so far there have been no charges of this kind against the administration of the finance act by the Department of Finance.

Proposed Reserve Bank for New Zealand.
London Times, September 9, page 16.

The High Commissioner for New Zealand received from his Government on September 8 a statement of the proposals and objects of the Reserve Bank bill, which is to be introduced into the New Zealand Parliament in the session which opens September 21. The statement, which has been drawn up by the Minister of Finance, puts forward the arguments for the establichment of a central bank somewhat as follows:

The essential difference between the functions of a central bank and those of a commercial bank is that the former exercises a general control and supervision of credit and currency conditions, while the latter's business is to collect deposits and to make loans to its customers. Commercial banks work competitively, and must be regarded primarily as trading and profit-making institutions. A central bank acts as banker to the Government and the commercial banks, but its chief function is to act as the note-issuing authority, and to control credit in the nation's interests and to maintain stability of the currency, which is the foundation of all contractual relations.

Because of the delicate problems which arise from time to time it is desirable that the administration of a central bank should be independent of politics, and that its policy and practices should be national and not sectional. The advantage of reserve banking from a business point of view is that it centralizes the surplus cash resources of the banking system and thus provides a mobile fund to be used in case of need. New Zealand's monetary standard for many years has been the sterling standard, the chief factor in regulating the volume of credit in New Zealand having always been the amount of the London balances. The prosperity of the Dominion hinges to a great extent on events in Great Britain, and therefore New Zealand cannot be indifferent to her monetary policy. One of the chief advantages of a Reserve Bank is that it would enable New Zealand to act in even closer cooperation with Great Britain.

Freeing Austria's exchange.
London Financial News, Sept. 6, page 1: 4.

The Austrian Government has decreed that henceforth all external debts must be paid at the market rate of exchange of the day, and no longer at the artificial "gold standard" rate. This marks the end of foreign exchange control in Austria so far as current commercial transactions are concerned, though the export of capital is still prohibited. The "Black Bourse," which has long been growing greyer and greyer through official tolerance, has now been officially declared white. This provides an interesting example of the way in which the "travesty of the gold standard" can gradually shed even the appearance of being linked with gold. The willingness of Austria to permit an effective depreciation of the currency under pressure may be not unconnected with the exceptional recuperative power which Austria has shown.

Exchange business is fairly diversified, and there is a substantial business in inland schillings on ordinary account. These balances arise from sales by exporters to Austria, who for some reason do not wish to go through the required formalities to apply for permission to deal through the private clearing, or who are exporting luxury goods, or from current payments of internal interest, etc. They can be used freely for payment to any Austrian firm. There is no difficulty in disposing of them, so that the market may be regarded as perfectly free.

It is impossible to see how the old parity, which is wholly unreal by now, can ever be restored. In this connection, though the schilling has been firm in relation to sterling, the rate has not risen during the recent depreciation of sterling in proportion to the rise in the gold exchange rates or anything like it. It would seem that the schilling is tending to follow sterling rather than the gold bloc. If Britain was pushed off the gold standard, and America walked off, it has been left to Austria to show how to creep off it, unnoticed, with precisely the same results.

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date August 31, 1933

244

To Governor Black

Subject: Articles in British and French press

From Miss Evans

W.S.B.

244.211

Depression Stat

I attach summaries, selected from the forthcoming Weekly Review of Periodicals, of certain recent articles in the British and French press.

They are from the London Financial News, the London Economist, the Statist, and L'Économiste Français. Titles follow:

British foreign exchange policy
Labor and the banks
Indian silver
Recovery of the Netherlands florin

British foreign exchange policy.
London Financial News, August 16, page 4.

Before very long our authorities will have to come into the open about their foreign exchange policy. While the pressure on sterling was not too conspicuous, it was possible for the Government to say that sterling was not linked to gold, while the Bank of England pegged sterling in relation to the franc. When, however, the pressure grows stronger, it will become increasingly difficult for the Government to sit on the fence. If the official gold resources were to be depleted at the rate of many millions a day to prevent a decline of sterling, it would then be useless to deny that the official policy aimed at linking sterling to gold. The position so created, coming after the Imperial declaration, would be one of intense political difficulty.

The question is — how long can the resources of the Exchange Equalization Account stand the strain? During the past few weeks it has had to part with a considerable amount of gold, hitherto held earmarked in the United States. No one outside the official quarters knows how much is left, but, allowing for the transfer of a large part of the gold stock to the Bank of England, the balance cannot be excessive. It is hardly likely to be sufficient to see sterling through the adverse season. To continue the policy of pegging, it might become necessary to draw upon the Bank of England's newly acquired gold stock. The publicity of gold withdrawals from the bank would, in turn, accentuate the selling pressure on sterling.

It remains to be seen whether our authorities have learned their lesson, and will be able to husband their gold resources better than they did last year. Then, after having tried hard to bolster up sterling against the autumn pressure in September and the first half of October, the "control" let go. The result was unnecessary fluctuations which could have been avoided.

This year the situation is admittedly more complicated than last year. Possibly, sterling will receive unexpected support through a turn of American policy towards inflation. Perhaps, in continuing to peg sterling in relation to the franc in the face of the autumn pressure, the authorities assume that by the time they have come to the end of their resources this unknown factor may come to their rescue, but it is a decided risk to count on it.

The unpegging of sterling at any time during the Economic Conference, or before the autumn season, would have had the appearance of deliberate depreciation. On the other hand, unpegging in face of autumn pressure would be interpreted as a natural tactical move, not affecting the fundamental policy of the authorities. In the interest of an early stabilization, it would be a mistake to use up too much of the official resources for neutralizing seasonal tendencies. Possibly the authorities have not yet made up their minds what attitude to adopt towards the seasonal factor. Mr. Norman is known to be reluctant to make any plans beyond the immediate future, and the bank's policy is guided by the present situation rather than by any forecasts as to possible future developments.

Labor and the banks.
London Economist, August 19, page 358.

In a report entitled "Socialism and the condition of the people," the British Labor Party has published the details of its program for banking reform. The proposals include:

1. The amalgamation of the "Big Five" into a single banking corporation under public ownership and control, with compensation to shareholders.

2. The formation of a new intermediate credit institution to take over at a reasonable valuation the frozen credits inherited from the joint-stock banks.

3. The nationalization of the Bank of England.

4. The formation of a National Investment Board.

Indian silver.
London Statist, August 19, page 254.

In the bullion market the report of the Committee on Indian Reserve Bank Legislation has been closely scanned for any indication of what might be the future policy of the Indian Government with regard to its stock of redundant silver. The legislation empowers the Government to transfer to the Reserve Bank at the outset an amount of silver rupees not in excess of 500,000,000 rupees (at par, approximately $182,500,000). If, owing to a reflux of silver currency from circulation, the Reserve Bank's holding of silver rupees exceeds 500,000,000 rupees, or one-tenth of the total amount of the reserve, the bank will have the right to transfer the surplus to the Government to an amount not exceeding 50,000,000 rupees ($18,250,000) in any year and to receive payment at nominal value. The reverse process will obtain if the reserve of the bank falls below the figure of 500,000,000 rupees. The Government will keep in a separate account any surplus of rupees which can by this arrangement be removed from the reserve. This silver should be held as bullion, not as coin, and the proceeds of its realization would be specifically allocated to the purchase of surplus silver from the Reserve Bank.

It is evident that the future policy of the Government with regard to sales of silver must to a large extent be determined by the rate at which silver rupees flow back from hoards and circulation. The reflux of silver from these sources has not come up to the anticipations that were current at the time of the Hilton-Young report, and the present committee seems to expect that the return of rupees will henceforth prove considerably smaller than in the past few years. It is on this assumption that they justify their proposal to abolish the rupee redemption fund and to substitute for it the arrangement outlined above, whereby the Reserve Bank will have the right within specified limits to sell surplus silver currency to the Government at nominal prices.

Within these limits the Government may be called upon to buy from the

Reserve Bank up to 18 million ounces of fine silver in any year, and it will be remembered that, in accordance with the recent agreement, the Indian Government may sell at the rate of 35 million ounces a year for a period of four years. Whether that permissive right is exercised must depend largely upon the changes that may occur in the currency and hoarding habits of the population. The committee seems to think that no changes leading to an appreciable reflux of silver coins will follow the establishment of the new Reserve Bank; but this surely is to deny one of the objectives for which the new institution is being established, namely, the popularization of the banking habit and the mitigation of hoarding through the introduction of a paper currency which will enjoy greater popularity than the existing currency notes. So it may be said that the Indian situation remains as a factor of uncertainty in the outlook for silver.

Recovery of the Netherlands florin, by Dr. M. Vajda.
L'Economiste Français, August 19, page 199.

Within recent weeks a great change has taken place in the international position of the florin. The vigorous measures adopted by the Netherlands Bank in defence of the exchange and the firm position of the Government in the matter had a great deal of influence; but also the cooperation between the central banks of the gold countries contributed much to the reestablishment of confidence in the future of the florin. In recent weeks, it is safe to say, the attacks of speculators against the Netherlands exchange have been completely routed, and for some time the florin has been above gold parity in relation to all the other gold exchanges. Although some time ago the high rate of the French franc gave rise to large shipments of gold from the Netherlands to France, in recent weeks the movement has been reversed, and the Netherlands Bank has recovered part of the gold lost in the earlier period. In fact, during the three weeks from July 10 to July 31, the gold reserves of the Netherlands Bank showed an increase of 37,000,000 florins (approximately $14,900,000 at gold parity); and since the beginning of August further shipments of gold from Paris to the Netherlands Bank have been announced. It should be noted that the rise in the exchange value of the florin was accentuated as a result of the liquidation of sterling balances and the sales of American securities by Netherlands owners.

Purchases of gold by the Netherlands Bank, the redemption of a Dutch East Indies loan, distribution of the Royal Dutch dividend, etc., have brought about an abundance of money, which has influenced the situation of the money market in Amsterdam. As a result of this changed situation, and also by reason of the cooperation obtaining between the central banks of the gold countries, the Netherlands Bank during the past month made two reductions in its discount rate, which has thus been lowered from 4 1/2 percent to the abnormally low level of 3 1/2 percent. Inasmuch as the open market rate is only 2 percent, there is a margin of 1 1/2 percent between the bank and the market rate, so that a further

Reduction is anticipated. (The rate was reduced again to 3 percent on August 15.)

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date August 25, 1933

To Governor Black

From Miss Evans

Subject: Articles in British press

~~244~~

W.S.E.

244311

Depression Stat

GPO 16—852

I attach summaries, selected from the forthcoming Weekly Review of Periodicals, of certain recent articles in the British press.

They are from the Statist (London), the London Economist, and the London Financial News. Titles follow:

Dollar prospects
Wage policy and reflation
A substitute for the gold clause

Dollar prospects.
London Statist, August 5, page 191-2.

The stabilization aspect of American monetary policy will remain for some time wholly subservient to the demands of domestic expediency, yet we can discern certain broad influences which are likely to affect the dollar exchange market rather soon. First, we shall soon see the beginning of the seasonal pressure in favor of the dollar. None of the customary equalization machinery has been functioning this year. No anticipatory finance bills have been drawn whose effect would be to spread the incidence of the pressure. The seasonal import of raw materials is likely to be financed almost wholly from London since short money rates in London are likely to remain low, while in the United States they will probably tend to harden, partly as a result of increased Government borrowing for the reconstruction plans and for the covering of a budget which is still running at an appreciable deficit. Therefore, the seasonal commercial demand for dollars is likely to make itself felt this year in a decidedly concentrated form.

Besides this temporary factor, it should be realized that the current balance of payments of the United States is still a considerable creditor balance. Foreign lending has ceased, American tourist expenditures abroad have sunk to a fraction of what they once were, a large proportion of America's Governmental and commercial foreign debtors are still paying up, while the visible balance of trade is still favorable to the United States. Normal influences, therefore, favor the dollar, especially as it now seems to be undervalued in terms of other world currencies.

On the other hand, there is the possibility of a further exodus of capital from the United States resulting from the fear of inflation and from the rigorous curtailment of industrial profits following the application of the Recovery Code. And there is always the possibility of the Administration's failing in its recovery program as at present applied, and playing its last card by utilizing the powers of monetary devaluation which have been vested in the President. As yet, however, these latter factors are problematical, while the specific influences acting on the exchange value of the dollar are likely to be favorable to that currency.

