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WASHINGTON

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ADDRESS REPLY TO
FEDERAL RESERVE BOARD

February 20, 1918.

Dear Mr. Secretary:

I acknowledge receipt of your communication transmitting Senator Owen's letter to you of the 16th instant in which he refers to an application which was made sometime ago by the Pompeian Company of Baltimore for permission to transfer \$1,250,000 of gold from London to Spain in order to protect its commitments for oil purchases made in Spain before the embargo on gold shipments was declared.

Senator Owen states that it is his view that every American citizen who had made commitments in Spain requiring gold, should be protected against the subsequent embargo, and that in his opinion the Pompeian Company is entitled to the relief asked for. He refers to a letter from Mr. William Ingle, President of the Baltimore Trust Company, which states that beginning with and subsequent to February 1917 there were opened through the instrumentality of the Baltimore Trust Company credits aggregating a total of something over 6,000,000 Spanish pesetas for account of the Pompeian Company, to be available in Spain for the purchase and importation into this country of olive oil. The executive order issued by the President on September 7th provides that, "subject to such limitations and exceptions as the President shall prescribe, until otherwise ordered by the President or by Congress, coin, bullion, and currency shall not, on and after the 10th day of September,

in the year 1917, be exported from or shipped from or taken out of the United States or its territorial possessions," and by direction of the President the Federal Reserve Board, subject to the approval of the Secretary of the Treasury, is authorized and empowered, upon the receipt of an application for permission to export gold and the recommendation of the Federal Reserve Bank regarding it, "to make such ruling as it may deem proper in the circumstances, and if, in its opinion, the exportation be compatible with the public interest, to permit said exportation to be made, otherwise to refuse it."

A few weeks ago the Federal Reserve Board received in regular course from the Federal Reserve Bank of Richmond, the application from the Pompeian Oil Company to which Senator Owen refers. After due consideration the Board reached the conclusion that to permit the exportation in question would not be compatible with the public interest and the application was therefore refused. Mr. Albert Strauss, the representative of the Treasury Department on the War Trade Board, sits with the Board's committee as your representative in passing upon applications for licenses for exports of gold and he concurred in the action taken regarding the application of the Pompeian Company. Mr. Musher of the Pompeian Company, has manifested a very lively interest in peseta exchange since December 1916, when he began a propoganda, that has apparently continued to the present time, which seems to have for its object forcing the sale of Spanish exchange by

someone in his Company at practically the normal parity. He began by sending for several months daily letters to the Secretary of the Treasury and to every member of the Federal Reserve Board, demanding that the Federal Reserve banks engage in foreign exchange operations and that they furnish exchange on foreign countries. Later on he sent circular letters to jobbers, to boards of trade, and to chambers of commerce throughout the country, urging the establishment of a foreign exchange bureau by the Federal Reserve Board, and asked the recipients to write to the Secretary of the Treasury favoring the suggestion.

Mr. Ingle's letter states that the Pompeian Company's commitments began in February 1917, and I wish to point out that there was never a time during the year 1917, up to September 10th, when the Pompeian Company could not, in the absence of a satisfactory exchange rate, have withdrawn gold and shipped it to Spain for its own account. That other importers and exchange houses did this very freely, is evidenced by the fact that from January 1st to September 1st, 1917 more than \$88,000,000 in gold was sent from the United States to Spain, although gold is not a legal tender in Spain and the Spanish Government permitted the Bank of Spain during all that time to purchase American gold and bullion at an arbitrary rate which amounted to about 3% discount. This discount on gold is of course, an added cost on goods imported from Spain and it therefore has about the same effect on these transactions

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as an export tax would have. Our importers pay export taxes to Mexico, Chile and other foreign governments, without making any complaint. Members of the Board upon whom Mr. Musher frequently called, pointed out to him that if he could not purchase exchange at what he regarded as a fair rate, he could meet his obligations by shipping gold to Spain, but he took the position that he was entitled to receive the service he desired, at his own terms from banks or exchange houses. His attitude during all these months has been a consistent one of seeking to force the issue, either by having pressure brought upon the Spanish government to compel the Bank of Spain to take American gold at par or by seeking to force exchange dealers to sell peseta exchange at a figure satisfactory to him, regardless of the cost to them. In February, 1917, the Federal Reserve Board, through the State Department, inquired if the Bank of Spain would enter into reciprocal relations with the Federal Reserve Bank of New York, and the answer was that the Bank of Spain did not care to enter into the proposed relationship with the Federal Reserve Bank of New York and that it did not propose at the time to take any steps to relieve the exchange situation.