On these hypotheses it might be argued that the undertone of the dollar should be firm, barring official interference aiming at depreciation. It should be added that if no stabilization fund be established to act as an equalizing influence, the uncertain factors overshadowing the position should continue to make for an exceptionally sensitive and narrow market, such as we have recently witnessed.

Wage policy and reflation, by Professor Ohlin.
London Economist, Auguat 12, page 315-6.

(In view of the widespread interest in the American program, Professor Ohlin was asked to write the following article.)

Most economists take a critical attitude towards President Roosevelt's policy of forcing up wage levels as a means of increasing demand. In my opinion, it is quite possible that under certain conditions the raising of wage rates may lead both to an expansion of production and to a rise in the general price level. Under other conditions, however, it will not have this effect.

The "usual" way in which recovery is brought about after a depression seems to be that demand for investment purposes grows. As a consequence production grows, incomes rise, and therewith demand for goods to satisfy current consumption also increases. Thus the demand for current consumption from users -- as distinguished from middlemen -- ultimately expands as a result of an earlier increase in "investment demand." ...

But it is obviously possible that the increase in total demand may come as a result of growing consumption demand, with demand for investment purposes lagging behind. Or, again, consumption and investment demand may grow pari passu. Can the forcing up of wage rates bring this about? ...

We may conclude that the forcing up of wage rates strengthens the tendency towards an expansion of production and a rise in prices, on condition that: (1) Entrepreneurs do not reduce their investment demand; (2) either the wholesale and retail prices of consumption goods are not much raised during the period of transition, or retail prices are for some time not much raised in spite of rising wholesale prices; and (3) entrepreneurs maintain output -- and therefore employment -- during the transition. On the other hand, any tendency on the part of entrepreneurs to reduce the output of consumption goods, as well as any tendency of retailers to raise prices at once, will work in the other direction. So will any decline in the output of capital goods.

Evidently what will happen depends on the time sequence of events, and it is difficult to make general and valid statements about that. The above reasoning is based on the assumption that wage rates are raised at once. The development may be different if an increase of wages is announced some time before it is put into effect. During the period of lower wage rates, production is likely to be speeded up and stocks in the hands of producers and middlemen increased. Consumers may also buy more in anticipation of coming price rises. Such a development, indeed, seems to have taken place in America to some extent. At the same time pay rolls and profits increase, which extends further the demand for consumption goods. ...

The general impression gained from a brief analysis of this sort is that in a world where industries producing capital goods play a very important rôle, increased wage rates, which tend to raise costs and therefore may reduce anticipated profits, are likely to prove a stimulus to recovery only in a situation where the chances of profits are so large that a risk of some reduction in profits will not make entrepreneurs curtail output or postpone investment.

Whether or not this is the case in the United States I cannot answer. ... The working out of President Roosevelt's program must show how valid was the economic diagnosis upon which it was based.

A substitute for the gold clause.
London Financial News, August 8, page 1.

What is to be done about the gold clause? It is now quite certain that bondholders cannot make any contract which will enable them to receive anything but legal tender money. No formula, however watertight, can prevail against this all-powerful legal principle. A contract to pay interest and principal in gold would probably not be acceptable to any borrower. The Courts would look askance at a contract to pay interest in commodities.

But when the world becomes sane again, foreign lending must go on. Unless some means can be devised of conceding that contracts mean what they say, and that safeguards are not illusory, lenders will try to compensate themselves for their increased risks by demanding higher interest rates from would-be borrowers.

The suggestion has been made that real long-term contracts, say for fifty years or more, should have an index number clause. This, it is contended, would make them fair to borrowers and lenders alike. At present, if prices rise, the borrower pays back less, in real values, than he borrowed. If prices fall, the lender receives more than he lent. If the movement, either way, is big, the system generally breaks down. An index number clause, however, would, it is claimed, automatically ensure that both the burden and the return, in terms of real values, were identical throughout the whole period of the loan.

The suggestion deserves consideration. The world may be a long way from a managed currency. A contract between two parties, however, is a much simpler matter than legislation for a whole nation.

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date August 18, 1933

To Governor Black

Subject: Articles in ~~British, German~~

From Miss Evans

and Canadian press

244.211 16—852

W.S.B.

Dep Stat

I attach summaries, selected from the forthcoming Weekly Review of Periodicals, of certain recent articles in the British, German and Canadian press.

They are from Die Bank, the London Bankers Magazine, the Banker (London), and the Canadian Monetary times. Titles follow:

Dollar depreciation and the German foreign debt
Dresdner Bank capital reduction
German inquiry into bank reform
Lord Macmillan heads commission to probe Canada's banking system

Dollar depreciation and the German foreign debt.
Die Bank, July 19, page 1033-4.

However the currency experiments in England and the United States may turn out, one beneficent effect at least will remain. The experiments are reducing the interest and amortization burdens of the debtor States in a considerable amount and are thus contributing to that balance of international payments which is so necessary. Neither England nor the United States set out to do this; both acted solely in the supposed interests of their own economy; but when the illusion has passed, when the present "dumping competition" which is injuring Germany so much has been stopped, when the final devaluation of currencies has been adopted, the reduction of the foreign claims of these two countries and the consequent relief of their foreign debtors will still remain.

At present the depreciation of these currencies amounts to approximately 30 percent and, if the battle continues, it is hardly to be expected that the ultimate devaluation will be less than this percentage. The consequences of the dollar depreciation are most important for Germany. In the German long-term foreign debt of about 10,000,000,000 reichsmarks (about $2,500,000,000 gold), the position as of September 29, 1932, America participated to the extent of more than 50 percent. A 30 percent depreciation of the dollar, therefore, means a reduction in the long-term foreign debt of Germany of at least 1,500,000,000 reichsmarks ($375,000,000), or 15 percent of the aggregate amount.

In the short-term foreign debt of Germany, aggregating 9,350,000,000 reichsmarks ($2,337,500,000), America participates in the amount of 30 percent; a depreciation of 30 percent, therefore, means an alleviation of the debt burden of some 900,000,000 reichsmarks ($225,000,000). If this yardstick is applied to the annual payments which Germany has to make abroad for interest and amortization in a total amount of 1,300,000,000 reichsmarks ($325,000,000), a 30 percent depreciation results in a saving of about 170,000,000 reichsmarks ($42,500,000), or about 13 percent of the total annual payments.

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Similar calculations based upon the depreciation of the British pound would probably show a saving of about 20 percent.

The depreciation of the dollar is of special importance to those German joint stock companies which in times past contracted heavy debts in America. Among these are the United Steel Works, the German Rentenbank-Kreditanstalt, the Rhenish Electrical Works, and others.

Dresdner Bank capital reduction.
London Bankers Magazine, August, page 209-10.

The announcement of plans for a reduction of the capital of the Dresdner Bank suggests that the German banking crisis of 1931 was even more serious in its ultimate effects than was at first supposed. In February, 1932, as a measure to deal with the results of the crisis, a general consolidation of the German banks was effected, the Dresdner Bank absorbing the Darmstädter und Nationalbank. The capital of both institutions was heavily reduced at the same time, but it has now been found necessary to cut the capital of the combined undertaking from RM 220,000,000 to RM 150,000,000 (approximately from $55,000,000 to $37,500,000 gold). The Darmstädter und Nationalbank, which the Dresdner absorbed, was the institution whose position precipitated the 1931 crisis, and was therefore presumably the weakest link in the chain of German banks. This possibly accounts for the necessity for a further scaling down of the latter's capital. According to the messages reporting the proposals, the greater part of the bank's losses fall on the German Government, as the principal holder of its shares.

German inquiry into bank reform, by a correspondent.
The Banker (London), August, page 118.

The fundamental problems of German banks will be a subject of discussion next autumn. The Reichsbank has announced that, jointly with the Government, it will hold an inquiry into bank reform. Preliminary work has already begun, and several experts have been asked to draw up reports. In the autumn the problems will be discussed at public sessions. Before all, the question of the relations of banks to the State will be examined. As is known, the Reichsbank and the Government participate in the share capital of most banks with substantial amounts. This raises the following questions:

1. Should the present situation whereby the Reich participates in the share capital of the banks, but has barely any control over them, be maintained?

2. Should the capital of the banks be restored to private hands and if so, by what means?

3. Should the Government assume control and if so, in what form?

A further problem to be discussed concerns the branch system. In the provinces, especially in the Rhineland and Bavaria, the control of a network of branches of the "Big Three" is criticized. A movement is on foot to establish local banks by detaching the branches of the Berlin banks in the districts concerned. The main obstacle to this plan is that, in existing circumstances, there is hardly any capital available to meet the requirements of the proposed district banks.

Lord Macmillan heads commission to probe Canada's banking system.
Canadian Monetary Times, August 4, page 4.

The appointment was made about August 1 of the personnel of the Royal Commission to study the operations of the Bank Act of Canada. Lord Macmillan is to be chairman, assisted by Sir Charles Addis, and others.

Under the terms of reference of the commission the entire Canadian banking system, including credit and currency, will come under review. On the report of the commission the parliamentary committee will base its deliberations at the next session, when the delayed revision of the bank act will be carried out. The regular decennial revision of the bank act, together with the renewal of bank charters, was due this year, but in view of the economic and currency situation the Government decided to set up this commission, and Parliament thereupon passed an act extending existing bank charters for one year.

One question to be given special consideration by the commission is the advisability of setting up a central bank in Canada. The commission will make recommendations for revising or supplementing Dominion legislation relating to banking and currency, and the adoption of such measures as might seem desirable to promote the revival of trade; to facilitate inter-Imperial and international cooperation for the purpose of raising commodity prices, increasing employment, and to stabilize industry and finance.

Form No. 131

Office Correspondence

FEDERAL RESERVE
BOARD

Date August 11, 1933

To Governor Black

Subject: Articles in British press

From Miss Evans

244.211

2—8495

Depression

Stat

I attach summaries, selected from the forthcoming Weekly Review of Periodicals, of certain recent articles in the British press.

They are from the London Times, the London Financial News, and the London Economist. Titles follow:

Canada's sterling loan
The German exchange farce
Silver
Barren harvest

Executive Folder

For CIRCULATION

Gov. Black

Mr. Hamlin

Mr. James

~~Mr. Magee~~

Mr. Miller

Mr. Szymczak

Mr. Thomas

~~Mr. O'Connor~~

Mr. Morrill

Mr.

Mr. Wyatt

Canada's sterling loan.
London Times, July 31, page 18.

A loan of £15,000,000 for the Dominion of Canada was underwritten on July 31 and offered for public subscription on August 2. The loan bears 4 percent interest and is offered at par. It will be repaid at the latest in 1958, but the Government reserves the right to redeem it in and after 1953. The issue, which represents new money, should meet with a prompt response from the investing classes, especially since the Dominion of Canada has not appeared in the London market as a borrower for twenty years. Before the war she enjoyed exceptionally high credit in London, but when the war broke out she was asked, and agreed, to refrain from borrowing in the London market unless it was necessary. Since then Canada has financed her requirements by domestic loans and by loans floated in the United States. The bulk of her debt, like that of other participants, represents the cost of the war, and but for that her debt today would be quite modest. Canada alone among the Dominions has not gained anything by the Lausanne Agreement, for while she has ceased to receive anything in respect of reparations, she does not benefit, like Australia, from the moratorium granted by Great Britain to her own debtors, for she owes nothing in respect of war debts outside her own borders.

The reappearance of Canada as a borrower in London at this juncture has a special significance. At the close of the World Conference the Imperial delegations made a unanimous declaration recognizing the importance of maintaining the stability of the Empire exchanges in the interests of their trade. All the other members of the Empire except Canada have achieved that stability by linking their currencies with sterling. Owing to the close economic and financial relations of Canada with the United States, the Canadian dollar has revolved mainly within the orbit of the wildly fluctuating United States dollar. By raising the new loan in London Canada will associate herself more closely financially to sterling. Before the war, when the world successfully operated the gold standard, stabilization of exchanges was not and never could have been maintained simply by moving gold from debtors to creditors; stabilization owed more to Britain's policy of making loans abroad to the extent of about £150,000,000 a year than to gold. These loans represented the credit side of Britain's trade as distinct from the cash part, for the loans were taken from this country directly or indirectly in the form of goods and services, for which this country received payment in interest-bearing securities. This very important part of British trade is for the moment suspended owing to the abandonment of the gold standard, the breakdown of the international financial machine, and the embargo on oversea loans. If the policy of creating and maintaining a sterling bloc is to be really effective in stimulating trade among its members while at the same time keeping their exchanges stable, then oversea lending within the bloc must be resumed. The Canadian loan is therefore to be welcomed on economic as well as on financial grounds.

The German exchange farce.
London Financial News, July 28, page 6.

It is difficult to pay serious attention to the periodic statements coming from official German quarters in support of the principle of the stability of currencies. In reality, the system that exists in Germany has all the material advantages of a depreciated currency without some of its moral disadvantages. The stability of the reichsmark on a gold basis is a transparent fiction which deceives no one who is acquainted with the German situation. Germany is in a position to carry on as much exchange dumping as is considered expedient. The various types of blocked reichsmarks are sufficiently depreciated to enable German exporters to undersell their rivals, not only those handicapped by a genuine gold currency but also those in the sterling bloc.

Admittedly, the use of blocked reichsmarks for exports is not allowed indiscriminately. The attitude of the German Government on the matter is variable according to whether or not it is considered a good policy to show a big export surplus. In granting or withholding permission for the use of blocked reichsmarks for goods purchases, the German authorities can thus regulate the tap in accordance with their interests. With the increase of blocked amounts through the operation of the new arrangement about long-term debts, the importance of this factor will grow considerably. Before long the exchange rates for certain types of blocked accounts will be more important than the official exchange rate.

There is reason to expect that the price of blocked reichsmarks will undergo a marked depreciation in the near future. Such a development would represent a compromise between the inflationary pressure on the part of Nazi politicians and the anti-inflationary attitude of Dr. Schacht. It would at the same time serve another purpose. Foreign bondholders may thereby be induced to sell their birthright for a mess of pottage. For fear of a depreciation of their blocked reichsmarks, they may be inclined to agree to drastic cuts of interest rates so long as the amount received is transferred instead of being credited on blocked account.

The first step in this direction has already been taken by the proposal made by Dr. Schacht to the committee of long-term bondholders. According to the original arrangement, 50 percent of the interest on all loans except the Dawes and Young loans is retained on blocked account. Now the Germans propose to buy this 50 percent at a price which would represent a loss of about half the amount involved. Thus, instead of transferring 50 percent and retaining 50 percent, 75 percent would be transferred in full settlement of the creditors' claim. It may well be asked whether, in making this proposal, Germany is not betraying her ability to pay 75 percent instead of the 50 percent, which has been represented as her total capacity.

Silver, by Professor T. E. Gregory.
London Economist, July 29, page 218-9.

Professor Gregory sums up the probable effects of the silver agreement reached at the London Conference. He begins by summarizing the general facts relating to silver in the post-war period; the large production; the sources of supply; the fact that silver is largely a by-product; the problem created by the existence of surplus Government stocks. He notes the three categories of demand for silver; the Eastern demand; the demand for coinage purposes, and the demand for arts and manufactures. He discusses the problem created by the falling off of the Eastern demand.

The agreement provides (1) for a limitation of sales by the Indian Government, and (2) for purchases by certain Governments in an amount equal to that to which the Indian sales are to be restricted.

Professor Gregory finds that the crux of the silver problem still clearly lies in restoring Eastern demand.

Barren harvest. Leading editorial.
London Economist, July 29, page 215-6.

It would be easy to write off the World Economic Conference as the greatest fiasco of modern times. ... But there is another side to the story; an impartial survey will reveal that there is something of real substance to set against the admitted failures.

In spite of all handicaps the Conference has to its credit a crop of definite achievements, the most outstanding of which, paradoxically, do not figure in its records at all.

Of these results, first in time come the declarations of President Roosevelt which enabled the British Government to make a token payment in respect of the war debt without being regarded as being in default. The meeting of the Conference undoubtedly helped the President in taking this step which turned a very awkward corner in international relations. Two further results of first-class importance are the resumption of Anglo-Soviet commercial relations, and the conclusion of non-aggression treaties between Russia and her neighbors. More closely associated with the Conference itself was the conclusion of the tariff truce which has put a brake for the time being upon tariff increases.

Again, though the Conference has emphasized differences, it is not by any means certain that this should be regarded as a backward step; for in the process of crystallizing these conflicting views at the conference table the countries have come better to understand each other's point of view, which is the first and essential preliminary to their reconciliation or to the construction of a policy with which they may be made to harmonize.

Moreover, the groupings established in London have had unexpected political consequences by breaking through the alignment of rival groups among the nations of Europe which has been so menacing a feature of the history of the past decade. The vote of the Conference upon procedure was for perhaps the first time since the war based not upon past animosities but on present-day economic interests. The grouping that has taken place in London may prove to be a great step forward in liquidating the psychological and political effects of the war.

Finally, the Financial Commission's report includes a series of resolutions, based upon work that has been going on at Basel, relating to the working of the gold standard. This represents a greater degree of agreement among central banks on the form and need of banking cooperation and on the principles of monetary control than has hitherto been achieved, and may be of great importance when the time comes for reestablishing an international standard. There has also been reached an agreement on silver which will at least insure that the liquidation of surplus stocks in India and elsewhere will be coordinated and controlled during the next four years, and will enable the silver market to share in any general recovery that may take place.

Apart from its actual achievements, it is significant that the Conference has ended in an atmosphere of friendliness and good temper. The delegates will separate this week with far less tendency to throw the blame for failure on this or that nation than if there had been a precipitate adjournment. In place of resentment there has grown up rather a feeling of humility in face of the magnitude of the forces — economic, social and psychological — with which we have to reckon if we are consciously to control the world's affairs. The delegates will return home with a much greater sympathy for the problems of other nations. On this foundation it should be possible to build in the future if this better understanding can be transmitted by them to the peoples for whom they speak. Only if they succeed in doing so will the continuance of the work of the Conference, decided on at the closing meeting, offer hope of ultimate success instead of being a mere face-saving device.

August 4, 1933

Dr. Goldenweiser

Mr. Thompson

Demand for Currency

The return of currency from private hoards continues. The movement is relatively slow, however, and there is still about $2,000,000,000 in hoards. It is estimated that the increased demand for currency for business purposes since March is between $100,000,000 and $200,000,000.

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Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date July 27, 1933

To Governor Black

Subject: Articles in British and German press

From Miss Evans

2—8495

244
244271
Depression
Stat

I attach summaries, selected from the forthcoming Weekly Review of Periodicals, of certain recent articles in the British and German press.

They are from the Wochenbericht des Instituts für Konjunkturforschung, the London Statist and the London Economist. Titles follow:

Gold hoarding in Western Europe
The defense of the gold currencies
British monetary policy
Sowing the wind
Germany and the gold bloc

Gold hoarding in Western Europe.
Wochenbericht des Instituts für Konjunkturforschung, July 12, page 66-7.

The hoarding of gold, which has been accentuated since the end of April in the capitalist countries of Western Europe, has proceeded chiefly from two causes.

1. The investing public, which had been withdrawing more and more from investment operations, took refuge in gold as a result of increasing uncertainty regarding the currency in these countries; this applies particularly to France.

2. The fear of currency depreciation hastened to an extraordinary extent the repatriation -- already in progress -- of funds which had previously taken flight abroad; in Switzerland and the Netherlands the withdrawal of foreign funds assumed at times the character of a panic. For the most part an effort was made to convert these funds into gold deposits; for this was the only form of investment which seemed to afford absolute security since the stability of the currencies of even the former countries of refuge (Switzerland and the Netherlands) was now called into question. The private demand for gold, which arose especially in those countries to which capital had taken flight, has brought about extensive -- and in many cases apparently senseless -- gold movements.

In Switzerland and the Netherlands, therefore, whose central banks no longer deliver gold to individuals, there arose a very active demand for French francs. For in France alone is there still a free gold market in the sense that the central bank will at least deliver gold bars if not gold coin, on demand, at any time. On the other hand, however, the central banks of

Switzerland and the Netherlands are obligated to deliver gold -- not indeed to individuals, but to the Bank of France -- for the purchase of the required franc exchange.

The gold which private individuals have acquired from the French market remains in France in only a limited amount. A considerable part of it is shipped to England and deposited there in private banks; people take it for granted that in England alone, even in the event of new currency disturbances, private gold stocks would not be seized. In addition, a smaller portion of the gold bars purchased in France are again sent to Switzerland and the Netherlands and there deposited in private banks.

Rough estimates indicate that in the past three months alone almost Rm.400,000,000 (approximately 100,000,000 gold dollars) in gold was hoarded in France itself; in the same period something like Rm.350,000,000 to Rm.400,000,000 (87,500,000 to 100,000,000 gold dollars) flowed back into private hoards in Switzerland and the Netherlands, and that from Rm.500,000,000 to Rm.600,000,000 (125,000,000 to 150,000,000 gold dollars) was deposited in England for foreign account.

The defense of the gold currencies.
London Statist, July 15, page 75-7.

As soon as it became evident that the collapse of the gold currencies was not going to be the question of a few days, or at most weeks, which speculators had anticipated, a certain amount of bear covering began to take place. It is this influence rather than any actual operations conducted by the gold countries' new stabilization fund which has been responsible for the firmness of gold currencies during the second week of July.

It would, however, be going too far to say that this firmness reflects a genuine return of confidence in those currencies on the part of domestic interests in the countries concerned. It is still evident from arrivals of gold in this country, from continued purchases of sterling equities on Continental account, and from the maintenance of an appreciable premium on the London price of gold in terms of the franc parity, that a certain flight of capital from the gold countries continues; this, in spite of the measures which have been taken to defend the existing parities.

Such distrust can be understood. The countries in question have chosen to follow a difficult road in pursuit of monetary orthodoxy. They are doing it in the sincere belief that theirs is the only way out, and that they are maintaining intact a standard to which the world will turn once again in its hour of need. It is doubtful, however, whether realize fully the difficulties for which they are heading. If the gold countries formed an economically balanced and self-contained unit, and if among them there was that spirit of cooperation which would enable one to put at the credit of the others the whole of its exchange reserves , there would be a fair chance for the success of the fight which they have undertaken. These conditions are by no means fulfilled, and it is difficult to see how such strongly diversified countries as France, Holland, Italy, Switzerland and Poland can for long resist a pressure on their balance of payments which gathers strength with every depreciation of the currencies in the outside world. The great hope for the solidarity of this group of currencies is that the ambitious American experiment in monetary and industrial reconstruction will crash into early and complete failure.

British monetary policy. Leading editorial.
London Statist, July 15, page 81-2.

We must at least be grateful to the conference for throwing into relief the essential alternatives involved in the choice of any considered monetary policy, though we may feel that the different systems presented to us by some of the chief economic powers are too extreme. The immediate point of controversy in the conference was whether exchange stability could be attained immediately. The split on this question revealed the fundamental divergence between the monetary policies of the United States and of the gold bloc -- between a policy that seeks to maintain the present deflation and one that seeks to promote inflation. The alternatives which the monetary world presents to us are, on the one hand, the deflationary policy of the gold bloc dominated by the rentier interests who have already suffered heavily from the post-war devaluation and, on the other hand, the inflationary policy of the United States where the producer interest is in the ascendant and where the present generation of creditors have not, so far, met the guillotine of devaluation. This statement is over-simplified, but in broad outline true.