I wish to call your attention to a feature of the Pompeian Company's recent application to the Federal Reserve Board. It seems that Mr. Musher's attention had been called by someone to the fact that the Federal Reserve banks had a special deposit in gold with the

Bank of England amounting to about \$52,500,000. This deposit counts as part of their gold reserve, and the arrangement is one of mutual benefit to the Federal Reserve banks and to the Bank of England, and, incidentally, to the American and British government. The gold on deposit in London serves a useful purpose at present and is held there for certain future contingencies. The Pompeian Oil Company in its application asked that the Federal Reserve Board authorize the Federal Reserve Bank of Richmond to release to the company \$1,250,000 of this gold in London, against a deposit of a like amount to be made with the Federal Reserve Bank of Richmond. No mention was made in the application of the cost of transferring this amount of gold from the United States to London, but the Pompeian Company asked that this gold be delivered to it in London against a deposit on this side. The application stated further that if permission were given the company to receive the gold in London, it would be deposited with the London branch of the Bank of Spain, and that arrangements should be made with the British government for permission for the transfer of the gold to Madrid by the London branch. The British government, which has the same motives for conserving gold and for preventing transfers of gold to Spain as we have, would no doubt have refused to consent to the transfer. The proposition, therefore, in the opinion of the Board, came back to the question of whether a license should be granted the Pompeian Company to send \$1,250,000 of gold from this country to Spain, and this involved the broad

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question as to whether it is to the public interest that this amount of gold be shipped from this country at this time, and more particularly as to whether it should be shipped to Spain. The Board has taken the position ever since it was charged with the duty of passing upon exports of gold, that shipments should not be permitted in cases where exchange is available and where the only benefit to accrue is a saving to the shipper. If the Pompeian Company is entitled to the relief it seeks, it follows that all other American concerns which may have outstanding commitments for payments in Spain which were made before the embargo became effective, should be entitled to the same relief, and this applies in like manner to payments in Holland, in Sweden, Norway, Denmark, Switzerland, and all South American countries. I do not know what the aggregate amount would be, but have no doubt that the sum involved would be so large that its export could not be considered.

The Pompeian Company can not plead lack of notice, for the Board knows that it has been watching the exchange market closely ever since December 1916. The Board has Mr. Musher's own statement that his company has employed experts to aid it in the propaganda which it has carried on during all this time, and that the company has been able to effect renewals in Spain from time to time, through which it has avoided the necessity of purchasing exchange or of shipping gold, and members of the Board are informed by Mr. Musher that his company has been able to obtain these renewals since the embargo went into effect. I do not know

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whether you recall the propaganda which has been carried on by the Pompeian Company, or whether you have seen any of the advertisements which it has caused to be inserted in newspapers throughout the country. Some of the advertisements and literature circulated by this company have sought to convey an impression which, if widely accepted, would work to the injury of our financial situation and would be a distinct source of comfort to the enemy. They have charged that notwithstanding the fact that trade balances with nearly all countries are in our favor, and that our net credit balance for 1917 was about \$3,000,000,000, American currency and exchanges have been permitted to decline in foreign countries, that the American dollar has not been stabilized as is the case with the British pound sterling and is worth abroad only about 75% of its face value. The facts are that American exchange and the American dollar are at a premium of about 2% as compared with the British pound sterling, about 10% as compared with the French franc, 15% as compared with the Italian lira, 75% or more as compared with the Russian ruble, and are at par or a premium in many other countries. The bulk of our foreign trade is with countries where American exchange is at a premium and the discount in European neutral countries such as Spain, Holland, Norway, Sweden, Denmark, and Switzerland, and in some of the Latin American countries, is due primarily to our relations with the allied powers with which we are associated in the war. England, France, and Italy are making heavy purchases in various parts of the civilized

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world. As Secretary of the Treasury, you are making large loans to these countries and you are permitting Great Britain to stabilize exchange rates by purchasing sterling bills in the New York market. I remember how carefully you considered the question several months ago of whether or not you should permit these exchange operations to be carried on and how you finally reached the conclusion that their discontinuance would be very harmful to the allied cause and against the best interests of the United States. You decided that it would be folly for you to lend money to the allies with one hand and with the other to inflict a stinging blow against their credit in the markets of the world, even though such action might benefit a few American importers.

In considering the general exchange situation, it should be remembered that in those countries where local exchange and local currency are at a premium as compared with the American dollar, they are at an even greater premium as compared with the British sovereign or the French franc. The President by the executive order of October 12th placed all matters pertaining to foreign exchange in the hands of the Secretary of the Treasury. The Board recognizes the paramount influence which you, as the world's paymaster, exert in the exchange markets of the world, and has some appreciation of the problems with which you have to contend. Its desire is to give you its cordial cooperation and to render you any assistance that may be in its power.