The position of Great Britain as regards these two policies is difficult. As a creditor nation and an international financial center, we find advantages in falling or stationary prices and in stable exchanges. As a large industrial producer we are interested in rising prices. As regards the two monetary policies, therefore, we have a foot in each camp. So far, the Government's policy appears to be the negative one of refusing to be entangled in either the inflationary or the deflationary policies which are now at work abroad. It might be concluded that the British policy was the Micawberish one of sitting tight and waiting for something to turn up. There is a certain measure of truth in this criticism, but there is also much unfairness. The chief troubles of the world are international in their origin; they can be solved only by international action and agreement. This limits the possibility of domestic action to raise wholesale commodity prices. Within these limits, however, the Government can claim to have brought about the conditions which they regard as necessary, namely, the availibility of credit by a policy of cheap money and the revival of business confidence. The efforts, not entirely unsuccessful, to rule out excessive speculation in the exchanges ~~xxx~~ have contributed to the same end. Finally, if the efforts to balance the budget have not met with complete success, there has at least been nothing to weaken confidence in even the most conservative quarters. It must be admitted that the Government has pushed home as far as it could its announced policy.

We believe that not only is our industrial position now much sounder, but that the psychological effect of the United States' break with the deflationary proclivities of the gold standard has imparted a more vigorous and confident tone to business in this country. The American experiment may succeed or fail, but we think that at least there is here an opportunity for the Chancellor to get a profitable response from business men in this country by relaxing some of the stringent measures which were necessary in the days when confidence was more timid.

Sowing the wind. Leading editorial.
London Economist, July 15, page 113-4.

There is no record until the present year of a Government's deliberately planning an inflation of credit or currency not as a means of raising revenue but with the conscious aim of raising the price level. The argument against such a course has been that the inflationary movement could not be checked after it got under way, and even more, that no one would have the desire or the courage to stop the "wave of prosperity" thus induced. Up to the present the outcome of the American experiment is extremely uncertain. Meanwhile, what should Great Britain do?

It is neither politically nor economically wise for us merely to "wait and see." There is no reason why we should falter in our declared policy of fostering a moderate price rise; we might well adopt a well considered program of public works as a stimulus to recovery.

But it cannot be too strongly insisted that a British expansionist movement does not call for a violent or dramatic change in the gold value of the pound. A moderate rise in British prices, particularly if part of a world movement, need involve no sudden or substantial change in the present exchange ratio between the pound and the franc; it would, however, be a mistake to check minor movements in the franc-pound exchange if circumstances -- other than mere speculation -- seem to warrant it. Such movements would show that if -- as we hope will not be the case -- French policy proves to be actively deflationary, we retain freedom to pursue an independent line, without in the least intending to follow the fall of the dollar or, indeed, aiming at any sort of currency depreciation likely to make difficulties for countries still on gold who are ready to cooperate in achieving a reasonable degree of price recovery.

If our policy is not merely independent, but is also sufficiently definite, it may as time passes help America to define her own. In the end, when America has realized the danger of her present movement's running to excess, and with France ready to increase her public investment for the purpose of expanding employment, we may yet find that the possibilities of a world agreement are not so remote as they appear today.

Germany and the gold bloc, by the Berlin correspondent.
London Economist, July 15, page 129.

The attitude of Germany towards the conflict between the so-called gold bloc and America is as follows: Germany is determined to maintain the stability of her own currency and therefore heartily desires the concurrent stabilization of other currencies. At the same time, she shares with the United States and Great Britain the opinion that it is essential to raise the general price level, and even though the gold countries do not dispute this, there is a subtle difference in the emphasis which Germany lays on it which differentiates her attitude from that of France and Holland. In the latest phase of the Conference, where discussion has turned on the issue of "stabilization versus price raising," Germany's attitude has not perhaps been generally understood, as she does not accept these simple alternatives but considers it possible to combine a policy of raising prices with fixed exchange rates through international cooperation.

Form No. 131

Office Correspondence

FEDERAL RESERVE
BOARD

Date July 21, 1933

To Governor Black

Subject: Articles in British press

From Miss Evans

W.S.O.

Depression

Stat

I attach summaries, selected from the forthcoming Weekly Review of Periodicals, of certain recent articles in the British press.

They are from the Midland Bank Monthly Review and the London Economist. Titles follow:

"Depreciation" and "devaluation."
Unfinished symphony.
The American balance of payments: creditor countries and the gold standard.

"Depreciation" and "devaluation."
Midland Bank Monthly Review, June-July, page 4-6.

... In the present world confusion many currencies, although not undergoing internal depreciation, have suffered varying degrees of external depreciation and have lost value in terms of gold. The question now arises whether the stage has been reached at which the external relationships of these currencies accurately represent the differences in their internal purchasing powers, and whether, therefore, their respective degrees of depreciation can safely be stereotyped by devaluation. President Roosevelt, by his rejection of the proposed agreement on exchange stabilization, has clearly answered: no. He has power to devalue the dollar, but he has not devalued; he is not devaluing; and no one knows when or by how much he will devalue, if indeed he finds it necessary in the last resort to do so at all. What he has done is to depreciate the dollar both internally, by producing a rise in commodity prices, and externally, by producing conditions for a fall in the exchange value of the dollar.

From this it would appear that, while depreciation, particularly internal, is of great importance to everyone, devaluation matters very little. Yet devaluation, if accomplished in haste or at the wrong figure, may be of tremendous importance to everyone. ... It is of the utmost importance that if and when devaluation takes place it shall result in new fixed exchange rates accurately representing relative internal purchasing powers. In order to be sure that this is so, there must be some degree of stability in internal purchasing powers of different currencies. To fix new exchange rates by general devaluation while at least one major currency is being subjected to deliberate internal depreciation would be dangerous in the extreme. To do so piece-meal, without waiting for general agreement, would be equally full of risks. Hence the impossibility of securing final stability of exchange rates until the future internal value of the dollar has become far more calculable than it is today.

Unfinished symphony. Leading editorial.
London Economist, July 8, page 57-8.

... We have said that adjournment is dictated by the clash between rival monetary policies. The conflict, however, is one of ideas; it is not a battle in which one side or the other must win. It is rather a difference of opinion on the question how any one nation should order its affairs within its own domain, and it is probable that in the future as in the past different systems will co-exist together.

The facts of the modern world mean that no country can radically alter its price level without affecting others; and therefore France, for instance, is much interested in America's policy and can legitimately argue that what is needed is that each country's action should be as little detrimental to others as possible. But if America is determined to have a "commodity dollar" at the expense of exchange stability, that does not mean that France cannot have a franc based on gold. What it does mean is that smooth-working relations should be devised between countries who may decide to follow the commodity model and those who stick to gold. ...

Though the conference in its present form can go no further, that does not mean that international cooperation is at an end or that we need to revert to economic anarchy. The situation today demands that a fresh study be made of the facts as they are, and a broad monetary plan based on them be presented -- with such results as emerge from the committees which continue to sit on certain aspects of the economic problem -- to a subsequent meeting of the conference. We sympathize with those who are pressing for the conference to continue; but the best will in the world cannot compel decisions -- except the wrong ones -- before the time is ripe to take them. When that time comes, well-considered plans for speedy application must be ready.

The American balance of payments: creditor countries and the gold standard. Midland Bank Monthly Review, June-July, page 1-3.

... American balance of payments figures for 1932 shed light on America's monetary policy in the past few months, and confirm a generally accepted interpretation. At the end of 1932 the United States was on balance a creditor on short-term account. Foreign-owned short funds in the United States had been reduced to virtually a working minimum. This fact, along with the current account surplus and the large American stock of gold, shows clearly that there was nothing in the position of America in relation to foreign countries to drive her off the gold standard. The separation of the dollar from gold, so far as it may have been involuntary, resulted from the action of American citizens; and for the rest must have been a step taken deliberately in accordance with Government policy.

This conclusion is very different from that which emerges from a study of the course of events in Great Britain, yet the basis for both was identical in that the pressure of falling commodity prices proved insupportable in both countries. ...

It may well be asked why the third great creditor country, France, has not been forced into a similar predicament. The answer is twofold. First, the franc was stabilized at a level which represented undervaluation. Consequently France could face a fall in world prices with greater powers of resistance than Britain. Second, costs of production in France probably were and are more elastic than in either Great Britain or the United States. The volume of debt in existence was almost certainly far smaller proportionally, following devaluation of the franc, so that debt charges probably represented a relatively unimportant part of costs. Although estimates of the French balance of payments in 1932 are not yet available, it would not be surprising to find that the principal remaining adherent to the gold standard was showing a deficit on its current account.

If that should be so, it would present a curious comparison with the United States and would demonstrate further that in recent years the gross volume of debt, internal as well as external, has been a more important factor than the current balance of payments in determining the relationships between currencies and gold. This conclusion obviously bears very closely upon the problem of reaching accord between monetary and fiscal policies and upon the appropriate weight to be given to each.

Form 131

Office Correspondence

FEDERAL RESERVE BOARD

Date July 13, 1933

To Governor Black

Subject: Articles in British and German press

From Miss Evans

~~244~~

2—8495

244.21

Depression

Stat

I attach summaries, selected from the forthcoming Weekly Review of Periodicals, of certain recent articles in the British and German press.

They are from Der deutsche Volkswirt, the London Statist, the London Times, the Banker (London), and the London Economist. Titles follow:

War of the gold currencies
The outlook for the gold currencies
Dollar devaluation
The Exchange Equalization Account
A world perplexed

FOR CIRCULATION:

Mr. Hamlin ✓
Mr. James ✓
Mr. Miller
Mr. O'Connor ✓
Mr. Szymczak
Mr. Thomas ✓
Mr. McClelland ✓
Mr. Morrill ✓
Mr. ~~Wyatt~~
Mr.
Mr.

Please note - Initial and return to GOVERNOR.

No.

War of the gold currencies. Leading article.
Der deutsche Volkswirt, June 30, page 1007-8.

On June 26 it was rumored in Amsterdam, Paris and London that the central bank of the Netherlands had gone off the gold standard. The dismay with which the whole world received this news -- which within a few hours was shown to be false -- demonstrated how great a stake the economic situation of the world had in this business. The Dutch florin is the only international currency besides the Swiss franc which has maintained its value since the pre-war period. The florin, the Swiss, French, and Belgian francs are the only gold currencies in which international transactions can be carried on without restrictions. If any one of these currencies should waver in its stability, the fate of the other gold currencies would be extremely doubtful. Then the danger would be imminent that world economy would be without any fixed unit of value. In place of a common search for a way out of the crisis, a currency war of all against all would be upon us.

The United States left the gold standard of its own free will without the pressure of necessity. Holland will not go this way voluntarily. Governor Trip, of the central bank, has said again and again that Holland will fight for the maintenance of the stable florin if it means using every ounce of its gold reserve. There can be no question of his sincerity, and indeed no one has impugned that. The only question is whether Holland has sufficient resources to make good her determination.

The position of Switzerland is very similar to that of Holland, though the pressure on the Swiss franc has recently been less severe. In Switzerland the decline in the note circulation and deposits has been almost exactly parallel with that of the gold losses. The circulation in Switzerland still has a gold cover of 135 percent.

The French currency, and to some extent also the Belgian, which is closely linked with the French, is in a unique position owing to the fact that the currency agreement with England has recently stopped gold losses altogether. Moreover, the foreign indebtedness of France is negligible, and the French balance of payments is not affected to the same extent as that of Holland and Switzerland by events outside the country -- by transfer moratoria, etc. As to the intention of the French Government to fight for the stability of the franc there can be no doubt, for no French Government can afford to subject the savers of that country to renewed losses from currency depreciation.

On June 27, that is, directly after the attack on the Dutch currency, representatives of the central banks of France, Holland, Switzerland and Germany -- who were assembled in London for the Economic Conference -- held a conference. It was unanimously decided, and a joint declaration was made public, that the countries participating in the discussion would adhere to the gold standard. England was urged to make a similar declaration against any further depreciation of the pound sterling. England has the most important part to play in this business because for many months London has been the City of Refuge for capital in flight from other countries. Whether England, together with other European countries, will be able to exert sufficient pressure on the United States, so that America will be satisfied with a depreciation of 20 percent for the time being, is doubtful. But it is to be hoped that there can be enough cooperation between England and the European gold countries to prevent attacks on the florin and francs, and to afford a prospect of stability for these currencies. The mere report of the London discussion was enough to dampen the trading in florins and so reduce the gold withdrawals from Holland. Holland, meanwhile, took the traditional means of protecting its currency by raising its discount rate by a full percent, to 4 1/2 percent.

Germany is on the side of the European gold currencies. Her interest is directed towards ending the international competition in depreciation, for she is determined to maintain the stability of the reichsmark. The most recent threat to the Netherlands and the Swiss currencies shows once again how dangerous to world economy are capital movements from one country to another without a corresponding movement of commodities.

The outlook for the gold currencies.
London Statist, July 1, page 1-3.

The fight for the cohesion of the remnants of the gold standard holds the center of the stage. Four currencies remain in the unenviable position of having to work a really free gold standard. They are France, Holland, Belgium and Switzerland. France provides the backbone of this coalition, and it is really on her that the defence of what remains of true international monetary system devolves.

It is, however, on the smaller countries, and more particularly on Holland and Switzerland, that the attacks are being launched and recently there was a particularly stiff fight raging around the Dutch guilder. The technical position of this currency is still strong, and the situation of the public finances in the Netherlands leaves little to be desired. But there is little doubt that the Netherlands and her colonies are paying a fairly substantial price for their adherence to the gold standard. Their determination to hold this position was strengthened during the past eighteen months by the hope -- almost the conviction -- that their endurance would be rewarded by an early general return of all countries to the gold standard. Now that this hope has vanished, the decision to remain on gold is based on the contention that monetary stability in the shape of adherence to the gold standard is, in itself, an essential factor in the well-being of the country and that the Netherlands can, therefore, serve her own interests and indirectly the interests of the world as a whole by maintaining her steadfast resistance to those influences which are making for the depreciation of the guilder.

Dollar devaluation.
London Times, June 28, page 21.

The difference between the rise in world prices and American prices is largely accounted for by the depreciation in the dollar and reflects the speculative character of the rise. The American authorities can influence in marked degree the movement in the gold value of the dollar, but their power to do so is by no means unlimited. It would probably be less if the few gold standard countries were forced to leave gold. In any case, in the autumn the demand for dollars to pay for cotton and other commodities normally increases, and that would tend to force up the gold value of the dollar and bring down American commodity prices in relation to world prices. Although the United States regards the present moment as not the time to reach a decision on the question of stabilization, sooner or later this problem will become of pressing importance, in order to check a falling tendency in prices. It might arise in an acute form should the dollar begin to rise in terms of gold, or leading foreign currencies depreciate in terms of dollars. Definite devaluation of the dollar in terms of gold is within America's power because of her large gold stocks and her creditor position, and she might be forced to use it. The amount of devaluation will depend in turn upon the rise in her prices and costs of production which her inflationary measures are designed to achieve. There is little reason to suppose that the American authorities have formulated any definite policy on the question of devaluation, and they will probably be content to watch the course of events before reaching a decision.

The Exchange Equalization Account.
The Banker (London), July, page 5-6.

The Chancellor of the Exchequer has at last yielded to demands from the House of Commons that some information should be given as to the use made of the public money allocated to the Exchange Account. If the Account was to succeed in its object, it was obviously necessary to conceal not only its present state, but also its state during the whole of its existence, for otherwise speculators could examine past fluctuations in the composition of the Account, and by comparing them with contemporaneous movements in the exchanges obtain valuable data to assist them in their future operations. To obviate this danger, which might clearly have defeated the whole object of the Account, the Chancellor proposes only to publish a single average statement calculated from the state of the Account at the end of each month over the period from the inception of the Account to the close of the financial year. This statement will be given to the Public Accounts Committee.

The House was satisfied with this very limited concession, which met the principle that Parliament should know what was being done with public money. There is obviously great justification for the Chancellor's caution, but in view of the fundamental change that has occurred through the American suspension of the gold standard, it is conceivable that more detailed information might have been afforded for the period ending March 31 last, without giving speculators any date which they could safely use.

A world perplexed. Leading editorial.
London Economist, July 1, page 3-4.

... What in these unsettled circumstances should Britain do? To revalue the pound, cut adrift from President Roosevelt's plans and align ourselves with Europe before we know what is to happen in America, involves a decision that we should be very loth to take. The distrust in this country of any gold standard is still very deep, while a decision that even seemed to separate us from the United States would raise serious Imperial difficulties -- for example, with Canada.

On the other hand, to align ourselves unreservedly with America and pursue a policy that would almost certainly drive the remaining gold currencies of Europe off gold would risk creating fresh chaos. Nor is the danger merely one of competitive depreciation, for political issues also are at stake. In the case of France, for example, it is generally held that a second depreciation of the franc under a Radical régime would lead to the Government's overthrow, a swing to the Right and a new Tardieu Ministry -- a change which would accelerate throughout Europe the trend towards economic nationalism in a general sauve qui peut. In this dilemma our rôle cannot be purely passive. In the belief that British policy may yet save the world economy from falling to pieces we should say to Europe that, since we regard the maintenance of stability in the gold countries as of the greatest importance, we will do all we can to prevent speculation and to avoid embarrassing them by movements of the pound; and to America that we mean what we say when we declare that a rise of prices is an essential condition of recovery, and that while we do not believe in short cuts to prosperity and cannot join in speculative movements based on unsure foundations, we can and will cooperate in a campaign of trade expansion if the President can control the forces that he has conjured up and fit them into a world plan.

If on this basis we can prevent now any violent change in the gold value of the pound, we should look forward to a premanent stabilization -- provided only that the world generally will move towards freer trade.

Form No. 131

Office Correspondence

FEDERAL RESERVE
BOARD

Date July 6, 1933

To Governor Black

Subject: Articles in British press

From Miss Evans

W. S. E.

244

2-8495

244.211
Depression Stat

I attach summaries, selected from the forthcoming Weekly Review of Periodicals, of three articles in the London Economist of June 24. Titles follow:

America and the world
Reichsbank devisen holdings
Austria's economic position

America and the world.
London Economist, June 24, page 1342-3.

... Unquestionably, the trend of American policy is in the balance, and we must await the events of the next week or two before attempting to judge on which side the decision will be given. We should, however, be prepared for two possibilities.

The first is that we may have to wait only a short while for a rise of prices in the United States; when this has happened, it will be possible to stabilize the currencies of the world at a rate which will be more acceptable than the present level. But it cannot be too strongly insisted that what is happening in America at the present moment affords no firm basis for stabilization. If the exchange is temporarily depressed, it may for the moment foster America's exports, but unless other countries can pay for them by selling to the United States, the result will be merely to depress world prices.

The second possibility is that the United States, in spite of the efforts of the President, will try out a policy of isolation over a longer period. In that case, the procedure for the World Economic Conference must be the same as before, but with this important difference -- that the area within which the international currency system, based on freer movement of goods, will operate will have to exclude America, and any other countries that imitate her. Such a plan would almost certainly involve a modification of the most-favored-nation principle, and the possibility of general action to offset the effect of currency changes occurring in non-participating countries. Great care would be needed to prevent chaos and friction. Nevertheless the attempt should be made, for it would be a calamity if we are all driven back into isolation just because there are some countries not yet ready to share in an international economy.

A development of this kind need involve no political estrangements, and it is obvious that although we speak of "economic isolation," the word implies a much greater degree of separation than ever actually occurs in fact; for whatever policy is adopted, many countries, including the Dominion of Canada, will remain very much within the orbit economically of the United States. If America acts in the spirit of Mr. Hull's resolution and does not keep us waiting too long before she is ready to join in bringing the exchanges under control, it should be possible to launch "prosperity plans" long before the year is out. But if not, some solution along the lines suggested must be found rather than that the world should drift on for years waiting for the moment when public action by all countries at the same time will have the approval of public opinion.

Reichsbank devisen holdings, by the Berlin correspondent.
London Economist, June 24, page 1356-7.

The Reichsbank has lost gold and devisen steadily during recent months in spite of the considerable surplus of exports.

The export devisen reach the Reichsbank with a delay of some two to three months, so that the German balance of foreign currencies was until very recently affected by the low export surpluses of January and February. Germany exports a large category of goods against long-term credits, above all to Russia. But this factor also, to which many differences between the balance of devisen and the balance of trade could formerly be ascribed, is now without doubt not responsible for the strongly passive devisen balance in the face of a considerable activity of the balance of trade. Another important factor, in addition to the flight of capital, is to be remembered. German industrial concerns are permitted to accept their own bonds in payment for exports on condition that an increase of exports can thus be achieved. This is frequently the case, because the German bonds abroad are quoted far below par, whereas they are credited in the books of the debtor firms at their full value on the debit side. Thus in certain circumstances the result is a very large special profit, which can make exportation profitable at prices which would otherwise be unprofitable. This measure is very desirable from an economic viewpoint, and also increases as a whole Germany's ability to make payments. But as a result the German export statistics contain items for which the Reichsbank receives no devisen. The extent of this practice must be considerable, and together with the flight of capital, it has led to Germany's suffering great losses in international currencies and has made it difficult for her to transfer interest payments, although the monthly interest burdens are probably hardly higher than the export surplus of each of the past three months.

Austria's economic position, by a correspondent.
London Economist, June 24, page 1344-5.

Not many months ago Austria appeared on the verge of economic and political collapse. Now, as long as the Government does not waver in its aim, and is in a position to feed and clothe its supporters, the chances of victory must remain with Dr. Dollfuss and his colleagues. The question is, how long can the present Government continue to fight a war on two fronts against Hitlerism and the economic depression? The answer depends upon the economic situation in Austria.

The decrees issued since the beginning of March are ample proof that the Government means to do its best to eliminate the specific Austrian factors which have so largely contributed to the depression. For some time it has been recognized that the rigidity of the Austrian wage system, the excessive cost of social services, the taxation policy of the Federal States, and the State budget policy were threatening the economic life of Austria. On the other hand, under the leadership of the president of the Austrian National Bank, banking reform was concluded by the end of April.

After negotiations lasting over two years the agreement between the Austrian Government and the Credit-Anstalt creditors removes one of the most disturbing factors in Austrian economic life.

Freedom in foreign exchange dealings has been brought about by the gradual recognition of the Black Bourse. The rights of the National Bank to demand from the exporters the whole or part of their foreign currency at the old parity prices has been rescinded, and Austrians and foreigners are now completely free to sell their takings and to cover their requirements in devisen through the intermediary of the Giro-und Kassenverein. On the basis of the rates quoted in this market, the Vienna Stock Exchange publishes daily the gold premium.

The comparative stability of the Austrian schilling, in spite of the fact that the Government and Federal States are paying all their external obligations in full and permitting the banks to reduce their standstill obligations, shows greater power of resistance than might have been expected. There is no doubt that tourist traffic and other invisible exports are a source of strength, while the relative stability of exports since the second half of last year is another factor making for recovery. Whatever favorable interpretation may be placed on recent figures, they show clearly that without a speedy improvement in general world conditions, Austrian economic life can be carried on only at the price of a further reduction in the standard of living of the industrial population. The only immediate remedy which would bring about a reduction in the cost of living -- a change in agricultural policy -- is out of the question in view of the fact that the agricultural population is the mainstay of the present Government.

The proceeds of the expected Lausanne loan are almost entirely earmarked for the repayment of the Austrian National Bank's debt to the Bank of England, the B.I.S., and the Government's short-term indebtedness to the Austrian banks and other credit institutions. As there is no doubt that the collapse of Austria would seriously endanger the peace of Europe, it would appear from the Austrian economic situation that a policy designed to assist the Austrian Government to reduce prices in Austria, or to hold out until external prices begin to rise, should be given immediate consideration.

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date July 6, 1933

To Governor Black

Subject: Demand for Currency

From Mr. Thompson

244.211

Depression Stat.

Demand for currency increased by $77,000,000 during the week ending July 5, reflecting chiefly holiday needs. The increase this year was smaller than the average for earlier years (about $105,000,000) indicating that currency continues to come out of hoards. Figures showing for the past week daily changes in demand for currency with and without adjustment for seasonal variation follow:

DAILY CHANGES IN DEMAND FOR CURRENCY
(In millions of dollars)

	Actual change	Average of previous years	Seasonally adjusted change
June 29 (Thursday)	+22	+34	-12
June 30 (Friday)	+26	+30	-4
July 1 (Saturday)	+24	+37	-13
July 3 (Monday)	+12	+13	-1
July 5 (Wednesday)	-7	-9	+2
Total	+77	+105	-28

The volume of money in circulation is now smaller than a year ago. At this time last year, however, currency was moving rapidly into hoards, chiefly as a result of banking disturbances in Chicago and San Francisco. The amount of currency in hoards is probably still in excess of $2,000,000,000.