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Paragraph (e) of Section 14 of the Federal Reserve Act empowers the Board to "order and direct Federal Reserve banks to open and maintain accounts in foreign countries, appoint correspondents and to establish agencies in such countries wheresoever it may be deemed best for the purpose of purchasing, selling, and collecting bills of exchange, and to open and maintain banking accounts for such correspondents or agencies;" in other words, the Board can direct the Federal Reserve banks to engage in a general foreign exchange business. With the world at war however, there are so many international questions connected with foreign exchange transactions that the Board has cordially concurred with you in the view that any negotiations of this kind should, in the existing circumstances, be conducted by the Treasury Department with the cooperation, when necessary, of the State Department. Without involving the shipment of an ounce of gold you have been able to make arrangements with the Indian government which enable American importers to purchase rupee exchange at moderate rates, and you have more recently concluded an arrangement with Argentina which has had the effect of bringing exchange on that country down to a point where the premium represents practically what would be the cost of shipping gold. The Board is interested in the progress of your negotiations with other South American countries and with Mexico, where your efforts are directed toward securing satisfactory exchange arrangements without shipping gold. Nor have you been unmindful of the requirements of the importers of goods from Spain, for your representative has been engaged for

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sometime past in negotiating with financial interests in Spain, through a foreign government, for a large peseta credit to be used in relieving American importers who have obligations to meet in Spain. The Board hopes and believes that these negotiations will be successful. It requires time, however, to complete a delicate negotiation of this kind, and any public agitation such as the Pompeian Company has been trying to stir up, and any wide-spread statements to the effect that American currency or exchange is at a heavy discount, do not in any way facilitate the consummation of the arrangement desired. The object of the gold embargo, as the Board understands it, is first, to prevent gold getting into enemy hands through neutral countries; and second, to conserve as far as possible our stock of gold, which is the basis upon which our constantly expanding domestic credits must rest. It should be generally understood that all your negotiations relating to foreign exchange have had ^{for} their object the creation of exchange facilities without shipments of gold, and that these arrangements are being perfected as rapidly as foreign governments will agree to them. The Board does not feel that it has authority to license exportations of gold unless they are compatible with the public interest, and believes that any weakening in your position by making exceptions in individual cases, would have the effect of retarding the progress of the negotiations which have been undertaken.

Very truly yours,

Hon. W. G. McAdoo,
Secretary of the Treasury.

Governor.

C O P Y

UNITED STATES SENATE

2/16/18

My dear Mr. Secretary:

Some days since, I handed the President an appeal from the Pompeian Company for permission to transfer \$1,250,000 of gold from London to Spain to protect oil purchase commitments made there before the embargo on gold was found advisable. Later I learned that Mr. Nathan Musher (who is the President of the Company) was charged with speculating in Spanish exchange, and for that reason his request should be denied.

I know of no reason why an American citizen might not buy or sell foreign exchange, but whether he exercises this obvious right or not constitutes no reason to deny him what is plainly his due. Every American citizen who has made commitments to Spain requiring gold should be protected against the subsequent embargo, which otherwise would be *expost facto* in its operation.

That the Pompeian Company is entitled to this relief is evidenced by the enclosed letter from Wm. Ingle, President Baltimore Trust Company, showing the commitment made in good faith for oil before the embargo.

When the government can save its merchants from such a loss and without cost, I think it should be done.

Yours very respectfully,

ROBT. L. OWEN.

Hon. W. G. McAdoo,
Secretary of the Treasury.

C O P Y

THE BALTIMORE TRUST COMPANY

BALTIMORE, MD.

February 15, 1918.

Mr. Nathan Musher, President,
Musher & Co., Inc., formerly
The Pompeian Company,
Baltimore, Md.

My dear Sir:

This is to advise whom it may concern that in the months beginning with and following February, 1917, through the instrumentality of this Company, there was opened for account of the Pompeian Company to be available in Spain for the purchase and exportation to this country of olive oil, credits aggregating a total of something over 6,000,000 Spanish pesetas. Conditions under which the credits were opened required that before honoring drafts drawn against them, ocean documents evidencing shipments of the oil should accompany drafts respectively drawn in the premises. Such drafts in due course, were drawn, presented and honored by the Pompeian Company.

I very much hope that your efforts to obtain such satisfactory settlement of your exchange account as would seem to be due one who in such a large way has imported a valuable food-stuff into this country, will meet with the success which they merit.

Yours very truly,

WM. INGLE

President.

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