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date June 29, 1933

To Governor Black

Subject: Articles in British and French press

From Miss Evans

244

244.211

Depression

2—8495

I attach summaries, selected from the forthcoming Weekly Review of Periodicals, of certain recent articles in the British and French press.

They are from the London Financial News, the London Times, and the Banque Française et Italienne pour l'Amérique du Sud Review. Titles follow:

Mr. Chamberlain's Conference speech
Stabilization problems and the Chancellor's statement
Exchange control in the Danubian States
Annual report of the Banco do Brasil

Mr. Chamberlain's Conference speech, by Professor T. E. Gregory.
London Financial News, June 15, page 6.

My disagreement with the Chancellor's speech is not a disagreement as to ends but as to the means calculated best to promote those ends.

It is common ground between economists of all schools that so long as there exists a divergence between prices and costs, the depression will continue. That is a very different thing from arguing that it is the divergence which has caused the depression; on the contrary, it is the divergence which is the depression. Consequently we have to ask whether it is only by means of a rise of prices that recovery can come about; and whether it is possible to secure that a rise of prices is possible before the exchanges are stabilized.

Upon both these issues I differ from the Chancellor. It is not true that a policy of reducing costs and prices has the inevitable effect of greatly reducing the national income; it is true that so long as prices and costs are not in line the national income will fall. But if costs and prices were in line, recovery would come about and the national income would rise again. Moreover, an adjustment of prices and costs does not imply that prices will not rise in the future. What holds the price rise back is the disparity in relative price levels. Depressions in the past have been cured by the process of cost reduction, and have been followed by a period of rising prices; the same remedy would work now. This solution is found unacceptable in the Chancellor's speech; instead a policy of cheap money is urged.

The difficulty about the cheap money and credit policy at present is that the world's currencies are not stabilized. Consequently, credit expansion in any single country does not have an inflationary effect upon any other country; it may have a directly deflationary effect. In other words, so far from its being true that we ought not to stabilize before prices have risen, stabilization has to take place before the necessary basis for an international credit action can be created. This is not the same thing as implying that an international credit inflation is either possible or desirable. Without stabilization, certainly, it cannot even be attempted without the risk of complete currency collapse.

The fundamental difficulty of a credit policy designed to "submerge the rocks" is to know when and how to stop. No one denies that cutting costs is painful and dangerous. But are there no dangers in the opposite course? Is it not a fact that the commodity and stock exchange booms in America would both disastrously collapse if the American Government were to announce today the point at which it would stabilize the dollar? Under these conditions, to demand that prices should rise before stabilization is attempted, is to insure that the attempt will never be made, or made under more unfavorable conditions than the present.

The most alarming point made by the Chancellor was that "the time and the exchange parity at which a return to gold could safely be made must be determined by the proper authorities in each country separately." It would, of course, be intolerable if Great Britain were forced back upon gold by the pressure of others while monetary authorities here considered it unwise. But it is disturbing to imagine every country hanging back because others have refused to take the plunge. The present situation is that each country is dominated by the fear that others will refuse to follow, if it itself takes the first step; and this situation can be surmounted only by a common determination to act.

The danger of premature action can be largely overcome by a recognition that action is premature only so long as it is isolated, and that the rise of prices which so many people long for is likely to come about the more rapidly, the more courageous statesmen show themselves at the present time.

Stabilization problems and the Chancellor's statement.
London Times, June 15, page 21.

Mr. Chamberlain's statement to the Conference defining the broad lines of British financial policy will receive more attention now that the war debt payment has been settled. But, generally speaking, the view of the City is that until a common monetary standard has been restored it is impossible to resume international finance, which is necessary to the restoration of international trade. Therefore the City feels that a real rise in prices is not likely to precede currency stabilization, but to follow from it, since until demand is revived it is improbable that prices will rise appreciably. A change in the monetary expression of prices -- devaluation -- is another matter.

The City certainly will endorse the Chancellor's view that the ultimate aim of monetary policy should be the restoration of an international gold standard, but that any return to that standard would be out of the question so long as war debts existed to make impracticable the working of that standard. While cheap money provides an opportunity for debtors to reborrow their loans more cheaply, the idea that cheap money alone or the simple expansion of bank credits can restore industrial prosperity is not by any means widely believed. Exchange restrictions are the consequence of the breakdown of the international monetary standard. Countries with these restrictions are simply trying to maintain exchange stabilization. The removal of these restrictions, therefore, depends on the resumption of international lending.

Exchange control in the Danubian States.
London Financial News, June 16, page 9.

A memorandum for presentation to the World Economic Conference has been prepared by Dr. Elemér Hantos on the exchange situation in the Danubian States. Dr. Hantos says that among the evils brought about by the world crisis, the embargo on currency exports is one of the most prominent. The immediate reason for adopting exchange restrictions has been the sudden withdrawal of foreign credits. Yet even without this, the States of Central and Eastern Europe would have been forced to declare an embargo on currency exports because the fall in the price of agricultural products reduced the revenue of the trade balance to such an extent that the revenue was no longer sufficient to meet the foreign debt service.

The stabilization of currency in the Danubian States, the memorandum suggests, could be based on the following considerations:

1. The immediate cause of interference with the currency system is found in the disturbed balance of payments. The embargo on money exports is, however, not an effective means for re-establishing the balance of payments. At most it can temporarily and artificially regulate the balance of payments and produce an apparent balance of currency. As the credit balance of this currency account does not take into account whether a larger or smaller volume of trade results, it is desirable that the measures enacted for the regulation of the currency which handicap trade should be eliminated.

2. The experiences of the past decades have proved that autocracy in currency systems is as detrimental to the medium-sized and small States of the Danube Basin as autocracy in other economic matters.

3. The first step towards the revival of trade relations and the reorganization of the debts should be a generous international granting of help. For this purpose the Economic Conference should energetically tackle the proposal made at the Stresa Conference to create a stabilization fund which would put the

currencies in order again and set the whole mechanism of finance again in motion.

4. A means for the permanent improvement of the payment balance of the Danubian States is the revival of their reciprocal trade by new methods (preferential tariffs, customs union) and a reorganization of their debts by taking into consideration the rise in money values which has come about, and the general impoverishment.

The sovereignty of the State in money matters must, of course, be maintained. The cooperation of central banks might well have two principal aims so far as the Danubian States particularly are concerned: (1) that the money provided by one central bank should be accepted in payment by another central bank; and (2) that transfers from one central bank to another should be calculated at a fixed rate of exchange (par).

If these two principles were accepted, there would be no possibility of fluctuation in the rates of exchange between the countries of this union.

Annual report of the Banco do Brasil.
Banque Française et Italienne pour l'Amérique du Sud Review, June, page 4.

In its report covering the year 1932 the board of directors of the Bank of Brazil states that during the past year two measures taken by the Government had a very favorable influence on the maintenance of domestic credit. These measures were the creation of a Mobilization Office for the banks, and the extension of the rediscount privilege to securities issued for the purpose of facilitating industrial or agricultural production.

The Mobilization Office, created by the law of June 9, 1932, was designed to protect the banks from a panic such as had taken place in a number of countries. Thus the law provided that, on the pledge of special guaranties, the Office would assure the banks of being able to obtain the funds necessary to meet any sudden withdrawals of deposits. The funds thus obtained might not be employed for new operations but were exclusively for the repayment of deposits in existence at the time of the creation of the Mobilization Office. Advances made by the Office were for a period of five years. As a matter of fact, the mere creation of the Office, giving depositors the assurance that they would be repaid, was sufficient to prevent any panic from getting started, and the Office has been called upon for only very minor transactions.

The extension of the rediscount privilege to the new type of securities, and for a period of two years, has made it possible for the banks to function with far greater ease.

Mr Thompson

June 23, 1933

Governor Black

Mr. Thompson

Demand for Currency

Depression Stat.

Domestic currency developments during the past four weeks have been relatively unimportant, and on June 21 the volume of money in circulation was $5,696,000,000, a decline of $1,885,000,000 from the peak of March 13, but an increase of $191,000,000 from a year ago. Practically all of the currency withdrawn during the recent panic has been returned to the reserve banks, but of the currency withdrawn during the past three years more than $2,000,000,000 is estimated to be in hoards at the present time. Our estimates of hoarding for significant periods are shown in the following table:

CURRENCY HOARDED BY PUBLIC
SINCE OCTOBER 22, 1930

Date	Amount (In millions of dollars)
Oct. 22, 1930	0
Dec. 31, 1930	350
Mar. 4, 1931	345
Oct. 28, 1931	1,225
Dec. 9, 1931	1,310
Feb. 3, 1932	1,710
Apr. 13, 1932	1,590
July 20, 1932	2,015
Jan. 11, 1933	2,140
Mar. 8, 1933	3,160
May 17, 1933	2,380
June 21, 1933	2,200
Sept 20, 1933	2,000

7582
5594
2000

Jan 11

1,200

The amount of currency remaining in hoards does not afford convincing evidence of the general return of confidence. When full confidence in the general situation and in banks is restored and investment and consuming demand return to higher levels than now prevail,

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this currency which, being chiefly composed of large denomination bills is probably for the most part in the possession of holders of large cash resources, will either be deposited directly in banks by those holders or paid to merchants and to dealers in commodities and securities, who will deposit the currency in the banks. The return of this currency from hoards, therefore, constitutes an essential step in the receovery program.

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date June 22, 1933

To Governor Black

Subject: Articles in British and German press

From Miss Evans

W.S.E.

244.21

244

GPO 2—8495

Depression

I attach summaries, selected from the forthcoming Weekly Review of Periodicals, of two recent articles in the British and the German press.

They are from Lloyds Bank Monthly Review and the London Statist, and the Frankfurter Zeitung. Titles follow:

Sterling and the gold standard
France as the guardian of gold currencies

Sterling and the gold standard, by Frédéric Jenny (Financial Editor of Le Temps).
Lloyds Bank Monthly Review, June, page 223-50.
London Statist, June 10, page 946-7.

This article of M. Jenny's presents an exceptionally clear summary of the French case with which the World Economic Conference will be confronted. The main thesis developed by M. Jenny is that sterling should once again be linked with gold with the least possible delay, and that the recent departure of the dollar from the gold standard merely increases the urgency with which this step should be taken. He recognizes that sterling was stabilized at too high a gold value in 1925, but he equally deprecates any attempt to fix the gold value of sterling at an artificially low level in order to give Great Britain a marked advantage over competitive countries in the coming commercial struggle. Such a policy, he argues, would tend to prevent or delay the general lowering of customs barriers for which the need is universally recognized.

M. Jenny deals rather severely with the two arguments by which the British authorities have hitherto defended their policy of leaving until the morrow any decision regarding the definite stabilization of sterling. These are, first, that there can be no question of restoring the gold standard before a rise has occurred in commodity prices; and second, that it is equally inconceivable that there should be a return to gold before there can be some assurance that the mechanism of the international gold standard system will function normally and according to the rules of the game.

M. Jenny holds that the hope of an artificial rise in gold prices caused by monetary manipulation is illusory, and points to the American example to prove that in a time of economic depression, and when confidence is lacking, credit inflation fails in its object because newly created credits are not used. Such measures succed only in a period of prosperity, and then they succeed too well.

As for the assurance that the rules of the game will be obeyed,

M. Jenny recognizes only two. They are that central banks should allow the free inward and outward movement of gold (without putting gold into circulation), and that the country to which gold tends to flow should restrict this movement by a policy of cheap money, and that on the other hand, countries which are losing gold should endeavor to counteract the outflow by a policy of dear money. This normal functioning of the gold standard may not be possible today, when we have to provide not merely for balances of payments arising out of international trade and normal capital transactions, but for massive and violent international movements of floating capital. M. Jenny, however, is not disturbed by this argument. He attributes the undesirable growth of the international short loan fund to the unduly liberal extension of the gold exchange standard after the war, and this system he probably regards as being defunct.

It is impossible to ignore the force of the main reasons on which he bases his plea for an early stabilization of sterling and for the restoration of a true international standard of monetary values.

France as the guardian of gold currencies, by the Paris correspondent.
Frankfurter Zeitung, May 25, page 5.

The severing of the dollar from gold has left France the final guardian of gold currencies and of gold values. Even though a few smaller countries like Holland, Switzerland and Belgium have remained true to gold, nevertheless gold movements in these countries are subject to certain restrictions, while in a number of other European countries, notably Germany and Italy, the par value of the currency can be maintained only with the aid of more or less comprehensive exchange control. Continental Europe, which with minor exceptions has decided on currency stabilization as the prime requisite, in defiance of the opinion of England and the United States, relies in its battle for the maintenance of the currencies at their former parities, on the free functioning of the gold standard in France. The development of French currency policy has therefore become of decisive importance for Continental Europe, and even for England, including the countries belonging to the sterling bloc. Moreover, as the guardian of gold values, France has exerted a strong influence on decisions of currency policy in the United States.

France has neither sought, nor been happy to accept, this honorable position as leader in the domain of currency. She inherited it when the dollar depreciated, and regards it as rather a burden. For it is not as part of an international system that she keeps faith with gold currency; she has been forced to assume the difficult office of guardian of gold values because her own especial interests demand the maintenance of franc parity. It is no accident that in this particular the interests of France coincide with those of the greater part of the Continent of Europe. For France, like most other European countries, had as a result of the war to suffer a depreciation of her currency, which was not stabilized until 1928 and then at only one fifth of its pre-war parity. Experience has shown that for psychological and economic reasons a currency depreciation cannot be gone through with more than once in a generation, so that France is compelled to hold tight to the new currency parity. Her enormous gold stock helps her to wage this battle. The dangers of a domestic panic are minimized by the sound structure and the high degree of liquidity of the French banking system. On the other hand, the domestic indebtedness of France was sharply reduced by the post-war inflation; and French policy today takes its direction far more from the interests of the great mass of small savers and investors, ~~xxxxxx xxxxx~~ for whom the post-war inflation spelled disaster, and who would bitterly oppose a repetition of any such dangerous and impoverishing experiment.

The French Government has not hesitated so far, since the freeing of the dollar from gold, to declare itself in favor of the maintenance of the gold value of franc currency. The Bank of France, also, has stated repeatedly that its first duty is to obey the currency law and refrain from manipulating in any way the rate of exchange and the value of gold. Therefore the bank gives out gold freely as required by the law, and buys it with the same readiness. Thus it assures a free gold market in Paris, which may be regarded as the foremost aim of its present policy. The international significance of this procedure is that the bank seeks to avert an international run on gold by an unconditional readiness to pay out gold, and to maintain a fixed relation with gold not only for the franc, but also for such other currencies as still remain on gold, the reichsmark among them.

German repayment of American rediscount credit.
Montagu Weekly Review, June 8, page 278.

It has been decided to pay back at once the American rediscount credit of the Gold Discount Bank, amounting to $45,000,000, which falls due on July 1. The gold and foreign exchange reserve of the Reichsbank, and the percentage of cover for note issue, will then be revealed unambiguously in the Reichsbank's statements. It is calculated that, owing to the devaluation of the dollar and the fact that the credit is repaid in paper dollars, Germany will gain some 30,000,000 reichsmarks ($7,500,000) on the exchange.

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date June 16, 1933

To Governor Black

Subject: Articles in British press

From Miss Evans

2—8495

Depression

File

Stat.

I attach summaries, selected from the forthcoming Weekly Review of Periodicals, of two recent articles in the British press.

They are from the London Bankers Magazine, and the London economist.

Titles follow:

Monetary policy and banking practice
Reduction of interest rates in Canada

Monetary policy and banking practice, by W. F. Crick.
London Bankers Magazine, June, page 907-16.

In a recent address on monetary policy and banking practice, Mr. W. F. Crick, Manager of the Intelligence Department of the Midland Bank, discussed the possibility of beneficial cooperation between the Treasury, the Bank of England and the joint-stock banks. He showed that the suspension of the gold standard in this country had removed much of the importance of the bank rate as a factor in the monetary policy of the central bank, and had therefore left the regulation of the quantity of money as the predominant instrument in making that policy effective. From this point Mr. Crick went on to show that both inflationary and deflationary influence may be set up without any change in the volume of money, and then proceeded to the argument that the outside bank and not the central bank has the best information at its disposal for drawing conclusions as to some movements which are of considerable importance in the formulation of "positive" monetary policy. The central bank, in his view, cannot see how money is distributed or what changes are taking place within the total available. Similarly, it has little power to influence the distribution of deposits. This unavoidable deficiency in the power of the central bank is the main argument for cooperation. He holds, however, that cooperation with the Treasury is equally important if monetary policy is to be properly coordinated with financial and fiscal policy.

There can be little doubt that much might be gained by a closer association between the banks, the Bank of England and the Treasury, but one of the difficulties in the way of such association is the difference, both in theory and in practice, which sometimes appears among the banks themselves. This at the moment presents an impediment to any rigid form of cooperation with the Treasury and the Bank of England.

Reduction of interest rates in Canada, by the Ottawa correspondent.
London Economist, June 3, page 1192-3.

On May 1 all chartered banks in Canada and the Government post offices cut their rate on time deposits from 3 to 2 1/2 percent. At the same time the banks announced that they were lowering the rate on loans to their customers by the same amount, and a day or two later the Federal Government made a move towards reducing the interest charged the Provincial Governments from 5 1/2 to 5 percent. Since the Provinces have had to borrow large sums to meet unemployment relief and to cover budgetary deficits, even a small reduction like this affords considerable relief.

Form No. 131

Office Correspondence

FEDERAL RESERVE
BOARD

Date June 8, 1933

To Governor Black

Subject: Articles in British and French Press

From Miss Evans

W.S.E.

244

244.211

2—8495

I attach summaries, selected from the forthcoming Weekly Review of Periodicals, of certain recent articles in the British and French press.

Depression
Stat

They are from the London Statist, the London Times, the London Financial News, and L'Économiste Français. Titles follow:

International monetary problems
American exchange fund
A joint Equalization Fund?
French isolation at Geneva and London
Germany's debt problem
Defense of the Netherlands florin
Belgian gold policy
Switzerland stands by gold

International monetary problems.
London Statist, May 27, page 867.

"Monetary policy and the depression" has just been published by the Royal Institute of International Affairs, and the report has been drawn up by a distinguished group of economists. The task which the group set itself was to give a balanced account of the principal elements which must be considered in discussing the monetary situation, and to indicate the various possible solutions which an international conference might adopt. ...

The authors discuss the theoretical aspects of the great fall in prices and activity which has taken place since 1929 and the possibilities of revival, bearing in mind that it is on new investment that economic progress depends. There is a very fair statement of the views of the "monetary school" who claim that the proper relation between costs and receipts must be secured by raising prices and increasing activity through monetary action backed up by public expenditure, and those of the "structural school" who hold that restoration must come through a drastic writing down of past liabilities to pre-war prices.

In view of the imminence of the World Economic Conference, the most interesting chapter is that which deals with the problems of international cooperation in solving the monetary question. This inevitably leads to the future of the gold standard, on which the report presents the cases for and against an early return to gold. The arguments for an early return to gold include the powerful one that gold is the only practical basis for international finance which any economist can propose or any central banker accept, and that since gold will eventually have to be readopted, the sooner the better. Another argument is that if it is adopted with universal currency devaluation, it will at the same time release new credit in the central banks of the debtor countries which will give a stimulus to rising prices and at the same time provide the means by which exchange restrictions, transfer moratoria and excessive tariffs can be removed or made less severe. The argument in favor of a return to gold as an emergency action seems strong enough to have been given a place in the report.

The case against an early return to gold is partly the result of certain antipathies to the gold standard in itself. But in so far as the utility of gold is accepted, its early readoption may be rejected on various grounds. Undoubtedly the problem of reparations and war debts will have to be finally cleared out of the way, but we think it is a mistake to over-emphasize tariffs and restrictions as an obstacle to a return to gold. Undoubtedly they hinder international trade and finance, but their appearance in its most recent form, say since 1931, has been due more to the chaos produced by the absence of a stable international standard and the attempts to preserve stability, than to deliberate trade policy. It would seem, therefore, that the abolition of the worst of the restrictions on trade must wait on the readoption of a stable international standard rather than the other way about.

American exchange fund.
London Financial News, May 26, page 6.

Reports about the imminence of the establishment of an American equivalent of our Exchange Equalization Account have so far not disturbed the exchange market. Nor are rumors about the likelihood of an attempt to depreciate the dollar before the beginning of the Economic Conference taken seriously in banking circles. Meanwhile it seems probable that the monetary authorities of both countries will work in close cooperation to prevent any unwanted exchange movement. Not that they will come to a provisional agreement about the pre-stabilization of the exchanges, but they will come to periodic arrangements of a technical nature when a case arises that calls for intervention. Such collaboration seems already to exist between London and Paris.

If, however, the conference should fail, the authorities of the three countries would probably recover their freedom of action. If no agreement is reached, we must be prepared to have the American Exchange Equalization Fund take the offensive by bringing about a depreciation of the dollar. Yet it is difficult to believe that the American authorities would assume responsibility for a currency depreciation race. It is much more likely that, instead of bringing about a depreciation of the dollar by operations in the foreign exchange market, they will reduce the gold content of the monetary unit. By such means a fait accompli will have been created, and other countries will have to decide whether or not to follow the American example by devaluating their currencies. Such a policy could, however, be carried out just as well without an Exchange Equalization Fund.

The danger for sterling lies not so much in the possibility of wholesale inflation in the United States as in the devaluation of the dollar by decree. As for that, whichever Government takes the first step places itself at a disadvantage for devaluation cannot be repeated, and those who act later can always choose an even lower level.

A joint Equalization Fund?
London Statist, May 27, page 860-1.

Rumors have been put in circulation recently regarding the creation of a joint equalization fund operated by French, American, and perhaps Japanese authorities, with a view to maintaining de facto stabilization of the currencies concerned. Their circulation has been stimulated by the appointment of Dr. O. M. W. Sprague, recently economic adviser to the Bank of England, as financial adviser to the United States Government. It will be readily seen that the establishment of such a joint fund, involving as it would the virtual restabilization of all the important currencies of the world, would bring great advantages and create a solid basis on which to build up the monetary agreements which it is hoped the World Conference will produce. If the international exchange position could be stabilized now, while a number of countries still adhere to the gold standard, and about one-half of the recently existing discount on sterling in terms of the American currency has been wiped out, it would provide a solution to the problem of international monetary instability which, at the moment, would appear to be decidedly favorable to the United States.

But the will to stabilize is not yet present. Recent policy has rather aimed at a depreciation of controlled currency with a view to deriving what advantage could be obtained from a low exchange level in the fight for the ever-dwindling volume of international trade. When this "under-valuation" mentality has made way for a saner appreciation of the advantages of monetary stability, it will be time to consider the chances of an international stabilization fund and for the elaboration of a plan of restabilization in which some such institution as the Bank for International Settlements might play an important part. Meanwhile, the appointment of Dr. Sprague, at heart an economist of unbending orthodoxy, should be regarded as a welcome safeguard against having the United States join in the race for competitive devaluation.

French isolation at Geneva and London, by the Paris correspondent.
London Statist, May 27, page 871-2.

The turn of events at Geneva seems to be pushing France into the same kind of isolation as Germany was in recently. When France is summoned by the entire world to commit herself to gradual abandonment of heavy armaments, in which alone, it is contended, she has the advantage over Germany, even the masses of the people hesitate. Hitler's turn-about has not convinced French opinion, which seems to feel that Germany's aim is to get every nation disarmed down to her own level in order then to force revision of the map of Europe by threat of war. The revival of the Four Power pact idea is also considered disquieting as compelling France to choose between the Little and the Great Ententes. And finally there is disquietude over the prospect of the World Conference, as also containing the menace of isolation.

The reasoning here is that the conference can do no good unless preceded by a general return to sound money. And because no advance has been made towards stabilization of sterling and the dollar by common accord, the suspicion arises that in London France may find herself in almost solitary opposition to a campaign for credit inflation as a means for raising prices the world over, if not also for devaluation of the franc after the example of sterling and the dollar. Even if the monetary problem were overcome she would not find cooperation on the tariff field too easy, for she is deeply intrenched behind her quotas and not disposed to abandon this protection for new tariff agreements without first witnessing an approach of world prices to her own domestic price level.

Germany's debt problem.
London Financial News, May 30, page 1.

Dr. Schacht, on May 29, made a long report on the problem of Germany's foreign debt service. He said that the Standstill agreements were no solution of the present crisis in Germany, but had merely postponed the day of reckoning.

The reichsmark had been kept stable only by means of a strict control of currency dealings. Now that Germany's note cover in gold and foreign exchange had dropped to 8 per cent, the situation had become so serious that further withdrawals must result in inflation, with catastrophic consequences.

There were three reasons why Germany had taken up foreign credits: (1) to cover the cost of raw materials; (2) to finance export undertakings; (3) as reserves for the Reichsbank. Reparations could be paid only out of an export surplus, and other countries had prevented such a surplus, so that, of the foreign credits taken up, half had been used for the payment of reparations.

Defense of the Netherlands Florin, by Dr. M. Vadja.
L'Économiste Français, May 27, page 647-8.

The suspension of the gold standard by the United States caused fresh anxiety in Holland as to the future of the florin. In spite of the difference in the economic and banking position of the two countries and the repeated statements by the Netherlands authorities of their decision to maintain the gold standard, rumors are current that this country will shortly follow the example of Great Britain and the United States. This nervousness has had some unfavorable effect on Netherlands exchange. By repeated attacks the bears have succeeded to some extent in weakening confidence in the future of the florin and in the possibility of a permanent adherence to the gold standard. Quotations of securities with variable yields, accordingly, have risen to an extent not justified by the general economic situation or by the position of the firms in question in the matter of profits. The character of the movement is reflected in the sudden advance in shares of the Netherlands Bank based on the idea that the bank would realize a considerable profit on its gold stock if the florin were depreciated. On the other hand, many Government bonds have declined considerably largely as a result of fears respecting the future of the florin.

On the exchange market the florin, during recent weeks, has been subjected to pressure in relation to the French franc. The explanation is that a portion of the Netherlands public feel it desirable to convert their bank notes into gold. In Holland the unlimited gold redemption of notes has been suspended and the Netherlands Bank will give out gold only for legitimate arbitrage transactions. Purchases of gold by individuals in Holland, therefore, had to be made on the only free gold market still in existence, namely, Paris. These purchases of gold were paid for in French francs which explains the strength of the franc as compared with the florin. The situation necessitated the shipment of considerable amounts of gold by the Netherlands Bank to the Bank of France, which was reflected in the balance sheet of the Netherlands Bank by a decline in metallic reserves, and this helped to weaken confidence in the future of the florin.

Foreign speculators have been seeking to take advantage of an anticipated decline in the florin and have been selling florins forward on the exchange markets. They have been able to do this by securing large advances from the banks in Holland. The situation has led to conversations between the Netherlands Bank and the private banks regarding measures which should be taken to prevent or to check speculative operations. It has been agreed that the banks in Holland will henceforth refuse advances to foreign speculators who might use them to attack the Netherlands exchange.

Even this agreement has increased the nervousness in some quarters, being interpreted as a radical change of policy on the part of the Netherlands Bank. The president of the bank, however, has declared the rumors to be absolutely without foundation and has renewed his solemn declaration of the loyalty of Holland to the gold standard.

Belgian gold policy.
London Times, May 24, page 23.

Belgium's policy is to remain on the gold standard, and this is the policy also of the other gold standard countries, namely, France, Switzerland and Holland. In his reply to President Roosevelt's message, King Albert stated that while Belgium was willing to cooperate in any other way, she could not make any changes in her currency arrangements. The Belgian Government has also announced in connection with the program of retrenchment which it has decided upon that it excludes as "disastrous" any measures of inflation or devaluation or forced conversion of State obligations. In brief, the four gold standard countries will maintain the orthodox view that a currency not linked to gold is bound to be unstable and they disbelieve the theory that monetary manipulation is capable of raising the world prices of commodities.

Since the American crisis Belgium has been receiving and not losing gold. It is, of course, important to remember that both Belgium and France devalued their currencies — that is, raised their price for gold — seven years ago owing to the successive weight of debts and inflation of money costs which took place during and after the war, and having devalued severely once, they naturally desire to avoid a greater devaluation.

Switzerland stands by gold: case at World Conference.
London Financial News, May 30, page 5.

Switzerland should remain on the gold standard and should adhere to the tariff truce. This was the consensus of opinion at a joint meeting in Berne on May 29 of representatives of Swiss banks and associations and of the Federal Council, called to prepare Switzerland's case at the World Conference in London.

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date June 1, 1933

To Governor Black

Subject: Articles in British Press

From Miss Evans W.S.E.

244

GPO 2—8495

I attach summaries, selected from the forthcoming Weekly Review of Periodicals, of certain recent articles in the British press.

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Depression
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They are from the London Financial News World Banking Review and the London Economist. Titles follow:

Bargaining by Import Quotas
Can Trade Barriers Be Reduced?
More Trade Agreements

Bargaining by import quotas, by Leo Pasvolsky.
London Financial News, World Banking Review, May 15, page 12.

The most striking feature of the current depression is the variety and multiplicity of restraints on international trade which it has called into being. These trade restrictions are of two general types: those which have an indirect effect on the volume of goods exchanged across national frontiers, and those which affect directly and immediately the quantities of such goods. When a country's exchange depreciates, or customs duties are laid on imports, the disturbance to international trade relations may not be felt at once. On the other hand, such measures as quotas, licences, etc., have an immediate and direct effect on the volume of imports.

France has been the pioneer in the quota type of trade restriction, and has offered two reasons for introducing it; namely, the need of correcting the balance of trade, and the still greater need of preventing dumping. The purpose of the quota system is plainly protective. It was not long, however, before the fact began to emerge that quotas are bound to lead to reprisals, and serve merely as a starting point for a vicious circle of all round restrictions. Another disadvantage is the very great difficulty and inconvenience of administering quota systems. Its ever-widening use, exemplified by its extension in Germany and in many other countries, serves to intensify its effect as the most far-reaching element of dislocation in international trade.

No one can deny its efficacy in an emergency. But like all emergency measures, if it is not to make the situation worse rather than better, extreme care must be exercised in guarding against its inherent dangers. Not the least of these dangers is the rapidity with which this most potent instrument of protection -- complete embargoes alone excluded -- brings into being new vested interests. Such protection creates an appetite for its lasting retention for the benefit of some domestic producers. It also affords an unrivalled opportunity for the promotion of schemes, envisaging permanent world organization of production by means of international ententes.

For those who believe that the future well-being of the world lies along the line of direct regulation of production, the import quots system constitutes an excellent stepping-off stage. For those, on the other hand, who are inclined to identify economic progress with increasing freedom of international trade and financial intercourse, the system will appear to be one of the principal segments of the tight corner into which the world has managed to misguide itself, and from which it is trying to extricate itself through the direct diplomatic negotiations now in progress and through the coming World Conference.

Can trade barriers be reduced? by Owen Jones.
London Financial News, World Banking Review, May 15, page 11.

The Preparatory Commission of the World Economic Conference has said that "there must be greater freedom of international trade." Recommendations of a much stronger character than those of the 1927 conference ought to come easily in 1933. Their realization will be none the less difficult; yet the main task of the conference of 1933 must be to avoid empty resolutions, and to lay down actual ways and means for carrying out the policies upon which it ought to agree at an early stage.

The most obvious method of tariff reduction is by autonomous action. A country can realize that its tariff is too high, harmful to itself as well as to others, and proceed to reduce it to a more reasonable level. Such action has been very rare in the past; at present the tendency is always to ask a concession for tariff reduction. And there is such a variety of tariff levels that collective agreements for tariff reductions will be most unwelcome to low tariff countries unless some leveling off is undertaken by the higher tariff countries.

The second method -- indeed, the only method of which the world has practical experience -- is by bilateral negotiation. The net results are comparatively insignificant; every concession has to be haggled for ; major reductions are seldom made, or if made, they have been arranged for beforehand by a generous raising of tariffs; the net result has generally been a higher tariff level all round.

The World Conference must becessarily concentrate its attention on the third method of tariff reduction, namely, collective action by all States or by groups of States. Such action involves a conflict of opinion and interest which will call for ruthless solutions unless the conference is to founder in interminable dissensions. A flat percentage reduction will not give equality of concession as between high and low tariff countries. To overcome this difficulty, it might be possible to establish a maximum which tariffs should not be allowed to exceed. The objection to this is that the maximum would probably be fairly high, and might prove an irresistible magnet for many tariffs which are now low or moderate.

Another form of tariff reduction has recently been discussed, namely, to grant customs rebates in relation to the volume of purchase of the country's goods. This would constitute an immediate violation of the most-favored-nation clause, and if adopted on a large scale, would tend to divert world trade from its present multi-angular channels into bilateral channels, with detrimental results upon its volume.

Once the World Conference gets to grips with these problems, it will find that the main difficulty lies with the unconditional most-favored-nation clause, which is a barrier to all forms of agreement, even of the simplest kind. There is now a tendency to recognize certain forms of multi-lateral economic agreement as exceptions to the operation of the unconditional clause, but it is only a tendency. If the conference wishes to make effective multi-lateral agreements on tariff reduction, it can do so only by establishing at the same time a general convention stipulating that such agreements are an exception to the most-favored-nation clause, not only in future but also in existing treaties. If it cannot do this, then all it can do will be to make a vague agreement binding all States to enter into negotiations for tariff reductions, and in the meantime establishing a tariff truce.

More trade agreements.
London Economist, May 20, page 1060-1.

The trade agreements already concluded with Denmark, Germany and the Argentine had rendered the general lines of the British Government's "new model" commercial policy familiar enough to rob the additional pacts with Norway and Sweden of any element of surprise. The text of the two Scandinavian agreements demonstrates once again how limited are the objectives to be achieved by this form of bilateral negotiation, and how petty are the advantages to be secured.

These two fresh efforts in bilateral trade negotiation are scarcely such as to arouse enthusiasm on the part of those who realize that the task of breaking down the present paralyzing trade restrictions must be tackled on far wider and more comprehensive lines. In so far as they suggest that the British Government is seeing the "red light" and is prepared at least to halt in the rake's progress of turning Britain into a high protectionist country, they deserve commendation. The defects of the agreements are not that we have paused, and even reversed our steps a little, on the road to higher and higher protection, but that pitifully little is achieved, or ever can be achieved, by such procedure in dealing with world tariffs at their present height. It is regrettable that we should enter the World Economic Conference as the sponsors of quota regulation, whose perpetuation must defeat the whole policy of economic disarmament which should be the aim of the conference.

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date June 1, 1933

To Governor Black

Subject: Demand for Currency

From Mr. Thompson E.T.

244 0 2 11

Depression Statistics

The volume of money in circulation was $5,812,000,000 on Wednesday, May 31, an increase of $17,000,000 for the week or less than the usual seasonal increase of $50,000,000 for this time of year. Furthermore, this less than seasonal increase in currency has occurred during a period when the demand for cash in retail trade and for payrolls has been expanding more than seasonally. It is probable, therefore, that the return of currency from hoards has continued during the week.

For the week there was a reduction of about $14,000,000 in the amount of Federal reserve notes outside the Treasury and Federal reserve banks, the amount of gold coin and gold certificates in circulation showed very little decline, and all other forms of currency in circulation increased by $33,000,000 of which about one-third was in Federal reserve bank notes. Detailed figures of changes in demand for currency by kinds and by Federal reserve districts will be available Friday.

For CIRCULATION
Gov. ~~Meyer~~ Black
Mr. Hamlin
Mr. James
Mr. Magee
Mr. Miller
Mr. Morrill
Mr. ~~Wyatt~~
Mr. Szymczak
Mr. Paulger
Please note - initial and
Return to ~~Secretary's Office~~
File